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Ms Kris Peach

Chair

Australian Accounting Standards Board

PO BOX 204 Collins Street West

Victoria 8007

Dear Kris

**Re: Invitation to Comment ITC 41 The AASB's Approach to International Public Sector Accounting Standards**

Stevenson McGregor ('SM') is pleased to provide the following comments on the AASB's Invitation to Comment ITC 41 *The AASB's Approach to International Public Sector Accounting Standards* (ITC 41).

1. While we understand the Board's motivation in seeking comments on its approach to International Public Sector Accounting Standards (IPSAS), we believe there is a threshold issue that should govern the timing of a decision by the AASB to adopt IPSAS for use as Australian Accounting Standards. Consistently with the approach adopted by Australia when adopting International Financial Reporting Standards (IFRS) we believe strongly the following conditions must be met before the AASB considers adopting IPSAS for use in Australia:
  - a) The standard setting structure within which the IPSASB operates must be reformed, such that the setting of public sector accounting standards can take place, and be perceived to be taking place, independently of the undue influence of vested interests. The model for such a transformation is the International Accounting Standards Board (IASB) within the IFRS Foundation, which succeeded the IPSASB's private sector counterpart, the International Accounting Standards Committee, in 2000<sup>1</sup>. Not only Australia but many other countries chose to adopt IFRS following the reformation.
  - b) The new standard setting structure must be adequately resourced so that high-quality public sector accounting standards can be developed and timely improvements in public sector financial reporting can occur. Among other things, a higher level of funding will be needed to appoint full-time members of the IPSASB, increase the level of technical and support staff and facilitate more in depth and extensive engagement with constituents.

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<sup>1</sup> A vision of a possible global standard setting architecture that would achieve such a transformation is discussed in McGregor *It's time...for global, high quality public sector financial reporting* Institute of Chartered Accountants Australia, May 2013.



2. Until these changes occur and there is evidence of support for IPSAS from economically significant jurisdictions internationally, we believe the following arguments support retention of the status quo:
- a) There is no substantive benefit compared to the current approach whereby public sector topics that are not dealt with by the suite of AASB/IASB standards can be added as and when needed.
  - b) There is significant cost to preparers and auditors in mastering two sets of requirements.
  - c) There is no kudos to be gained internationally as other national standard setters have chosen not to do what New Zealand has done.
  - d) There would be a loss of mobility between sectors for professionals involved in financial reporting and auditing.
  - e) There would be significant problems for mixed group entities containing both Government Business Enterprises and Budget-dependent Entities whenever IPSAS lag behind IFRS. The IASB is significantly better resourced than the IPSASB which means lags will inevitably arise (eg leases, revenue, financial instruments). This would result in mixed group entities having to apply different standards to the same economic events resulting in internal inefficiencies and a lack of comparability externally.
  - f) The threat of Brexit and the EU dalliance with home-grown public sector accounting standards means that it is a precarious time to enter into a closer association with the IPSASB.
  - g) The Australian model of transaction neutral accounting standards provides significant benefits to preparers and users of financial statements. For example, it lowers the cost of application of accounting standards by requiring the same accounting for the same transactions and other economic events, enhances the mobility of professionals between sectors and enhances the comparability of financial statement information<sup>2</sup>. In our opinion, there needs to be demonstrable evidence of the benefits of an alternative model before the AASB makes a decision to move away from the current model.

If you have any questions concerning our comments, please contact Kevin Stevenson at +61416250008 or Warren McGregor at +61417340664.

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<sup>2</sup> A simple example of the potential benefit of cross sector comparability is the potentially lower cost of finance for governments resulting from an enhanced capacity of investors/lenders to evaluate the financial position and financial performance of governments when compared to other public sector and private sector participants in the capital markets.



Signed on behalf of Kevin and Warren

Yours sincerely

Warren McGregor

Director

18 October 2018



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

via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

27 November 2018

Dear Kris

**Re: Invitation to Comment ITC 41 *The AASB's Approach to International Public Sector Accounting Standards***

PwC welcomes the opportunity to comment on the AASB's approach to International Public Sector Accounting Standards (**IPSAS**) and appreciates the time that the AASB has spent considering whether public sector-specific issues, as well as not-for-profit issues more broadly, could be better resolved by the adoption of IPSAS in Australia.

We do not consider that the timing is right for Australia to adopt IPSAS as issued by the International Public Sector Accounting Standards Board (**IPSASB**). This is primarily because certain key elements of IPSAS are still in development when compared with IFRS, which would mean further differences arising between public and private sector accounting in Australia. While we have not undertaken a thorough review of the differences between the two sets of standards, the adoption of IPSAS would conflict with the AASB's policy of transaction neutrality, based on separate conceptual frameworks.

We would also note that, in developing AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (**AASB 1049**), the AASB first considered GAAP/GFS harmonisation issues from a General Government Sector (**GGS**) with the objective of limiting the extent of differences between IFRS and Government Finance Statistics (**GFS**) reporting. Therefore, we would also suggest that the AASB assess whether adopting IPSAS at this time would be sufficiently aligned to that objective.

In response, specifically, to the matters for comment, we note the following:

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

We agree with the proposed conditions necessary for the AASB to adopt IPSAS for not-for-profit public sector accounting, as outlined on pages 6 and 7 of ITC 41.

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Liability limited by a scheme approved under Professional Standards Legislation.



**(b) Additional conditions the AASB should consider.**

In addition to the conditions identified by the AASB, we note that further consideration needs to be given as to how the fair value measurement requirements are to be applied by public sector and not-for-profit entities to ensure a consistent application. These issues will need to be addressed and resolved irrespective of which accounting framework is applied to these entities, without raising issues of non-compliance.

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

In order for us to fully support the adoption of IPSAS in Australia, we would expect to see strong evidence of the following key conditions:

- A strong, independent IPSASB governance framework, supported by adequate funding and resources; and
- An assessment by the AASB of the differences between IPSAS and current Australian Accounting Standards, as issued, based on IFRS.

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

A key concern around the adoption of, and transition to, IPSAS is the level of influence that the AASB would have in the Standard setting process. As the Standards are set internationally, there is a risk that Australian influence would be dependent on members of the IPSASB. While this is no different to the standard setting process at the IASB, the additional consideration would be the ability to actively manage any differences that would emerge in the future between IPSAS and IFRS. Accordingly, as noted in our key conditions precedent outlined above, we would expect to see the AASB sufficiently involved in the IPSASB standard-setting process prior to adoption to ensure they have a role in shaping the future development of these Standards.

**(e) Other significant facts that the AASB should consider.**

We have not identified any other significant facts that the AASB should consider.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 0309 or [sean.rugers@pwc.com](mailto:sean.rugers@pwc.com) if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in blue ink that reads 'S Rugers'.

**Sean Rugers**

Partner, PricewaterhouseCoopers

29 November 2018

Ms Kris Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins St West Victoria 8007  
AUSTRALIA

Dear Kris

**Invitation to Comment (ITC) 41—*The AASB’s approach to International Public-Sector Accounting Standards (IPSAS)***

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the ITC. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG notes the ITC is proposing to replace the “AASB Approach to IPSASs” document and is not a consultation on the merits of adoption of IPSAS. ACAG’s response is therefore framed in this context, focusing on the AASB’s approach to IPSAS and the conditions necessary for adoption of IPSAS.

As outlined in ACAG’s submission to ITC 37 *The AASB’s Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities*, ACAG observe the suite of issued AASB standards do not provide a framework to support service delivery and outcome oriented accountability mechanisms relevant to the not-for-profit public sector. There is merit therefore in the AASB considering how these accountability mechanisms could form part of the AASB’s approach to IPSAS.

Whilst ACAG fully supports the AASB’s approach to IPSAS, we suggest that the AASB continues to review the prevalence of IPSAS in the global public sector landscape, the benefits and costs to the Australian economy and that the approach is reviewed in less than five years time.

ACAG notes that it is for regulators (including governments) to determine not only which not-for-profit entities need to report publicly, but also to determine what framework and standards to adopt. ACAG has a neutral position in this regard.

The attachment to this letter addresses the AASB’s matters for comment within the ITC.

ACAG appreciates the opportunity to respond and trust that you find our comments useful.

Yours sincerely



Andrew Greaves  
**Chairman**  
**ACAG Financial Reporting and Accounting Committee**

## AASB matters for comment

The AASB is inviting comments on the following:

### 1. The proposed conditions necessary for the AASB to adopt IPSAS for not-for-profit public sector accounting

ACAG agrees with the proposed conditions outlined in paragraph 23 of the paper. However, ACAG suggests that the AASB also outlines proposed assessment criteria, and conclusions, for each of the conditions included in the ITC. Many of the conditions identified are subjective, and clarity on the relevant assessment criteria would be considered beneficial.

ACAG also suggests that the AASB outlines the expectations of the number of conditions to be met to drive adoption i.e. does the AASB expect to consider adoption of IPSAS only when all necessary conditions are met?

Paragraph 2 of the ITC suggests “that the conditions necessary for the adoption of IPSAS would be reviewed periodically...and the results of that assessment made public”. ACAG suggests that the AASB also makes its assessment on the current—and future—state of each condition, public.

ACAG also suggests that paragraph 23(c) is amended to note that IPSAS not only continue to be based on IFRS standards, but that they remain based on the current version of IFRS standards

### 2. Additional conditions the AASB should consider

ACAG suggests the AASB consider the needs of users of public sector statements and the tendency for these users to focus on service performance information, rather than solely on financial results. As mentioned in ACAG’s submission to ITC 37, ACAG notes that in the AASB’s most recent work program, the AASB is undertaking a ‘literature review’ of reporting service performance information following on from ED 270 *Reporting Service Performance Information*. ACAG considers that existing reporting of service performance measures and outcomes remain an under-developed and under-utilised accountability mechanism for public sector entities.

ACAG considers that the reporting of key service performance information should have at least equal standing to the entities’ reporting of historical financial information. ACAG appreciates that there is no commonly accepted and adopted conceptual framework in Australia that sets out the qualitative (and where appropriate quantitative) characteristics of ‘good’ performance information; the elements of the performance statements; nor the nature and form of assurance that should be provided regarding the reliable and fair presentation of such statements.

ACAG would support the development of a principles-based approach to the reporting of service performance information that is relevant and appropriate for differing circumstances. ACAG considered the proposed principles that were contained in ED 270 broad enough in nature to enable the various existing Australian frameworks to continue to be applied. The fact that frameworks exist for most, but not all Australian public sectors, means that there is demand for this information.

ACAG notes the costs and benefits consideration in paragraphs 23 (j) and 25 of the ITC, however, ACAG also recommends that consideration of the broader impact on the Australian economy—and more specifically the public sector—is included as a condition for the AASB’s deliberation i.e. that the AASB includes a condition about whether the adoption of IPSAS will provide greater benefits to the Australian economy, than the costs to implement. As part of such a condition, ACAG suggests the AASB considers 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
- the lack of readily available interpretative guidance, similar to what the large global accounting firms produce with their IFRS manuals, and regular IFRS publications.

### **3. Potential precedence of some conditions over others**

It is not clear from the ITC whether the AASB places priority, importance or weighting on some of the stated conditions over others. ACAG recommends the AASB clarifies this position in the final document.

In terms of priorities, ACAG suggests that user needs, quality of IPSAS, costs and benefits to the Australian economy, the prevalence of public sector specific topics, the continued alignment with current IFRS (as applicable to the public sector) and the level of global adoption are prioritised over the other conditions outlined within paragraph 23 of the ITC.

### **4. The AASB's level of involvement in IPSASB standard-setting processes**

ACAG believes the AASB should maintain a strong level of input into the development of IPSAS. The approach outlined in paragraphs 26 – 32 appears reasonable in the current context.

ACAG suggests the AASB clarifies its position on the inclusion of specific statements of differences to existing Australian Accounting Standards and IPSAS, not just newly issued AASB standards. In particular, ACAG suggests that the AASB update any statement after the IPSASB issues new IPSAS and modified IPSASs. For example, any statement of differences in AASB 9 *Financial Instruments* should be updated for the issue by IPSASB of IPSAS 41 *Financial Instruments*, and updated when the IPSASB updates IPSAS 41 for *Prepayment Features with Negative Compensation* (Amendments to IFRS 9).

### **5. Other significant facts that the AASB should consider**

ACAG suggests the AASB consider outlining a specific timeframe in paragraph 2 of the ITC, rather than stating reviews will occur 'periodically'.

ACAG also suggests that the AASB reduces the timeframe included in paragraph 24 (b) to three years, coupled with an annual assessment of the current state of conditions outlined in paragraph 23. Whilst ACAG acknowledges the requirement of paragraph 24 (a), five years in the current global landscape appears to be too long for the AASB's reconsideration.

### **Other comments**

As outlined in ACAG's submission to ITC 37, ACAG observe that the suite of issued AASB standards do not provide a framework to support service delivery and outcome oriented accountability mechanisms relevant to the not-for-profit public sector. There is merit therefore in the AASB considering how these additional accountability mechanisms could form part of the AASB's approach to IPSAS.

As further outlined in ACAG's submission to ITC 37, almost all major jurisdictions develop and maintain their own set of public sector specific standards. ACAG notes there are 22 national governments, bodies and organisations who have adopted, or have stated plans to adopt IPSAS, including the European Union, Canada, China, and India.



ACAG notes from the AASB research on public sector accounting standards that Canada, Hong Kong, Singapore and the UK have developed local GAAP for public sector financial reporting which is based on IFRS. ACAG also notes that New Zealand and South Africa have adopted IPSASs with some modifications. ACAG acknowledges that compliance with New Zealand public sector accounting standards does not result in compliance with IPSAS standards because of the modifications.

ACAG notes that it is for regulators (including governments) to determine not only which not-for-profit entities need to report publicly, but also to determine what framework and standards to adopt. ACAG has a neutral position in this regard.



30 November 2018

Ms Kris Peach  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Submission via website: [www.aasb.gov.au](http://www.aasb.gov.au)

Dear Kris

### Submission on ITC 41: The AASB's Approach to International Public Sector Accounting Standards

We welcome the opportunity to provide feedback on the Invitation to Comment ("the ITC"). We commend the AASB for its work to date in relation to the public sector, including Research Reports and Discussion Papers to promote improvements in public sector reporting that meet accountability objectives in the most cost-effective way.

#### Proposed conditions

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. For example; at what point is approval from the Australian Financial Reporting Council (FRC) required?

Paragraph 23 says *"To move to IPSAS for the public sector, the AASB would require ... 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: ..."* Then one of the factors is *"a significant level of feedback from constituents that a move to IPSAS is desired"* which appears to create a circular argument. Normally feedback is received in response to a consultation, yet here it seems feedback is required to initiate a consultation.

The other nine factors are largely subjective and in our view should be the topic of a formal consultation, not pre-conditions to commence a formal consultation – the existence of which is determined by the AASB in isolation. Therefore we recommend 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. This can also 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.

In relation to the event in paragraph 24(b), given the pace of change in the current environment, we believe five years is too long for a default assessment period.

We surveyed our members to understand the current sentiment around adoption of IPSAS by NFP public sector entities in Australia. The outcomes of this research highlighted that the greatest perceived barriers currently are:

- Transition costs for preparers to ascertain the differences between the two sets of accounting standards, system changes and training.
- Maintenance of two sets of accounting standards (including two conceptual frameworks) for the AASB.
- Any time lag between IFRS and IPSAS development would give rise to differences between the sectors (otherwise referred to as "mixed groups" issues).

When asked about the relative importance of the factors in paragraph 23, our members considered the top three to be:

1. (c) IPSAS continue to be based on IFRS, departing from IFRS only to the extent appropriate for public sector issues.
2. (f) Users of public sector financial statements indicate that the AASB's current NFP standard-setting framework based on IFRS is not providing sufficiently tailored information.
3. (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.

In summary, there is general support for trans-Tasman harmonisation in accounting standards for the public sector, although there are mixed levels of support for both IPSAS and IFRS amongst our members.

### **Involvement in IPSASB standard-setting processes**


We support the AASB's strategy to maintain a significant level of interaction with the IPSASB. This includes but is not limited to; making formal submissions, providing the technical advisor to the Australian IPSASB member and holding regular meetings with representatives of the IPSASB.

The Appendix provides information about Chartered Accountants Australia and New Zealand. If you have any questions about our submission, please contact Zowie Pateman, Deputy Leader – Reporting and Assurance, at [Zowie.Pateman@charteredaccountantsanz.com](mailto:Zowie.Pateman@charteredaccountantsanz.com).

Yours sincerely



**Simon Grant FCA ACCA**  
Group Executive, Advocacy and Professional  
Standing  
Chartered Accountants Australia and New  
Zealand



**Zowie Pateman CA**  
Deputy Leader – Reporting and  
Assurance  
Chartered Accountants Australia and  
New Zealand

## Appendix

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.

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14 December 2018

Kris Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204, Collins St West  
MELBOURNE VIC 8007

By online submission:- [www.aasb.gov.au](http://www.aasb.gov.au)

Dear Kris

**Invitation to Comment – ITC 41 The AASB's Approach to International Public Sector Accounting Standards**

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the opportunity to provide comments in response to the above AASB Consultation. Although the Consultation is seeking stakeholder views on conditions necessary for adoption of International Public Sector Accounting Standards (IPSAS) and AASB's involvement in International Public Sector Accounting Standards Board (IPSASB) standard-setting, we have also provided our views below on the suitability of IPSAS for adoption in Australia at the present time.

CPA Australia considers the stakeholder views expressed to the AASB in 2015 still remain live and relevant concerns. The views expressed were that IPSAS development lags behind International Financial Reporting Standards (IFRS) and that there is a need for the mobility of professionals across sectors with different reporting frameworks. As explained below, we are also of the view that some of the factors proposed by the AASB as necessary for adoption of IPSAS in Australia are currently not present:

- Appropriate governance and oversight arrangements – IPSASB currently 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 Standard Board for Accountants (IESBA). There are proposals currently considering the possibility of removing the IAASB and certain elements of IESBA from under the IFAC umbrella. Although the status of IPSASB is not currently under consideration, we suggest the AASB remains aware of this risk of structural change.
- IPSASB is adequately resourced and funded – The IPSASB has relatively limited resources and funding, requiring prioritisation of the various projects under development. Such limitation could also impact on the IPSASB's ability to develop timely IPSAS equivalents to new IFRS, and hamper timely development of standards and guidance to deal with public sector specific issues.
- Mixed group issues are not significant or can be mitigated – Feedback we have received from New Zealand, which has adopted IPSAS for the public sector, indicates that they face issues with mixed groups which include entities that adopt both IPSAS based, and IFRS based standards.

CPA Australia notes the AASB's view that if transition to IPSAS is to occur for the not-for-profit (NFP) public sector, then it should involve full adoption of IPSAS, without any significant Australian modifications. We observe that in New Zealand, the standard-setter has made a number of modifications to IPSAS to ensure the framework is suitable for application by NFP public sector entities in that jurisdiction. The AASB needs to be cognisant of the possibility that a similar situation could arise in Australia if or when a decision is made to adopt IPSAS in Australia.

CPA Australia also notes the AASB statement in paragraph 12 of the Consultation that, at some point, the AASB expects Australian Accounting Standards (AAS) relevant to the NFP public sector to be based on IPSAS. We support the AASB's periodic (not annual) assessment of the conditions necessary for the adoption of IPSAS as stated, however we request the AASB indicates to stakeholders how often it intends to assess the suitability of IPSAS.

In addition to the above comments, we have provided responses to the questions raised in the Consultation as an attachment. If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely



**Ram Subramanian**  
Policy Adviser, Reporting  
**CPA Australia**



**Craig Laughton**  
Executive General Manager  
Policy, Advocacy and Public Practice  
**CPA Australia**

## Attachment

### Specific questions/ comments

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

We agree with the proposed conditions stated in paragraph 23 of the Consultation.

As described in the cover letter, we are of the view that some of the factors proposed by the AASB as necessary for adoption of IPSAS in Australia are currently not present. We reproduce our comments here:

- Appropriate governance and oversight arrangements – IPSASB currently 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 Standard Board for Accountants (IESBA). There are proposals currently considering the possibility of removing the IAASB and certain elements of IESBA from under the IFAC umbrella. Although the status of IPSASB is not currently under consideration, we suggest the AASB remains aware of this risk of structural change.
- IPSASB is adequately resourced and funded – The IPSASB has relatively limited resources and funding, requiring prioritisation of the various projects under development. Such limitation could also impact on the IPSASB's ability to develop timely IPSAS equivalents to new IFRS, and hamper timely development of standards and guidance to deal with public sector specific issues.
- Mixed group issues are not significant or can be mitigated – Feedback we have received from New Zealand, which has adopted IPSAS for the public sector, indicates that they face issues with mixed groups which include entities that adopt both IPSAS based, and IFRS based standards.

#### **(b) additional conditions the AASB should consider**

We suggest including a further condition as follows:

- The IPSASB has sufficient technical resources to address any issues identified by stakeholders post-issue and post-implementation of new standards.

#### **(c) potential precedence of some conditions over others**

It is not clear from the Consultation whether the AASB would seek to ensure that all the conditions set out in paragraph 23 will be met before it commences a consultation process that considers adoption of IPSAS. However, we suggest the AASB does seek to ensure that all conditions should be met before commencing consultation on adoption of IPSAS.

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

It is our view that the AASB's current level of involvement in IPSASB standard-setting process is appropriate.

#### **(e) other significant facts that the AASB should consider**

As stated in the cover letter, we are of the view that the stakeholder views heard by the AASB in 2015, that IPSAS development lags behind International Financial Reporting Standards (IFRS) and that there are concerns with the mobility of professionals across sectors with different reporting frameworks, still remain relevant and live concerns.

To the latter point above on mobility of professionals, the AASB's transaction neutral approach to standard-setting has been a significant factor in ensuring the mobility of accounting professionals across the different sectors. As stated in the Consultation, a move to IPSAS will bring to an end, the transaction neutral approach to standard-setting and the various benefits associated with it.



The AASB has invested, and continues to invest, a significant amount of resources in developing public sector specific standards, modifications to standards and guidance. We recommend the AASB continues to pursue development of public sector specific material as reflected in its current work program. Any move to IPSAS, particularly without modification as currently being proposed, needs to be weighed against the potential loss of the public sector specific requirements and guidance created by the AASB over time, and the resources invested in the development this material.



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

Ms Kris Peach  
The Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Dear Ms ~~Peach~~ <sup>Kris</sup>

## **Invitation to Comment (ITC) 41 – The AASB’s Approach to International Public Sector Accounting Standards**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ITC 41 - *The AASB’s Approach to International Public Sector Accounting Standards*.

HoTARAC appreciates the AASB’s clarification of the approach to the possible future adoption of IPSAS in Australia, but recommends additional necessary conditions including GFS harmonisation, Tier 2 reporting and maintaining the integrity of the public sector reporting framework.

HoTARAC is also of the view that significant work and analysis of the implications of considering the adoption of IPSAS in Australia would be necessary prior to any serious consideration being given to this issue. We note that the implications of a change of this magnitude would need to be fully understood and debated by interested parties (including governments and parliaments) before it could be seriously contemplated.

The attachment to this letter sets out HoTARAC’s response to the specific matters for comment. If you have any queries regarding HoTARAC’s comments, please contact Vincent Padgham from the Australian Government Department of Finance on (02) 6215 1927 or by email to [vincent.padgham@finance.gov.au](mailto:vincent.padgham@finance.gov.au).

Yours sincerely

David Nicol

CHAIR

Heads of Treasuries Accounting and Reporting Advisory Committee

14 December 2018

## **HoTARAC Comments to the AASB Invitation to Comment, ITC41, The AASB's Approach to International Public Sector Accounting Standards**

Question 1. Are the proposed conditions necessary for the AASB to adopt IPSAS for not-for-profit public sector accounting?

HoTARAC welcomes the AASB's paper setting out its current approach to IPSAS as providing clarity and a framework through which to monitor and assess the future development of IPSAS and their relevance to Australia. HoTARAC agrees with the conditions set out in paragraph 23, particularly the statement that "the results of widespread outreach to support the move" would be necessary to support a formal adoption of IPSAS at a future time. Outreach will be particularly important, given the need for judgement in making assessments against the criteria set out in paragraph 23.

Question 2. Are there any additional conditions the AASB should consider?

HoTARAC's view is that it is important to ensure 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.

In addition to the points listed in paragraph 23, HoTARAC is of the view that the following three points be considered necessary conditions for adopting IPSAS for the Australian not-for-profit (NFP) public sector:

- **An IPSAS equivalent to the GAAP/Government Financial Statistics (GFS) harmonisation approach, currently embodied in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).**

HoTARAC appreciates that the AASB has listed the extent of convergence with GFS as a necessary condition for IPSAS adoption. HoTARAC notes that conceptual differences between financial and statistical accounting make it unlikely full convergence is possible. For example, provisions are fundamental to financial accounting, but rarely recognised under GFS as they do not involve a transaction between two parties. AASB 1049 results in a single accounting framework for all Commonwealth and State budget and actuals reporting. Accordingly, HoTARAC regards the continuation of AASB 1049 or an equivalent as an essential precondition to IPSAS adoption.

AASB 1049 is also the basis for the Uniform Presentation Framework (UPF), a national agreement between Commonwealth, States and Territories for consistency between Commonwealth and State financial reporting. HoTARAC has recently reviewed and updated the UPF.

In addition to a single accounting framework facilitating user understanding of financial statements, independent audit of actuals enhances public confidence in Commonwealth and State budgets. Prior to the introduction of AASB 1049, two sets of budgets were prepared by a number of jurisdictions: one under Australian Accounting Standards (AAS) and the other under GFS. Allan Barton AO, the then Emeritus Professor of the Australian National University, noted in his 2011 paper, *Why Governments Should Use the Government Finance Statistics Accounting System*, that this resulted in questions over which budget presented the 'true and fair' view and which budget should be approved by parliament<sup>1</sup>.

The retention of an AASB 1049 equivalent for reconciling aggregates prepared under two different frameworks therefore remains pertinent, irrespective of whether the AASB adopt IPSAS or continue to use IFRS as the basis for financial reporting in the public sector.

- **The IPSAS should continue to be based on up to date International Financial Reporting Standards (IFRS).**

HoTARAC notes the AASB's view that any eventual adoption of IPSAS should involve full adoption, without significant modifications. In that context, HoTARAC recommends that the AASB's condition 23(c) should be strengthened so make clear that IPSAS should themselves be based on up to date IFRS (as is the current case for AAS).

The adoption of an approach of "not going backward" is consistent with the New Zealand (NZ) approach. That is, where IPSAS were based on earlier versions of IFRS, the Australian public sector should not be required to go backwards to apply IPSAS.

HoTARAC notes that IPSAS continue to develop, but considers that, if IPSAS continued to lag behind IFRS, the public sector would not be applying a current accounting framework; this would compromise the quality of its financial reports<sup>2</sup>. It would also end the AASB's policy of transaction neutrality as noted in paragraph 22. Additionally, as ITC 41 notes, accountants trained in current IFRS will have difficulties transitioning to IPSAS public sector reporting, and accounting skills will no longer be easily transferable between the private and public sectors.

- **The existence of an IPSAS equivalent to the current reduced disclosure requirement of Tier 2.**

HoTARAC notes the AASB's current work on the reporting framework, and supports the attempt to reduce unnecessary clutter in the financial statements and to ensure that they are appropriately focussed on user needs.

Although some HoTARAC jurisdictions allow some entities to use Tier 2 disclosures, and the Commonwealth adopts Tier 2 by default, this is not uniform across Australia. It will therefore be important to ensure that comparable arrangements can be put in place if the AASB were to adopt IPSAS in the future.

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<sup>1</sup> Allan Barton, (2011). *Why Governments Should Use the Government Finance Statistics Accounting System*. Abacus, 47(4), pp.411-445

<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=67525077&site=ehost-live>

<sup>2</sup> As at September 2018, most IPSAS were based on outdated IFRS

[http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.6%20IPSAS%20IFRS%20Alignment%20Dashboard\\_September%202018.pdf](http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.6%20IPSAS%20IFRS%20Alignment%20Dashboard_September%202018.pdf)

- **Any future adoption of IPSAS should not compromise the standards and requirements of government financial and performance reporting or budget reporting and outcomes.**

The recent *Independent Review into the Operation of the Public Governance, Performance and Accountability Act 2013 and Rule*<sup>3</sup> provides recommendations on improving transparency and accountability of financial management and reporting. These improvements are based on the application of current NFP AAS. Transparency and accountability were also assessed by the Western Australian government in considering the application of Tier 2 under AASB 1053<sup>4</sup>. Any change in the accounting framework must not result in less rigorous public sector reporting, as this will not meet users' needs.

Further, Commonwealth and State Parliaments scrutinise matters arising from Auditor-General's 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.

Question 3. What are some potential precedence of some conditions over others?

HoTARAC considers condition (i) of paragraph 23, constituent feedback that IPSAS adoption is desirable, the most important condition precedent. This is particularly important given the level of judgement required in assessing the stated conditions.

Additionally, condition (g) of paragraph 23, noting the difficulty in preparing group accounts under different accounting frameworks, is critical. At the present time, there are no IPSAS for 'for-profit' public sector entities. If this was to continue, and IPSAS was adopted, it could result in 'for profit' public sector entities incurring additional costs in keeping separate sets of books: IFRS for accountability and IPSAS for consolidation into whole of government reports. In the current IPSAS arrangements, 'for profit' public sector entities that adopt a version of IPSAS may no longer be comparable with their private sector counterparts.

Question 4. What are the AASB's level of involvement in IPSASB standard-setting processes?

If, over time, the adoption of IPSAS became a realistic prospect for Australia, HoTARAC considers that it would be essential for the AASB to be represented at the IPSASB and its committees to ensure the Australian public sector are represented in developing standards and other guidance.

This increased engagement could include seeking to become a member of the Board but, at a minimum, would include Australian experts on technical panels and IPSASB subcommittees.

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<sup>3</sup> 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, and for related purposes.

<sup>4</sup>

[http://parliament.wa.gov.au/publications/tables/papers.nsf/displaypaper/4011444a7149b97578e65727482582b900168697/\\$file/1444.pdf](http://parliament.wa.gov.au/publications/tables/papers.nsf/displaypaper/4011444a7149b97578e65727482582b900168697/$file/1444.pdf)

Question 5. What other significant facts that the AASB should consider?

HoTARAC reiterates its longstanding view that the best possible long-term approach would be for a merger to take place between the International Accounting Standard Board (IASB) and IPSASB. This would see a truly uniform set of International Financial Reporting Standards meeting the needs of both the private and public sectors.

The timing of any implementation of IPSAS is important, particularly where there is a risk that the IPSAS are incompatible with the relevant IFRS. For instance, the Australian public sector is in the process of implementing the new standards, AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases*, and AASB 1058 *Income of Not-for-Profit Entities*. The current IPSAS exposure draft on leases, ED 64, proposes a different approach to lessor accounting than IFRS 16. Should this IPSAS leasing proposal be adopted in Australia as it currently stands, separate leasing standards could apply to the public and private sectors, resulting in the same transaction being treated differently under the two standards? HoTARAC recommends the AASB continue to seek feedback on the importance of transaction neutrality and comparability between the public and private sectors, to users and preparers of financial statements.

In addition, significant forward planning would be required to assist with any future transition to the IPSASB accounting standards. Forward planning would be necessary to ensure seamless transition, at least cost and disruption.

HoTARAC notes that changes in the accounting framework may also require legislative changes, which will need to be considered in any transition planning. For example, GFS and AAS are mandated for budget reports by the *Charter of Budget Honesty Act 1998*, and AAS are mandated for financial statements by the Commonwealth and State legislation. This could be mitigated by the AASB issuing IPSAS under their own brand as they currently do with IFRS and reviewing the cross references in AASB 1049.

