



Ms K Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
VIC 8007

Dear Ms Peach <sup>KMS</sup>

### **Proposal to amend AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, Para 41**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) propose, for the Board's consideration, an amendment to AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

The purpose of the proposed amendment is to provide partial relief from the requirement included in paragraph 41 for whole of government consolidated financial reports to provide a reconciliation of measurement differences arising from key fiscal aggregates measured based on:

- the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) manual; and
- the amounts recorded in the primary statements (which are predominantly based on Australian Accounting Standards (AAS)).

We propose for consideration by the Board that paragraph 41 be expanded to include the relief from quantification of measurement differences included in a reconciliation table in situations where:

- the information to support the reconciling items is not readily available from existing records that support the financial information prepared under AAS;
- the relative magnitude of reconciling items would yield the reconciliation meaningless without providing narrative disclosures explaining the nature of the convergence differences; and
- interpretations by the ABS, based on non-AAS measures/considerations, heighten the risk that the reconciling items could be misinterpreted by the users of the financial reports.

The purpose of the reconciliation required by paragraph 41 is to assist the users to better understand the quantitative measurement differences through the underlying premise that both frameworks reliably measure and present financial information.

The introduction by the Australian Accounting Standards Board (AASB) of a suite of new Australian Accounting Standards (AAS) that become effective from the 2019-20 and 2020-21 fiscal years is expected to create significant convergence differences when compared to the measurement bases required under the GFS manual.

These new AAS create a fundamentally different accounting paradigm for leasing, revenue and service concession arrangements. In contrast, the ABS GFS manual has remained unchanged as it is underpinned by the International Monetary Fund framework that has broader objectives than accounting and is less flexible in accommodating changes to accounting standards.

As explained in more detail below, HoTARAC is of the view that the reconciliation requirement will be too onerous and arguably of very little relevance to the users of financial reports because of the nature and value of convergence differences that will likely arise.

The proposal for the amendment to AASB 1049 does not detract from that Standard's objective to provide information to users of the nature of the convergence differences between the AAS and the ABS GFS manual, but seeks to provide relief from quantification of these differences on the basis of relevance and availability of information. On the contrary, HoTARAC is of the view that appropriate narrative disclosure could increase the user's understanding of the convergence differences more effectively than a tabular reconciliation with very material reconciling items.

### **MORE COMPLEX CONVERGENCE DIFFERENCES**

AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) requires the recognition of certain arrangements on balance sheet if the scope criteria of that accounting standard are met. These include arrangements that have previously not been recognised under legacy accounting practices and include several significant infrastructure projects.

The ABS evaluates each arrangement individually, based on criteria that are different from the accounting criteria and that could lead to projects being classified as wholly or partially private sector based. This could result in very significant adjustments required to the financial information reported under Generally Accepted Accounting Practice, both at initial recognition and for subsequent measurement.

This means that not only would the reconciliation be between the AAS and GFS bases but also would attempt to reconcile differences in projects that arise from unilateral interpretations by the ABS that, for accounting purposes, would be similar. The reconciling items could likely amount to billions of dollars. This could also inadvertently undermine the credibility, relevance and confidence in public sector financial reporting, both at a State and Federal level, which will require appropriate narrative explanation to avoid the risk of users misunderstanding or drawing incorrect conclusions from the reconciliations.

Of a similar concern, but considered a much more onerous requirement, is the reconciliation of leases reported under AASB 16 *Leases* (AASB 16) and the GFS manual requirements. The new accounting requirements of AASB 16 no longer requires a distinction between operating and finance leases, from a lessee perspective, with most leases required to be recorded on Balance Sheet.

It is understood that the Australian Bureau of Statistics will not be adopting the change in treatment of leases as set out in AASB 16 for its Government Finance Statistics reporting framework. As a result, the ABS is proposing to adjust the accounting data to undo the impact of the changes under AASB 16. This approach is reliant on jurisdictions being able to continue to classify finance and operating leases or will require modelling assumptions to be made by the ABS.

The measurement bases for operating and finance leases under the previous leasing standard, AASB 117, were more aligned with the ABS GFS manual requirements. The accounting change, in particular recording most operating leases on-Balance Sheet, presents a significant challenge going forward. In particular, record keeping requirements will be very onerous if reporters were to quantitatively reconcile the same information measured under both reporting frameworks.

Effectively, "two sets of books" will need to be maintained to identify the ongoing differences between recognition and measurement under AASB 16 and the previous operating and finance leases measurement. One set of books would be based on an Accounting Standard (AASB 117) that will be out-of-date. This is considered highly onerous with highly questionable cost/benefit considerations. Accordingly, jurisdictions generally do not intend to impose a cost burden on Government solely for that purpose.

Finally, application of the new accounting standards in relation to AASB 15 *Revenue from contracts with Customers* (AASB 15) and AASB 1058 *Income of Not-for-Profit entities* (AASB 1058) could lead to deferral of amounts previously recognised upon receipt of the consideration. Whilst the specific issues have not been identified, there is a risk that the deferral of revenue/income will represent a further convergence difference to existing GFS requirements, detracting from user confidence in public sector financial reporting frameworks.

## JUSTIFICATION FOR REQUESTING AMENDMENTS

In accordance with the AASB's standard setting framework, we are of the view that there are a number of our concerns highlighted above that would be 'justifiable circumstances' under which an amendment to AASB 1049 would be appropriate:

- the prevalence and magnitude of Not-for-Profit specific transactions: As noted above, in particular, the transactions related to Service Concession Arrangements and 'operating leases' would better be explained using narrative as opposed to reconciliation differences;
- Not-for-profit application issues resulting from alignment with other financial frameworks: Considering that the ABS GFS Manual remains unchanged when compared to substantial change in the AAS requirement, this makes the alignment between these frameworks inherently onerous and arguably less relevant to the users of the financial statements; and
- Undue cost or effort of preparing and disclosing information far outweigh the benefits: The Not-for-Profit standard setting framework uses GFS information as an example of a situation where undue cost or effort could be required in preparing similar information under an IASB standard. Similar issues are faced in the application of AAS as would have been the case under IASB standards.

HoTARAC considers that meeting the existing requirements would be overly onerous with the cost of keeping records under both frameworks far outweighing any intended benefits and put considerable and unnecessary strain on organisations with no additional value to the users. We also consider that this approach is impractical and could cause confusion in the longer term as the distinction between old and new accounting standards become less relevant and not as widely understood by users and preparers in the future.

The reliability of the reconciliation information collected would also be questionable as it would not be prepared under AAS but under an AASB centric framework that is not well understood or even used outside of whole of government reporting. Hence, the quantitative financial information would not serve the purpose of providing additional, useful information to the users.

Rather than a reconciliation, we propose a qualitative disclosure that explains the main differences between the reporting frameworks. This could be achieved by way of a note to the financial reports that also emphasises that these differences do not detract from the usefulness of the information provided to the user, but simply addresses the disparity between the two regimes that have different objectives.

For public sector reporters to identify the quantitative impacts of the new AAS, reporters will be required to maintain records under both measurement basis which will add to the complexity and cost of compliance with the reconciliation requirement, therefore considered unreasonable.

All HoTARAC members are in unanimous agreement in relation to this matter.

If you have any queries regarding our comments, please contact Steve Mitsas from Victoria Treasury on 03 9651 2645 or by email at [steve.mitsas@dtf.vic.gov.au](mailto:steve.mitsas@dtf.vic.gov.au).

Yours sincerely



David Nicol  
Chair

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

30 April 2019

