

EXTRACT FROM MINUTES: AASB 25-26 JULY 2012 MEETING

ED 212 *Not-for-Profit Entities within the General Government Sector*

Agenda Item 5

The Board had before it:

- (a) a memorandum from Shu In Oei dated 7 July 2012 (agenda paper 5.1);
- (b) part 3 of the collation of written submissions on ED 212 *Not-for-Profit Entities within the General Government Sector* (agenda paper 5.2);
- (c) part 4 of the collation of written submissions on ED 212 (agenda paper 5.3); and
- (d) staff issues paper on the next step for ED 212 (agenda paper 5.4).

Agenda paper 5.2 on the specific matter for comment in ED 212 relating to budgetary reporting

The Board first considered the issues in agenda paper 5.2, which focused on the budgetary reporting proposals in ED 212 (specific matter for comment (a)(vi)). The Board directed staff to develop a draft separate topic-based Standard that would require NFP entities within the GGS adopting Tier 1 reporting to disclose:

- original budgeted financial statements in relation to controlled items, where such statements are presented to Parliament, recast if necessary to align with the presentation and classification adopted in the financial statements; and/or
- original budgeted information about administered items, where such information is presented to Parliament, recast if necessary to align with the presentation and classification adopted in the financial report for the information about administered items presented in accordance with AASB 1050 *Administered Items*.

Explanations of major variances, including those arising from material revisions to budgets, would also be required.

The applicability of any of the requirements for NFP entities within the GGS adopting Tier 2 reporting requirements will be considered in due course.

The Board noted that an approach of developing a separate topic-based standard could result in relocation of the budgetary requirements currently located in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The Board formed a sub-committee consisting of Kevin Stevenson, Ian McPhee, Sue Highland, and Brett Rix to assist staff in developing the draft standard.

A detailed list of tentative decisions made by the Board for each issue in agenda paper 5.2 is provided in Attachment A.

Agenda paper 5.3 on the remaining specific matters for comment in ED 212

The Board considered agenda paper 5.3 (the final part of the collation of comments), which focused on the specific matters for comment in ED 212 that had not been included in previous parts of the collation. With the exception of the transitional period and operative date issues, the Board considered that it had addressed the comments made on these specific matters for comment in the process of it forming its previous tentative decisions.

The Board decided to consider the transitional period and operative date issues as part of its consideration of any sweep issues arising from the draft standard on budgetary reporting to be developed by staff.

The Board noted that it has now addressed all the substantive issues relating to ED 212.

Agenda paper 5.4 on the next step

The Board considered the question of the most appropriate place to record its basis for conclusions, particularly in relation to its tentative decisions to not proceed with substantive aspects of ED 212. Given the proposals in ED 212 are broader than budgetary reporting, the Board decided that a standard on budgetary reporting (see the decision relating to agenda paper 5.2 above) would not be a suitable vehicle in which to present its basis for not proceeding with these proposals. It decided its fundamental basis for not proceeding should be placed on the public record in a brief document, perhaps in the form of an Agenda Decision. Such a document would also be an appropriate vehicle in which a member could express a dissenting view. The Board further decided that this decision is applicable, beyond ED 212, to future proposals that are not proceeded with, where there is no standard available as an appropriate vehicle to present the fundamental basis for not proceeding.

In addition to the above decisions, because certain aspects of ED 212 were developed in response to an arm of a direction from the Financial Reporting Council (FRC), the Board decided that a more detailed report should be prepared for the FRC outlining the history of the project, the due process followed by the Board and the rationale for the Board's decisions in relation to the FRC direction. The Board directed staff to develop the report to FRC out-of-session, for review and final approval by a sub-committee consisting of Kevin Stevenson (Chair) and Ian McPhee and Kris Peach (Deputy Chairs).

Action:

Staff

Sub-Committees

Chair

ATTACHMENT A

Agenda paper 5.2 on budgetary reporting

The outcomes of the Board's deliberations on each of the issues in agenda paper 5.2 are as follows:

- (a) *The threshold question of whether issues relating to disclosure of budgetary information should be considered as part of a separate, broader, longer-term Budgetary Reporting project rather than in the context of ED 212 (issue 1)*

The Board decided to proceed to consider budgetary reporting matters in the context of ED 212, on the basis of the arguments in agenda paper 5.2. In particular, the Board's basis for proceeding included that:

- (i) the proposals in ED 212 relating to budgetary reporting have the potential to improve the quality of financial reporting by NFP entities within the GGS in the relatively short term. A more broadly scoped project would inappropriately delay achievement of those improvements. The Board noted that it could, as a separate short-term project, consider expanding the scope of the budgetary reporting requirements to a broader range of entities sometime in the future. In relation to potentially expanding the requirements to apply in the private sector, the Board noted that a distinction between the public sector and the private sector is that only in the public sector is there a formal requirement to make budgets public;
 - (ii) although some argue that proceeding with ED 212 would address only a subset of entities for whom budgetary reporting should be considered, the entities within the scope of the ED 212 proposals (i.e. NFP entities within the GGS) are a significant group of entities for which there is a formal requirement that budgets are published. Accordingly, the current requirements for governments to present budgets to Parliament provide a context for proceeding with consideration of the ED 212 budgetary reporting proposals; and
 - (iii) the proposals in ED 212 are based on the budgetary requirements in AASB 1049 and, as evident from the post-implementation review of AASB 1049, those requirements are operational in practice.
- (b) *In relation to controlled items, to require NFP entities within the GGS to disclose budgeted financial statements presented to Parliament and explanations of major variances (issue 2)*

Consistent with the Board's basis for proceeding in the context of ED 212 (see (i) to (iii) immediately above), the Board considered the issue from the perspective of the role of a standard setter, the scope of financial reporting and its transaction neutral policy. Overall, the Board was persuaded by the importance of budgetary reporting for accountability in the public sector and decided to proceed with the aspect of the proposal depicted in issue 2. The Board particularly noted that, in the public sector, comparisons of current period to the previous period actuals would provide an incomplete picture without the comparisons from budgets to actuals because, for example, machinery of government changes in one period, or inefficiencies within an entity, can often cause period to period comparisons to be less informative without the budget against actual comparisons.

In arriving at this decision:

- (i) The Board noted the concerns expressed by some respondents to ED 212 about the auditability of the budgetary information that would be required to be disclosed. However, the Board also noted that similar concerns were previously raised in the context of AASB 1049, which appear to have been resolved in practice (as evident from the post-implementation review of AASB 1049). In any event, the Board noted that if any audit related issues arise in a NFP entity within the GGS context, they would be matters more suited for consideration by the AUASB rather than the AASB.
- (ii) Some Board members questioned the suitability of referring to 'major' variances, given the role materiality plays in standards. The Board decided to retain the reference, given it is used in AASB 1049 without insurmountable practice issues being identified. However, the Board decided that it would reconsider the matter in due course as part of a broader consideration of terminology associated with 'materiality' used in a range of standards.
- (iii) In contrast to issues faced in the context of AASB 1049, the Board noted there are a number of issues that arise from the manner in which the budgetary reporting proposals are drafted in ED 212 that warrant further guidance, such as where an entity's budget is included within the consolidated budget of a higher level entity or where only summarised budget information about a particular entity is presented to Parliament. The Board directed staff to investigate budgetary reporting practices of NFP entities within the GGS further, including for the purpose of identifying the extent to which the presentation and classification between budgets and financial statements differ, and develop suitable guidance to clarify the meaning of the phrase 'budget ... presented to Parliament' in the context of NFP entities within the GGS.

- (c) *To require that budgeted financial statements be based on the original budget, with an option to disclose any additional revised budgets (issue 3)*

Consistent with the requirements in AASB 1049, and evidence from the post-implementation review of AASB 1049 that the requirements are operational, the Board decided to proceed with the aspect of the proposal depicted in issue 3. The Board noted that explanations of major variances between an original budget and actuals might refer to revisions during a period, particularly if an entity's structure or objectives are changed during the period (see issue 2 above). However, consistent with the notion of accountability (i.e. the original budget is the most widely publicised and is a primary reference point for assessing accountability), the Board confirmed that the principle should be to compare actuals with the original budget.

- (d) *To require that budgeted financial statements be recast, if necessary, to align with the presentation and classification adopted in the financial statements (issue 4)*

Consistent with the requirement in AASB 1049, which was amended in response to findings from the post-implementation review of AASB 1049, the Board decided to proceed with the aspect of the proposal depicted in issue 4. The Board noted that some of the concerns expressed by constituents would be addressed by providing additional guidance on the scope of the proposals for situations

where an entity's budget is presented within a consolidated budget or only a summary of budgeted information is presented (see the Board's decision on issue 2(iii) above).

- (e) *To require NFP entities within the GGS to disclose budgetary information (including explanations of major variances) about administered items (issue 5)*

The Board noted its previous tentative decision not to proceed with the proposal to require disclosure of GAAP/GFS harmonised information for administered items 'coupled' with controlled items, on the basis that administered items would be the subject of a more fundamental review under the Board's Control in the NFP Sector project. However, the Board considered the proposal relating to budgetary information about administered items to be a separate issue. On that basis, consistent with the Board's decisions on issues 2 to 4 immediately above, the Board decided that if original budgeted information about administered items is presented to Parliament it should be required to be presented in the financial report, recast if necessary to align with the presentation and classification adopted in the financial report for the information about administered items presented in accordance with AASB 1050 *Administered Items*. Explanations of major variances should also be required to be disclosed.