



Australian Government

**Australian Accounting
Standards Board**

AASB Discussion Paper: Improving Financial Reporting for Australian Public Sector

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Executive Summary

Accountability for the assets that public sector entities control and the services they perform is important. In 2015-16 the total public sector had \$639 billion in revenue representing 46.72% of Australia's total GDP and net assets of \$775 billion¹. Each level of government (Commonwealth, state and local) has a range of departments, agencies, and government business enterprises (GBEs) that comprise the public sector.

Public sector entities provide essential social, cultural, community, education, health, defence, transport and other social services, employing nearly 2 million² people. The efficient functioning of the sector matters: any unnecessary red-tape diverts funds from essential services.

The financial reporting framework governing public sector entities has not been reviewed for many years. Public sector entities complain about financial reporting complexity, inconsistent requirements and that the reports do not focus on the needs of stakeholders. The cost of preparation (including valuation of non-financial assets) and audit of public sector financial statements, based on very rough estimates, is more than \$1 billion annually.

To understand the issues and potential solutions, the AASB has documented the financial reporting requirements that apply to public sector entities in Australia, and reviewed the comparable requirements in a number of other jurisdictions as a point of comparison. The findings of this work, published in [Research Paper No.6: Financial Reporting Requirements Applicable to Australian Public Sector entities](#) (Research Report No 6), are summarised below.

Key issues for public sector financial reporting

Research Report 6 identified the key question for the Australian public sector regarding financial reporting as:

Are the current Australian public sector financial reporting requirements – currently costing more than \$1 billion per annum - necessary to adequately hold the public sector accountable for the use of taxpayers' monies?

The four specific key issues derived from the findings of Research Report No. 6 were:

1. Significant costs of having every entity in the public sector prepare General Purpose Financial Statements (GPFS) when it is unclear who the users are.
2. Inconsistency in reporting and assurance requirements across different jurisdictions in Australia.

1 Based on the 2015-16 GFS data published by the Australian Bureau of Statistics,

2 Based on the Employment and Earnings, Public Sector, Australia, 2016-17 published by the Australian Bureau of Statistics



3. Complex and technical requirements that are unique to Australia, including the use of Government Finance Statistics (GFS) within financial reports, administered versus controlled items and fair valuing all non-financial assets.
4. Linkage of financial reports with performance reports, budget accountability reporting and fiscal sustainability reporting is unclear and inconsistent.

What users need

The users of public sector financial statements vary from parliamentarians, parliamentary accounts committees, taxpayers, and lenders to those receiving government services. Governments need to be accountable to their stakeholders for the management of resources and financial reports are a key part of this process.

However, unlike the for-profit sector, in the public sector, financial reporting is too extensive and not targeted enough to enable public sector entities to be held to account. Government departments are effectively administrative constructs (ie branches) and requiring Tier 1 financial reports for all such departments when they are also included in WoG reports, means that users are not directed to the key budget versus actual and service performance (outcome) reporting that would enable genuine accountability.

Proposed solutions

Based on the issues discussed in this Paper, there are three key areas where the public sector financial reporting framework could be improved:

1. Eliminate duplication of reporting

Duplication could be reduced by requiring consolidated financial statements at the whole of government (WoG) Commonwealth, state/territory and local government level only, rather than having multiple layers of reporting for departments, consolidations of departments and WoG.

2. Provide transparent objective criteria for the financial reporting and assurance requirements to enable each public sector entity to be accountable to the Australian public in a manner that appropriately balances user needs with preparer costs

It is difficult to argue that entities within the public sector receiving appropriations funded by taxpayers should not have some form of public financial accountability. However, it is possible to make the reporting requirements more proportionate and more focused on user needs. Establishing clear criteria so that only public sector entities or programs with significant economic significance or public interest to external users are required to publish Tier 1 financial reports, comprising full recognition, measurement and disclosure, rather than the majority of public sector entities, would enable a better balance of user needs and cost to preparers. For other entities, the AASB's specified appropriate levels of general purpose financial reporting could include:

- a) full recognition and measurement but reduced disclosure requirements of accounting standards and/or specified disclosure requirements, focusing on budget versus actual and outcome reporting;
- b) accrual-based full recognition and measurement but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget vs actual reporting for profit or loss statement and cash flow statement and service performance reporting;



- c) modified recognition, measurement and disclosure with service performance reporting and budget versus actual reporting (new standard to be developed) or cash accounting, with service performance reporting and budget versus actual reporting (new standard to be developed).

3. Match levels of assurance with the levels of financial reporting

The Australian Auditing Standards Board (AUASB) could work with Treasuries and Auditor-Generals to specify the appropriate level and scope of assurance to match the level and scope of financial reporting. The types of assurance available range from an audit to review and other assurance engagements. In some cases, the engagement could comprise agreed-upon procedures.

DETERMINING WHO SHOULD PUBLICLY LODGE AND THE LEVEL OF REPORTING

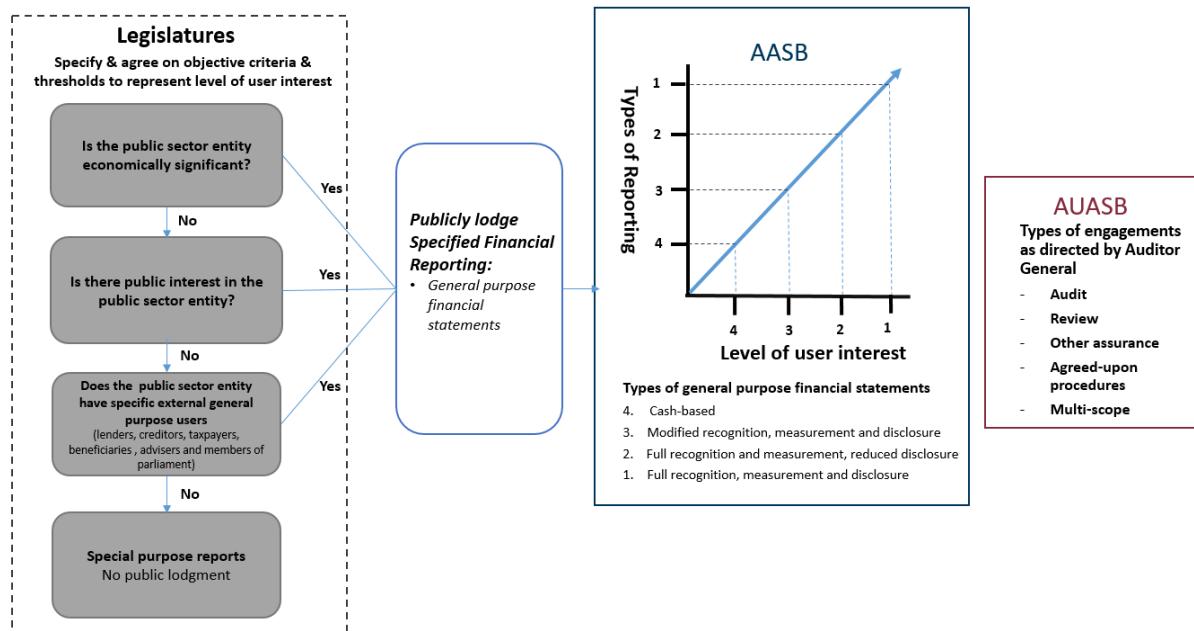


Figure 1 – Flowchart showing the three key areas that needs to be considered to determine who should publicly lodge and the level of reporting as described in paragraphs 2a) to c)



Illustrative financial reporting frameworks

This Paper presents five illustrative financial reporting framework that take the criteria and thresholds considered to match with the types of general purpose financial statements for each identified thresholds.

The below summary table demonstrates the illustrative financial reporting framework (discussed in more detail in paragraphs 46)). These options are by no means all possible options. They have been chosen to demonstrate the wide range of possibilities and provide a starting point for discussion.

Table 1: Five options of illustrative financial reporting framework

	Current public sector framework	Option 1 (NZ PBE model ³ – this is applied to all levels of government, Commonwealth, States and local)	Option 2⁴ (public interest and economic significance represented by nature of activities and size)	Option 3 (economic significance based on size)	Option 4 (public interest based on function)	Option 5 (public interest based on tax/rate generating entities).
Criteria underpinning thresholds	Public accountability regardless of size or economic significance	Expenses are proxy for economic significance. All public sector entities report, but cost/benefit differentiates what is to be reported	Expenses and total assets as a proxy for size/economic significance/public interest, and nature of activities as a proxy for public interest. All public sector entities report but cost/benefit differentiates what is to be reported	Expenses or assets as a proxy for economic significance. All public sector entities report but cost/benefit differentiates what is to be reported	Nature of activities based on function/s as a proxy for public interest. Departments/statutory bodies/agencies are segments of WoG.	Tax/rate revenue generating as a proxy for public interest.

3 Option 1 is not based on NZ PBE model in full which has an additional criteria, if the public sector entity meets the definition of 'public accountability', regardless of size are required to prepare Tier 1 GPFS. This means that the analysis does not capture some public sector entities that may have issued debt securities. For further information to the NZ PBE requirements, refer to Appendix B of Research Report 6.

4 This option is similar to the Canadian model; with the exception that budget versus actual information is provided on a cash basis, rather than an accrual basis.



	Current public sector framework	Option 1 (NZ PBE model ⁵ – this is applied to all levels of government, Commonwealth, States and local)	Option 2⁶ (public interest and economic significance represented by nature of activities and size)	Option 3 (economic significance based on size)	Option 4 (public interest based on function)	Option 5 (public interest based on tax/rate generating entities).
Thresholds	N/A	1: Expenses >\$30,000,000 2: Expenses ≤\$30,000,000 3: Expenses ≤\$2,000,000 4: Operating payments ⁵ <\$125,000	1: Commonwealth and state/territory WoGs are Tier 1 plus: A) significant departments/agencies based on nature (health, education, transport, social services (housing), defence, and local government based on nature (metropolitan councils), <u>and</u> B) size represented by assets >\$400m (approx. top 33% of total number of entities) and expenses >\$100m (approx. top 34%) 2: Local governments not consolidated into state WoG and not meeting criteria in 1.	1: Commonwealth and state/territory WoGs are Tier 1 plus: A) significant departments ⁶ based on size by total expenses > \$1b, or B) assets >\$2.5b (approx top 10% of total number of entities) 2: local governments not consolidated into state WoG and not meeting criteria in 1 3. All other entities, including local governments consolidated into state WoG, not meeting criteria in 1 and 2.	1: Commonwealth and state/territory WoG reporting on programs/functions or segments of significant departments based on nature (health, education, transport, social services (housing), defence) and size, disclosed in the WoG consolidated financial statements. Local governments are standalone entities and considered as WoG ⁷ 2: All other entities (including significant departments) that are not WoG ⁸	1: WoG and all tax/rate generating entities ⁹ 2: All other entities not meeting criteria in 1

⁵ Operating payments – defined as cash outflow for the year related to operating activities

⁶ Departments legislated to prepare Tier 1 reports such as defence, health, education, transport, and infrastructure, social services

⁷ Local governments are not consolidated in state WoG financial statements, as such each local government is considered a separate standalone WoG

⁸ The current proposal for this option is that significant entities' are still required to prepare Tier 2 - GPFS reporting with all entities below the WoG. However as explain in the Appendices to Public Sector Discussion Paper paragraph **Error! Reference source not found.**, if the financial information of significant entities can be presented as a segment in the WoG consolidated financial statements, then they may not have to prepare separate financial statements.

⁹ These are considered to be independent bodies such as the Department of Home Affairs which collects customs duties.



	Current public sector framework	Option 1 (NZ PBE model ³ – this is applied to all levels of government, Commonwealth, States and local)	Option 2⁴ (public interest and economic significance represented by nature of activities and size)	Option 3 (economic significance based on size)	Option 4 (public interest based on function)	Option 5 (public interest based on tax/rate generating entities).
			3: All other entities, including local government consolidated into state WoG, not meeting criteria in 1 and 2.			
Type of specified financial statements for each threshold above	1. Full recognition, measurement and disclosure 2: Full recognition and measurement, reduced disclosure	1: Full recognition, measurement and disclosure 2: Full recognition and measurement, reduced disclosure 3: Simplified recognition, measurement and disclosure 4: Cash accounting financial statements, including a statement of outcomes and outputs ¹⁰ (service performance report)	1: Full recognition, measurement and disclosure, budget v actual reporting and service performance reporting 2: Full recognition and measurement, reduced disclosures, budget v actual reporting and service performance reporting ¹¹ 3. Service performance reporting, accrual-based full recognition and measurement but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget v actual	1: Full recognition, measurement and disclosure, budget v actual reporting and service performance reporting 2: Full recognition and measurement, reduced disclosures, budget v actual reporting and service performance reporting ¹¹ 3. Service performance reporting, accrual-based full recognition and measurement but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget v actual reporting for profit or loss statement and cash flow statement.	1: Full recognition, measurement and disclosure, with detailed disclosures by functions/programs, , budget v actual reporting and service performance reporting 2: Service performance reporting, accrual-based full recognition and measurement but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget v actual reporting for profit or loss statement and cash flow statement.	1: Full recognition, measurement and disclosure, , budget v actual reporting and service performance reporting 2: Service performance reporting, accrual-based full recognition and measurement but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget v actual reporting for profit or loss statement and cash flow statement.

10 **Outcomes:** what the entity is seeking to achieve in terms of its impact on society; and
Outputs: the goods or services that the entity delivered during the year.

11 The option for Tier 2 are subject to consultation and may change in the future. Refer to [AASB Consultation Paper: Applying the IASB's Revised Conceptual Framework and Removal of Special Purpose Financial Reporting for Entities Required to Comply with Australian Accounting Standards](#)



	Current public sector framework	Option 1 (NZ PBE model ¹² – this is applied to all levels of government, Commonwealth, States and local)	Option 2⁴ (public interest and economic significance represented by nature of activities and size)	Option 3 (economic significance based on size)	Option 4 (public interest based on function)	Option 5 (public interest based on tax/rate generating entities).
			reporting for profit or loss statement and cash flow statement.	budget v actual reporting for profit or loss statement and cash flow statement.		
Type of assurance engagement	1: Audit	Audited by Auditor General or a qualified auditor	To be discussed in Roundtables	To be discussed in Roundtables	To be discussed in Roundtables	To be discussed in Roundtables
Qualifications of assurer	1: Auditor General 2: Person approved by the Auditor General	Qualified auditor – a qualified auditor is defined in s36 of the Financial Reporting Act 2013 (NZ) ¹² .	1 Auditor General 2 and 3: To be discussed in Roundtables	1: Auditor-General 2 and 3: To be discussed in Roundtables	1: Auditor-General 2: To be discussed in Roundtables	1: Auditor General 2: To be discussed in Roundtables
Principle underpinning thresholds	Public accountability	Public accountability	Public interest User needs	Public interest User needs	Public interest User needs	Public interest User needs
Implications (number captured and % of population)	T1: 1,287 (96%) T2. 50 (4%)	T1: 726 (54%) T2: 517 (39%) T3: 48 (4%) T4: 46 (3%)	T1: 177 (13%) T2: 451 (34%) T3: 709 (53%) ¹³	T1: 176 (13%) T2: 494 (37%) T3: 667 (50%) ¹³	T1: 527 (39%) T4: 810 (61%)	not illustrated due to the difficulties in identifying tax/revenue generating entities

12 Wider range of persons able to meet the qualification in New Zealand than Australian registered company auditor.

13 Currently no local government is consolidated into state WoG consolidated financial statements, as such there are no local governments that meet the criteria for Tier 3 reporting.



A way forward

This Paper is intended to stimulate discussion amongst stakeholders in the public sector.

This Paper presents possible reporting options for improving the current framework for public sector entities with illustrative frameworks to demonstrate the impact of these options. A series of outreach events will be held to get stakeholder views on these illustrative frameworks to consider whether and how to change the current requirements.

This Paper forms part of the [Australian Financial Reporting Framework project](#) being conducted by the AASB and AUASB. Similar research and discussion papers have been published for not-for-profit private sector entities¹⁴ (eg charities) and similar research has been undertaken for corporate sector entities¹⁵.

The AASB and the AUASB discussed the findings identified in Research Paper No. 6 and possible options for change with the members of Australasian Council of Public Accounts Committees (ACPAC) and will hold Discussion Forums with the Heads of Treasury and Auditors-General.

These discussions will assist in identifying areas for improvement or further investigation, with evidence-based recommendations expected to be identified.

This Paper provides possible options for improving the current reporting framework for public sector entities

14 [Research Report 5: Financial Reporting Requirements Applicable to Charities](#) and [AASB Discussion Paper: Improving Financial Reporting for Australian Charities](#)

15 [Research Report 7: Financial Reporting Requirement Applicable to For-Profit Private Sector Entities](#)



Why is reform of the Australian financial reporting framework required?

1. In 2015, the AASB, the AUASB¹⁶ and the Financial Reporting Council (FRC) agreed on a project to improve the clarity, objectivity and fairness of the Australian financial reporting framework.
2. As part of the *Financial Reporting Framework* project, the AASB and the AUASB are assisting government policy makers, legislators and other stakeholders to determine which entities should publicly lodge financial statements, and what they should report.
3. The goal of the project is to achieve more objective, transparent financial reporting and assurance requirements, reducing the burden on preparers and ensuring the information they provide is useful to all stakeholders.
4. This Paper is focused on the financial reporting framework as it applies to public sector entities. Its purpose is to set out the main issues with the current reporting framework, establish the principles that would underpin a better reporting framework, and outline potential options for change.
5. This Paper does not contain specific recommendations for a way forward, but is intended to act as a basis for discussion between report preparers, report users and standard setters.

This Paper's purpose is to set out the main issues with the current reporting framework, establish the principles that would underpin a better reporting framework, and outline potential options for change.

Work done to date

6. The AASB has been involved with developing specific accounting standards for the Australian Government since the 1990s with the development of Australian Accounting Standards developed for departments and agencies/statutory bodies. In 2002, the FRC specifically issued the strategic directive for the harmonisation of General Finance Statistics (GFS) and Australian Accounting Standards. This led to the development of the AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, although Australia is the only country that has developed and implemented an accounting standard that integrates GFS and accounting Standards.
7. There is however, still underlying complexity and inefficiency in the financial reporting framework for the public sector. Research Report No 6 demonstrates that the current

The AASB has developed specific accounting standards for the public sector for a long time but there is still underlying complexity and inefficiency in the financial reporting framework for the public sector

16 AASB and AUASB Strategy, 2017-2021 Strategic Objective 2.



financial reporting framework for public sector entities is costly and may not be the best use of taxpayer's money.

8. There are many challenges to changing the reporting framework with legislative changes required to be endorsed by respective Commonwealth, state and territory heads of government through the parliamentary process.
9. The ACPAC meetings are an opportunity to discuss improvements to the financial reporting framework of the Australian public sector.

What is the role of the AASB and the AUASB in the Australian financial reporting framework?

10. Changing the Australian financial reporting framework requires all levels of government to work together.
11. The AASB is able to provide change to the types of financial reports to be prepared and the AUASB can provide guidance on types of assurance that might be relevant.
12. Ultimately however, it is the government legislators from the Commonwealth, state/territory and local government who are responsible for the legislation requiring public sector entities to prepare financial reports and direct the Auditor General on the assurance of financial reports.
13. In order for the AASB and the AUASB to address concerns noted in Section 2 about the types of financial reporting and assurance levels that are not meeting users' needs, all aspects of the financial reporting framework need to be addressed.
14. To determine the right reporting and assurance standards, there needs to be a clear understanding of which public sector entities are required to report and why. Accordingly, the AASB and the AUASB are using this opportunity to promote wider discussion with legislators and public sector stakeholders from all levels of government and other stakeholders, on how to improve the financial reporting framework.

To determine the right reporting and assurance framework, there needs to be a clear understanding of which public sector entities are required to report and why.

Scope

15. This Discussion Paper is the second in a series of papers that addresses the financial reporting framework from the perspective of different sectors of the economy. The focus of this paper is public sector entities including public sector for-profit entities but excludes universities that will be covered in the broader consultation of the NFP sector.
16. The Australian public sector is significant and the current reporting framework is complex and the associated cost in the preparation and audit of financial statements may not necessarily focus on needs of stakeholders, especially for smaller entities, and may not be the best use of taxpayers' money. The ACPAC meeting in April 2018 was an opportunity to provide options on how the current financial reporting framework for the public sector could be improved.

The public sector is significant and the reporting framework is particularly complex ... the ACPAC meeting in April 2018 was an opportunity to provide options on how the current financial reporting framework for the public sector could be improved.



Sources

17. The issues with the current reporting framework that are set out in this Discussion Paper have been identified from a range of sources, the main findings of which are summarised in Appendix B of the *Appendices to Public Sector Entities Discussion Paper*.
18. These sources include Research Report No 6, which reviewed the reporting requirements applicable across all Australian Commonwealth, states/territories and local governments to identify issues, inconsistencies and other concerns. This Report also examines the requirements in some other international jurisdictions.
19. The principles for a revised financial reporting framework are based on preliminary deliberations by the AASB (including some preliminary engagement with the public sector), an examination of reporting frameworks in other jurisdictions, and the academic literature.



What are the issues with the current financial reporting framework for the public sector?

20. The public sector of Australia is a large and disparate conglomeration of various public sector entities including statutory bodies, departments, controlled entities (for example, companies) and government-owned enterprises. It has been apparent for many years that the financial reporting framework governing public sector entities is in need of a review.
21. Public sector entities complain of financial reporting complexity and the associated cost in preparing and auditing these financial statements especially at the smaller entities level and this may not be the best use of taxpayers' funds in producing financial reports that are not focused on the needs of their stakeholders.
22. Research Report No. 6 highlights the key question for Australia:
- Are the current Australian public sector financial reporting requirements – currently costing more than \$1 billion annually – necessary to adequately hold the public sector accountable for the use of taxpayers' monies?

The research report identified the reporting requirements from a number of international jurisdictions to facilitate a debate about the scope of public sector reporting. The findings deduced the following main issues.

There are significant costs of having every entity in the public sector prepare General Purpose Financial Statements (GPFS) when there is uncertainty over the value of the reporting to the users

- Despite Australian Accounting Standards requiring only the WoG financial statements and GGS financial statements to use Tier 1 GPFS, the majority of public sector entities are required by legislation or Treasurer Instructions to use Tier 1. Only South Australia, Queensland and the Commonwealth allow the use of Tier 2 for entities below WoG level.
- The establishment of multiple consolidation boundaries based on geographical/political notions, and public sector entities being prohibited from applying the consolidation exemption in the accounting standards, means financial information already reported at the WoG level is replicated at the government departmental level.
- There is currently limited academic research identifying external users at below the WoG level and their GPFS are being used by users. Research has found that balance sheet management has not been an area of focus, even though governments have a duty to serve the public trust through the effective stewardship of the economy. Governments need to manage for the long term, delivering sustainable economic growth, ensuring intergenerational fairness and creating the conditions for future prosperity. The report



highlighted that if assets and liabilities can be managed more effectively, then resources can be targeted to where they can do the most good.¹⁷

Inconsistency in reporting and assurance requirements across jurisdictions in Australia

- In Australia only some states and the Commonwealth currently allow Tier 2 reporting requirements to be applied by entities below the WoG level and there is inconsistent auditing requirements for public sector entities across Australian jurisdictions.

Complex and technical requirements that are unique to Australia, including use of Government Finance Statistics (GFS) within financial reports, administered versus controlled items and fair valuing all non-current financial assets

- Australia has some key accounting requirements for public sector entities that the seven international jurisdictions covered in Research Report No.6 do not, including requirements to include GFS or GGS data in the financial statements, requirements to distinguish administered versus controlled items for departments and requirements to fair value non-current financial assets for each reporting period.

Linkage of financial reports with performance reports, budget accountability reporting and fiscal sustainability reporting is unclear and inconsistent

- There is no consistency in how financial information is linked to service performance outcomes with differing requirements in each state.

17 Institute of Chartered Accountants in England and Wales report, *Managing the Public Balance Sheet – A policy insight*, 2017



What do report users need?

23. Financial statements are intended to satisfy the needs of existing or potential stakeholders who cannot otherwise obtain the information they need to make informed decisions.
24. A persistent perception is that public sector entities are “publicly accountable” and therefore they should always do GPFS. Currently Australian Accounting Standard AASB 101 *Presentation of Financial Statements* states in paragraph Aus 7.2:
- In respect of public sector entities, local governments, governments and most, if not all, government departments are reporting entities.*
25. The users of public sector financial information may not be as apparent as the users in a for-profit context (such as shareholders). The AASB *Conceptual Framework* identifies the following as some of the existing and potential users of public sector financial information:
- existing or potential resource providers (such as lenders and other creditors, donors, members and taxpayers);
 - recipients of goods and services (such as beneficiaries and members of the community); and
 - parties performing review or oversight functions on behalf of other users (such as advisers and members of parliament)¹⁸.
26. Accountability is often argued to be more complex and salient for governments than businesses since there is a need to be accountable for the use of public money. Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources and to those that depend on them to use those resources to deliver necessary services. Users and preparers agree that ‘accountability’ should be given importance over ‘decision-making’.¹⁹
27. There is currently a lack of academic research to show whether there are external users for public sector entities financial statement below the WoG level or the needs of these users.
28. In relation to the WoG level, a research report²⁰ finds that members of Parliament (MP) generally use WoG financial statements where the reports are specific to their role on parliamentary public expenditure committees or work in a particular Ministry. Members of Parliament rely mainly on advice from official agencies such as Treasury, Department of Finance or Auditor General’s report for the information they need. One Member of Parliament stated that MPs have never had exposure to drawing on WoG financial statements for policy

The public sector meets the need for transparency and accountability (among other important measures) in the form of both financial and non-financial information.

18 AASB Conceptual Framework Chapter 1: *The Objective Of General Purpose Financial Reporting* paragraph AUSOB2.1.

19 R. Kober , J. Lee, J Ng, *Conceptual framework issues: perspectives of Australian public sector stakeholders*, Accounting and Business Research, Vol 42. No. 5, Dec 2012

20 The Association of Chartered Certified Accountants: *Consolidated government accounts: How are they used?*



making and have had no training on using WoG Reports, Budget Estimates and Final Budget Output financial reports. There is no evidence that reports that are tabled in Parliament are followed up. It would also seem that the public are not particularly engaged with financial reports of public sector entities. Credit rating agencies pay limited attention to GGS consolidated reports, rather than the broader WoG Reports. The media tend to focus more on the budget rather than financial reports, because this is where the government announces plans that have an impact on people, which in turn drives politicians to focus on the budget. The common theme throughout is the inaccessibility of current WoG Reports.

29. The AASB Research Report No. 6 indicates the potential benefits for improvement in WoG financial statements in Australia, including simplifying the presentation of reports and presenting summary information, forward-looking information with the facility to drill down further to more details.
30. The Institute of Chartered Accountants in England and Wales (ICAEW)'s report on *Managing the Public Balance Sheet*²¹ recognises that balance sheet management has not been an area of focus but governments have a duty to serve the public interest through effective stewardship of the economy. Governments need to manage for the long term, deliver sustainable economic growth, ensure intergenerational fairness and create the conditions for future prosperity. The report highlights that if assets and liabilities can be managed more effectively, then resources can be targeted to where they can do the most good.
31. Research Report No 6 also found that the Australian public sector is required to comply with some key accounting requirements that the seven international jurisdictions covered in the Report did not need to do (or do as much), as Government Finance Statistic (GFS) information is not reported within WoG financial statements of these seven international jurisdictions. This shows that less reporting is required on reconciliations, administered versus controlled items in these international jurisdictions. These jurisdictions also do not require their public sector entities to fair value all their non-financial assets at each reporting date, inferring that financial statement users in international jurisdictions may not require all this information.
32. The academic paper by Kober et al. (2012)²² found that other types of reporting are also relevant because public sector financial statements are not the only government documents – sometimes Budget documents capture more public interest. Financial markets, lenders, credit rating agencies, investment managers and other analysts focus heavily on Budget Papers. There is considerably greater media and community interest in the Budget compared to the financial statements. This further strengthens the need to reconsider the relevance of extensive disclosures in public sector financial statements and perhaps identify information that should be included to make them more relevant to users.
33. A recent media article²³ also highlighted a parliamentary inquiry on the Department of Defence's sustainment spending that had previously been subject to an audit report. The Parliamentary Committee recommended that the department's financial reporting be more transparent and straightforward especially to ensure that a 'clear read' of the objectives and achievements related to spending are stated and reported in a straight-forward way. This includes consolidating the sustainment spending information across its corporate plan, portfolio budget statements and additional estimate statements, and to have the annual report in one place online, "that allows for clear and easy scrutiny of sustainment expenditure".

21 ICAEW report, *Managing the Public Balance Sheet – A policy insight*, 2017

22 R. Kober, J. Lee, J. Ng, *Mind your accruals: Perceived Usefulness of financial information in the Australian public sector under different accounting systems*, Accounting and Business Research, Vol. 42, No. 5, Dec 2012

23 Media article published by the Age, *Defence sustainment spending must be more transparent*



34. The financial information needed by users is becoming clearer, however further outreach is needed to determine a better way to provide the required financial information. The format and content of financial reporting is likely to change as a result of the Discussion Forums occurring with this Paper.



How can the current financial reporting framework be improved?

What should an improved framework look like?

35. Based on the issues noted above with the current framework, there are four areas that an improved framework should address:

- a) **Eliminate the duplication of reporting within the government.** This may be reduced by requiring consolidated financial statements at the WoG Commonwealth, state/territory and local government only, rather than having multiple layers of reporting for departments, consolidations of departments and WoG.
- b) **Provide transparent objective criteria for the financial reporting and assurance requirements to enable each public sector entity to be accountable to the Australian public in a manner that appropriately balances user needs with preparer cost.** It is difficult to argue that entities within the public sector receiving appropriations funded by taxpayers should not have some form of public financial accountability. However, it is possible to make the reporting requirements more proportionate and more focused on user needs. Establishing clear criteria so that only public sector entities or programs with significant economic significance or public interest to external users are required to publish Tier 1 financial reports, comprising full recognition, measurement and disclosure, rather than the majority of public sector entities would enable a better balance of user needs and cost to preparers. For other entities, the AASB's specified appropriate levels of general purpose financial reporting could include:

1. full recognition and measurement but reduced disclosure requirements of Australia accounting standards and/or specified disclosure requirements focusing on budget versus actual and outcome reporting
2. service performance reporting, accrual-based full recognition and measurement but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget v actual reporting for profit or loss statement and cash flow statement.
3. modified recognition, measurement and disclosure with service performance reporting and budget versus actual reporting (new standard to be developed) or cash accounting, with service performance reporting and budget versus actual reporting (new standard to be developed).

An improved framework should address four key areas:

1. Eliminate the duplication of reporting within the government
2. Provide transparent and objective criteria for the financial reporting and assurance requirements to enable each public sector entity to be accountable to the Australian public in a manner that appropriately balances user needs with preparer's cost
3. Match levels of assurance with levels of financial reporting



c) Match levels of assurance with the levels of financial reporting

The AUASB could work with Treasuries and Auditors-General to specify the appropriate level and scope of assurance to match the level and scope of financial reporting. The types of assurance available range from an audit to review and other assurance engagements. In some cases, the engagement could comprise agreed-upon procedures.

Possible options for change

36. Five possible options to illustrate possible financial reporting frameworks are set out on page 28 and address:
 - a) **who should report** - which public sector entities should be required to prepare and publish specified financial statements on the public record;
 - b) **what should be reported** - the content of those specified financial statements – and what tier of financial statements should be adopted; and
 - c) **what level of assurance** (if any) should be provided for the various levels of financial statements.
37. Each option has a clear underlying principle as to who should publish financial statements, and clear and objective criteria, thresholds and reporting and assurance requirements. The current reporting requirements for the public sector are included to enable comparison with the proposed options. Where the information is available, each option identifies an estimate of the number of entities that would be expected to be affected, based on public sector data collected from each level of Government.
38. These options are by no means all the possible options. They have been chosen to demonstrate the wide range of possibilities and provide a starting point for discussion. However, none of the options presented are self-assessment options.
39. The detailed analysis of how the options were determined is set out in ‘Options for Comprehensive Financial Reporting Frameworks for Public sector entities’ and Appendices D to F of Appendices to Public Sector Discussion Paper.

Benefits of reform

40. An improved financial reporting framework has the potential to result in a number of benefits, including:
 - improving trust in the sector through transparent and comparable reporting that meets the needs of users while still satisfying public accountability;
 - balancing the costs and benefits of preparing and auditing financial statements, with a suitable level of assurance, thereby allowing a public sector entity to direct its resources to a better use of taxpayers’ funds;
 - Increased ability for users to hold public sector entities accountable by providing more targeted information.



Barriers to change

41. The barriers to improving the current financial reporting framework and suggested strategies to mitigate those are shown in Table 2.

Table 2 – Barriers and mitigating strategies to change

Barrier	Mitigation Strategy
Legislators would need to agree on new criteria and thresholds and make the necessary legislative changes, including at each level of government. Experience has indicated that, while this is possible, it takes significant time and effort to achieve this.	<p>There is widespread acknowledgement of problems with the current financial reporting framework and consequently there is support from all stakeholders in the sector (users, preparers, auditors and heads of government) for change.</p> <p>Empirical research can provide information about the impact of contemplated changes, including benefits relative to costs.</p>
Almost all public sector entities prepare GPFS because AASB 101 <i>Presentation of Financial Statements</i> states that, in respect of public sector entities, local governments, governments and most, if not all, government departments are reporting entities.	<p>The International Public Sector Accounting Standards Board framework for GPFS by public sector entities is not as broad as the Australian reporting entity concept.</p> <p>Further analysis is needed to revisit the current definition.</p>
There is a perception that all public sector entities have public accountability and should prepare full GPFS – Tier 1, and changes in reporting would represent a decline in accountability.	<p>Further consultation by the AASB will be needed to determine the right level of reporting that is proportionate to the cost of preparation that will enable public accountability to be satisfied.</p> <p>Further discussion on the principles that underpin who should report and what should be reported (see Appendix C and D of <i>Appendices to Public Sector Discussion Paper</i>) provide alternative options that meet the needs of users. For example, would more targeted information such as reporting on activities and outcomes and budget versus actual improve public accountability as they are more likely to be read and understood??</p>
New tiers of GPFSs may be needed but it is not clear what should be in each of these potential tiers (see Appendix D of <i>Appendices to Public Sector Discussion Paper</i>)	<p>Further outreach by the AASB is needed to determine the reporting requirements and how many tiers might be required and what additional disclosure information would meet public accountability to still be satisfied if ‘non-significant’ entities are not required to prepare financial statements. Additional research along the lines described in the ‘Next steps’ section below needs to be undertaken.</p>
Transitioning to new requirements will be costly and difficult.	Transitional relief may be required. Any form of reduction in GPFS would reduce the time and cost involved.

Next steps

42. The AASB and the AUASB discussed the findings identified in the Research Paper and possible options for change with the members of ACPAC and will hold Discussion Forums with the Heads of Treasury and Auditor-General from each state.
43. These discussions will assist in identifying areas for improvement or further investigation, with evidence-based recommendations expected to be identified.
44. The AASB is undertaking further work on the following areas relevant to improving the financial reporting framework for public sector entities:
- If consolidated financial statements are to be publicly lodged, should individual controlled entities be required to publicly lodge their own financial statements? If separate lodgement is not necessary, consideration needs to be given to what



disclosures may be required in the consolidated financial statements in relation to controlled entities.

- Examine the impact on public sector financial statements modelled on the International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SME), Tier 2 RDR GPFSs, the New Zealand Accounting Standards Board (NZASB) Tier 3 Modified accrual accounting standards and the UK Statements of Recommended Practice (SORP).
- Improve Tier 2 RDR GPFS requirements in conjunction with the NZASB.
- Reassess the reporting entity concept as part of the Conceptual Framework Project.

Matters for consideration

45. The AASB is asking for input into the following questions as triggers for discussion. These questions should help both users of public sector entities financial reports and preparers to assess the appropriate level of reporting:

Balancing the cost of preparing financial statements with users' needs

- Should reporting requirements below the WoG level be aligned to ensure there is consistency across government?
- Is the current definition of the reporting entity concept that is applied to government entities appropriate? If not, which government entities should be considered as reporting entities?
- Which public sector entities should report and why?
- What are the appropriate criteria to determine which departments, agencies/statutory bodies should make financial reports publicly available? Are the notions of public interest or public accountability appropriate principles to use?
- Does economic significance or political importance, nature of activities or any other measure represent the public interest in a public sector entity?
- How many tiers of reporting should there be, and what level and scope of assurance would be appropriate for those that have to publicly lodge?
- What should be reported to meet user's needs?
- Which information is most relevant (for example budget versus actual information and performance reporting)?
- Would financial statements be used more often if the information was more targeted?
- Do all public sector entities have the same level of public interest? Should they all prepare GPFS – Tier 1 or 2? Would disclosures or segmental reporting within the WoG financial statements for entities below the WoG level meet the needs of users? If so, would this need to be supported by additional information such as service performance reports and budget versus actual information?
- Would reporting of functions, the delivery of programs, or the efficiency and effectiveness of government activities be more useful to users?
- Should all local governments be required to report full GPFS – Tier 1?
- Is Tier 2 - GPFS-RDR appropriate for local governments or should it be further reduced? What types of disclosures are important and useful for users of local government financial statements?
- Is the proposed Tier 3 – GPFS adequate for public sector entities?



- Are there other alternatives to Table 3 'Options for Comprehensive Financial Reporting Frameworks' for public sector entities? What elements of the frameworks could they be replaced with?
- Should departments and agencies/statutory bodies continue to disclose administered versus controlled items within their financial statements?
- Should GFS continue to be reported within the financial statements or should they be separately reported?
- Who should report GFS data other than the WoG?
- Should public sectors entities be required to fair value their non-financial assets at each reporting period?
- What level and scope of assurance should be required and should this vary across entities?



Possible Options for a Comprehensive Financial Reporting Framework for Public sector entities

Introduction

46. Table 3 below identifies alternative financial reporting frameworks for public sector entities drawn from a range of possibilities covering:
- the underlying principles about which entities should report, and what they should report;
 - the criteria to best reflect the chosen principle(s);
 - the thresholds that best reflect the chosen criterion or criteria;
 - the approaches that operationalise the chosen threshold(s); and
 - the additional tiers of GPFSSs that could be developed that are consistent with the options set out above.
47. The options have not been drawn from every possible principle, criterion, threshold or method of operationalisation; additional possibilities are identified in Appendix D of the *Appendices to Public Sector Discussion Paper*. They are designed to help stakeholders consider different combinations and permutations that might reflect their views and thereby promote further discussion.
48. Each option has a clear principle as to who should report publicly, and clear and objective criteria, thresholds and reporting and assurance requirements. Where the information is available, each option identifies an estimate of the number of entities that would be expected to be affected, based on data received from states and commonwealth Treasury departments.
49. There are many other conceivable combinations and permutations, but those listed capture the broad types of features that would be expected to be common to many public sector entities.
50. Frameworks that adopt the cost-benefit principle could be implemented in subtly different ways – depending on the costs compared to the benefits in particular circumstances in determining where to draw line between different types of public sector entities and different Tiers of GPFSSs.
51. Each illustrated framework attempts to balance the various competing factors and therefore requires significant judgement in how the various factors are to be incorporated. The judgement ultimately will be exercised by the heads of government in determining any revisions of their existing financial reporting framework. Each framework option is likely to have components subject to criticism; however, the options being put forward are necessary to enable the sector to begin the conversation and debate how to best improve the current reporting framework, and be a strong catalyst for change (see 'What are the issues with the current financial reporting framework for public sector entities?').
52. It is important to note that the illustrated frameworks are based on the principle that reporting thresholds are applied on a consolidated basis, and that information reported is presented on a consolidated basis, except for government departments. A future paper to be issued by the AASB will explore the issues regarding consolidation versus single-entity information.



The data used to illustrate the frameworks

53. The AASB requested data on Public Sector reporting requirements from the Department of Treasury and Finance of each state and Commonwealth level by way of:
 - a questionnaire to understand the process of preparing financial statements by each state, department and statutory body; and
 - a data request template including the financial information obtained from consolidated financial statements for the year 2016/17 (or latest available) for each department and statutory body in state and at commonwealth level.
54. WoG financial information was sourced from WoG consolidated financial statements for the year 2016/17 which are publicly available.
55. Local government data was sourced from a variety of sources including publicly available data, the auditor general and local government associations. The distinction between metropolitan and regional local governments are sourced from publicly available information.
56. That data has been used to illustrate the effects of the frameworks. The data has been used purely for illustrative purposes.



Distribution of populations

In coming up with some of the illustrative frameworks, the Paper has considered the distribution of the population of public sector entities based on the data available, shown below in Figure 2 to Figure 4.

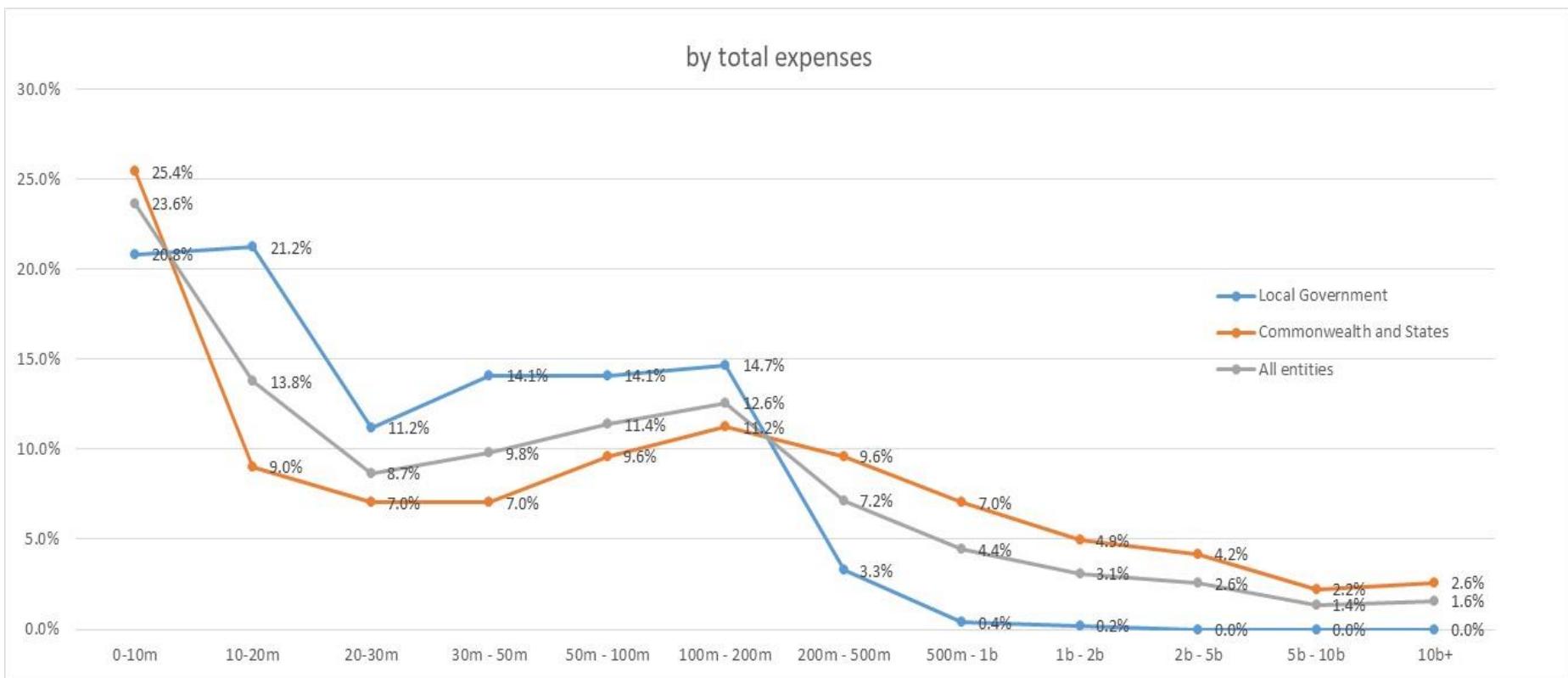


Figure 2 - Distribution of population by expenses

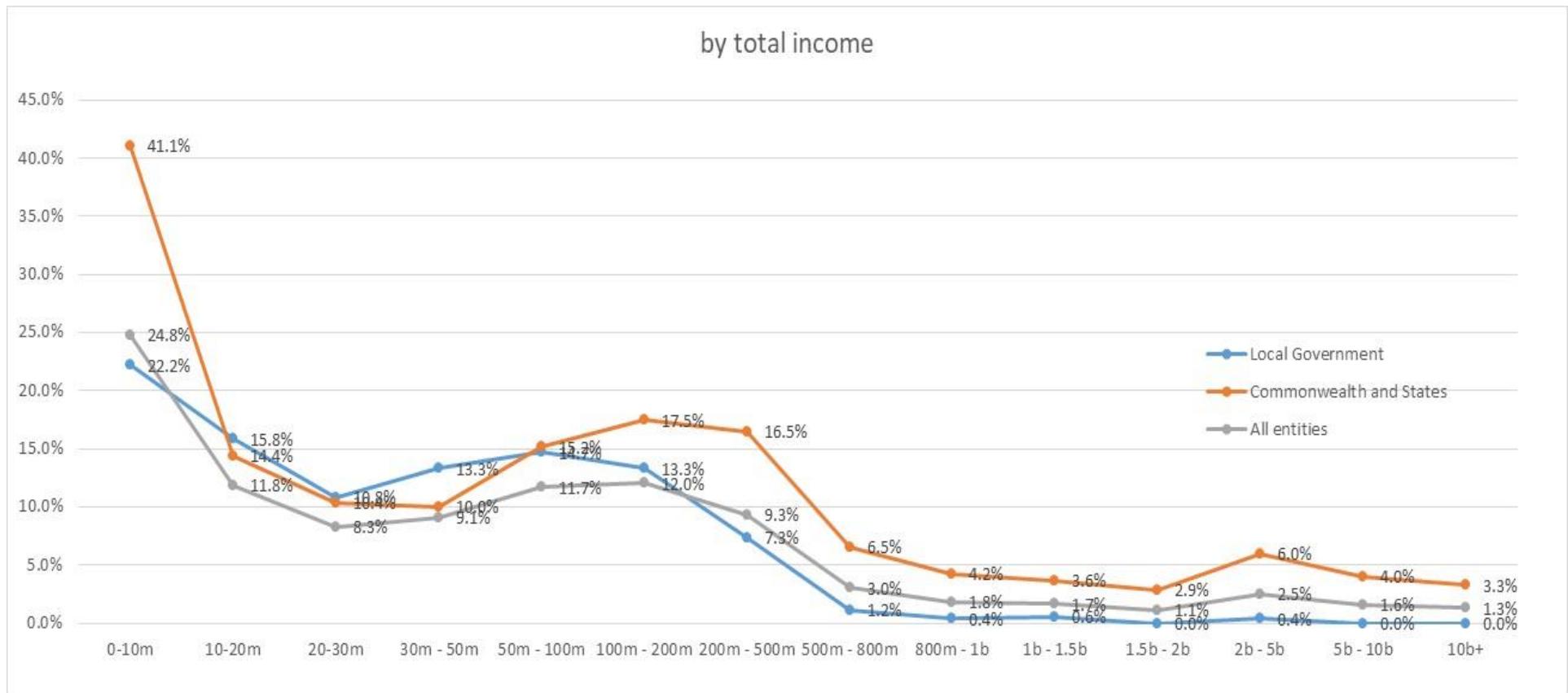


Figure 3 - Distribution of population by total income



Figure 4 - Distribution of population by total assets



Illustrative Financial Reporting frameworks

57. The five illustrative frameworks take into account key elements from the section which discusses “What should a good framework look like?” When looking at the illustrative frameworks below, the following should also be taken into account.
58. A reference to GPFSs in this Paper is broader than the currently available Tier 1 and Tier 2. In this Paper, GPFSs are financial statements that have been determined to meet the needs of users, and the framework for those financial statements are established in Standards by the AASB. This can mean that cash-based financial statements could also be GPFSs, and that alternatives may be quite different from the current understanding of GPFS, such as presenting an income statement by functions or programs delivered by a government entity.
59. Full discussion regarding the appropriate level of assurance will follow once the form of reporting has been determined.
60. Considering most public sector entities are already required to prepare GPFS together with sustainability and budget reporting, other forms of GPFS apart from the Tier 1 or 2 current level of reporting is considered a reduction in the cost of reporting for public sector entities, but not a reduction in the level of accountability; more targeted, concise reporting is expected to mean better oversight as it is more likely such reports would be reviewed by oversight committees.
61. All options are based on increasing the importance of whole of government (WoG) reporting, with the view that all department reporting should be considered a segment of the WoG, rather than reporting as a separate standalone entity. Departments are considered to be an administrative construct designed for internal accountability, rather than necessarily being needed for external accountability. All departments and other entities consolidated into WoG reporting would still need to internally provide information necessary to enable preparation of the WoG financial reports; however the additional costs of having that information publicly disclosed and audited to a materiality level specific to the entity would be eliminated in some of the options.
62. Government business enterprises are not considered in any options. Their reporting requirements should fall within the framework for for-profit entities to enable comparability with the GBE's competitors.
63. Universities are not included in the analysis and should fall within the framework for not-for-profit entities. Government schools are included within the financial statements of each state/territory Department of Education and are not required to prepare separate financial statements.
64. All options assume that detailed accounting policies and adequate information can be obtained from WoG reporting. Accordingly some options consider accountability by program/function, which might be more important to external users than accountability by department. Local governments are not consolidated in state WoG financial statements, as such each local government is considered a separate standalone WoG. Therefore WoG referred to in Table 3 - Five illustrative reporting framework options - represents Commonwealth, state and territory, and local government, unless local government is specifically excluded.=
65. All options assume key information for external users is an analysis of budget versus actual information, whether on a cash or accrual basis, with service performance reporting outcomes linked to financial reporting. None of the options would retain administered versus controlled items distinction, as the focus for all entities below WoG level would be on comparing budget to actual reporting. Reconciliation to GFS would occur only at WoG level. Accordingly requirement to fair value non-financial assets at each reporting date would only apply at WoG level. As GFS is a macro-economic framework, requiring alignment with GFS only at a WoG level is likely to result in a better balance of user benefits and preparer costs.



66. While the illustrative frameworks are a basis for discussion rather than recommendations, this Paper recommends that financial reporting thresholds should be set in Regulation, or Treasurer's Instructions rather than in Legislation – Regulations, Treasurer's policies or rules enable more flexibility to amend the framework on a timely basis, as legislative amendments can often be pushed back depending on the capacity of the drafters of legislation.



Illustrative Financial Reporting Frameworks

Table 3 - Five illustrative reporting framework options

	Current public sector framework	Option 1 (NZ PBE model ²⁴ – this is applied to all levels of government, Commonwealth, States and local)	Option 2²⁵ (public interest and economic significance represented by nature of activities and size)	Option 3 (economic significance based on size)	Option 4 (public interest based on function)	Option 5 (public interest based on tax/rate generating entities).
Criteria underpinning thresholds	Public accountability regardless of size or economic significance	Expenses are proxy for economic significance. All public sector entities report, but cost/benefit differentiates what is to be reported	Expenses and total assets ²⁶ as a proxy for size/economic significance/public interest, and nature of activities as a proxy for public interest. All public sector entities report but cost/benefit differentiates what is to be reported	Expenses or assets as a proxy for economic significance. All public sector entities report but cost/benefit differentiates what is to be reported	Nature of activities based on function/s as a proxy for public interest. Departments/statutory bodies/agencies are segments of WoG.	Tax/rate revenue generating as a proxy for public interest.
Thresholds	N/A	1: Expenses >\$30,000,000 2: Expenses ≤\$30,000,000 3: Expenses ≤\$2,000,000 4: Operating payments ²⁷ <\$125,000	1: Commonwealth and state/territory WoGs are Tier 1 plus: C) significant departments/agencies based on nature (health, education, transport, social services (housing), defence, and local government based on nature (metropolitan councils), and D) size represented by	1: Commonwealth and state/territory WoGs are Tier 1 plus: C) significant departments ²⁸ based on size by total expenses > \$1b, or D) assets >\$2.5b (approx top 10% of total)	1: Commonwealth and state/territory WoG reporting on programs/functions or segments of significant departments based on nature (health, education, transport, social services (housing), defence) and size, disclosed in the WoG consolidated 2: All other entities not meeting criteria in 1	1: WoG and all tax/rate generating entities ³¹ 2: All other entities not meeting criteria in 1

²⁴ Option 1 is not based on NZ PBE model in full which has an additional criteria, if the public sector entity meets the definition of ‘public accountability’, regardless of size are required to prepare Tier 1 GPFS. This means that the analysis does not capture some public sector entities that may have issued debt securities. For further information to the NZ PBE requirements, refer to Appendix B of Research Report 6.

²⁵ This option is similar to the Canadian model; with the exception that budget versus actual information is provided on a cash basis, rather than an accrual basis.

²⁶ Total expenses and total assets refers to both controlled and administered assets/expenses. Administered items is explained further in paragraphs A244 of Research Report 6.

²⁷ Operating payments – defined as cash outflow for the year related to operating activities

²⁸ Departments legislated to prepare Tier 1 reports such as defence, health, education, transport, and infrastructure, social services



	Current public sector framework	Option 1 (NZ PBE model) ²⁴ – this is applied to all levels of government, Commonwealth, States and local)	Option 2²⁵ (public interest and economic significance represented by nature of activities and size)	Option 3 (economic significance based on size)	Option 4 (public interest based on function)	Option 5 (public interest based on tax/rate generating entities).
			<p>assets >\$400m (approx. top 33% of total number of entities) and expenses >\$100m (approx. top 34%)</p> <p>2: Local governments not consolidated into state WoG and not meeting criteria in 1.</p> <p>3: All other entities, including local government consolidated into state WoG, not meeting criteria in 1 and 2.</p>	<p>number of entities)</p> <p>2: local governments not consolidated into state WoG and not meeting criteria in 1</p> <p>3. All other entities, including local government consolidated into state WoG, not meeting criteria in 1 and 2.</p>	<p>financial statements. Local governments are standalone entities and considered as WoG²⁹</p> <p>2: All other entities (including significant departments) that are not WoG³⁰</p>	
Type of specified financial statements for each threshold above	<p>1. Full recognition, measurement and disclosure</p> <p>2: Full recognition and measurement, reduced disclosure</p>	<p>1: Full recognition, measurement and disclosure</p> <p>2: Full recognition and measurement, reduced disclosure</p> <p>3: Simplified recognition, measurement and disclosure</p> <p>4: Cash accounting financial statements, including a statement</p>	<p>1: Full recognition, measurement and disclosure, budget v actual reporting and service performance reporting</p> <p>2: Full recognition and measurement, reduced disclosures, budget v actual reporting and service performance reporting³³</p> <p>3. Service performance reporting, accrual-based full recognition and</p>	<p>1: Full recognition, measurement and disclosure, budget v actual reporting and service performance reporting</p> <p>2: Full recognition and measurement, reduced disclosures, budget v actual reporting and</p>	<p>1: Full recognition, measurement and disclosure, with detailed disclosures by functions/programs, budget v actual reporting and service performance reporting</p> <p>2: Service performance reporting, accrual-based full</p>	<p>1: Full recognition, measurement and disclosure, budget v actual reporting and service performance reporting</p> <p>2: Service performance reporting, accrual-based full recognition and measurement but disclosure only of a balance sheet, profit or loss statement,</p>

31 These are considered to be independent bodies such as the Department of Home Affairs which collects customs duties.

29 Local governments are not consolidated in state WoG financial statements, as such each local government is considered a separate standalone WoG

30 The current proposal for this option is that significant entities' are still required to prepare Tier 2 - GPFS reporting with all entities below the WoG. However as explained in the Appendices to Public Sector Discussion Paper paragraph **Error! Reference source not found.**, if the financial information of significant entities can be presented as a segment in the WoG consolidated financial statements, then they may not have to prepare separate financial statements.



	Current public sector framework	Option 1 (NZ PBE model) ²⁴ – this is applied to all levels of government, Commonwealth, States and local)	Option 2²⁵ (public interest and economic significance represented by nature of activities and size)	Option 3 (economic significance based on size)	Option 4 (public interest based on function)	Option 5 (public interest based on tax/rate generating entities).
		of outcomes and outputs ³² (service performance report)	measurement but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget v actual reporting for profit or loss statement and cash flow statement.	service performance reporting ³³ 3. Service performance reporting, accrual-based full recognition and measurement but disclosure only of balance sheet, profit or loss statement, cash flow with budget v actual reporting for profit or loss statement and cash flow statement.	recognition and measurement but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget v actual reporting for profit or loss statement and cash flow statement.	cash flow statement with budget v actual reporting for profit or loss statement and cash flow statement.
Type of assurance engagement	1: Audit	Audited by Auditor General or a qualified auditor	To be discussed in Roundtables	To be discussed in Roundtables	To be discussed in Roundtables	To be discussed in Roundtables
Qualifications of assurer	1: Auditor General 2: Person approved by the Auditor General	Qualified auditor – a qualified auditor is defined in s36 of the Financial Reporting Act 2013 (NZ) ³⁴ .	1 Auditor General 2 and 3: To be discussed in Roundtables	1: Auditor General 2 and 3: To be discussed in Roundtables	1: Auditor General 2: To be discussed in Roundtables	1: Auditor General 2: To be discussed in Roundtables

³³ The option for Tier 2 are subject to consultation and may change in the future. Refer to [AASB Consultation Paper: Applying the IASB's Revised Conceptual Framework and Removal of Special Purpose Financial Reporting for Entities Required to Comply with Australian Accounting Standards](#)

³² **Outcomes:** what the entity is seeking to achieve in terms of its impact on society; and

Outputs: the goods or services that the entity delivered during the year.

³⁴ Wider range of persons able to meet the qualification in New Zealand than Australian registered company auditor.



	Current public sector framework	Option 1 (NZ PBE model) ²⁴ – this is applied to all levels of government, Commonwealth, States and local)	Option 2 ²⁵ (public interest and economic significance represented by nature of activities and size)	Option 3 (economic significance based on size)	Option 4 (public interest based on function)	Option 5 (public interest based on tax/rate generating entities).
Principle underpinning thresholds	Public accountability	Public accountability	Public interest User needs	Public interest User needs	Public interest User needs	Public interest User needs
Implications (number captured and % of population)	T1: 1,287 (96%) T2: 50 (4%)	T1: 726 (54%) T2: 517 (39%) T3: 48 (4%) T4: 46 (3%)	T1: 177 (13%) T2: 451 (34%) T3: 709 (53%)³⁵	T1: 176 (13%) T2: 494 (37%) T3: 667 (50%)¹³	T1: 527 (39%) T4: 810 (61%)	not illustrated due to the difficulties in identifying tax/revenue generating entities

Advantages and disadvantages of the options

	Current Public Sector framework	Option 1 (NZ PBE model)	Option 2 (% of total WoG revenue)	Option 3	Option 4 (user-needs focus)	Option 5 (broader user-needs focus)
Advantages of each option						
Clear objective tiers of what is to be reported and when to adjust thresholds;	?	✓	✗	✓	✓	✓
Expenses are more indicative of the size of public sectors' operations compared with revenue and less volatile;	✗	✓	✗	✗	✗	✗
Appropriations/revenue is indicative of size of public sector's operations	✗	✗	✓	✗	✗	✗

³⁵ Currently no local government is consolidated into state WoG consolidated financial statements, as such there are no local governments that meet the criteria for Tier 3 reporting.



	Current Public Sector framework	Option 1 (NZ PBE model)	Option 2 (% of total WOG revenue)	Option 3	Option 4 (user-needs focus)	Option 5 (broader user-needs focus)
Allows for proportionate regulation;	✗	✓	✓	✓	✓	✓
Lowest threshold is not required to be set using accounting standard concepts, benefits preparer	✗	✓	✗	✗	✗	✗
The threshold for accrual accounting levels are set in a way to achieve a clear and balanced statistical outcome;	✗	✗	✓	✓	✓	✓
Better balancing of cost/benefit through multiple clear reporting tiers;	✗	✓	✓	✓	✓	✓
The requirement to report on an accrual basis is based on economic significance, which is consistent with SAC 1 principles;	✗	✓	✓	✗	✗	✗
More useful information for users through service performance report in addition to reduced disclosures such as profit and loss and balance sheet;	✗	✓	✗	✓	✓	✓
Economic significance takes into account the public interest in public sector;	✗	✓	✓	✓	✓	✓
Inclusion of the nature of activities as another factor, takes into account specific types of users of public sector GPFSSs.	✗	✗	✗	✓	✓	✓
Inclusion of taxpayers etc., takes into account users focus;	✗	✗	✗	✗	✓	✓
Stratifies the population based on receiving public money;	✗	✗	✗	✗	✗	✓
Better reflects user needs;	✗	✗	✗	✓	✓	✓
Trans-Tasman harmonisation;	✗	✓	✗	✗	✗	✗
Acknowledges RDR GPFSSs might be too onerous still for smaller public sector entities that should adopt accrual accounting because of	✗	✓	✗	✓	✓	✓



	Current Public Sector framework	Option 1 (NZ PBE model)	Option 2 (% of total WOG revenue)	Option 3	Option 4 (user-needs focus)	Option 5 (broader user-needs focus)
their level of accountability to the public.						
Criteria and Thresholds are transparent and legislator is able to clearly identify when to adjust	x	x	x	✓	✓	✓
Disadvantages of each option						
May not meet specific user needs as reporting is based on public accountability moderated by cost/benefit;		•	•			
Four tiers would be onerous to maintain by legislators /AASB;		•				
Increased education cost for stakeholders to understand the different GPFSSs;		•				
Public interest based on functions is hard to measure and can vary for the public sector (or indeed meaningless – eg the population of Australia – if taxpayers' funds);				•	•	•
Data is currently not collected by the public sector.				•	•	•



What impact do the options have on Public Sector Entities

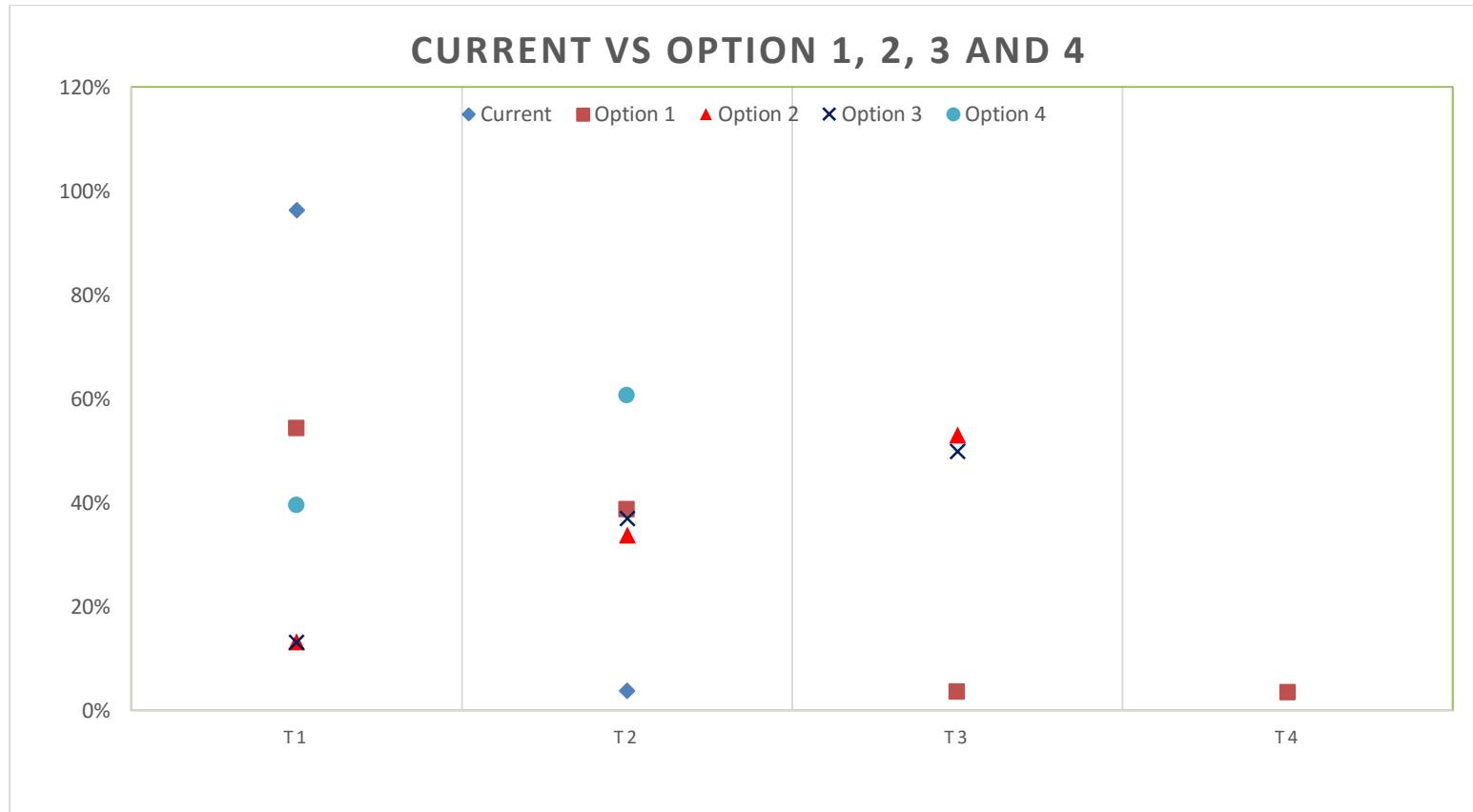
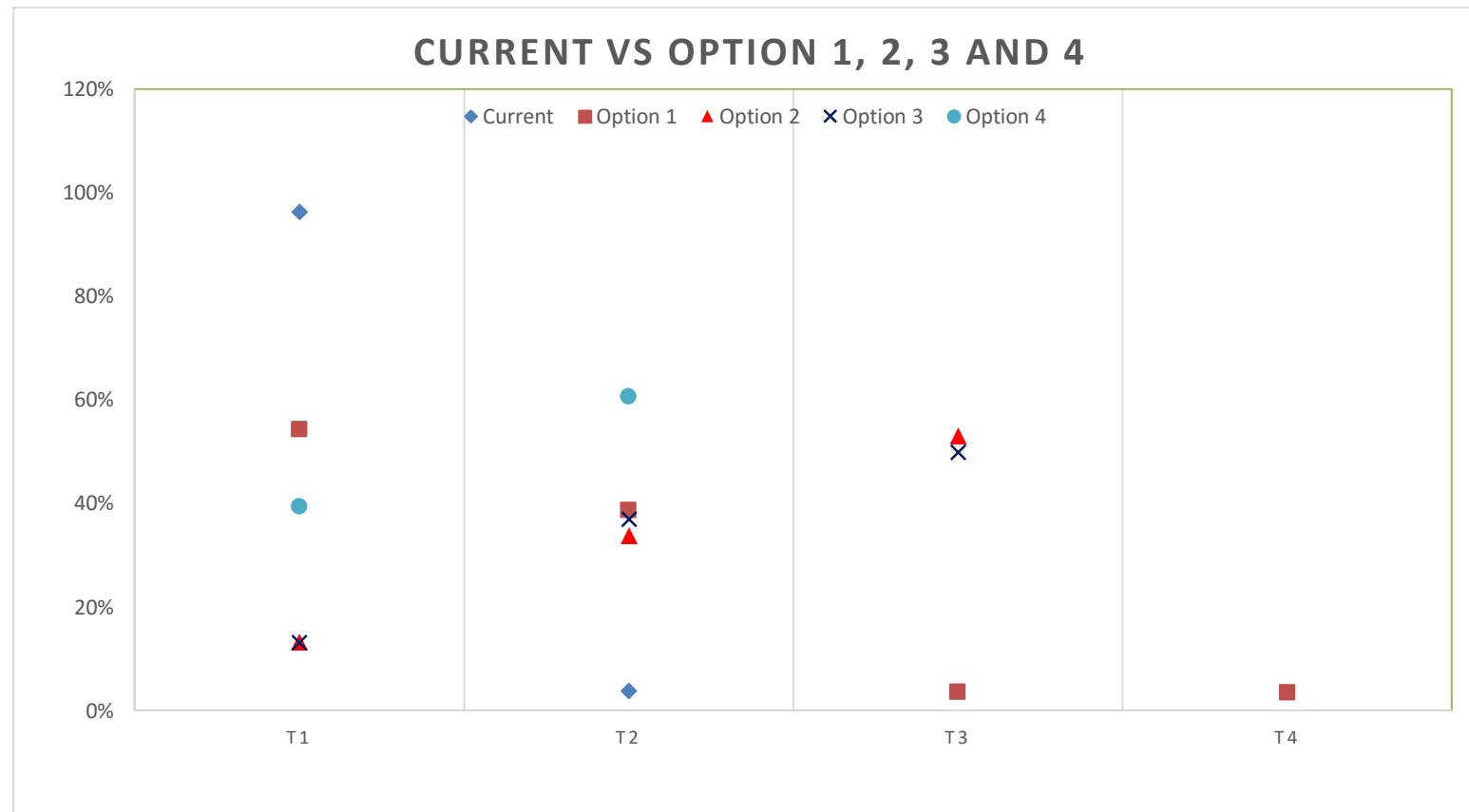


Figure 5 - Impact of the proposed options 1 to 4 compare to current requirements



67.



68. Figure 5 shows the impact of each option in terms of what could be reported by public sector entities and the percentage of the population that could be reporting each particular tier against what is presently being reported. For example, option 1 is based on the New Zealand model which has four Tiers of reporting based on expenses. In comparison Option 2 only proposes two tiers based on nature of activities, expenses over \$100M and assets over \$400M. All proposed options will result in the reduction of the number of entities preparing full GPFS.



Type of reporting	Current	Option 1				Option 2				Option 3				Option 4				Option 5	
		# in each Tier	+/- change	Cth/State/Territory	Local govt	# in each Tier	+/- change	Cth/State/Territory	Local govt	# in each Tier	+/- change	Cth/State/Territory	Local govt	# in each Tier	+/- change	Cth/State/Territory	Local govt	# in each Tier	+/- change
T1	1,287	726	- 561	484	242	177	- 1,110	110	67	176	- 1,111	152	24	527	- 760	9	518	Not illustrated	
T2	50	517	467	248	269	451	401	-	451	494	444	-	494	810	760	810	-		
T3		48	48	47	1	709	709	709	-	667	667	667	-						
T4		46	46	40	6														
		1,337	1,337			1,337				1,337				1,337					

Figure 6 - Comparison of Options to Current Framework

Type of reporting	Current	Option 1				Option 2				Option 3				Option 4				Option 5	
		# in each Tier	+/- change	Cth/State/Territory	Local govt	# in each Tier	+/- change	Cth/State/Territory	Local govt	# in each Tier	+/- change	Cth/State/Territory	Local govt	# in each Tier	+/- change	Cth/State/Territory	Local govt	# in each Tier	+/- change
T1	1,287	726	- 561	484	242	177	- 1,110	110	67	176	- 1,111	152	24	527	- 760	9	518	Not illustrated	
T2	50	517	467	248	269	451	401	-	451	494	444	-	494	810	760	810	-		
T3		48	48	47	1	709	709	709	-	667	667	667	-						
T4		46	46	40	6														
		1,337	1,337			1,337				1,337				1,337					

69.
70.

Figure 6 shows in more detail the breakdown of the movements of the changes in reporting with each proposed option. The first column of each option shows the number of entities that fit within each reporting Tier based on the criteria and thresholds. The +/- change column shows the number of public sector entities moving in (represented by +) or moving out (represented by -) in each tier. A more detailed analysis has been completed in Appendix F of the *Appendices to Public Sector Discussion Paper* which looks at the movements in tiers as well as the movement in what is to be prepared and lodged by each public sector entities by state/territory and Commonwealth.



Appendices to Public Sector Discussion Paper

71. Supporting materials that provide further detail are available on the [AASB website](#). The following topics are covered by the supporting materials.

Appendix	Description
Appendix A	<i>Definition of a public sector entity and structure of the public sector in Australia</i>
Appendix B	<i>Factors that could be used to answer the ‘who should publicly report’ question</i> - which discusses a broad range of possible principles, criteria, thresholds and ways of operationalising those thresholds that could be combined to answer the ‘who’ question
Appendix C	<i>Possible types of specified financial statements</i> – options available to prepare financial statements that could be combined with the factors identified in Appendix B to answer the ‘what’ question
Appendix D	<i>Possible levels of assurance for financial statements</i> – discusses levels of assurance (audit or review) that might be appropriate for various types of financial statements and related issues
Appendix E	<i>Impact on the sector</i> – detailed analytics showing the impact of each threshold on the public sector using financial data obtained from public sector entities
Appendix F	<i>Information collected from public sector entities for the purposes of the analysis in Appendix E</i>