

AASB Staff Summary of Significant Issues raised at Sydney Roundtable
ED 212 Not-for-Profit Entities within the General Government Sector

Staff notes to Board:

- The following notes are a high level summary of the main comments made by participants at the Sydney Roundtable. They are not a transcript of the discussions. Staff have endeavoured to reflect faithfully the points made, but have exercised significant judgement in identifying the main points and interpreting the comments. Some meaning may have been lost inadvertently in the process of summarisation.
- Participants expressed their comments in the capacity of an individual and their views may not necessarily reflect the view of their organisations.

Recognition and Measurement

Participants raised some concerns with the proposal to limit the GAAP options to those that would align with GFS as follows:

- the treasuries within jurisdictions generally determine the level of comparability that best meets their needs and set the accounting policy options for all agencies within their jurisdictions that would suit the circumstances of these agencies and facilitate consolidated financial reporting under AASB 1049. This was considered to be a better approach than mandating an approach of choosing the options that would align to GFS through an accounting Standard only applicable to the not-for-profit (NFP) entities within the GGS. This approach is also considered to better facilitate comparisons between entities within different sectors;
- mandating accounting policies across NFP entities within the GGS is inconsistent with AASB 127 under which consolidated entities are not required to have consistent accounting policies in their own financial statements; and
- the ED contains limited consideration of how this proposal will result in relevant information that will provide users with a true and fair view. Participants acknowledged fair values as more relevant information than costs however, given that most jurisdictions already adopt fair value, this is not considered to be a significant improvement.

Classification and Presentation

In relation to the proposal to require the disclosure of information on the face or in the notes based on GFS classification principles for controlled and administered items, the participants made the following comments:

- the GFS framework focuses on the whole of government (WoG) and GGS level (macroeconomic) rather than individual entities. Therefore it is doubtful, given the different focus, that applying the GFS classification and presentation principles will be of benefit to individual entities. The GFS key fiscal aggregates that are relevant for the WoG and GGS are not necessarily relevant for the individual entities, e.g. net lending/borrowing, net cash flows from investments in financial assets for policy purposes (given that most activities undertaken by entities within the GGS are policy-related);
- the presentation is proposed as a bridge from the NFP entity within the GGS financial statements to the WoG's financial statements. However, that same bridge is not required for the FP entities within the GGS. This affects comparability and consistency of reporting

within the GGS (However, participants acknowledged that there were only a limited number of for-profit entities within the GGS);

- mandating the approach in ED 212 for the general purpose financial statements (GPFSS) of entities within the GGS, whilst AASB 1049 remains silent on whether the GGS financial statements are GPFSSs, would create an audit issue;
- further guidance for classification of GAAP items without GFS equivalents between transactions and other economic flows will be needed if the proposals were to proceed;
- the ABS GFS Manual is difficult to interpret;
- the option to disclose on the face or in the notes is a ‘cop-out’ – it implies that the Board does not really believe in GFS classifications and presentations for GAAP purposes; and
- it is preferable to simply require separation of gains and losses from income and expenses rather than requiring entities to classify between transactions and other economic flows.

Budgetary Reporting

Some significant views expressed in relation to the ED 212 proposals on budgetary reporting are as follows:

- the revised budget rather than the original budget is the preferred comparator to actual, as there are often additional appropriations, transfers between agencies, and Commonwealth funding after the original budget. Comparing an entity’s performance against the original budget would not give a true and fair view of the entity’s performance. Although the ED proposes that the revised budget may be disclosed in addition to the original, this would result in too many columns on the face of the financial statements and may distract users from focusing on the real performance information of the entity;
- the purpose of including the budgetary information should be clarified, whether it is for the assessment of the budget-setting process, or for the assessment of the entity’s spending against the budget. If for the latter, then the use of the revised budget is more appropriate;
- the meaning of ‘budgeted financial statements’ presented to parliament needs to be further clarified, e.g. whether it is referring to an individual entity’s budgeted financial statements or the entity’s consolidated budgeted financial statements (including its agencies). If summarised budgets are presented to Parliament, would they be subject to the proposals?
- a concern that government auditors currently are not mandated to audit the Budget, therefore have no understanding of the budget. In addition, auditing the budget information in the financial statements can be further complicated by the fact that auditors have no visibility around how the budget was developed, machinery of government changes may happen during the budget year, and it may be difficult to obtain sensitive budgetary information. This can be a costly audit process;
- a concern that the lack of Standard within the audit and accounting frameworks specifying the measurement and presentation of budgetary information creates uncertainty and inconsistency in auditing the budgetary information; and
- a Standard is not necessary to ensure publication of budget performance information as most jurisdictions already have accountability processes in place for reporting performance against the budget.

Participants acknowledged that their arguments against the budgetary reporting proposals were also their criticisms of the requirements in AASB 1049. However, they noted that the requirements would be easier to work with at the WoG level.

Tier 2 Disclosure Requirements

Participants were unable to form a view in relation to the proposals relating to Tier 2 disclosure requirements because none of them had adopted Tier 2 reporting for the entities within the GGS.

Transitional Provisions and Operative Date

Comments were expressed that on the assumption that the proposals proceed, a significant transitional period will be required, a minimum of 4 years, to allow adequate time for training and education of staff, as well as for the analyses and recasting of data for comparatives.

Other Issues

As part of the discussions on various other issues:

- in relation to retaining the AASB 127 **line-by-line consolidation** for controlled entities, participants were supportive;
- in relation to the proposals on **other disclosures**, participants did not express any disagreement;
- in relation to the **illustrative examples**, they are considered to be too simplistic by not showing the comparatives and budgetary information nor how a liquidity-format balance sheet would look;
- in relation to the **format of the Standard**, participants mainly agreed that the requirements should be presented as a stand-alone standard;
- in relation to the scope of ED 212 being limited to **NFP entities within the GGS**, participants commented that this is moving away from sector neutrality. They questioned the reasons or benefits for excluding FP entities within the GGS (e.g. Australian Centre for Advanced Computing and Communications (AC3)), NFP entities outside the GGS (e.g. Railways), and entities in the private sector from the scope of the proposals;
- in relation to the question of whether any of the **proposals in ED 212 should be retained**, participants expressed that there is merit in reviewing the current requirements for administered items and considering expanding them to statutory bodies. However this issue should be considered as part of a separate project on improving the requirements relating to administrative items, rather than as part of the GAAP/GFS Harmonisation project; and
- participants also commented that:
 - they do not necessarily agree that the benefits due to line-of-sight as claimed in the ED will be achieved, given the number of intra-government transactions;
 - inter-jurisdictional comparison is limited due to the difference in how entities are structured within each jurisdiction;
 - the AASB might not receive feedback from the affected agencies because they are not aware of the standard setting process and do not have an understanding of GFS principles;
 - it may be difficult to obtain training. Historically, GFS training was provided by the ABS, and GAAP training was obtained through professional bodies or accounting firms. Participants questioned as to who may have the skills and resources for both GAAP and GFS, who are able to train the entities;
 - to the extent the ABS' interest in supporting the proposals in ED 212 is for the improvement of the quality of data submitted for GFS, this would not justify the issue of a Standard;

- requiring understanding of GFS at GGS-entity level will create high barriers of entry for non-big4 accounting firms in providing accounting advice for government entities, and for the transfer of professional accountants between private and public sectors;
- participants were supportive of the Board's decision to consider issues related to disaggregated information as a separate project rather than as part of ED 212;
- there may be implications to entities outside the GGS as a result of the review of International GFS, following the update to System of National Accounts, e.g. entities that were previously outside the GGS, may become entities within the GGS as a result of this review;
- the cost of implementation will be high due to initial and ongoing (due to high staff turnover) training of government staff, the majority of whom do not possess GFS knowledge; and
- if the proposals were to proceed, the objective of the Standard should be expressed more effectively, particularly on the benefits claimed for the users.