

AASB Invitation to Comment

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August 2018

The AASB's Approach to International Public Sector Accounting Standards

Comments to the AASB by 30 November 2018



Australian Government

**Australian Accounting
Standards Board**

How to Comment on this AASB Invitation to Comment

Constituents are strongly encouraged to respond to the AASB by 30 November 2018.

Formal Submissions

Submissions should be lodged online via the “Work in Progress – Open for Comment” page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@asb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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PREFACE

Background to the development of The AASB's Approach to International Public Sector Accounting Standards

- 1 *The AASB's Approach to International Public Sector Accounting Standards* is proposed to replace the *AASB Approach to IPSASs* issued in October 2011 and sets out the conditions necessary for the Australian Accounting Standards Board (AASB) to adopt International Public Sector Accounting Standards (IPSAS) for not-for-profit (NFP) public sector entities in Australia, rather than using International Financial Reporting Standards (IFRS Standards) as a base with NFP amendments and specific guidance. These conditions were developed through the Board's deliberations on the factors that could influence the development of high-quality accounting standards for NFP public sector entities that are not dealt with by the International Accounting Standards Board (IASB).
- 2 Once *The AASB's Approach to International Public Sector Accounting Standards* is finalised, 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.
- 3 Reviewing the adoption of IFRS Standards in Australia,¹ the AASB heard from its stakeholders in 2015 that IPSAS were not currently suitable for adoption by public sector entities in Australia, mainly because their development lags behind IFRS Standards and there are concerns with the mobility of professionals across sectors when different frameworks apply. The AASB was asked to regularly consider and review further modifications and development of guidance to the AASB Standards and to closely monitor the activities of the International Public Sector Accounting Standards Board (IPSASB) to consider the future suitability of IPSAS.
- 4 As a result of this review, the AASB developed *The AASB's Not-for-Profit Entity Standard-Setting Framework* to set out the circumstances in which the AASB would amend IFRS Standards to address public sector-specific issues, as well as not-for-profit issues more broadly. One of the key factors to consider is the approach taken by the IPSASB.
- 5 The AASB has placed increased emphasis on resolving a number of public sector issues over the past several years, resulting in new NFP-specific standards,² appendices explaining application issues to the NFP sector,³ and agenda rejection decisions.⁴ Current projects include Revenue from Licences issued by Public Sector Entities, Fair Value Measurement for Public Sector Entities, and Income of NFP Entities. In addition, as part of its strategic objectives, the AASB has released Research Reports and Discussion Papers to promote discussion on how to improve financial reporting in the public sector more broadly, particularly to meet accountability objectives in the most cost-effective way.^{5,6}
- 6 To better inform the broader debate about whether and, if so, how IPSAS should be adopted for NFP public sector entities in Australia, the AASB illustrated the specific

1 See AASB Research Report No. 4 *Review of Adoption of International Financial Reporting Standards in Australia* for the assessment of the relevance of IFRS Standards to Australian reporting entities.

2 See AASB 1058 *Income of Not-for-Profit Entities*, and AASB 1059 *Service Concession Arrangements: Grantors*.

3 For example, Appendix F *Australian implementation guidance for not-for-profit entities*, and *Australian illustrative examples for not-for-profit entities*, added to AASB 15 *Revenue from Contracts with Customers*.

4 See Agenda Decision *Accounting for Income Tax of Public Sector Entities*, Agenda Decision *Definition of Residual Value in Relation to Infrastructure Assets*, and Agenda Decision *Materiality of Key Management Personnel Related Party Transactions of Not-for-Profit Public Sector Entities*.

5 See AASB Research Report No. 6 *Financial Reporting Requirements Applicable to Public Sector Entities*.

6 See AASB Discussion Paper *Improving Financial Reporting for Australian Public Sector* and *Appendices to Public Sector Discussion Paper*.

NFP amendments to AASB Accounting Standards based on IFRS Standards,⁷ and analysed the differences between AASB Accounting Standards and IPSAS as at 1 May 2017.⁸ The analysis indicated that the AASB should continue monitoring and contributing to the development of IPSAS that are not fundamentally different from AASB Accounting Standards. Otherwise, when there are fundamental differences between AASB Accounting Standards and IPSAS, the AASB should consider adopting IPSAS in Australia in their entirety, with or without modifications. Notably, no stakeholders have currently advised the AASB of any IPSAS amendments to IFRS Standards or specific public sector Standards that should be considered for adoption into Australian Accounting Standards.

- 7 A number of countries have adopted or have plans to adopt IPSAS. The International Federation of Accountants (IFAC) reported the status of IPSAS adoption as at 1 July 2017, based on a data set that covers 104 member organisations and 80 jurisdictions in which they operate:⁹

Status	Assessment
Adopted (7)	5 jurisdictions adopted accrual-based IPSAS through direct reference in law
	2 jurisdictions adopted accrual-based IPSAS through convergence or by incorporating the standards into national requirements
Partially adopted (37)	14 jurisdictions have adopted cash-based or a modified form cash-based IPSAS, with 12 of these jurisdictions reporting plans to transition to accrual-based IPSAS
	12 jurisdictions have adopted IPSAS with some modification, but more information is necessary to determine if they intend to fully adopt IPSAS
	8 jurisdictions have generally aligned their public sector accounting standards with IPSAS, and are undergoing a convergence process toward full adoption
	3 jurisdictions have partially adopted IPSAS by law, and established implementation plans
Not adopted (36)	20 jurisdictions have established plans to adopt accrual-based IPSAS
	16 have not communicated plans for IPSAS adoption

- 8 Notably, New Zealand has largely adopted IPSAS for its ‘public benefit entities’, but has not committed to adopting IPSAS in full. Before adopting a particular IPSAS, the New Zealand Accounting Standards Board (NZASB) first confirms that the benefits of adoption outweigh the costs, and also assesses the IPSAS for enhancements for NFP entities, modifications to reflect New Zealand legislative requirements, and reduced disclosure requirements for Tier 2 entities, where appropriate.¹⁰

7 See AASB Staff Paper *Modifications to Australian Accounting Standards for Not-for-Profit Entities*.

8 See AASB Staff Report *Australian Accounting Standards Board and International Public Sector Accounting Standards Board Pronouncements – A Comparison*.

9 See *International Standards: 2017 Global Status Report*.

10 See *Explanatory Guide A2: Overview of the Accounting Standard Setting Process* for more information on the NZASB’s approach to modifying IPSAS.

- 9 In Canada, the Public Sector Accounting Board (PSAB) may use IPSAS and IFRS Standards as a reference when new public sector accounting standards are developed. The PSAB does not have a current strategy for convergence with IPSAS, however the PSAB is currently consulting on decision-making criteria to form its future international strategy that best serves the public sector.¹¹ The United Kingdom has not adopted IPSAS, but uses IFRS Standards adapted for the public sector. The United States of America has not adopted IPSAS.

Matters for comment

- 10 The AASB is inviting comments on the following:
- (a) the proposed conditions necessary for the AASB to adopt IPSAS for not-for-profit public sector accounting;
 - (b) additional conditions the AASB should consider;
 - (c) potential precedence of some conditions over others;
 - (d) the AASB's level of involvement in IPSASB standard-setting processes; and
 - (e) other significant facts that the AASB should consider.

¹¹ See PSAB Consultation Paper *Reviewing PSAB's Approach to International Public Sector Accounting Standards*.

THE AASB'S APPROACH TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Introduction

- 11 The AASB is required by the *Australian Securities and Investments Commission Act 2001* (ASIC Act) s227(1)(d) to participate in and contribute to the development of a single set of accounting standards for world-wide use. Accordingly, the AASB uses International Financial Reporting Standards (IFRS Standards) set by the International Accounting Standards Board (IASB) as a basis for accounting standards covering the for-profit sector and the not-for-profit (NFP) sector, which includes the public sector.
- 12 The AASB has previously stated that it expects, at some point, Australian Accounting Standards relevant to the NFP public sector to be based on Standards set by the International Public Sector Accounting Standards Board (IPSASB).¹²
- 13 IFRS Standards are set with a focus on for-profit entities. However, users of external reporting in the public sector generally have a greater focus on accountability, not just profitability. Therefore, international standards set specifically for the public sector may satisfy those additional accountability objectives more efficiently. In addition, more countries are already adopting, or considering adopting, IPSASB's International Public Sector Accounting Standards (IPSAS).¹³

Purpose of this policy

- 14 *The AASB's Approach to International Public Sector Accounting Standards* sets out:
 - (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 IPSASB standard-setting processes.

Other AASB policies

- 15 *The AASB's For-Profit Entity Standard-Setting Framework* sets out how the AASB uses IFRS Standards for developing, issuing and maintaining Australian Accounting Standards for for-profit entities, including those in the public sector, and when modifications might be made based on IPSAS.
- 16 *The AASB's Not-for-Profit Entity Standard-Setting Framework* sets out how the AASB uses IFRS Standards for developing, issuing and maintaining Australian Accounting Standards for the NFP sector, including the public sector, and when modifications, NFP-specific Standards, interpretations or guidance might be developed based on IPSAS.¹⁴

About the IPSASB

- 17 The IPSASB is the international independent board that develops IPSAS. The IPSASB's operations are facilitated by the International Federation of Accountants (IFAC). The objective of the IPSASB is to improve public sector financial reporting worldwide through the development of international accrual-based accounting standards (IPSAS) for use by governments and other public sector entities around the world.

12 Superseded Policy Statement *AASB Policies and Processes* (2011), paragraph 37.

13 See *IPSASB Fact Sheet 2016*.

14 See AASB Staff Paper *Modifications to Australian Accounting Standards for NFP Entities*.

- 18 IPSAS include a cash-based Standard in addition to accrual-based Standards, to cater for countries at different stages of financial reporting development. The AASB's focus is accrual accounting, used in Australia for many years in all sectors.
- 19 IPSAS are largely based on the same principles as the IFRS Standards on which Australian Accounting Standards are based. The IPSASB has adopted most of the IFRS Standards by modifying them, for example by providing additional (and sometimes different) principles and guidance that are relevant to the public sector.¹⁵ According to the IPSASB's strategy,¹⁶ convergence with IFRS Standards is one of the factors to be considered in prioritising projects in the work plan.

What would adopting IPSAS for the NFP public sector mean?

- 20 The AASB is of the view that if transition to IPSAS is to occur for the NFP public sector in Australia, then it should be full adoption of IPSAS, without any significant Australian modifications. Thus, generally, any Australian modifications would be additional requirements, or involve the development of specific Standards or guidance. Modifications may be necessary where issues are not comprehensively or appropriately addressed in IPSAS or a requirement in an IPSAS is not consistent with Australian-specific legislation. Such an approach would be consistent with the approach to adopting IFRS Standards, where Australian Accounting Standards for for-profit entities are word-for-word consistent with IFRS Standards, and Australian guidance is limited to Australian-specific issues that would not harm IFRS compliance (see *The AASB's For-Profit Entity Standard-Setting Framework*).
- 21 The AASB considers this would be the only way to justify the costs of converting to IPSAS. If significant modifications to IPSAS are expected upon the AASB's adoption, and IPSAS are largely based on IFRS Standards, it would be more cost effective for the AASB to continue to modify IFRS Standards, rather than modify IPSAS. The costs of conversion include not only the maintenance of two sets of accounting standards (including two conceptual frameworks), but also transitional costs to preparers. Transitional costs to preparers include significant work in understanding whether the old and the new standards are actually different, as encountered in the experience of moving from old Australian GAAP to IFRS Standards. The costs to preparers and users of having a separate set of standards also include greater difficulties in moving between sectors.^{17,18}
- 22 The adoption of IPSAS would also end the AASB's policy of transaction neutrality. The AASB currently considers that like transactions and events should be accounted for in a like manner by all types of entities, reflecting their economic substance (transaction neutrality), unless there is a justifiable reason not to do so (see *The AASB's Not-for-Profit Entity Standard-Setting Framework*). Despite many IPSAS being based on IFRS Standards, there are still many differences between the two sets of Standards.¹⁹ Further, even where IPSAS are largely based on IFRS Standards, the IPSASB has historically developed these Standards with a significant time lag (for example, the IPSASB is yet to update its revenue recognition requirements, despite IFRS 15 *Revenue from Contracts with Customers* being issued by the IASB in May 2014). Regardless of the degree of convergence in the future, the AASB would not necessarily be able to achieve

15 See AASB Staff Report *Australian Accounting Standards Board and International Public Sector Accounting Standards Board Pronouncements – A Comparison* for details of the current differences between Australian Accounting Standards and IPSASB pronouncements.

16 See *IPSASB's Strategy for 2015 Forward*.

17 See AASB Research Report No. 4 *Review of Adoption of International Financial Reporting Standards in Australia* for detailed comments on the costs and benefits of moving to IFRS Standards.

18 See also *Financial Statements of the Government of New Zealand for the year ending 30 June 2015*, notes 1 and 33, on the impact of moving from old NZ accounting standards based on IFRS Standards to the new standards based on IPSAS. The quantitative adjustments to revenues, expenses, assets and liabilities were less than 0.05%. "The impact of moving from NZ IFRS (PBE) to PBE Standards was not significant. This is due to the strong degree of convergence between the two sets of standards."

19 See AASB Staff Report *Australian Accounting Standards Board and International Public Sector Accounting Standards Board Pronouncements – A Comparison*.

transaction neutrality, as differences may be present due to IPSAS and IFRS Standards being based on separate conceptual frameworks.

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:
- (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;
 - (b) the IPSASB has adequate resources and funding to prepare high-quality Standards on a timely basis;
 - (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;²⁰
 - (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;
 - (e) countries of significant influence and relevance to public sector standard-setting adopt IPSAS without significant modification;
 - (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;
 - (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;
 - (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;
 - (i) a significant level of feedback from constituents that a move to IPSAS is desired; and

²⁰ The IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* differs in certain aspects from the IASB's *Conceptual Framework for Financial Reporting*. Accordingly, it is possible that differences between IPSAS and IFRS Standards may arise due to the application of the different conceptual frameworks.

- (j) the costs of transitioning to IPSAS do not outweigh the benefits (see section below).

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 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.

What are the benefits and costs of adopting IPSAS?

- 25 The following table sets out some of the benefits and costs of adopting IPSAS:

Benefits	Costs
International analysts and users may find public sector financial statements more readily understandable and comparable to other jurisdictions.	International comparability may not be achieved as IPSAS are often modified and some countries use IFRS Standards. Analysts often use GFS in preference to IPSAS, so adopting IPSAS may not increase comparability.
	Transition costs of system changes and training. Depends on the degree of convergence at the time of transitioning, including the extent to which IPSAS address all IFRS Standards. Australian entities that had adopted IFRS Standards without an IPSAS equivalent would need to revert to superseded versions of the Standard or determine whether their current treatment would be consistent with the IPSASB hierarchy of GAAP.
Terminology may be more readily understood by preparers. Acknowledges the stewardship and public accountability responsibilities of public sector entities. Acknowledges the differences in users and user needs compared to for-profit entities.	IPSAS are not written for for-profit public sector entities, so guidance might still need to be developed for these entities. The extent of the differences may not warrant the transitional costs.
Helps address any perception that the standard-setter does not consider the needs of public sector entities or address public sector issues when developing the local equivalent Standard.	Standards are set internationally, with Australian influence dependent on members of the IPSASB. Exposure to the politics of other jurisdictions with respect to public sector accounting.

Benefits	Costs
<p>Would address any perception that IFRS Standards do not satisfy the information needs of users of public sector general purpose financial statements, and that the costs of compliance with IFRS Standards by public sector entities outweigh its benefits.</p>	<p>Transaction neutrality will not be achievable, as the IPSASB will develop Standards based on its conceptual framework.</p> <p>While overall assessment of IPSAS might be favourable, adoption may result in Australian entities taking a “backward step” for specific Standards, where IPSAS are not as developed as existing Australian domestic Standards.</p>
<p>Cost-efficient for the standard-setter to adopt IPSAS compared to developing a unique set of accounting standards (if the decision is made not to continue to use IFRS Standards as a base), provided few additional modifications are needed.</p>	<p>Ongoing costs – may mean less likely that larger firms will provide services to the public sector; less portability of professionals across sectors in Australia and internationally; and academic programs will need to change to address two sets of Standards.</p> <p>Additional costs of maintaining two sets of Standards.</p>
	<p>The IPSASB does not have differential reporting requirements, such as a Tier 2 with reduced disclosure requirements.</p>

What degree of interaction should the AASB have with the IPSASB if not adopting IPSAS?

- 26 Even if not adopting IPSAS, the AASB’s strategy is to maintain a significant level of interaction with the IPSASB.

Monitoring of differences to IPSAS

- 27 The AASB will continue to monitor the differences between Australian Accounting Standards and IPSAS.²¹ New Standards issued by the AASB will contain a specific statement of differences to IPSAS.

Submissions on consultation documents

- 28 The AASB will make formal submissions to the IPSASB in response to significant consultation documents issued by the IPSASB (such as Consultation Papers and Exposure Drafts) where there is no equivalent IFRS Standard or a known gap or practice issue in public sector accounting, or the document addresses a transaction or issue prevalent and significant to the public sector. Such IPSASB consultation documents will be explicitly exposed in Australia in order to obtain comments directly from constituents. Project Advisory Panels may be established. AASB submissions are developed through outreach activities and discussion of issues at public Board meetings.

²¹ See AASB Staff Report *Australian Accounting Standards Board and International Public Sector Accounting Standards Board Pronouncements – A Comparison*.

Input to the development of IPSASB proposals and requirements

- 29 The Australian member of the IPSASB is currently appointed via joint nomination by Chartered Accountants Australia and New Zealand (CAANZ) and CPA Australia. The IPSASB member has, at a minimum, AASB Observer status, and as such can attend AASB meetings and participate in the discussion. The AASB provides the technical advisor to the IPSASB member, who also attends IPSASB meetings. Currently there is also an Australian representative on the consultative forum of the IPSASB, the Consultative Advisory Group (CAG). The AASB receives a written report from the IPSASB and CAG members after each meeting. The IPSASB member is invited to discuss topics in detail when particularly relevant to the AASB.
- 30 Regular meetings are held with the IPSASB Chair and Staff. Outreach activities are conducted when the IPSASB Chair visits Australia.
- 31 The AASB formally assesses the importance of IPSASB projects and the level of involvement the AASB wishes to have when a new project is added to the IPSASB work program. In addition to determining whether submissions are necessary, where appropriate the AASB determines those projects where it provides support to the Australian IPSASB member or a direct resource to the IPSASB. The AASB and NZASB technical advisors and the Australian and New Zealand IPSASB members participate in a joint briefing session prior to each IPSASB meeting.
- 32 Where a topic is particularly important to the AASB, discussions with other relevant jurisdictions with representatives on the IPSASB are held to express Australian views.

NFP standard-setting framework

- 33 *The AASB's Not-for-Profit Entity Standard-Setting Framework* is applied when the IPSASB has issued a new Standard:
 - (a) corresponding to an IFRS Standard – to consider whether any IPSASB modifications to the requirements of the IFRS Standard ought to be reflected in the Australian Accounting Standard; and
 - (b) addressing a public sector-specific topic – to consider whether to issue a corresponding Australian Accounting Standard or to modify existing Australian Accounting Standards.