

AASB Staff Summary of Significant Issues raised at Melbourne 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 Melbourne Roundtable. They are not a transcript of the discussions. Staff has 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.
- Participants mainly expressed comments from the preparer perspective.
- Updated list of topics discussed in the Roundtable as well list of attendees are provided in Appendix A of this paper.

Overall view on ED 212

- there was broad support for the proposals, although it was acknowledged that a number of practical issues would need to be addressed in implementing the proposals; and
- there was no substantive disagreement with any of the proposals, except as included in the notes below.
- some issues for clarification on aspects of the proposals were also raised.

Recognition and Measurement proposals

Participants were generally supportive of these proposals. Participants expressed some of the benefits for such a proposal, including:

- facilitation of whole of government (WoG) consolidation,
- increased transparency,
- meeting accountability obligations,
- increased consistency, and
- improved line-of-sight from the financial statements of entities within the GGS to the financial statements of WoG.

From their perspective, the cost of implementing these proposals would be minimal, as there are already directions for consistent accounting policies across WoG and GGS.

Some other significant comments are as follows:

- In Victoria, fair value is currently a policy across WoG wide, with acknowledgment from Victorian Auditor-General's Office for practical issues for some of the smaller entities with assets that are immaterial at WoG level, and for whom fair valuing their assets may be too costly;
- although there is significant cost in the fair valuation of assets, even using depreciated replacement cost (which requires judgement on what the replacement cost is), this cost is already incurred under the requirement for GFS-aligned option in AASB 1049. Accordingly, ED 212 does not add significantly to this cost;
- fair value, in most cases, is relevant for managers. However, participants acknowledged there has been internal disagreement for specialised assets, such as infrastructure assets

(e.g. water and rail assets), whether fair value is more meaningful than historical costs; and

- although accountants for entities within the GGS have mainly been trained on a GAAP basis (and do not have understanding of GFS principles), generally, entities within GGS receive specific instructions from Treasury for the purpose of consolidation. Therefore, they are not required to have an in-depth understanding of GFS principles. The operations of entities within the GGS are relatively simple, and this enables Treasury to map their transactions and balances to align with GFS classifications. It would be more complicated to apply GFS principles and presentations to PNFCs and PFCs, as they are generally more business orientated. They engage in commercial contracts and other financial instruments that give rise to more complexities in their operations.

The minority view of HoTARAC is that adopting GAAP options that align with GFS would not necessarily result in valuable information to the users. Participants also acknowledged that there may be practical issues in implementing the proposal in certain jurisdictions.

Classification and Presentation proposals

The summary of discussions on the proposals for classification and presentation are structured into three parts, focusing on 3 major aspects of the proposals, as follows:

1. In relation to the proposal to require disclosure of GFS classifications, there was general support, because it would assist users in assessing entity's contributions to the WoG result. They also supported line-by-line presentation rather than at GFS category level, to allow a clearer line-of-sight to WoG financial statements and also to align with FRC directions. This benefit outweighs the potential cost related to international moves to improve the presentation and disclosure of financial statements, which may not align with GFS.

Implementation of this proposal would not be expected to incur significant cost. In Victoria, GAAP/GFS presentation of financial statements has been mandated for all departments, and strongly encouraged for other entities within the GGS. Furthermore, the operations of entities within the GGS are generally relatively simple, therefore, applying GFS classifications and presentations is simply an exercise of mapping the entity's accounts to the appropriate classifications, for example appropriations are automatically mapped to income from transactions, actuarial gains or losses of employee benefits are mapped to other economic flows.

The minority HoTARAC's view is that this proposal should be limited to the comprehensive income statement because it is the most relevant statement showing the 'bottom-line' impact, and GFS classifications on balance sheet and cash flow statement is not as relevant for decision makers.

Although not substantively objecting to the proposal, one participant (after consulting with smaller entities within the GGS across different jurisdictions) questioned who would be the users of such information and where the demand originated from, given the fact that Treasuries in each jurisdiction can demand such information should they be required. They suggested that further work be done to identify users of such information.

2. In relation to providing options for the GFS classifications to be presented on-the-face or in the notes, participants' views were divided. One view is to enforce presentation of

GAAP/GFS information on the face of the financial statements, because presentation of this information under AASB 1049 is required to be on the face of the WoG/GGS financial statements, and allowing options at an entity within the GGS level would not assist in achieving consistency between entities within the GGS and the GGS/WoG.

Another view is to require the presentation of GAAP/GFS information in the notes, to avoid complexity and clutter on-the-face due to too many columns.

3. In relation to requiring GFS classifications for administered items on-the-face or in the notes with greater coupling of controlled and administered items, again there were mixed views. One view supports the presentation of information about administered items on-the-face, and to address concerns about resulting complexity in presentation, Treasury could develop a model to assist entities.

However, another view supports the presentation of such information for administered items in the notes, because information on administered items would not add value to users if presented on the face – it is largely moneys going in and out (i.e. pass-throughs) that do not reflect the performance of the entity administering the transactions. In addition, it would further clutter and complicate the financial statements.

On another matter related to administered items, participants expressed an interest for a separate project that would assess whether the distinctions between controlled and administered are still necessary, and if so, to develop more guidance on and key characteristics for the classification of items as administered items. Currently, existing guidance on classification of administered items is ambiguous.

The general observation was made that even if the proposals would not significantly improve the quality of financial statements for users, there would not be a significant cost and they would not detract from the information currently provided. Therefore, the proposals should proceed even if only for the benefits of simplified consolidation process.

Budgetary Reporting proposals

Participants generally support the proposal to disclose budgetary information, and considered it not onerous as entities are largely already disclosing actual versus budget information, including explanations for variances in excess of 10% or 5 or 10 million and using presentation in line with AASB 1049 requirements. Participants commented that having the budget versus actual information would enhance users' understanding of the entity's operation in achieving its objectives.

However, participants noted that auditing this information may present a challenge depending on the quality of information provided, especially the explanations of variances, as auditors would have to treat these the same as other parts of the financial statements and gather sufficient evidence to form an opinion.

Participants also questioned the meaning of 'budgeted financial statements' presented to parliament. If summarised, portfolio or consolidated budgeted financial statements are presented, would they be captured by the proposals? Because some adjustments might be made to an aggregated portfolio budget before it is presented to parliament, it might not be possible to disaggregate that budget to an individual entity level.

In relation to whether the original or revised budget should be used as the comparative, participants commented that the original budget should be used, as the revised budget is published for the purpose of formulating next year's budget and therefore would not add value if compared against the current year's actuals. Participants considered that a common benchmark should be set by mandating the use of the original budget, to allow equal comparison across jurisdictions.

Participants who support the presentation of GFS classifications on-the-face for actuals, considered that the budget information should also adopt this presentation on-the-face.

A comment was made that the budgetary reporting proposals are premature – they should be addressed in a separate project rather than as part of ED 212 proposals.

Transitional Provisions and Operative Date

Participants expressed no concern with the proposed transitional provisions and operative date. They considered 3 years prior to commencement date would be adequate for training and education of staff, and other preparations such as systems updates and recasting data.

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 **illustrative examples**, participants were supportive;
- in relation to the **format of the Standard**, participants supported the format of a stand-alone Standard. One participant reflected upon the previous topic-based rather than entity-based approach that the Board adopted for the Standard on Contributions, and it was difficult to determine which paragraphs apply to which entities and caused confusion;
- in relation to proposals relating to **Tier 2** disclosure requirements, participants were supportive (after noting that Tier 2 reporting has not been adopted in Victorian public sector, partly because Tier 1 is needed for WoG reporting, and partly because the benefits from the reduction of disclosures under Tier 2 reporting are not significant for the NFP public sector);
- in relation to **disaggregated disclosures**, participants agreed that current AASB 1052 should be reviewed as part of a separate project;
- in relation to the proposals on **other disclosures**, participants were supportive;
- in relation to the scope of ED 212 being limited to **NFP entities within the GGS**, participants agreed that the scope is appropriate. Participants commented that it is not necessary to extend the requirements to NFP entities outside the GGS because the interest is in the alignment of entities within the GGS and the GGS as the budget sector entities. Such alignment is not necessary for NFP entities outside the GGS. Examples of public sector NFP entities outside the GGS in Victoria include most regional and rural water and catchment authorities and VicTrack; and
- in relation to whether overall the **proposals led to improvements** of the financial reporting by NFP entities within the GGS, participants expressed agreement;

Participants also commented that:

- issuing a Standard for NFP entities within the GGS may be appropriate despite it being inconsistent with the Board’s policy for sector neutrality. In the private sector, information is more widely available due to its open-market nature. However, due to the closed-market nature of the public sector, users may not be able to access such information as freely as in the private sector without a Standard mandating the information to be provided;
- users of WoG and GGS financial statements may include the oppositions, media, and other interested parties. Whilst at non-department entity within the GGS level, users may include the Parliament, media, board members, employees, and other parties affected by the performance of the entity (e.g. people affected by the performance of a regional hospital); and
- overall, the cost of implementation of ED 212 is not expected to be significant, given the WoG and GGS requirements under AASB 1049 required entities within the GGS to be educated and trained on GFS principles in any event. In relation to question of whether ongoing cost of education due to staff turnover is significant for the proposals, participants responded that this is an issue not unique to ED 212 proposals.

ED 212

Below is a list of significant topics related to the proposals in ED 212 that were discussed during the Melbourne Roundtable.

	Question	ED 212 Reference
1	<p>Recognition and measurement principles ED 212 proposes to limit recognition and measurement options to those that align with GFS and thereby require the same accounting policies as those adopted under AASB 1049 for whole of governments and the GGSs. What are your views on this proposal?</p>	Paragraphs 10-12 and BC16-BC25
2	<p>Classification principles ED 212 proposes to require disclosure, either in the financial statements or in the notes, of information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items (including classification of income and expenses as transactions and other economic flows). What are your views on this proposal? In addition, what is your view on whether: A. the on-the-face or in-the-notes presentation option should be allowed? Do you think on-the-face presentation of GAAP/GFS harmonised classified information should be prohibited given the potential for complexity; and B. the disclosures of GAAP/GFS harmonised classification information should be at a line item level, where it is presented in the notes? Do you think information at the line item level would be more beneficial than at the GFS category level?</p>	Paragraphs 13-18, 22 and BC26-BC35
3	<p>Budgetary reporting ED 212 proposes to require disclosure of: A. any original budgeted financial statements reflecting controlled or administered items presented to parliament, recast to align with the presentation and classification adopted in the primary financial statements and accompanying information about administered items or the GAAP/GFS harmonisation note (whichever is judged to be the more useful); and B. an explanation of variances. What is your view on this proposal?</p>	Paragraphs 23-29 and BC40-BC42
4	<p>Transitional provisions ED 212 provides no specific transitional requirements, except to require an entity to change the elections it previously made under AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> to the extent necessary to comply with the ABS GFS Manual. What is your view on this proposal?</p>	Paragraphs 33-35 and BC44-BC47
5	<p>Operative date The proposed operative date is 3 years after the issue of a Standard. What is your view on this proposal?</p>	Paragraphs 3, 4 and BC48
6	<p>Other issues Are there any other issues relating to ED 212 that you wish to raise? For example:</p> <ul style="list-style-type: none"> • the Illustrative Examples, • for-profit entities within the GGS or not-for-profit entities outside the GGS, • line-by-line consolidation of controlled entities, • disaggregated disclosures, • other disclosures, • format of the Standard (as a stand-alone Standard, or amendments to existing AASs, or a revised AASB 1049), and • at a minimum, which, if any, of the ED 212 proposals should be retained. 	

List of Melbourne Roundtable Participants

Name	Organisation	Position
AASB Members: 4		
Kevin Stevenson (Chair)		
Sue Highland		
Glenn Appleyard		
Kris Peach		
Participants: 5		
Georgina Dellaportas	Ernst & Young	Executive Director
Paul Martin	Victorian Auditor-General's Office	Director
Dennis Bastas	Department of Victorian Communities	Director Financial Operations
Kevin Lee	Department of Treasury and Finance	Assistant Director – Accounting Policy
Michael Bingham	Western Health	Financial Controller
Observers: 7		
James Ramsay	Ernst & Young	Manager
Ram Subramanian	CPA Australia	
Darmesh Ramji	Monash University	Group Accountant
Theresa Achkar	Department of Business and Innovation	Manager – External Reporting and Compliance
Eddie Fitzclarence	Department of Business and Innovation	Financial Accountant
George Manolaros	Department of Transport	Manager – Financial Reporting
Daniel Kent	Department of Human Services	Finance Area

AASB Staff: Robert Keys, Clark Anstis and Shu In Oei (3)
