

AASB Public Sector Policy Paper (as at February 2008)

(This Paper will be updated periodically as progress is made on its implementation and as issues emerge. Previous versions of this Paper, dated 16 November 2005, 28 February 2006, 14 July 2006, 24 October 2006 and 15 June 2007, are available in the archives section of the AASB website.)

Australian Accounting Standards and Public Sector Entities

1. BACKGROUND

The AASB has recently completed its short-term review of the requirements in the industry-based Standards AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*. The review mainly affected federal, state, territory and local governments and government departments. It primarily entailed relocating material, substantively unamended, from the industry-based Standards to topic-based Standards. As a result, AASs 27, 29 and 31 have been withdrawn and the following pronouncements issued:

- Revised AASB 1004 *Contributions*;
- AASB 1050 *Administered Items*;
- AASB 1051 *Land Under Roads*;
- AASB 1052 *Disaggregated Disclosures*;
- AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31* – which gives rise to amendments to AASB 3 *Business Combinations*, AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 8 *Operating Segments*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 116 *Property, Plant and Equipment*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
- Revised AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

The AASB is now committed to improving the requirements for each topic-based issue where necessary. An ongoing plan for dealing with public sector issues is detailed below under the following headings:

- Principles – outlines broad principles the Board follows in addressing public sector issues¹;
- Actions – outlines the actions the AASB plans to take; and
- Timetable – provides an estimated timetable for undertaking the actions.

2. PRINCIPLES:

2.1 Consultation:

Consult and engage key constituents and, where relevant, use expert groups to help develop technical issues;

¹ The principles outlined in this paper are drafted within the context of the existing *Conceptual Framework*. In the longer term, work of the IASB, FASB, IPSASB and other national Standard Setters may have implications for the *Conceptual Framework*, including from a not-for-profit/public sector perspective. This paper does not contemplate in detail the likely impact of that work. However, as noted in section 3.2(o) of this Paper, the AASB intends monitoring the work and will consider its implications in the Australian context in due course.

- 2.2 Topic-based Standards:**
Locate requirements in topic-based Standards, rather than industry-based Standards, applicable to all entities for which the topic is pertinent;
- 2.3 Existing Standards:**
Use existing Australian Accounting Standards, which are topic-based Standards, as the vehicles for prescribing requirements for not-for-profit public sector entities where appropriate;
- 2.4 New single-topic Standards:**
Where a topic is substantive but not addressed, or it is not appropriate for it to be addressed in an existing Australian Accounting Standard, create a stand-alone single topic-specific Standard; and
- 2.5 Reference to other Standard setting bodies:**
Where relevant, and in the absence of a compelling reason to do otherwise, seek consistency with the International Accounting Standards Board's (IASB) IFRSs, New Zealand's equivalents to IFRSs and the International Public Sector Accounting Standards Board's (IPSASB) International Public Sector Accounting Standards (IPSASs). Also monitor the work of those bodies. The AASB is currently reviewing its criteria for assessing when to depart from IFRSs in respect of not-for-profit entities.
- 3. ACTIONS:**
- 3.1 Engagement of Constituents**
- (a) *Consultation*
Identify key constituents, including Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), National Local Government Financial Management Forum (NLGFMF), Australasian Council of Auditors-General (ACAG), Australasian Council of Public Accounts Committees (ACPAC), CPA Australia, The Institute of Chartered Accountants in Australia (ICAA) and the National Institute of Accountants (NIA) and consult with them on an ongoing basis.
- (b) *Expert Groups*
Identify individuals to be invited to join expert groups to progress particular technical issues, identified in section 3.2 below, on a topic-by-topic basis at the time the topic is being initiated.
- 3.2 Technical issues²**
- (a) *Definition of not-for-profit entity:*
The AASB has recently issued ITC 14 *Not-for-Profit Entity Definition and Guidance*, which seeks input on using the definition and guidance on public benefit entities in NZ IAS 1 *Presentation of Financial Statements* in Australia. The AASB now intends to:
- (i) Conduct roundtable discussions on the proposals in ITC 14.
- (ii) Consider comments received on ITC 14 and determine whether to revise the existing definition and whether to provide guidance and, if so, determine what the definition and guidance should be in consultation with the New Zealand FRSB.

² As noted in section 3.1(b) above, expert groups may be established for any or all of the items listed below. The need for and composition of an expert group for a particular topic will be assessed at the time the topic is commenced.

- (b) ***Income from non-exchange transactions:***
 A project has been initiated and is being carried out jointly with the New Zealand FRSB. The AASB now intends to:
- (i) Continue progressing a project to develop a Standard that would supersede AASB 1004 *Contributions*. Development of the proposed Standard includes considering IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and other international documents.
 - (ii) Continue to monitor the IASB projects on revision to IAS 20 (currently inactive) and on liability and revenue recognition and consider their implications for the treatment of income from non-exchange transactions.
- (c) ***Social benefit obligations:***
 Requirements relating to social benefit obligations are currently addressed in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (as amended by AASB 2007-9) under the heading “Recognition of Liabilities Arising from Local Government and Government Existing Public Policies, Budget Policies, Election Promises or Statements of Intent”. IPSASB is progressing a project on this topic, and is close to finalising ED 34 *Social Benefits: Disclosure of Cash Transfers to Individuals and Households* and Consultation Paper *Social Benefits: Issues in Recognition and Measurement*. The AASB now intends to:
- (i) Issue the IPSASB ED and Consultation Paper in Australia for comment. Subsequently, consider adopting the resulting IPSAS(s) as Australian Accounting Standards, if appropriate.
 - (ii) Consider, in due course, the implications of the IASB project revising IAS 37.
- (d) ***Control of an entity:***
 The AASB has concluded that this issue cannot be tackled in isolation because there are a wide range of cross-cutting issues. The AASB now intends to:
- (i) Undertake a research project on control of an asset/entity in the not-for-profit public sector – noting that a starting point for the work might be the notion of ‘reporting entity’, including reference to past Australian work on this topic, the forthcoming work at the IPSASB on the topic (see topic 3.2(o) below), and also the IASB’s definition of reporting entity.
 - (ii) Based on the outcome of this research, consider amendments to the Aus paragraphs in AASB 127 *Consolidated and Separate Financial Statements* on control in the public sector.
- (e) ***Consolidation of for-profit entities into a not-for-profit group:***
 An AASB staff article *Not-for-profit entity requirements in Australian Accounting Standards* (updated November 2005) is available on the AASB website. Part A of the article, “Issues and accounting treatments when a NFP parent has a for-profit subsidiary”, addresses this topic. The AASB now intends to:
- (i) Consider an issues paper.
- (f) ***Measurement of contributions by owners as owners***
 The AASB intends to:

- (i) Consider an issues paper addressing the measurement of contributions by owners as owners and the extent to which AASB 1004 (or superseding Standard(s) – see section 3.2(b)(i)) should address the issues.
- (g) **Service Concessions:**
 AASB Interpretation 12 *Service Concession Arrangements* addresses the accounting by operators for service concession arrangements. It does not address the accounting by grantors. An Interpretation Advisory Panel prepared a report for the Board on the accounting by public sector grantors for service concession arrangements. At its December 2007 meeting, the Board decided that public sector grantors are required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to consider Interpretation 12 in developing their accounting policy for service concession arrangements, and can choose to follow the Interpretation even though it does not apply mandatorily. The AASB now intends to:
- (i) Issue an Invitation to Comment on the IPSASB’s Consultation Paper on the accounting by grantors for service concession arrangements, which is expected to be published in the first quarter of 2008.
- (h) **Infrastructure, cultural, community and heritage assets:**
 The IPSASB has issued a Consultation Paper *Accounting for Heritage Assets Under the Accrual Basis of Accounting* (www.ifac.org), which includes as its core the UK Accounting Standards Board Discussion Paper *Heritage Assets: Can Accounting Do Better?* Australia is a member of the IPSASB sub-committee on the project. The AASB has provided its response to the IPSASB and posted it on the AASB website (www.aasb.com.au). The AASB now intends to:
- (i) Continue to monitor the IPSASB project being undertaken in partnership with the UK ASB. It is expected that an IPSASB staff issues paper will be considered by the IPSASB later in 2008.
- (i) **Disaggregated disclosures:**
 At its December 2006 meeting, the AASB decided that it would not use IPSAS 18 *Segment Reporting* as the basis for developing an AASB ED for disaggregated disclosures for not-for-profit public sector entities. The Board also considered feedback from public sector constituents on whether the “management approach” to segment disclosures (as adopted in AASB 8 *Operating Segments* for for-profit entities) is appropriate for not-for-profit public sector entities. The AASB now intends to:
- (i) Undertake further work as part of a longer-term review of segment-like reporting by not-for-profit entities in the public and private sectors. This will include monitoring the implementation of the IASB and the IPSASB Standards on segment reporting.
- (j) **Budget reporting:**
 AASB 1049 *Whole of Government and General Government Sector Financial Reporting* contains requirements for disclosure of budgetary information applicable to General Government Sector and whole of government financial reporting. Consistent with this, the AASB now intends to:
- (i) Issue an ED applicable to, at least, other not-for-profit public sector entities, proposing that:
- Budget information (being the original budget that relates only to the financial statements themselves) should be presented in the general

purpose financial report on a comparable basis to the financial statements; and

- Explanations of major variances between the actual amounts and the budgeted amounts should be disclosed in the general purpose financial report.

[It is relevant to note that these proposals differ from the requirements in IPSAS 24 *Presentation of Budget Information in Financial Statements*, which was issued in December 2006.]

(k) Administered items:

The AASB decided at its December 2006 meeting, following consultation with public sector constituents, that the current requirements now in AASB 1050 *Administered Items*, applicable to government departments, are adequate for the foreseeable future. In due course, the AASB intends to:

- (i) Examine the issues in light of the fact that the question of accounting for administered items by government departments (and other not-for-profit public sector entities) raises some fundamental conceptual issues relating to users' needs and the application of the concepts of control (see 3.2(d) above) and reporting entity (see 3.2(o) below). Accordingly, the Board will consider accounting for administered items in light of the Board's decisions regarding these fundamental conceptual issues. The outcome of the Board's deliberations may have implications for the treatment of restructures of administrative arrangements and the restructuring of administered activities of government departments.

(l) Related party disclosures:

Not-for-profit non-corporate entities are excluded from the scope of AASB 124 *Related Party Disclosures* (December 2005). The AASB intends to:

- (i) Undertake a review of existing practices;
- (ii) In due course, consider whether AASB 124, including matters relating to director and executive remuneration, should apply to all not-for-profit public sector reporting entities. In the process of considering that, the Board will also consider the suitability of IPSAS 20 *Related Party Disclosures* in an Australian context.

(m) Performance indicators:

Currently, accounting standards applicable to public sector entities do not explicitly address performance indicators. The AASB intends to:

- (i) Consider an issues paper reviewing the relevant not-for-profit paragraphs in NZ IAS 1 *Presentation of Financial Statements*.
- (ii) In due course, consider whether it is appropriate for Standards to prescribe the disclosure of performance indicators.

(n) GAAP/GFS harmonisation:

AASB 1049 was issued in October 2007, applicable to annual reporting periods beginning on or after 1 July 2008, with early adoption permitted. The AASB now intends to:

- (i) Monitor the implementation of AASB 1049.
- (ii) Amend AASB 1049 for consistency with recently revised AASB 101.
- (iii) Consider interim financial reporting issues.
- (iv) Monitor amendments to the ABS GFS Manual, and consider any implications for AASB 1049.

- (v) Determine the need for and the priority of imposing GAAP/GFS harmonisation requirements on entities within the General Government Sectors, including government departments, of the Australian Government and the State and Territory Governments. The Board has decided, and the FRC concurs, that it is not necessary to consider GAAP/GFS harmonisation issues for other public sector entities, including entities within the Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector, local governments and entities that GFS classifies as multi-jurisdictional such as universities.
 - (vi) In due course, contemplate the broader implications of GAAP/GFS harmonisation on Standards.³
 - (vii) Monitor the implementation of IPSAS 22 *Disclosure of Financial Information about the General Government Sector* (issued December 2006).
- (o) **Other framework issues:**
Both the IASB and IPSASB are progressing Conceptual Framework projects. The AASB is also considering a differential reporting regime. The AASB intends to:
- (i) Consider the implications for not-for-profit public sector entities in a review of the *Conceptual Framework*. For example, the definition of ‘reporting entity’ will be considered in a not-for-profit public sector context, including implications for government departments. This will be undertaken in conjunction with (ii) immediately below.
 - (ii) Participate in the IPSASB project to develop a public sector conceptual framework.
 - (iii) Consider the implications for public sector entities of the AASB’s proposed differential reporting regime for Australia and the IASB’s proposed IFRS for Small and Medium-sized Entities (SMEs) (Invitation To Comment 12 “Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB *Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities*”, issued May 2007, AASB comment period ended 1 September 2007 – see AASB website). The AASB is continuing its deliberations on this topic in the light of the comments received.
- (p) **Other Issues**
The AASB is monitoring the implementation of Australian equivalents to IFRS by not-for-profit public sector entities. Constituents have raised a number of issues with the AASB, many of which are already the subject of topics identified by the AASB as being interpretive in nature and not

³ In due course, the outcome of the GAAP/GFS Harmonisation project may lead to a review of certain aspects of the *Conceptual Framework*. AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (issued October 2007) is silent on whether a General Government Sector (GGS) financial report that does not consolidate government controlled entities that are located outside the GGS is a general purpose financial report. ED 142, a precursor to AASB 1049, proposed to treat a GGS financial report that does not consolidate controlled entities that are located outside the GGS as a general purpose financial report. The Preface to ED 142 notes: “The AASB intends that, if the Exposure Draft’s proposals are adopted, they would be considered by the Board in its review of the definitions of ‘reporting entity’ and ‘general purpose financial report’ in the *Conceptual Framework*. The AASB will consider the issue in the context of its review of comments made on the Exposure Draft’s proposals.”

warranting further action. The following have been specifically identified as requiring further action:

- (i) Impairment of statutory receivables: staff will prepare an issues paper identifying possible solutions for consideration.
- (ii) Borrowing costs: the Board will consult with constituents on requirements to capitalise borrowing costs to qualifying assets.
- (iii) Suitability of AASB 3 *Business Combinations* for combinations among not-for-profit entities: the Board will undertake a review of the application of the business combinations Standard to not-for-profit entities, following the development of more detailed criteria for determining the circumstances in which not-for-profit requirements should be included in IFRSs. The review will include consideration of the accounting for restructures of local governments.
- (iv) Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*: the Board intends to undertake a fundamental review of this Interpretation in due course.
- (v) Compliance with parliamentary appropriations and other externally-imposed requirements by not-for-profit public sector entities: the Board intends to consider extending the current requirements applicable to government departments (in AASB 1004, as revised in December 2007) to other not-for-profit public sector entities.
- (vi) Summary financial reports and management discussion and analysis (MD&A): in due course the Board will progress a project on summary financial reporting including consideration of the New Zealand FRSB's FRS 39 *Summary Financial Reports*.

4. TIMETABLE:

ACTION	Quarter 1 2008	Quarter 2 2008	Quarter 3 2008	Quarter 4 2008	2009 +
3.2(a) Definition of not-for-profit entity	Roundtables in Melbourne, Sydney & Canberra on ITC 14	Consider responses to ITC 14 Liaise with NZ FRSB	Consider issues paper Possibly engage in further due process		Issue Guidance
3.2(b) Income from non-exchange transactions	Consider alternatives for a short-term project	Issue ED	Consider submissions on ED		Issue Standard
3.2(c) Social benefit obligations	Issue Invitation to Comment on IPSASB ED 34 and IPSASB Consultation Paper		Make AASB submission to IPSASB on ED 34 and Consultation Paper		Consider IPSAS (re ED 34)
3.2(d) Control of an entity					Consider research paper
3.2(e) Consolidation of for-profit entities into a not-for-profit group					Consider issues paper
3.2(f) Measurement of contributions by owners as owners					Consider issues paper
3.2(g) Service concessions	Issue Invitation to Comment re IPSASB Paper		Monitor IPSASB		
3.2(h) Infrastructure, cultural, community and heritage assets	Ongoing monitoring of IPSASB				
3.2(i) Disaggregated disclosures					Consider issues paper
3.2(j) Budget reporting					Issue ED based on requirements in AASB 1049
3.2(k) Administered items					Consider issues in context of control of an entity project 3.2(d)
3.2(l) Related party disclosures			Consider issues paper		Develop and issue ED
3.2(m) Performance indicators					Consider issues paper
3.2(n) GAAP/GFS harmonisation	Ongoing monitoring of implementation of AASB 1049 Ongoing monitoring of ABS amendments to GFS Manual Determine future action on GAAP/GFS harmonisation for entities within the GGS	Issue ED on amendments arising from revised AASB 101		Issue ED on whole of government interim financial reporting Subject to due process, revise AASB 1049 for consistency with AASB 101	Subject to due process, issue a Standard on whole of government interim financial reporting
3.2(o) Other framework issues	Continue monitoring IASB/FASB conceptual framework projects, participate in IPSASB conceptual framework project for the public sector.				Consider issues paper on the reporting entity
3.2(p) Other issues	Consider issues paper on Statutory Receivables	Consider issues paper on Borrowing Costs Consider issues paper on the suitability of AASB 3 for combinations among not-for-profit entities			Consider issues papers on Summary Financial Reports Review Interpretation 1038 Consider issues paper on compliance with parliamentary appropriations and other externally imposed requirements by NFP public sector entities