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**ED 156 sub 16**

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Professor David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

13 September 2007

Dear David

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

We write in response to the request for comments contained in the June 2007 Australian Accounting Standards Board (AASB) Exposure Draft 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31 (ED 156).*

We support the broad aim of the AASB to develop transaction-neutral standards that will treat like transactions and events consistently across all sectors. However, we question the Board's approach of incorporating exceptions from IFRS requirements and specific guidance for not-for-profit entities within the Australian version of the IFRS standards. It seems to us that this approach is not practical given the increasing volume of not-for-profit and public sector Australian guidance being inserted into standards that were intended by the International Accounting Standards Board (IASB) to apply only to for-profit entities.

We therefore recommend that the AASB reconsiders the decision to issue only one set of accounting standards in Australia. Having separate sets of standards would provide easier access to the rules applicable to private sector business entities and the rules applicable to public sector and other not-for profit entities. It would also assist in making it clear that the Australian versions of IFRS have the same requirements as IFRS for private sector business enterprises, and that the application of IFRS in Australia has been modified only for not-for-profit and public sector entities. We are aware that there continues to be some confusion world-wide on this matter.

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For this reason, and because of the changes to IFRS standards that are imminent in the areas of business combinations, financial statement presentation and arising from the IASB's "minor amendments" project, we consider that separate standards for local government and government departments should be maintained in their current form for the time being. We are concerned that any potential benefits obtained by a short term relocation of requirements may be outweighed by the disruption caused by future changes to these requirements.

We recommend that the Board gives consideration to the more fundamental issues referred to above and likely future developments before proceeding with the proposals set out in its "short-term review" project.

Our response to the specific matters for comment is provided in the attachment to this letter.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (02) 8266 8099 or Meina Rose on 0432 320 540 if you would like to discuss this further.

Yours sincerely

Wayne Andrews

Wayne Andrews
Partner
Assurance

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## Attachment: ED 156 Specific Matters for Comment

**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.**

We support the proposal.

**(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).**

We support the proposal.

**(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).**

We support the proposal.

**(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.**

Such a review we believe should have a low priority. The current requirements for administered items are clear and only affect the financial statements of Commonwealth and State Government Departments.

In addition, it is unclear to us why the last sentence in paragraph 22 (on page 22) has been retained. We do not understand why the basis adopted by a government department for reporting administered items would differ from the basis adopted by the government itself given the proposals contained in ED 155 *Financial Reporting by Whole of Governments*.

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

We support the proposals.

However, we are concerned that paragraph 6 could be misread to permit the non-recognition of land under roads indefinitely, as long as the election was made before the end of the first reporting period ending on or after 31 December 2007. We suggest rewording paragraphs 6 and 7 as follows:

6 "An entity may elect for ~~until the end of~~the first reporting period ending on or after 31 December 2007 not to recognise land under roads as assets. The election has to be made before the end of that reporting period."

7 "… Once the transitional provisions in paragraph 6 lapse <u>(ie for financial years ending on or after 31 December 2008)</u>, the general principles in AASB 116 will apply."

**(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.**

We support the proposal.

**(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.**

We have no comment on this proposal.

**(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.**

We believe such a review should have a low to medium priority. We agree that further work should be undertaken by the AASB, in consultation with public sector constituents, to determine whether the "management approach" to segment disclosures would be appropriate for not-for-profit public sector entities.

Our preference would be to retain the existing requirements in AAS 27 and 29. If the requirements are transferred to a separate standard, we believe the title of the standard should be amended to make it clear that it applies only to local governments and government departments – i.e. "Disaggregated Disclosures by Local Governments and Government Departments".

**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.**

In the context of a separate business combinations standard applying to not-for-profit entities, we would support the proposed amendment to the definition of reporting entity.

However, as stated in our covering letter, we do not support replacing the current rules on the accounting for restructures in AAS 27 and AAS 29 with the principles in AASB 3 at a time when AASB 3 itself is about to be revised. This will cause unnecessary disruption for not-for-profit and public sector entities which could be avoided if separate standards for these sectors were to be maintained. We are aware that the Board is giving consideration to the implications of the proposed revisions to AASB 3. In our view this analysis should be completed prior to amending the requirements in AAS 27 and AAS 29

We believe that the accounting for restructures in the not-for-profit and public sector as a whole, including the question of whether all restructures should be accounted for at fair value, should be reviewed as part of stage 2 of the review of public sector financial reporting. In the meantime, the current requirements should be maintained.

**(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'.**

We support including this statement in a version of AASB 116 that applies specifically to not-for-profit entities.

**(ii) the proposal to provide Australian Guidance with AASB 116 relating to depreciation and fair valuation of heritage assets.**

We support including this guidance in a version of AASB 116 that applies specifically to not-for-profit entities. We also believe that the AASB should continue to monitor international developments in this area, in particular the current joint project of the International Public Sector Accounting Standard Board and the United Kingdom Accounting Standards Board.

**(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.**

We support amending the Aus paragraphs in AASB 127 as proposed, but we consider that it is more appropriate to relocate this to a version of AASB 127 that applies to not-for-profit entities over time.

**(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.**

Such a review should have a medium priority. We support the AASB project to review these requirements in conjunction with the work of the IPSASB on this topic.

**(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.**

We are concerned that the “scope out” may be too broad if budget policies can be interpreted as including budget legislation approved by the Parliament. Liabilities that arise for government from the passage of budget legislation should be recognised in the financial statements of the relevant government agencies at balance date.

**(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.**

We believe that such a review should have a high priority and should consider the recent work of the IPSASB in this area.

**(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).**

We have no comments on this proposal.

**(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 de-recognition of liabilities (see paragraphs 34 to 38 of the proposed revised AASB 1004).**

We support the proposal to retain the guidance in these paragraphs.

**(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).**

We support the proposal to retain the guidance in these paragraphs and we believe that it is appropriate to apply the requirements beyond government departments to both local governments and governments.

**(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).**

We support the proposal. However, for the reasons outlined in our covering letter, we question whether it is appropriate to relocate the requirements at this time.

**(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).**

**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.**

**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.**

We do not support making the proposed changes at this time because we are not convinced that all aspects of the accounting have been considered, particularly in the area of measurement.

We believe that accounting for restructures in the public sector as a whole, including the question of whether all restructures should be accounted for at fair value, should be reviewed as part of stage 2 of the review of public sector financial reporting. In the meantime, we consider that the current requirements of AAS 29 should be retained to avoid unnecessary disruptions and uncertainties for the entities concerned.

**(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).**

We do not support relocating the requirement, but if it is relocated we support extending it in the manner proposed.

**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).**

We do not support relocating the requirement.

**(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?**

Whilst we do not support relocating these requirements, we do not believe that the inclusion of specific requirements for contributions of services would create implementation issues for not-for-profit private sector entities. AASB 1004 *Contributions* already defines non-reciprocal transfers as including the transfer of services. Indeed, it can be argued that the proposed guidance in paragraphs 39 to 42 could be usefully extended to not-for-profit private sector entities. One example is the requirement in paragraph 41 that contributed services only be recognised where the services would be purchased if not donated.

**(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.**

We believe such a review should have a high priority given the importance of contributions in the financial statements of public sector entities.

**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.**

We have no comment on this proposal.

**(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.**

We support the proposal to not retain this material when AAS 29 is next reissued given that AASB 116 *Property, Plant and Equipment* contains disclosure requirements for restrictions on title of an asset.

**(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.**

As explained in point 2.(a) on page 5 above, we believe that the accounting for restructures in the public sector as a whole, including the question of whether all restructures should be accounted for at fair value, should be reviewed as part of stage 2 of the review of public sector financial reporting. In the meantime, the current requirements should be retained to avoid unnecessary disruptions and uncertainties for the entities concerned.

**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.**

We support the proposal to not retain the explicit guidance when AAS 29 is next reissued.

**(b) Performance indicators:**

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

We support the proposal.

**(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.**

We believe that the disclosure of information concerning performance indicators is of benefit to users of government financial statements. However, we question whether this is something that should be governed by an accounting standard. Requirements relating to performance indicators could be developed by individual public sector jurisdictions to suit their specific circumstances.

**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.**

We support the proposal.

**(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.**

We do not have any comments on this proposal.

**(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?**

There are none we are aware of.

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

As explained in our covering letter, we do not believe that the proposals are in the best interest of the Australian economy. It seems to us that the proposals are likely to cause significant disruption and uncertainties for the entities concerned, and we consider it unlikely that the users of financial reports would derive substantive benefit from the changes.