



Tasmania

ED 156 sub 12

DEPARTMENT of
TREASURY and FINANCE

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Mr David Boymal
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David

Dear Mr Boymal

**EXPOSURE DRAFT 156 - PROPOSALS ARISING FROM THE SHORT-TERM
REVIEW OF THE REQUIREMENTS IN AAS 27, AAS 29 AND AAS 31**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to comment on the above Exposure Draft.

HoTARAC considers that it would have been better if the more fundamental reviews of the retained elements of AAS 27, AAS 29 and AAS 31 had been undertaken, and now considers that these reviews should be of a high priority to the Board. With this caveat, HoTARAC supports the short-term approach in ED 156.

There are a number of issues of detail where HoTARAC does not agree with the approach set out in the Exposure Draft. These are set out in the attached detailed response.

If you have any questions regarding HoTARAC's response, please do not hesitate to contact Peter Gibson of the Australian Department of Finance and Administration on 02 6215 3551.

Yours sincerely

D W Challen

D W Challen
**CHAIR
HEADS OF TREASURIES ACCOUNTING AND
REPORTING ADVISORY COMMITTEE**

3 September 2007

Encl

HoTARAC comments on ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*

General comment

The Preface of ED 156 identifies the primary focus as being to relocate the requirements of AAS 27, AAS 29 and AAS 31, “substantively unamended (with some exceptions)”, into topic-based transaction-neutral Standards. The *AASB Public Sector Policy Paper (15 June 2007)* also notes that “the proposals in ED 156 largely, although not solely, relocate the current requirements in AASs 27, 29 and 31, ‘warts and all’, into topic-based Standards”. Both the Paper and ED 156 note that the AASB intends to undertake a more fundamental review of many of the relocated requirements as part of its longer term review of requirements applicable to not-for-profit public sector entities.

HoTARAC considers that it is sub-optimal to produce new and amended Standards that contain requirements and guidance that are subject to further review. HoTARAC encourages the AASB to undertake the more fundamental review of the retained elements of AAS 27, AAS 29 and AAS 31 as a matter of very high priority. With this caveat, HoTARAC supports the short-term approach in ED 156.

The following table ranks the topics subject to a fundamental review by the AASB, in the order of priority that HoTARAC recommends. HoTARAC reiterates that it considers all fundamental reviews to be of high priority.

| Rank | Topic |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Contributions (including equity transfers) – amendments to AASB 1004. |
| 2 | Control in the public sector – amendments to AASB 127. |
| 3 | Administered Items – new Standard. Review in conjunction with item 5, as separate reporting of administered items is, in essence, a form of disaggregated disclosure. |
| 4 | Obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent – amendments to AASB 137. |
| 5 | Disaggregated Disclosures – new Standard. Consider relationship to disaggregated disclosures (segment reporting) by for-profit entities. |
| 6 | Requirements relating to performance indicators. |

Comments on specific matters identified by AASB

1. Proposed New Standards

(a) AASB 10XX *Administered Items*

- (i) the proposal to continue to limit the requirements relating to administered items to government departments, given the short-term nature of the current review of AASs 27, 29 and 31, rather than extending them to apply to other entities that receive parliamentary appropriations.

HoTARAC concurs with the proposal to continue to limit the requirements relating to administered items to government departments.

- (ii) the proposal to require disclosure of items that a government department collects or distributes on behalf of another entity that are neither controlled nor administered items (see paragraph 13 of proposed AASB 10XX).

HoTARAC concurs with this proposal in principle, noting that such items would cover items held in trust for entities other than the government that creates the department.

However, HoTARAC considers that in some cases it would be inappropriate, on cost/benefit grounds, to disclose monetary values relating to non-monetary items that are collected or distributed on behalf of another entity. This is particularly the case where the monetary values are based on fair value and required to meet audit verification standards. An example of such an item is overseas natural disaster relief, where a government sets up a collection/distribution point for aid-related donations of goods. HoTARAC considers that in this situation, non-monetary disclosure of the general nature of the government action would be appropriate.

Further, some jurisdictions are concerned that the wording for the proposed arrangements may unintentionally capture transactions and balances that relate to “internal common interest” arrangements across entities, such as service bureau arrangements, service level agreements and shared service arrangements.

HoTARAC notes that as part of the longer term review of AASs 27, 29 and 31, the concepts of administered items, transfer payments and items neither controlled nor administered need to be further reviewed, as they are not currently defined or clearly differentiated. This review should consider the alternative proposition that any distinction is unnecessary, given that they are all variations of the same concept.

(iii) in relation to government department transfers that are not controlled by the government department, the proposal to require disclosure of the broad categories of recipients and the amounts transferred to those recipients by government departments (see paragraph 20 of proposed AASB 10XX).

HoTARAC concurs with this proposal in relation to broad categories of recipients. HoTARAC would not support this proposal if practice resulted in the requirement that individual benefit types be disclosed.

(iv) the Board intends reviewing the requirements relating to administered items of not-for-profit entities in due course. Please indicate the priority you believe such a review should be given.

See general comment on page one above on the relative priority of not-for-profit topics.

(b) AASB 10XY Land Under Roads – Transitional Requirements: the proposed requirements for land under roads.

HoTARAC is of the view that land under roads cannot be measured reliably and has previously written to the Chair of the AASB on the matter. Hence, HoTARAC considers that the proposed Standard does not adequately address the issue of land under roads and supports the transitional arrangements on the basis that they are enacted for a further year only and should not be extended beyond that.

HoTARAC considers that the issue is broader than whether fair value at the date of acquisition can be determined retrospectively, as referred to in the Basis for Conclusions, paragraph BC 22. HoTARAC's view is that land under roads cannot be measured reliably, either at the date of acquisition or at the date of transition. Accordingly, the inclusion of the deemed cost transitional provisions, using the fair value at the date of transition or some earlier period, is irrelevant.

In HoTARAC's view, the continual extension of the transitional requirements is clear evidence that reliable measurement of land under roads has not been possible. The point has come to clearly acknowledge this to avoid inconsistencies across jurisdictions.

(c) **AASB 10XZ Disaggregated Disclosures**

- (i) the proposal to express the requirements in AASs 27 and 29 on disaggregated disclosures separately for local governments and government departments rather than being merged into a single set of generic requirements.

HoTARAC agrees with this short-term proposal, but supports a generic set of requirements being developed in the longer term.

- (ii) the proposal that assets deployed and liabilities incurred in relation to each major activity undertaken by a government department should be required, rather than merely encouraged, to be disclosed (see paragraph 15 of AASB 10XZ). The AASB is particularly interested in the costs/benefits of requiring such information.

HoTARAC disagrees with this proposal on the grounds that the cost of attributing assets and/or liabilities to activities exceeds the benefits to users and, in some cases, it may not be possible to attribute liabilities reliably. However, if the proposal is adopted HoTARAC believes a very specific consequential amendment should be made to paragraph 16 to note that assets and liabilities should only be attributed to activities if this can be done reliably.

- (iii) the Board intends reviewing the requirements relating to disaggregated disclosures by not-for-profit entities in due course. Please indicate the priority you believe such a review should be given.

See general comment on page one above on the relative priority of not-for profit topics.

2. Proposed Amendments to Existing Standards

- (a) **AASB 3 Business Combinations:** the proposal to amend the definition of reporting entity in AASB 3 to explicitly state that local governments, governments and most, if not all, government departments are reporting entities.

HoTARAC agrees in principle with the proposed amendment to AASB 3 but is concerned that the amended definition is included in a Standard that is not applicable for most government departments ie AASB 3 does not apply to business combinations involving entities or businesses under common control. One possible solution is to include a cross-reference to the AASB 3 definition in another Standard that is more commonly used by government departments, such as AASB 127 *Consolidated and Separate Financial Statements*.

(b) AASB 116 *Property, Plant and Equipment*:

- (i) the proposal to include a statement in AASB 116 that ‘Examples of property, plant and equipment held by not-for-profit public sector entities include but are not limited to infrastructure, cultural, community and heritage assets’.
- (ii) the proposal to provide Australian Guidance with AASB 116 relating to depreciation and fair valuation of heritage assets.

HoTARAC agrees with the proposed amendments to AASB 116 subject to the following.

- (1) The implementation guidance at page 30 (G1 to G3) of ED 156 is amended to apply to cultural assets as well as heritage assets.
- (2) The implementation guidance G3 (first sentence) is amended to replace the term “unlimited” with “indefinite”. HoTARAC notes that the use of “indefinite” is consistent with the terminology used in AASB 138 *Intangible Assets*.
- (3) HoTARAC suggests that additional guidance be provided in the Standard on the characteristics of the “appropriate curatorial and preservation policies” referred to in G3. The guidance should specify that appropriate policies must be developed and be monitored by qualified personnel and include some, or all, of the following:
 - a) a clearly stated objective about the holding and preservation of items;
 - b) a well-developed plan to achieve the objective, including demonstration of how the policy will be implemented, based on advice by appropriately qualified experts;
 - c) adoption by the governing body of the entity;
 - d) monitoring procedures; and
 - e) periodic reviews.

(c) AASB 127 *Consolidated and Separate Financial Statements*:

- (i) the proposal to replace Aus paragraphs in AASB 127 with the AAS 31 paragraphs relating to control whilst retaining any aspects of the requirements currently in AASB 127 that remain relevant.

HoTARAC agrees with the proposed amendments to AASB 127.

- (ii) the AASB intends reviewing the requirements relating to control in the public sector in due course. Please indicate the priority you believe such a review should be given.

See general comment on page one above on the relative priority of not-for profit topics.

(d) AASB 137 Provisions, Contingent Liabilities and Contingent Assets:

- (i) the proposal to explicitly scope out of AASB 137, in respect of not-for-profit public sector entities, obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent, and to effectively grandfather current practice in relation to those obligations until further research is undertaken. The Board is particularly interested in comments on whether the scope out is too broad or too narrow.

HoTARAC agrees with the proposed amendments to AASB 137. HoTARAC notes that further research is needed to fully examine the delineation between constructive obligations and public policies/statements of intent. In the meantime, it is suggested that para 12.1.2 of AAS 31 is incorporated as part of the proposed Aus 9.2 of AASB 137 because the scope out refers to achieving the same result as the practice followed at the date of introduction of the exclusion, without specifying what that practice is.

HoTARAC notes that it would be desirable to ensure consistency of treatment across all public sector entities in respect of public policy, budget policy and election promises eg it would be inconsistent in requiring a government business to recognise a liability for an election promise, but not require the same promise to be recognised as a liability when it would be delivered by a government department.

- (ii) the AASB intends reviewing the requirements relating to obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent in due course. Please indicate the priority you believe such a review should be given.

See general comment on page one above on the priority of not-for profit topics.

(e) AASB 1004 Contributions:

- (i) the proposal to retain paragraphs 10.5, 10.5.1, 10.5.6, 10.5.7, 10.5.10 and 10.5.17 of AAS 29 on parliamentary appropriations to government departments and whether the material in this section is still needed given government departments' experience with accrual accounting principles and the nature of current arrangements between governments and government departments for parliamentary appropriations (see paragraphs 27 to 33 of the proposed revised AASB 1004).

HoTARAC agrees with the proposed paragraphs 27 to 33 of AASB 1004. However, given the experience of departments in accounting for parliamentary appropriations under accrual accounting, HoTARAC considers that these paragraphs should be reviewed/rationalised as part of the more fundamental review of accounting for contributions by the public sector. It is likely that much of the material can be removed as part of that review.

- (ii) the proposal to retain paragraphs 8.2, 8.2.1 and 8.2.3-8.2.5 of AAS 29, relating to liabilities assumed by other entities, including the proposal to retain the symmetrical accounting approach adopted in AAS 29 instead of amending the requirements to be consistent with AASB 139 for derecognition of liabilities (see paragraphs 34 to 38 of the proposed revised AASB 1004).

HoTARAC agrees with the proposed paragraphs 34 to 38 of AASB 1004.

- (iii) the proposal to retain paragraphs 10.12, 10.12.6, 10.12.8 and 10.12.9 of AAS 29, relating to contributions of services and the appropriateness of applying the requirements beyond government departments to both local governments and governments (see paragraphs 39 to 42 of the proposed revised AASB 1004).

HoTARAC agrees in principle with the proposed paragraphs 39 to 42 of AASB 1004.

Some jurisdictions have noted that care needs to be taken to ensure that the principles are not applied to organisations that do not have adequate resources to cope with the additional burden, particularly as systems would need to be introduced to ensure this information is of audit verification standard. Examples include Country Fire Authorities, State Emergency Services etc.

- (iv) the proposal to retain paragraphs 63 and 70 of AAS 27, paragraphs 11.1-11.2.4 of AAS 29 and 14.1.12 and 14.1.13 of AAS 31, relating to contributions by owners, and relocate them into a separate new section of AASB 1004 under 'Contributions by Owners and Distributions to Owners of Local Governments, Government Departments and Governments' (see paragraphs 43 to 49 of the proposed revised AASB 1004).

HoTARAC agrees with the principles proposed in paragraphs 43 to 49 of AASB 1004.

However:

- HoTARAC believes the last sentence of paragraph 46 should be deleted as it is not representative of government arrangements and appears to be inconsistent with the rest of the paragraph.
- The AASB should review paragraph 49 to assess its usefulness. A number of jurisdictions have commented that it doesn't appear to offer much guidance and may be outdated.
- The AASB should review paragraphs 47 and 48 for consistency with Interpretation 1038. NSW believes that paragraph 47 should not be retained due to inconsistency, and the AASB should take the opportunity to remove this inconsistency.

(v) in relation to a restructure of administrative arrangements (see paragraphs 50-55 of the proposed revised AASB 1004), the proposals to:

- A define restructures of administrative arrangements and to specify that they are in the nature of transactions with owners to be recognised on a net basis. The AASB notes that the definition affects a broader range of entities than government departments, and includes all government controlled not-for-profit entities. The AASB is particularly interested in comments on whether the proposals are suitable for all government controlled not-for-profit entities. The AASB is also interested in whether it is necessary to explicitly refer to for-profit government departments in the context of restructures of administrative arrangements (and therefore also refer to them in paragraph Aus14.2 of AASB 101).

HoTARAC agrees with the proposed definition of restructures of administrative arrangements and the specification that they are in the nature of transactions with owners to be recognised on a net basis. HoTARAC considers this proposal suitable for all government controlled not-for-profit entities, as the substance of such transfers are essentially the same.

HoTARAC considers that it is necessary to explicitly refer to for-profit government departments in the context of restructures of administrative arrangements (and therefore also refer to them in paragraph Aus14.2 of AASB 101).

NSW Treasury disagrees with the inclusion of paragraphs 50-55 for four reasons:

- the paragraphs are contrary to Interpretation 1038;
- the definition of a “restructure of administrative arrangements” is ambiguous;
- the scope has changed from AAS 29 but is inconsistent with Interpretation 1038; and
- it is potentially a substantive change and due process has not been followed.

A cross-reference to the Interpretation could be provided to ensure the status quo can be applied until the matter is considered further in the longer term project.

- B require a transferee to disclose, where practicable, the expenses and income attributable to transferred activities for the reporting period, showing separately those expenses and income recognised by the transferor during the reporting period.

HoTARAC agrees with the proposed paragraph 53 of AASB 1004.

- C not specify a measurement basis for assets and liabilities transferred as a consequence of a restructure of administrative arrangements. The AASB is particularly interested in whether there are any anticipated adverse implications of the proposed non-specification of a measurement basis.

HoTARAC strongly disagrees with the proposal not to specify a measurement basis for assets and liabilities transferred as a consequence of a restructure of administrative arrangements, as this implies that only fair value will be used. HoTARAC supports the present option to measure transferred items at either fair value or carrying value because many jurisdictions strongly prefer carrying value.

HoTARAC believes this would be an appropriate practical solution in the public sector where administrative restructures occur very frequently. While use of fair value does not in itself mandate revaluations at the time of every transfer, HoTARAC believes this would become the default position due to the need to substantiate transactions and balances for audit purposes. Given the frequent occurrence of administrative restructures, this could become a costly and time consuming process with limited benefit to users of Financial Statements.

Further, carrying values will normally be up to date from the previous balance date, and will be adjusted at the subsequent balance date where required by a Standard.

- (vi) the proposal to incorporate the requirements from paragraphs 12.2(b)-(d) of AAS 29 relating to government department disclosure requirements, into AASB 1004 with:
- A the requirement from paragraph 12.2(d) of AAS 29 relating to disclosure of the fair value of goods and services received free of charge (or for nominal consideration) and recognised, being extended to both local governments and governments (see paragraph 58 of the proposed amendments to AASB 1004).
 - B the requirements from paragraphs 12.2(b) and (c) of AAS 29 limited to government departments (see paragraph 59 of the proposed amendments to AASB 1004).

HoTARAC agrees with the proposed paragraphs 58 and 59 of AASB 1004.

(vii) the proposal to place the requirements to be retained from AASs 27, 29 and 31 at the end of AASB 1004 rather than integrating them with the current AASB 1004 requirements. The AASB notes that the integration approach would be more likely to raise the controversial revenue recognition issues for all not-for-profit entities that the AASB intends to deal with in the longer term. The AASB is particularly interested in whether, with the more general requirements already in AASB 1004, the inclusion of the AASs 27, 29 and 31 requirements would create implementation problems, including problems for entities that are not local governments, government departments or governments. For example, does the inclusion of specific requirements for contributions of services in the new section of AASB 1004, vis-a-vis the absence of such specific requirements in the old section of AASB 1004, create implementation issues for not-for-profit private sector entities?

HoTARAC agrees with the proposal to place the requirements to be retained from AASs 27, 29 and 31 at the end of AASB 1004, rather than integrating them with the current AASB 1004 requirements.

(viii) the Board intends reviewing the requirements relating to contributions in due course. Please indicate the priority you believe such a review should be given.

See general comment on page one above on the relative priority of not-for-profit topics.

3. Requirements/Guidance Adequately Addressed in other Standards

(a) **Cash flows from government-controlled financial institutions:** the proposal to not retain the requirement from paragraph 15.11 of AAS 31 relating to cash flows from government controlled financial institutions. The AASB is particularly interested in views on whether this proposal would lead to a loss of useful information.

HoTARAC agrees with the proposal not to retain the requirement from paragraph 15.11 of AAS 31 relating to cash flows from government controlled financial institutions.

(b) **Restricted assets:** the proposal to not retain material from paragraphs 90 and 91 of AAS 27 and paragraphs 12.3 and 12.3.1 of AAS 29 relating to disclosures about restricted assets, given that other Standards cover the matters addressed for different types of assets.

HoTARAC agrees with the proposal not to retain material relating to disclosures about restricted assets.

- (c) **Restructures of local governments:** the proposal to effectively replace the current requirements for restructures of local governments with the general principles expressed in AASB 3 or AASB 1004, as applicable, for a transferee and AASB 5 or other relevant Standards for a transferor.

HoTARAC agrees with the proposal concerning requirements for restructures of local governments.

4. Requirements/Guidance that would no longer be Addressed in Standards

- (a) **Net cost of services format of the income statement:** the proposal to not retain the explicit guidance on the validity of the net cost of services format of the operating statement currently provided in AAS 29.

HoTARAC agrees with the proposal not to retain the explicit guidance on the validity of the net cost of services format.

Nevertheless, some jurisdictions believe the intent would be clearer if the net cost of services format was referred to as an example of an alternative format in or adjacent to paragraph Aus83.1 of AASB 101.

- (b) **Performance indicators:**

- (i) the proposal to not retain guidance on performance indicators.

HoTARAC agrees with the proposal not to retain guidance on performance indicators.

- (ii) the Board intends reviewing the requirements relating to performance indicators in due course. Please indicate the priority you believe such a review should be given.

See general comments on page one above on the relative priority of not-for-profit topics.

5. General Issues

- (a) **Encouragements in Standards:** the proposal to remove each encouragement currently specified in AAS 29, unless there is justification for making it explicitly mandatory, on the basis that an encouragement in a Standard can be interpreted by constituents as an indicator of 'best practice' and that in practice encouragements might be treated by some as if they are requirements.

HoTARAC agrees with the proposal 5(a) relating to encouragements in Standards.

- (b) **Definition of government departments:** the proposal that, where applicable, the scope of the Exposure Draft should include government departments, as currently defined in AAS 29. The AASB is particularly interested in whether that definition is considered appropriate and whether the definition has implications for financial reporting by agencies that are not formally designated as government departments.

HoTARAC agrees with the definition of government department as currently expressed in AAS 29.

However, the definition should be revisited as part of the longer term review of the requirements of AASs 27, 29 and 31 and may need to be considered in the context of reviewing disaggregated disclosures. HoTARAC's view of the definition may change depending on whether the requirements that are currently applicable to government departments, are extended to a greater range of public sector entities,

- (c) **Regulatory or other issues:** are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

HoTARAC is not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

- (d) **Best interests of the Australian economy:** are the proposals in the best interests of the Australian economy?

No comment.

Other comments

Consistency of accounting policies

HoTARAC disagrees with the AASB's proposal to omit the following paragraph 8.2.4 of AAS 31:

“Where the accounting policies adopted by entities within the government reporting entity are dissimilar, adjustments may need to be made in preparing the consolidated financial report to achieve consistency, unless the dissimilar accounting policies are required by another Australian Accounting Standard...”

The paragraph by paragraph analysis of AAS 31 notes that the phrase “unless the dissimilar accounting policies are required by another Australian Accounting Standard” will be considered as part of the project looking at issues relating to consolidating for-profit entities into a not-for-profit group (see Public Sector Policy Paper).

Therefore, in HoTARAC's view, pending this review, the reference to dissimilar policies in para 8.2.4 of AAS 31 should be carried forward to AASB 127. HoTARAC believes that this is an important issue, as its removal has the potential to impose onerous record keeping for little additional benefit. For example, if removed, this will require a for-profit public sector entity to track asset revaluation reserve movements on a class basis as well as on an asset basis, with separate tracking of the profit impacts.

Recognition of tax revenue

The proposed paragraph 25 of the revised AASB 1004 provides that:

“...taxes are recognised when the underlying transaction or event that gives rise to the government's right to collect the tax occurs and can be measured reliably...In most cases, taxes will be recognised in the reporting period in which the tax assessments are due to be issued or during which the tax collections are received.”

Some HoTARAC jurisdictions (New South Wales and Queensland) believe that this statement is not applicable to tax equivalent payments and that this should be made clear. That is, tax equivalent payments within the public sector group are controlled by the General Government Sector, and should be recognised by the General Government Sector to mirror the deferred tax liabilities recognised by the PNFC/PFC entities. Based on this view, control occurs at the same point as for the PNFC / PFC entities; ie on recognition of the underlying assets/liabilities, rather than the tax equivalent event. This is a particularly important issue in GFS-GAAP reporting and HoTARAC has provided further comments in response to ED 155.

The Australian Government is of the view that all the existing paragraphs of AAS 29 relating to recognition and measurement of taxation revenue should be retained in the proposed changes. While some of these paragraphs may be superfluous in the long run,

they add the necessary context to current practice and should be retained until the conclusion of the project to examine non-exchange revenue.