



<b>Project:</b>	<b>AASB's Approach to IPSAS</b>	<b>Meeting:</b>	M169 (February 2019)
<b>Topic:</b>	<b>Consider submissions and the approach to IPSAS</b>	<b>Agenda Item:</b>	8.1
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	ITC 41 exposed for comment

### Objective of this paper

- 1 The objective of this paper is for the Board to consider constituents' feedback on the Invitation to Comment ITC 41 *The AASB's Approach to International Public Sector Accounting Standards* and further develop the policy regarding International Public Sector Accounting Standards (IPSAS).

### Reasons for the Board to consider this paper at this meeting

- 2 When developing [The AASB's Not-for-Profit Entity Standard-Setting Framework](#) (May 2018), which sets out the circumstances in which the AASB would amend IFRS Standards to address public sector-specific issues, the Board decided to update its existing policy document on the approach to IPSAS. The existing policy is titled *Australian Accounting Standards and IPSASs*, issued in October 2011. The Board decided that the updated policy document should set out the circumstances in which it would be appropriate for the Australian Financial Reporting Council (FRC) and the AASB to agree to move from IFRS Standards to IPSAS as the basis for not-for-profit (NFP) public sector accounting requirements.<sup>1</sup>
- 3 Accordingly, the Board issued ITC 41 to propose the conditions necessary for the AASB to recommend moving from IFRS Standards and adopting IPSAS for the NFP public sector. At this meeting, staff ask the Board to consider constituents' feedback on ITC 41 and decide on the approach to IPSAS.

### Attachments

- 8.2 Written submissions received on ITC 41
- 8.3 ITC 41 *The AASB's Approach to International Public Sector Accounting Standards* (August 2018) [for noting]

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<sup>1</sup> [The AASB's Not-for-Profit Entity Standard-Setting Framework](#), footnote 14.

## Structure

- 4 This staff paper is set out as follows:
  - (a) Background (paragraphs 5–6)
  - (b) Overview of comments received (paragraphs 7–10)
  - (c) Key issues identified by staff for consideration (paragraphs 11–44)
  - (d) [Appendix A](#): List of respondents
  - (e) [Appendix B](#): Summary of responses to Matters for Comment
  - (f) [Appendix C](#): Arguments against adopting IPSAS at the present time

## Background

- 5 ITC 41 proposes:
  - (a) the conditions necessary for the AASB to recommend moving from IFRS Standards to IPSAS as the basis for NFP public sector accounting; and
  - (b) the AASB’s level of involvement in International Public Sector Accounting Standards Board (IPSASB) standard-setting processes.
- 6 The comment period for ITC 41 closed on 30 November 2018. Six submissions were received. [Appendix A](#) lists the respondents.

## Overview of comments received

- 7 Staff have applied judgement in articulating respondents’ feedback on ITC 41 in this paper and the appendices. However, they are not comprehensive and therefore not a substitute for reading the full text of the submissions.
- 8 All respondents agreed with the 10 conditions set out in ITC 41 paragraph 23 as necessary conditions to be met before considering a formal consultation on adoption of IPSAS. However, respondents provided feedback to the 10 conditions and suggested additional conditions for the AASB to consider. Paragraphs 11–44 below include six key issues noted by staff that require Board’s decision in this meeting. [Appendix B](#) contains a summary of responses received on each of the ITC 41’s matters for comment.
- 9 Five respondents support the AASB’s level of involvement in IPSASB standard-setting processes (refer to MC (d) in paragraphs 18–20 of [Appendix B](#)).
- 10 All respondents agreed with the AASB that it is not appropriate to adopt IPSAS in Australia at the present time. Four respondents commented that the transaction neutrality principle provides great benefits and that the AASB should consider the importance of this principle to preparers and users of financial statements. [Appendix C](#) contains a summary of arguments provided by respondents in support of not adopting IPSAS in Australia at the present time. Staff are of the view that these arguments are largely the same as the costs of adopting IPSAS outlined in ITC 41 paragraph 25.

## Key issues for consideration

### Issue 1: Clarify the process that would drive a formal consultation on adoption of IPSAS

- 11 Two respondents commented that ITC 41 does not specify the number of conditions that need to be met for the AASB to recommend adoption of IPSAS, and that it is not clear whether the AASB places priority, importance or weighting on some of the conditions over others [S3 – ACAG & S5 – CPA]. ACAG recommended the AASB clarifies this position in the final policy document, and CPA suggested the AASB seeks to ensure that all conditions should be met before commencing formal consultation.
- 12 S4 – CAANZ noted that it is unclear how the factors in paragraph 23 interrelate with the events in paragraph 24 and therefore it is unclear what the process is to get to a formal consultation and when approval from the FRC is required.
- 13 CAANZ also commented that ITC 41 paragraph 23 says “To move to IPSAS for the public sector, the AASB would require ... the results of widespread outreach to support the move.” and notes that one of the factors required to start such a consultation process is “a significant level of feedback from constituents that a move to IPSAS is desired” (paragraph 23(i)). CAANZ suggests that this appears to create a circular argument. They note that normally feedback is received in response to a consultation, but paragraph 23 as currently worded indicates that feedback is required to initiate a consultation.

### Staff analysis

- 14 Staff assessed respondents’ views on the relative importance of the conditions in ITC 41 paragraph 23 (refer to the summary of responses to MC (c) in paragraph 17 of [Appendix B](#)) and noted that there are diverse views about the condition(s) that are considered most important in assessing whether to adopt IPSAS. Therefore, staff are of the view that the 10 conditions in ITC 41 paragraph 23 should not be ranked or weighted. Staff also consider that it is not necessary for the policy to explicitly require all conditions to be present for the AASB to consider a formal consultation on the adoption of IPSAS. This would permit the AASB some flexibility in applying the policy, even though the expectation might be that all conditions would be present to varying degrees.
- 15 Therefore, Staff do not believe it is necessary to specify in the policy document the *number* of conditions required to be present for the AASB to consider a formal consultation on adoption of IPSAS. Let the AASB assess at the relevant time whether the conditions as a whole support a formal consultation.
- 16 Staff do not support CAANZ’s circularity argument regarding when feedback is required. Staff consider that the AASB would give preliminary consideration to the factors in paragraph 23 in deciding whether to commence a formal consultation process. In this case, the AASB most likely would have received – outside of any formal consultation process – a significant level of comment from constituents that a move to IPSAS is desired. The AASB would then seek to confirm that feedback through the formal consultation, if the factors as a whole support starting that process.

### Staff recommendation 1

- 17 Staff recommend revising the lead-in text of both paragraphs 23 and 24 of ITC 41 to clarify the process, as follows (deleted text struck through and new text underlined):

**“What conditions are necessary for the AASB to adopt IPSAS for the NFP public sector?”**

“23 To move to IPSAS for the public sector, the AASB would require the approval of the Australian Financial Reporting Council (FRC) and the results of widespread outreach to support the move. ~~To start such a consultation process, the AASB is proposing that it considers whether the following factors are present:~~ The AASB would assess the following factors as a whole in considering whether to move to IPSAS for the public sector:

- (a) governance and oversight arrangements of the IPSASB ...

**“When will the AASB consider whether to adopt IPSAS?”**

“24 The AASB will decide whether to begin a formal consultation process on adopting IPSAS by considering giving preliminary consideration to the factors set out in paragraph 23, when one of the following events occurs:

- (a) IPSAS make substantive progress or changes that the AASB consider would significantly affect its assessment of the factors outlined in paragraph 23; or
- (b) where (a) is not met, 5 years has passed since the last assessment.”

**Question to the Board**

Q1: Do members agree with Staff recommendation 1 in paragraph 17 to revise the drafting of paragraphs 23 and 24?

**Issue 2: Assess the conditions more frequently than every five years and outline assessment criteria**

- 18 Two respondents suggested the AASB assess the conditions listed in ITC 41 paragraph 23 more frequently than every five years as a five-year default assessment period (in paragraph 24) seems too long considering the current pace of change in financial reporting and standard-setting arrangements [S3 – ACAG & S4 – CAANZ]. ACAG suggested that the AASB reduce the timeframe to three years and perform an annual assessment of the current state of conditions.
- 19 ACAG also suggested that the AASB outlines its assessment criteria and conclusions for each of the conditions included in ITC 41 paragraph 23. ACAG believes the conditions are subjective and suggested that it would be beneficial for the AASB’s assessment on the current and future state of each condition to be made available to the public.

**Staff analysis**

- 20 IPSAS currently lag significantly behind IFRS Standards as there are no IPSAS equivalents to IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* at this stage. One of the reasons for this could be the significant time spent by the IPSASB in developing its Conceptual Framework for the public sector, when the IASB was developing those Standards. These IFRS Standards are expected to be covered by IPSAS under the IPSASB’s Strategy and Work Plan 2019-2023 (forthcoming). Therefore, staff are of the view that it would be appropriate for the AASB to assess the conditions listed in ITC 41 paragraph 23 at the end of that period – or earlier, as equivalents to IFRS 15 and IFRS 16 might be issued in 2021, for example. However, thereafter the assessment might need to be performed more frequently, if the IPSASB maintains the pace of IFRS alignment alongside addressing public sector-specific issues.
- 21 Outlining the assessment criteria and conclusions for each of the conditions in ITC paragraph 23 would be beneficial, and this could be done when the AASB reports on a formal assessment of the

factors. To seek to include in the policy document assessment criteria for all of the factors might inappropriately limit how the AASB would decide to assess a factor during a particular assessment, given the circumstances pertaining at that time.

### **Staff recommendation 2**

- 22 Even though staff believe that after 2023 the assessment might need to be performed more frequently than every five years, staff do not recommend amending ITC 41 paragraph 24 to require this, as paragraph 24(a) (quoted in paragraph 17 above) indicates that the AASB would continue monitoring the progress in IPSAS. Flexibility in the timing of assessment could be useful, subject to the proposed maximum five-year period between assessments.
- 23 Staff agree with ACAG that publishing the AASB's assessment criteria and conclusions for each of the conditions would allow better transparency. Staff recommend the Board consider making the assessment results public, adding a new paragraph to the policy statement after paragraph 24.

#### **Question to the Board**

Q2: Do members agree with Staff recommendation 2 to retain flexibility in the timing of an assessment (but at least every five years) but to specify that the assessment criteria and conclusions should be published when the Board undertakes an assessment?

### **Issue 3: Amend paragraph 23(c) to state that IPSAS should be based on the latest version of IFRS Standards**

- 24 All respondents agreed that IPSAS being developed based on IFRS Standards is a necessary condition for Australia to consider adopting IPSAS. However, two respondents recommend amending paragraph 23(c) to state that IPSAS should be based on the latest version of IFRS Standards [S3 – ACAG & S6 – HoTARAC].
- 25 Since the AASB's view is that adoption of IPSAS should be full adoption without significant modifications (see ITC 41 paragraph 20), HoTARAC commented that the adoption approach should not go 'backward'. That is, where IPSAS are based on earlier versions of IFRS Standards, the Australian public sector should not be required to revert to those earlier versions in order to apply IPSAS.

### **Staff analysis**

- 26 Staff agree with ACAG and HoTARAC that it is important that IPSAS not lag behind IFRS Standards. The AASB aims to issue Standards incorporating IFRS Standards within two months of their issue by the IASB,<sup>2</sup> to have the same effective date. It would create further compatibility issues between the for-profit sector and the NFP public sector if IPSAS are developed based on a different version of IFRS Standards than that adopted by the AASB for the for-profit sector. This would exacerbate the mixed group issues noted in ITC 41 paragraph 23(g).

### **Staff recommendation 3**

- 27 Accordingly, staff recommend amending paragraph 23(c) as follows (new text underlined), to state that IPSAS should be based on the latest version of IFRS Standards:

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2 AASB-AUASB Corporate Plan, 2018-2019, p. 11.

“IPSAS continue to be based on the latest version of IFRS Standards, departing from IFRS Standards only to the extent appropriate for public sector issues, as under ASIC Act s227(1)(d) the AASB’s function is to participate in and contribute to the development of a single set of accounting standards for world-wide use.”

#### Question to the Board

Q3: Do members agree with Staff recommendation 3 to refer to the latest version of IFRS Standards?

#### Issue 4: Include a condition that IPSAS provide a framework to support service delivery and outcome-oriented accountability mechanisms

- 28 S3 – ACAG suggested the AASB consider the needs of users of public sector financial statements, who tend to also focus on service performance information and not solely on financial results. ACAG commented that current AASB Standards do not provide a framework to support service delivery and outcome-oriented accountability mechanisms relevant to the NFP public sector. Therefore, ACAG recommended the AASB consider how these accountability mechanisms could form part of the AASB’s approach to IPSAS. ACAG is also of the view that reporting of service performance should have at least equal standing to reporting of financial information for public sector entities.
- 29 ACAG commented that existing reporting of service performance measures and outcomes remain an under-developed and under-utilised accountability mechanism for public sector entities. ACAG would support the development of a principle-based approach to the reporting of service performance information and considered the proposed principles that were contained in AASB Exposure Draft ED 270 *Reporting Service Performance Information* (August 2015) broad enough to enable the various existing Australian frameworks to continue to be applied.
- 30 S6 – HoTARAC commented that future adoption of IPSAS should not compromise the requirements of government financial and performance reporting or budget reporting and outcomes. Users of public sector financial statements have an emphasis on transparency and accountability of public sector financial management, performance reporting and budget reporting. Therefore, any change in the accounting framework should not result in less rigorous public sector reporting as this will not meet users’ needs.

#### Staff analysis

- 31 Staff agree with ACAG and HoTARAC that users of public sector financial statements would find service performance and budget information very useful. Staff note the IPSASB has issued Recommended Practice Guideline RPG 1 *Reporting on the Long-Term Sustainability of an Entity’s Finances* and RPG 3 *Reporting Service Performance Information*, which are non-mandatory guidelines to address these issues.
- 32 Also, staff are of the view that the condition in ITC 41 paragraph 23(d) “the IPSASB develops high-quality Standards on topics affecting the public sector that are not dealt with by the IASB ...” (emphasis added) would encompass IPSASB developing a service delivery and outcome-oriented accountability framework as these are topics affecting the public sector that are not dealt with by the IASB.

#### **Staff recommendation 4**

- 33 Staff do not consider it necessary to add a condition to specify the need for IPSAS to develop a service delivery and outcome-oriented accountability framework as IPSASB has already considered these issues and has developed non-mandatory guidance. However, staff recommend the Board consider whether to also adopt the non-mandatory guidance issued by IPSASB in the future when considering adoption of IPSAS.<sup>3</sup> Such adoption would be consistent with the full adoption of IPSAS, without any significant Australian modifications and could be raised in ITC 41 paragraph 20.
- 34 In regard to ACAG’s comment about developing a principle-based approach to the reporting of service performance information, the Board is aware of this need and is undertaking a literature review as a preliminary stage in addressing this topic.

#### **Question to the Board**

Q4: Do members agree with Staff recommendation 4 that it is not necessary to add a condition regarding a service reporting and accountability framework, but reference to adopting IPSASB guidance alongside IPSAS should be made in ITC 41 paragraph 20?

#### **Issue 5: The existence of an IPSAS equivalent to the current Tier 2 Reduced Disclosure Requirements**

- 35 Two respondents noted that there is a desire for a reduced disclosure or simplified reporting regime for public sector reporting in Australia to focus on user needs [S3 – ACAG & S6 – HoTARAC].
- 36 HoTARAC further noted that currently there is no uniform reporting regime across Australian government agencies, and that some jurisdictions allow some agencies to prepare Tier 2 financial statements. Therefore, HoTARAC suggests that a comparable reporting regime to the current Tier 2 requirements under AASB 1053 *Application of Tiers of Australian Accounting Standards* be put in place if the AASB were to adopt IPSAS in the future.

#### **Staff analysis**

- 37 Staff note that if IPSAS do not allow for some form of reduced disclosure reporting requirements, then the condition in ITC 41 paragraph 23(j) – the costs of transitioning to IPSAS do not outweigh the benefits – would unlikely to be satisfied as the costs of transition to IPSAS (with full disclosures) would likely outweigh the benefits for many government agencies currently preparing reduced-disclosure financial statements.
- 38 Since the AASB developed AASB 1053 to provide a reduced disclosure regime for Australian entities alongside the requirements of IFRS Standards, staff propose that the AASB consider developing a reduced disclosure regime alongside the requirements of IPSAS – if the IPSAS do not provide an adequate reduced disclosure regime in the future. The forthcoming IPSASB Strategy and Work Plan 2019-2023 will note that the IPSASB has decided not to add differential reporting to the work plan at this time, but may request other standard setters to research the scoping and other issues.

#### **Staff recommendation 5**

- 39 Staff believe that a condition to specify that the IPSASB addresses the issue of reduced disclosure regime is not a necessary condition for Australia to consider adoption of IPSAS, since the AASB could develop its own specific regime for public sector entities to sit alongside IPSAS.

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3 The IPSASB has also issued RPG 2 *Financial Statement Discussion and Analysis*.

### Question to the Board

Q5: Do members agree with Staff recommendation 5 that an IPSAS reduced disclosure regime is not a necessary condition since the AASB would be able to develop one?

### Issue 6: Add the lack of an interpretation structure and interpretative materials as a further cost in adopting IPSAS

- 40 All respondents commented that the costs of transitioning to IPSAS (the condition in ITC 41 paragraph 23(j)) is a significant concern, including preparers with mixed groups and their auditors having to address two sets of Standards.
- 41 S3 – ACAG recommended the AASB consider the broader impact on the Australian economy, particularly the public sector. ACAG suggested including a more positively worded condition – whether the adoption of IPSAS will provide greater benefits to the Australian economy than the costs to implement IPSAS.
- 42 As part of such a condition, ACAG suggests the AASB consider the following points:
- “a potentially reduced pool of professional firms with the required skills, expertise and resources to advise on financial reporting under IPSAS and conduct public sector audits;
  - costs to transition financial reporting from IFRS to IPSAS, including training staff and auditors in the additional framework, and any necessary system changes;
  - ongoing maintenance of knowledge, training and expertise of two sets of Standards;
  - the desire for a reduced disclosure, simplified measurement and recognition regime for public sector reporting in Australia;
  - the lack of an interpretation structure similar to IFRIC; and
  - the lack of readily available interpretative guidance, similar to what the large global accounting firms produce with their IFRS manuals, and regular IFRS publications.”

### Staff analysis

- 43 Staff believe the costs of adopting IPSAS outlined in ITC 41 paragraph 25 sufficiently captures ACAG’s points listed above. Therefore, staff are of the view that the condition in ITC 41 paragraph 23(j), which refers to the benefits and costs listed in ITC 41 paragraph 25, does not need to be amended.

### Staff recommendation 6

- 44 Staff consider that it may be useful to add explicitly the lack of an interpretation structure and interpretative materials as a further cost in adopting IPSAS in ITC 41 paragraph 25, since additional effort might be required for entities to determine specific accounting policies consistent with IPSAS.

### Question to the Board

Q6: Do members agree with Staff recommendation 6 to add explicitly the lack of an interpretation structure and interpretative materials as a further cost in adopting IPSAS in ITC 41 paragraph 25?

## Appendix A: List of respondents

The Board received six submissions on ITC 41:

Submission	Respondent	Type of organisation
S1 – SM	Stevenson McGregor	Professional services firm
S2 – PwC	PricewaterhouseCoopers	Professional services firm
S3 – ACAG	The Australasian Council of Auditors-General	Public sector auditors
S4 – CAANZ	Chartered Accountants Australia and New Zealand	Professional body
S5 – CPA	CPA Australia	Professional body
S6 – HoTARAC	The Heads of Treasuries Accounting and Reporting Advisory Committee	Public sector preparers

## Appendix B: Summary of responses to Matters for Comment

This Appendix is a summary of responses received on each of the Matters for Comment (MC) in ITC 41 at page 3. It contains additional information provided by respondents that has not been addressed in paragraphs 11–44 in the body of the staff paper.

### **MC (a) The proposed conditions necessary for the AASB to adopt IPSAS for not-for-profit public sector accounting**

The AASB listed 10 conditions in ITC 41 that it considered necessary to be present for the AASB to adopt IPSAS. This section summarises the responses received on each of the 10 conditions. The conditions are listed in ITC 41 paragraphs 23(a)-(j).

#### **Paragraph 23(a)**

**“governance and oversight arrangements of the IPSASB continue to contribute to the setting of high-quality, independent Standards, and Australia has appropriate and adequate opportunities to contribute to and influence the development of such Standards”**

- 1 S5 – CPA suggested the AASB remain alert to possible structural change in IPSASB’s governance and oversight arrangements. CPA noted that IPSASB operates under the International Federation of Accountants (IFAC) umbrella, in a similar fashion to the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), and current proposals consider the possibility of removing the IAASB and certain elements of IESBA from the IFAC umbrella.
- 2 S1 – SM also noted the threat of Brexit and the EU developing its own public sector accounting standards, concluding that it is a precarious time to enter into a closer association with the IPSASB. However, Stevenson McGregor considers that, before the AASB moves to adopt IPSAS, the IPSASB structure should be reformed so that it is independent of the undue influence of vested interests, and cites the IASC’s transformation as the IASB in 2000 as the model. S6 – HoTARAC reiterated its view that the best long-term approach would be for the IASB and the IPSASB to merge.
- 3 The majority of respondents supported the AASB’s strategies to maintain a significant level of interaction with the IPSASB (see comments on MC (d) below). This acknowledges the importance of Australian contributions to the development of IPSAS in addressing potential differences between IPSAS and IFRS Standards.

**Staff comment:** Staff consider that ITC 41 paragraph 23(a) does not need to be amended.

Staff will monitor any changes to the IPSASB’s governance and oversight structure.

Staff note that Australian involvement in IPSASB processes has been significant for many years, including Board membership, technical advisors and Australian stakeholders responding to IPSASB consultation documents. (Refer also to MC (d) comments.)

#### **Paragraph 23(b)**

**“the IPSASB has adequate resources and funding to prepare high-quality Standards on a timely basis”**

- 4 All respondents supported the condition that IPSASB has adequate resources and funding to prepare high-quality Standards on a timely basis as a necessary condition for Australia to consider adopting IPSAS.

- 5 Two respondents commented that the IPSASB has relatively limited resources and funding, which could affect the IPSASB’s ability to develop timely IPSAS equivalents to new IFRS Standards, and hamper timely development of standards and guidance to deal with public sector-specific issues. This may also lead to mixed group issues discussed in paragraphs 10–11 below. [S1 – SM & S5 – CPA]
- 6 CPA also commented that the condition should include the IPSASB having sufficient technical resources to address any post-implementation issues identified by stakeholders. The IPSASB does not have an interpretation function similar to the IFRS Interpretations Committee.

**Staff comment:** Staff consider that ITC 41 paragraph 23(b) does not need to be amended.

The words “high-quality” and “timely basis” would encompass CPA’s comment about IPSASB addressing post-implementation issues identified by stakeholders.

#### **Paragraph 23(c)**

**“IPSAS continue to be based on IFRS Standards, departing from IFRS Standards only to the extent appropriate for public sector issues, as under ASIC Act s227(1)(d) the AASB’s function is to participate in and contribute to the development of a single set of accounting standards for world-wide use”**

**Staff comment:** Staff support an amendment to paragraph 23(c).

Refer to Issue 3 in the staff paper for a summary of respondents’ feedback and staff comments.

#### **Paragraph 23(d)**

**“the IPSASB develops high-quality Standards on topics affecting the public sector that are not dealt with by the IASB – for example, the Standards are not significantly compromised by addressing needs of countries transitioning to accrual accounting and countries that do not have the resources to address implementation of complex new Standards”**

- 7 All respondents support the need for high-quality Standards, but none commented on the examples.

**Staff comment:** Staff consider that ITC 41 paragraph 23(d) does not need to be amended.

The examples may not be likely, and did not engage with respondents, however they should be retained in the conditions for adoption of IPSAS as they could be relevant at some stage.

#### **Paragraph 23(e)**

**“countries of significant influence and relevance to public sector standard-setting adopt IPSAS without significant modification”**

- 8 S1 – SM commented that evidence of support for IPSAS from economically significant jurisdictions internationally is necessary before adopting IPSAS in Australia. S3 – ACAG noted that the level of global adoption is a priority condition, noting that almost all major jurisdictions develop and maintain their own set of public sector standards. ACAG also noted that New Zealand and South Africa have adopted IPSAS with modifications. The EU is also developing its own Standards.

**Staff comment:** Staff consider that ITC 41 paragraph 23(e) does not need to be amended.

IPSAS adoption by significant jurisdictions is an important factor.

### Paragraph 23(f)

**“users of public sector financial statements indicate that the AASB’s current NFP entity standard-setting framework based on IFRS Standards is not providing sufficiently tailored information, such that public sector financial reporting does not meet the objective of financial reporting in the AASB’s Conceptual Framework”**

- 9 Respondents did not provide specific feedback regarding this condition, but S3 – ACAG and S4 – CAANZ commented that this is an important condition.

**Staff comment:** Staff consider that ITC 41 paragraph 23(f) does not need to be amended.

This condition could indicate either that the AASB should make additional modifications to IFRS-based Standards or should move to adopt IPSAS. Therefore, it would need to be assessed in conjunction with the condition in paragraph 23(i) that there is a significant level of feedback from constituents that a move to IPSAS is desired.

### Paragraph 23(g)

**“mixed group issues are not significant or can be mitigated – for example, the time lag between when the IPSASB addresses new IFRS Standards and when for-profit public sector entities have to adopt IFRS Standards does not result in the cost for such entities in having to maintain financial records complying with IFRS Standards for their reporting and then converting to IPSAS for reporting to their parent outweighing the benefits of using IPSAS”**

- 10 Four respondents noted that there would be significant problems for government consolidated groups containing both for-profit government agencies that apply IFRS Standards and NFP government agencies that would be applying IPSAS whenever IPSAS lag behind IFRS. This would result in consolidated group entities having to apply different standards to the same economic events resulting in internal inefficiencies within government and a lack of comparability with private sector. [S1 – SM, S4 – CAANZ, S5 – CPA & S6 – HoTARAC]
- 11 HoTARAC noted that IPSAS do not apply to for-profit government agencies and government would be incurring additional costs in keeping separate sets of records for these agencies – IFRS for accountability and IPSAS for consolidation into Whole of Government reports. CPA mentioned that New Zealand has adopted IPSAS for their public sector entities and has received feedback that some consolidated groups are experiencing mixed groups issues.

**Staff comment:** Staff consider that ITC 41 paragraph 23(g) does not need to be amended.

Staff are of the view that mixed group issues might be mitigated if IPSAS are developed based on the latest version of IFRS Standards (as recommended by staff under Issue 3 in the main part of this paper), and if paragraph 23(a) is also satisfied – IPSAS depart from IFRS Standards only to the extent appropriate for public sector.

In this case, accounting principles in IFRS Standards applied by for-profit government agencies would be the same as the accounting principles in IPSAS applied by NFP government agencies, except for NFP specific matters that are not applicable to for-profit agencies. The cost of converting the accounts of for-profit government agencies into IPSAS for consolidation purposes might therefore be minimal, or similar to the cost currently incurred by governments to consolidate for-profit and NFP government agencies applying AASB Standards developed based on IFRS Standards.

**Paragraph 23(h)**

**“the extent to which IPSAS are converged with Government Finance Statistics (GFS) is appropriate – given the current FRC strategic direction on convergence with GFS, the extent of convergence will need to be satisfactory”**

- 12 Two respondents note that the AASB has an objective of limiting the extent of differences between reporting under IFRS Standards and reporting under GFS, and recommend the AASB assess whether adopting IPSAS would align to this objective. [S2 – PwC & S6 – HoTARAC]
- 13 HoTARAC also recommended the AASB consider including an additional necessary condition for adopting IPSAS in Australia – having an IPSAS equivalent to the current GAAP/GFS harmonisation approach in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. AASB 1049 results in a single accounting framework for all Commonwealth and State budget and actuals reporting, and is the basis for the Uniform Presentation Framework (UPF), a national agreement between Commonwealth, States and Territories for consistency in financial reporting. Therefore, HoTARAC regards the continuation of AASB 1049 or an equivalent as an essential precondition to IPSAS adoption.

**Staff comment:** Staff consider that ITC 41 paragraph 23(h) does not need to be amended.

Paragraph 23(h) indicates that ‘the extent of convergence will need to be satisfactory’ for the AASB to consider adopting IPSAS. The word ‘satisfactory’ implies an acceptable level of convergence with GFS.

Staff do not consider it necessary to include the additional condition suggested by HoTARAC, as the AASB can retain AASB 1049 alongside IPSAS as additional Australian requirements.

**Paragraph 23(i)**

**“a significant level of feedback from constituents that a move to IPSAS is desired”**

- 14 Respondents did not provide specific feedback regarding this condition, but S3 – ACAG and S4 – CAANZ commented that this is an important condition.

**Staff comment:** Staff consider that ITC 41 paragraph 23(i) does not need to be amended.

In practice, this condition should be assessed in conjunction with condition 23(f), to ensure that the move to IPSAS is for valid reasons.

**Paragraph 23(j)**

**“the costs of transitioning to IPSAS do not outweigh the benefits”**

**Staff comment:** Refer to Issue 6 in the staff paper for a summary of respondents’ feedback on this condition and staff comments. Staff consider that ITC 41 paragraph 23(j) does not need to be amended.

## MC (b) Additional conditions the AASB should consider

Additional conditions suggested by respondents discussed in Issues 4 and 5 in the main part of the staff paper are not reproduced here: an IPSAS framework supporting service delivery and outcome-oriented accountability mechanisms (Issue 4) and an IPSAS reduced disclosure or simplified reporting framework (Issue 5).

### Assessment of differences between IPSAS and AASB Standards

- 15 S2 – PwC commented that the AASB should analyse the differences between IPSAS and current versions of AASB Standards in order to support the adoption of IPSAS.
- 16 S3 – ACAG also suggested the AASB clarifies its position on the inclusion of specific statements of differences to existing AASB Standards and IPSAS. ACAG suggested that the AASB update any statement after the IPSASB issues new IPSAS and modified IPSAS, and not just when a new AASB standard is issued. For example, a statement of differences in AASB 9 *Financial Instruments* should be updated for the issue of IPSAS 41 *Financial Instruments*, and updated when the IPSASB updates IPSAS 41 for the IASB amendments *Prepayment Features with Negative Compensation*.

**Staff comment:** Staff consider that no new conditions that should be added to paragraph 23 have been identified.

The condition in ITC 41 paragraph 23(c) – “IPSAS continue to be based on IFRS Standards, departing from IFRS Standards only to the extent appropriate for public sector issues ...” – would require the Board to consider the differences between AASB Standards and IPSAS in order to assess whether they are appropriate and the condition satisfied. Therefore, staff believe it is not necessary to include the AASB assessing the differences between AASB Standards and IPSAS as a necessary condition.

The AASB Staff Report *Australian Accounting Standards Board and International Public Sector Accounting Standards Board Pronouncements – A Comparison* (May 2017) states (at page 14) that the list of differences between AASB Standards and IPSAS contained in the Report will be reviewed and updated periodically.

**MC (c) Potential precedence of some conditions over others**

17 The table below summarises respondents' views on the relative importance of the conditions listed in paragraph 23 of ITC 41. Rating '1' is the condition ranked to be the most important by a respondent, followed by '2', '3' and so on. Conditions that are not explicitly ranked by respondents but are noted as important conditions are marked with the symbol X.

Conditions listed in ITC 41 paragraph 23	S1 SM	S2 PwC*	S3 ACAG	S4 CAANZ	S5 CPA**	S6 HoTARAC#
23(a) "governance and oversight arrangements of the IPSASB continue to contribute to the setting of high-quality, independent Standards, and Australia has appropriate and adequate opportunities to contribute to and influence the development of such Standards"	X	X		3		
23(b) "the IPSASB has adequate resources and funding to prepare high-quality Standards on a timely basis"	X	X	X			
23(c) "IPSAS continue to be based on IFRS Standards, departing from IFRS Standards only to the extent appropriate for public sector issues, as under ASIC Act s227(1)(d) the AASB's function is to participate in and contribute to the development of a single set of accounting standards for world-wide use"			X	1		
23(d) "the IPSASB develops high-quality Standards on topics affecting the public sector that are not dealt with by the IASB – for example, the Standards are not significantly compromised by addressing needs of countries transitioning to accrual accounting and countries that do not have the resources to address implementation of complex new Standards"			X			
23(e) "countries of significant influence and relevance to public sector standard-setting adopt IPSAS without significant modification"	X		X			
23(f) "users of public sector financial statements indicate that the AASB's current NFP entity standard-setting framework based on IFRS Standards is not providing sufficiently tailored information, such that public sector financial reporting does not meet the objective of financial reporting in the AASB's Conceptual Framework"			X	2		

Conditions listed in ITC 41 paragraph 23	S1 SM	S2 PwC*	S3 ACAG	S4 CAANZ	S5 CPA**	S6 HoTARAC#
23(g) “mixed group issues are not significant or can be mitigated – for example, the time lag between when the IPSASB addresses new IFRS Standards and when for-profit public sector entities have to adopt IFRS Standards does not result in the cost for such entities in having to maintain financial records complying with IFRS Standards for their reporting and then converting to IPSAS for reporting to their parent outweighing the benefits of using IPSAS”						2
23(h) “the extent to which IPSAS are converged with Government Finance Statistics (GFS) is appropriate – given the current FRC strategic direction on convergence with GFS, the extent of convergence will need to be satisfactory”						X##
23(i) “a significant level of feedback from constituents that a move to IPSAS is desired”						1
23(j) “the costs of transitioning to IPSAS do not outweigh the benefits”			X			

\* PwC also commented that another condition necessary to be met prior to adopting IPSAS is for AASB to make assessments of the differences between IPSAS and current versions of AASB Standards, as issued, based on IFRS (refer to paragraph 15 above under MC (b)).

\*\* CPA did not provide a specific response to MC (c), but suggested that the AASB should seek to ensure all conditions are met before commencing consultation on adoption of IPSAS in Australia.

# HoTARAC supports the AASB’s view that ‘the results of widespread outreach to support the move’ (ITC 41 paragraph 23) would be necessary to support adoption of IPSAS in Australia.

## Even though HoTARAC did not specify that the condition in paragraph 23(h) is a primary condition, their submission emphasised the importance of continuing the GAAP/GFS harmonisation approach in the future if IPSAS are adopted (see paragraphs 12–13 in MC (a) above).

**Staff comment:**

Based on the table above, there are diverse views from respondents about which condition(s) are considered most important in assessing whether to adopt IPSAS in Australia. Therefore, staff are of the view that the conditions should not be ranked or weighted (refer to Issue 1 in the main part of this paper).

#### MC (d) The AASB's level of involvement in IPSASB standard-setting processes

- 18 Five respondents indicated that the AASB's current and proposed level of involvement in the IPSASB standard-setting processes is appropriate [S2 – PwC, S3 – ACAG, S4 – CAANZ, S5 – CPA and S6 – HoTARAC]. S1 – SM did not provide comment on this MC.
- 19 PwC commented that the AASB needs to be sufficiently involved in the IPSASB standard-setting process prior to adoption to ensure it has a role in shaping the future development of IPSAS – to help manage any differences that would emerge in the future between IPSAS and IFRS Standards.
- 20 HoTARAC considers that, if IPSAS are adopted, it would be essential for the AASB to be represented at the IPSASB and its committees to ensure the Australian public sector is represented in the development of IPSAS and guidance. This could include Australian membership of IPSASB or having Australian experts on IPSASB technical panels and subcommittees.

**Staff comment:** Staff are of the view that the current level of representation from Australia and the other interaction strategies listed in ITC 41 paragraphs 27–32 would be sufficient in influencing the IPSASB's standard-setting process, and therefore do not require amendment.

Staff note the comments of PwC and HoTARAC help to justify the interaction strategies listed in ITC 41.

Australia currently has representation at the IPSASB through Board membership at IPSASB, AASB technical staff supporting the Australian IPSASB member, and a member of the IPSASB's Consultative Advisory Group (CAG).

#### MC (e) Other significant facts that the AASB should consider

##### A formal consultation to ascertain stakeholder's current views on the factors in paragraph 23

- 21 S4 – CAANZ is of the view that, other than paragraph 23(i), the factors in ITC 41 paragraph 23 are subjective and should be the topic of a formal consultation, and not pre-conditions to commence a formal consultation. CAANZ therefore recommends that a formal consultation is carried out to ascertain stakeholder's current views on the factors in paragraph 23 to better inform the broader debate around adoption of IPSAS. CAANZ suggests the current process appears to be for the AASB to determine the existence of the factors in isolation. A current consultation could act as a baseline for the AASB in the future to determine whether the event in paragraph 24(a) of "*IPSAS make substantive progress or changes that the AASB consider would significantly affect its assessment of the factors outlined in paragraph 23*" has indeed occurred.

**Staff comment:** Staff consider that another round of consultation regarding the conditions set out in paragraph 23 is not currently required.

Exposing ITC 41 for public comment generated responses from a range of stakeholders: public sector preparers (HoTARAC), public sector auditors (ACAG), professional services firms (SM and PwC) and professional bodies (CPA and CAANZ). All respondents supported the status quo at present, rather than moving to adopt IPSAS at this time.

## Specify the timeframe for the AASB to review the conditions outlined in ITC 41 paragraph 23

- 22 ITC 41 paragraph 2 states that "... the AASB intends that the conditions necessary for the adoption of IPSAS would be reviewed periodically (not annually) and the results of that assessment made public." Two respondents suggested the AASB consider outlining a specific timeframe in the policy document rather than stating that reviews will occur 'periodically' [S3 – ACAG & S5 – CPA].

**Staff comment:** Staff believe it is appropriate to allow flexibility for the AASB in considering when a review of the conditions in ITC 41 paragraph 23 is required, rather than committing to a specified time period.

## Fair value measurement

- 23 S2 – PwC noted that, irrespective of which accounting framework is applied, consideration needs to be given as to how fair value measurement requirements are to be applied by public sector and not-for-profit (private sector) entities to ensure consistent application.

**Staff comment:** Staff do not consider a condition specific to fair value measurement is necessary for the AASB to consider adopting IPSAS. Staff believe that this issue is encompassed in ITC 41 paragraph 23(d) as a 'topic affecting the public sector that are not dealt with by the IASB'.

Staff agree that fair value measurement requirements need to be addressed, however that is a work plan/project matter, rather than a specific IPSAS policy matter. The IPSASB and the AASB both have current measurement projects, but of different scope.

## Transparency and accountability of the public sector in financial management and reporting

- 24 As mentioned in Issue 4, S6 – HoTARAC commented that any change in the accounting framework should not result in less rigorous public sector reporting, as this would not meet users' needs. HoTARAC noted that the recent [Independent Review into the Operation of the Public Governance, Performance and Accountability Act 2013 and Rule<sup>4</sup>](#) provides recommendations to Commonwealth entities on improving transparency and accountability of financial management, financial reporting and performance reporting. These recommendations are based on the application of the current Australian Accounting Standards applicable to NFP entities.
- 25 Additionally, Commonwealth and State Parliaments scrutinise matters arising from Auditor-Generals' reports. Recommendations arising from parliamentary scrutiny into audited financial statements indicate a continuing desire for further strengthening of transparency and accountability of the public sector in financial management and reporting.

**Staff comment:** Staff agree with HoTARAC's view that the quality of financial statements and requirements of GFS reporting, performance reporting and budget reporting should not be compromised by a move to IPSAS. Staff believe the conditions in paragraphs 23(c), 23(d) and 23(h) are sufficient in assessing whether the quality of IPSAS would enhance transparency and accountability. Therefore, staff do not consider any changes to the ITC 41 drafting is required.

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4 The *Public Governance, Performance and Accountability Act 2013* is an Act about the governance, performance and accountability of, and the use and management of public resources by, the Commonwealth, Commonwealth entities and Commonwealth companies.

## Appendix C: Arguments against adopting IPSAS at the present time

This Appendix summarises the key arguments given by respondents supporting the current status quo of not adopting IPSAS in Australia.

### Current IPSAS lag behind IFRS Standards

- 1 All respondents agreed that current IPSAS lag behind IFRS Standards and key elements applicable to the public sector are still in development, which could lead to further differences between public and private sector accounting in Australia if IPSAS are adopted at this time.

### Transaction neutrality, mobility of accounting professionals and comparability with private sector

- 2 Four respondents indicated that transaction neutrality is an important factor for the AASB to consider [S1 – SM, S2 – PwC, S5 – CPA & S6 – HoTARAC].
- 3 Stevenson McGregor commented that transaction neutral accounting provides significant benefits to preparers and users of financial statements as it lowers the cost of application of accounting standards, enhances the mobility of professionals between sectors and enhances the comparability of financial statement information.
- 4 CPA also commented that transaction neutrality and mobility of accounting professionals are important factors.
- 5 HoTARAC also emphasised the importance of ensuring transaction neutrality to the greatest extent possible over the long term, and that this should be a key focus in seeking constituent commentary on Australia's relationship to IPSAS. HoTARAC recommended the AASB continue to seek feedback from users and preparers of financial statements on the importance of transaction neutrality and comparability between the public and private sectors.

### Maintenance of two sets of accounting Standards (including two conceptual frameworks) and mixed group issues

- 6 Five respondents commented that the costs and resources involved in maintaining two sets of accounting Standards could be significant [S1 – SM, S3 – ACAG, S4 – CAANZ, S5 – CPA & S6 – HoTARAC]. Government consolidated groups with mixed group entities would incur additional costs in keeping separate sets of accounts – IFRS for accountability and IPSAS for consolidation into Whole of Government reports. Ongoing staff training costs might also increase for both preparers and auditors to address two sets of Standards.

### Transition costs for preparers including system changes and staff training

- 7 Five respondents commented that the costs of transition to IPSAS could be significant, including ascertaining the differences between the two sets of Standards to determine necessary accounting policy changes and costs in updating systems and training staff. Auditing costs might also increase as more work would need to be performed on transitioning to IPSAS [S1 – SM, S3 – ACAG, S4 – CAANZ, S5 – CPA & S6 – HoTARAC].

<p><b>Staff comment:</b> Staff consider these comments are in line with the costs of adopting IPSAS outlined in ITC 41 paragraph 25.</p>
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