



Australian Government
**Australian Accounting
Standards Board**

AASB 26 October 2011
Agenda paper 3.5

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11 October 2011

Mr Grant Hehir
Chair
FRC Public Sector Financial Reporting Task Force
Financial Reporting Council
c/- The Treasury
Langton Crescent
Canberra ACT 2600

Dear Grant,

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs)

Thank you for inviting comment on the International Public Sector Accounting Standards Board (IPSASB) and IPSASs issued by the IPSASB.

The AASB is committed to the concept of transaction-neutral financial reporting in Australia (previously referred to as sector-neutral financial reporting). In applying this approach in a not-for-profit context, the AASB makes Accounting Standards and Interpretations that in general are based upon and harmonised with Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB). This is consistent with the strategic direction issued by the FRC in 2002. However, in extending these IASB Standards to be relevant to not-for-profit entities (including public sector entities), the AASB often draws upon the work of the IPSASB. This is described more fully in the attached paper.

The AASB adopts a transaction-neutral approach because it strongly believes a consistent approach to financial reporting by all sectors has major benefits. It improves the understanding of users of these reports, is more efficient for practitioners and their staff and facilitates their interchange between sectors. Fundamentally, it is based on the belief that there is only one set of economics that needs to be reflected in financial reports, even though the circumstances faced within each sector can vary.

In regard to governance and funding of the IPSASB, the AASB is aware that the IPSASB itself has expressed concerns about its existing governance arrangements and has expressed the desire for change. We think that its concerns are appropriate.

Furthermore, the IPSASB makes extensive use of volunteer support in its work, including from its members and observers and other interested constituents, but is clearly under-resourced, particularly in comparison with the IASB. Unless overcome, this is a risk for the ongoing quality, timing and volume of its output.

In developing IPSASs, the IPSASB draws upon a cross-section of views and ideas, from a variety of environments, which is often very valuable. However, in developing its Standards, the IPSASB is particularly focussed on the needs of governments, especially national governments. It does not always adequately consider the needs of lower levels of

government, subordinate government entities or private not-for-profit entities, although we are aware that a number of United Nations Agencies and other international organisations make use of IPSASs. Consequently, it is not always appropriate for the AASB to include particular work of the IPSASB in the Australian financial reporting environment. Nevertheless, the AASB continues to support the work of the IPSASB to try to ensure useful outcomes.

In practical terms there is a lot of consistency between the AASB's Standards and those of the IPSASB, so that a not-for-profit public sector entity presently complying with Australian Accounting Standards would very largely also be compliant with IPSASs. However, in a number of instances, Australian Accounting Standards have requirements that are more advanced than those in IPSASs. This is the case, for example, where an IPSAS is based on a now-superseded IASB Standard – the AASB has contemporaneously adopted the latest IASB Standards and adapted them (if necessary) to the needs of the not-for-profit sector. Another example is AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which imposes GAAP/GFS harmonisation for the whole of government, including the General Government Sector. Furthermore, the AASB has issued a number of additional Standards applying only to not-for-profit entities.

I trust that you find these comments of assistance. If you would like to discuss them further please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive, flowing style.

Kevin M. Stevenson
Chairman & CEO

ATTACHMENT**Australian Accounting Standards Board****Australian Accounting Standards and IPSASs****Overview of AASB Policies**

The *AASB Policies and Processes* document issued by the AASB in March 2011 addresses the context in which the AASB develops Accounting Standards and Interpretations. Paragraph 35 states the policy that the AASB will, in respect of not-for-profit entities, adopt the *Framework* and Standards and Interpretations (IFRSs) as issued by the IASB in a manner consistent with its transaction-neutrality policy set out in paragraphs 39 to 41.

In paragraph 37 of the *AASB Policies and Processes* document, the AASB states:

“The AASB contributes to the technical agenda and processes of the IPSASB in order to foster the development of IPSASs on the basis that IPSASs are expected, in due course, to become the most relevant and appropriate Standards for public sector not-for-profit entities. The AASB is pursuing this aspiration on the grounds that the IPSASB will:

- (a) continue to base IPSASs on IFRSs, departing from IFRSs only to the extent appropriate for public sector issues; and
- (b) develop high-quality Standards on topics affecting the public sector that are not dealt with by the IASB.”

In implementing its transaction-neutrality policy, paragraph 41 of *AASB Policies and Processes* states that the AASB will consider the factors set out in a policy paper that it finalised in 2009 in conjunction with a former accounting standard-setter in New Zealand, the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants. That policy paper, titled *Process for Modifying IFRSs for PBE/NFP*, aims for a consistent and transparent basis for assessing whether changes to IFRSs, including additional requirements, are warranted in respect of not-for-profit entities. This *Process* document is available on the AASB website.

AASB Contributions to IPSASB’s Work

Consistent with paragraph 37 of *AASB Policies and Processes*, the AASB contributes to the IPSASB’s development of accounting standards for public sector entities in a variety of ways, including as described below.

Submissions on Consultation Documents

The AASB makes formal submissions to the IPSASB in response to each consultation document issued by the IPSASB, such as Consultation Papers and Exposure Drafts. The submissions are developed by the AASB through discussion of issues at its Board meetings, which are held in public. Where the AASB has a particular interest in a topic, it explicitly exposes the IPSASB consultation document in Australia in order to obtain comments directly from constituents, which it takes into account in determining the contents of its own submission to the IPSASB.

Input to the Development of IPSASB Proposals and Requirements

The AASB also seeks to provide views to the IPSASB when it is developing proposals and requirements. The Australian member of the IPSASB is appointed as an observer to the AASB, and as such can attend AASB meetings and participate in the discussion. The AASB discusses principal IPSASB agenda items and decisions with the Australian member at AASB meetings following the holding of an IPSASB meeting.

Occasional meetings are also held with the IPSASB Chairman and the Australian member and staff of the IPSASB. These occur on an ad hoc basis, when the IPSASB Chairman is visiting Australia. These meetings may involve AASB members in addition to the AASB Chairman and staff of the AASB.

The AASB Chairman is a member of the IPSASB's Standard Setters Advisory Panel in respect of its Conceptual Framework project. This means that the AASB Chairman and staff are able to provide comments to the IPSASB Chairman and staff as Conceptual Framework documents are being developed for consideration ultimately by the IPSASB members. This particularly provides an opportunity for views consistent with transaction-neutrality to be fed into the IPSASB's thinking.

AASB staff also review IPSASB agenda papers prior to IPSASB meetings for the purpose of briefing the Australian and New Zealand members of IPSASB on the staff's comments on the issues. A member of the AASB staff is also the Technical Adviser to the Australian member of IPSASB, and attends IPSASB meetings with the member.

Modifying IFRSs for Not-for-Profit Entities

Having contributed to the development of IPSASB proposals and requirements, the AASB is in a better position to then consider how to respond to the issue of an International Public Sector Accounting Standard (IPSAS) by the IPSASB. In doing so, the AASB follows the *Process for Modifying IFRSs for PBE/NFP* document, noted above.

As outlined in that document, the only basis for modifying an IFRS in respect of its application to not-for-profit (NFP) entities in Australia is the AASB's assessment that the IASB's focus on for-profit entities means that an IFRS does not appropriately address NFP issues. In summary, the AASB would seek to establish that there are issues that might warrant modifying an IFRS for NFP entities, and that the issues are sufficiently significant to warrant departure from an IFRS. To this end, modifications may be considered to be appropriate due to differences between the NFP and for-profit sectors, user needs and cost-benefit considerations. For example, differences in user needs would be considered in terms of the following factors: the nature of transactions and events and their impact on NFP entities, the benefits to financial report users of complying with IFRSs, and the costs of such compliance. Given the view that, irrespective of sector, there is only one set of economics that should be reported in general purpose financial statements, the outcome of applying the *Process* is that there is less likely to be a modification to recognition and measurement requirements than to presentation and disclosure requirements.

Thus, when the IPSASB has issued a new Standard (IPSAS) corresponding to an IFRS, the AASB will consider whether any IPSASB modifications to the requirements of the IFRS ought to be reflected in the Australian Accounting Standard based on that IFRS. The mere fact that the IPSASB may have made modifications, such as the addition of explanatory paragraphs, is not sufficient for the AASB to modify its Standard. This reflects the fact that

AASB public sector constituents are more familiar with accrual accounting concepts than many IPSASB constituents.

Similarly, when the IPSASB issues an IPSAS on a public sector-specific topic, the AASB will follow the *Process* document in considering whether to issue a corresponding Australian Standard or to modify existing Standards. For example, the IPSASB approved an IPSAS on grantor accounting for service concession arrangements at its September 2011 meeting. The AASB will consider at a future meeting whether to issue an exposure draft that includes proposed requirements that are modified from the IPSASB's requirements. For example, the proposals might include modified revenue recognition requirements consistent with the outcome of the IASB project on revenue from contracts with customers.
