

**EXTRACT FROM MINUTES: AASB 9-10 NOVEMBER 2005 MEETING
STRATEGY FOR FUTURE APPROACH FOR PUBLIC SECTOR ENTITIES**

Agenda item 3

The Board had before it:

- (a) a memorandum from Robert Keys dated 3 November 2005 (Agenda paper 3.1);
- (b) draft AASB Strategy Paper *Australian Accounting Standards and Public Sector Entities* (as at 16 September 2005) (Agenda paper 3.2);
- (c) draft AASB Strategy Paper *Australian Accounting Standards and Public Sector Entities* (marked-up to reflect amendments/updates including the decisions made at the October 2005 AASB meeting) (Agenda paper 3.3);
- (d) a letter from Angus Thomson to selected constituents inviting them to meet with the Board to discuss the draft strategy; and list of invitees (Agenda paper 3.4); and
- (e) email correspondence from Mr Joe Groher, Manager Financial Services, Melbourne City Council on behalf of the Local Government Finance Professionals to David Boymal, Chairman, AASB dated 4 November 2005.

The representatives of constituents conveyed to the Board comments on the draft Strategy reflected in agenda paper 3.2 and amended/updated in agenda paper 3.3. The Board considered the comments made and decided that the Strategy Paper should be amended as recorded below. The Board decided that:

- (a) the Strategy Paper is a “living document”;
- (b) once amended to reflect the Board’s decisions at this meeting and reviewed by the Chairman, the Strategy Paper should be posted on the AASB website, its availability advised to constituents through the AASB *Action Alert*, and a copy sent to constituents who were invited to discuss the Strategy with the Board, including those who did not attend;
- (c) to attach the Strategy Paper to the forthcoming ED giving effect to the withdrawal of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* to provide a context to the ED;
- (d) the consultation process undertaken in preparing the Strategy Paper was adequate and therefore the ED should not invite comment on the Strategy Paper itself;
- (e) to help inform it of any potential vacuums that may be created by the withdrawal of AAS 27, AAS 29 and AAS 31, a paragraph-by-paragraph analysis of AAS 27, AAS 29 and AAS 31 should be prepared for consideration at a future Board meeting. Members indicated that the analysis should include consideration of whether the matters addressed in each paragraph (whether related to definition, recognition, measurement or disclosure issues) are adequately dealt with in other Standards and, if not, staff should develop recommendations for how they could be dealt with; and
- (f) to confirm its intention that, in implementing its decision to withdraw AAS 27, AAS 29 and AAS 31, it should be done in a way that does not undo the progress made to date on accrual accounting by public sector entities.

Details of specific decisions made about the content and presentation of the Strategy Paper are included in Attachment 1.

Action:

Staff
Chairman

Attachment 1

STRATEGY FOR FUTURE APPROACH TO PUBLIC SECTOR STANDARDS

Agenda item 3

Specific Board Decisions

The Board made the following decisions in relation to the Strategy Paper contained in agenda paper 3.3:

- (a) Section 1 Background
- (i) add a paragraph that notes the relationship of the GAAP/GFS convergence project as it relates to governments, government departments and local governments to the overall Strategy. In particular, the paragraph should note that GAAP/GFS convergence issues will be considered in relation to governments, government departments and local governments despite the withdrawal of AAS 27, AAS 29 and AAS 31, and, whilst acknowledging the interrelatedness of issues, note that the timing of the withdrawal of AASs 27, AAS 29 and AAS 31 outcomes. In addition, the paragraph should cross-reference to the item in section 3.3 that outlines the phases of the GAAP/GFS convergence project;
 - (ii) clarify that the phrase “early adoption permitted” in the lead-in to the dot points on page 2 of the Strategy Paper has the effect of “early withdrawal of AAS 27, AAS 29 and AAS 31”;
- (b) Section 2 Principles
- (i) expand section 2.2 “Retention of Guidance in AAS 27, AAS 29 and AAS 31 after the withdrawal of those Standards” to note that where the Board decides that it is not necessary to retain certain guidance, the ED giving effect to the withdrawal of AAS 27, AAS 29 and AAS 31 will provide the Board’s rationale;
 - (ii) amend section 2.8(b) “Issues associated with removal of AAS 27, AAS 29 and AAS 31: Disclosure” to note that where not-for-profit public sector specific guidance on disclosure issues is addressed in AAS 27, AAS 29 and/or AAS 31 and not adequately addressed elsewhere, it should be addressed in separate topic-based Standards issued to coincide with the withdrawal of AAS 27, AAS 29 and AAS 31. Where the Board identifies that the existing guidance can be improved, the improvements should be undertaken, time and resources permitting, to coincide with withdrawal. Where time and resources do not permit, the guidance in AAS 27, AAS 29 and AAS 31 should be retained unamended, located in topic-based Standards, and improvements progressed in line with section 3.3 “Ongoing public sector issues”;
- (c) Section 3 Actions
- (i) Section 3.2 Withdrawal of AAS 27, AAS 29 and AAS 31 and related matters:
 - amend item (h) “Non-exchange revenue” to make AASB 1004 *Contributions*, including, subject to due process, the guidance proposed in ED 144 *Proposed Australian Guidance to accompany AASB 1004 Contributions*, available to

governments, government departments and local governments prior to the withdrawal of AAS 27, AAS 29 and AAS 31 irrespective of the current override provisions in those Standards. AASB 1004, accompanied by any guidance, should be mandatory on withdrawal of AAS 27, AAS 29 and AAS 31. Where governments, government departments and local governments elect to adopt AASB 1004 prior to the withdrawal of AAS 27, AAS 29 and AAS 31, other consequential effects of the withdrawal should not be also required to be adopted;

- add item (i) “Other matters of consequence”, to cover any other issues that are addressed in AAS 27, AAS 29 and AAS 31 identified by the Board from a paragraph-by-paragraph review of AAS 27, AAS 29 and AAS 31 as warranting retention (or amendment where appropriate – see decision (b)(ii) above) that are not explicitly identified in items (a)-(h). Examples to be referred to include disclosures of administered items, compliance with appropriations and segment/disaggregated information reporting;
 - retain, unamended, all other items. The Board noted concerns expressed by some constituents that a consequence of the Board’s October 2005 decision noted in item (e) “Local governments, government departments and governments as reporting entities” is that standards would be silent on whether local governments, government departments or governments are reporting entities. The Board decided that, consistent with a principles-based approach to standard setting, the proposed approach is appropriate. The Board noted that the concerns primarily relate to the initial impact of withdrawal of AAS 27, AAS 29 and AAS 31 and that they can be addressed by including in the Exposure Draft a statement that the Board believes that the definition of reporting entity in AASB 3, combined with the guidance in SAC 1, is adequate for ensuring that current practice in identifying the existence of a reporting entity is continued;
- (ii) Section 3.3 Ongoing public sector issues:
- amend each item in this section, where relevant, to reflect the decision recorded in (b)(ii) above;
 - amend item (d) “Control of an entity” to include consideration of the guidance in section 9 of AAS 31 on control. The Board noted that this item would also be addressed to coincide with the withdrawal of AAS 27, AAS 29 and AAS 31 consistent with its principle 2.8(a) to ensure the withdrawal does not leave a vacuum for definition, recognition and measurement issues. As part of its paragraph-by-paragraph review of AAS 27, AAS 29 and AAS 31, the Board will consider whether the guidance in AAS 31 should be retained, and located in AASB 127;
 - add an item “Consolidation of for-profit entities into a not-for-profit group”;
 - add an item at the end of the section, entitled “Other framework issues”. The item should acknowledge that as the Conceptual Framework project (referred to in footnotes 1 and 11 of the Strategy Paper) progresses, implications for the public sector should be considered. An example, to be referred to in the item, is the definition of the reporting entity; and
 - the Board considered whether to add an item relating to the revaluation treadmill and whether requirements in AASB 116 *Property, Plant and Equipment* are too onerous for public sector entities, for example if one entity within a group

determines it is necessary to revalue an asset some question the need to revalue all assets within the class within the group. The Board acknowledged this as a practical issue, not peculiar to the public sector, and decided not to include it in the list of ongoing public sector issues in the Strategy Paper.