



13 September 2007

Mr David Boymal  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

By email: [standard@aasb.com.au](mailto:standard@aasb.com.au)

Office of the Chief Executive  
Geoff Rankin, FCPA

CPA Australia Ltd  
ABN 64 008 392 452

CPA Centre  
Level 28, 385 Bourke Street  
Melbourne VIC 3000 Australia  
GPO Box 2820AA  
Melbourne VIC 3001 Australia

T +61 3 9606 9689  
F +61 3 9602 1163  
W [www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)  
E [geoff.rankin@cpaaustralia.com.au](mailto:geoff.rankin@cpaaustralia.com.au)

Dear David

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

Thank you for the opportunity to comment on Exposure Draft 156: *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*.

CPA Australia commends the work that has been undertaken by the AASB and its staff on this short-term review.

CPA Australia appreciates that ED 156 is a short term approach adopted by the AASB. We support the AASB on any on going and longer term initiatives in developing, revising or updating Australian Accounting Standards to ensure their relevance to the public sector and other not for profit entities. CPA Australia does recognise that while this is an onerous task, it is a necessary one.

Our detailed comments on the specific matters raised in the Exposure Draft are attached to this letter. Should you have any queries on our comments, please contact Chee Ng our Public Sector Policy Adviser at [cheemin.ng@cpaaustralia.com.au](mailto:cheemin.ng@cpaaustralia.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to be 'G Rankin', written in a cursive style.

Geoff Rankin FCPA  
Chief Executive Officer

cc: Chee Ng

## **CPA Australia's Response to ED 156 Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31**

### **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.**

CPA Australia supports this approach given that this is a short-term review.

**(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).**

CPA Australia concurs with the disclosure requirements for these items.

**(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).**

CPA Australia agrees with the continuance of the disclosure requirements relating to this category of government department transfers.

**(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.**

CPA Australia considers the review of the other not-for-profit entities a priority and supports any AASB's initiatives in speeding up its review of that sector.

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

CPA Australia welcomes the provision (paragraph 6) for entity to elect not to recognise land under roads as assets.

However, CPA Australia considers that the benefits accrued have to balance against the considerable cost and effort of including land under roads as assets. We are particularly concerned on the financial impact on the local governments.

CPA Australia suggests that the matter of land under roads needs further review and be included as part of the AASB's longer term initiatives in developing, revising or updating Australian Accounting Standards to ensure their relevance to the public sector.

**(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.**

CPA Australia supports the approach in AASB 10XZ in segregating the requirements separately for local governments and government departments because of the differing requirements.

**(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.**

CPA Australia supports this proposal only if it is feasible for government department to identify and relate assets deployed and liabilities incurred to each major activity.

**(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.**

CPA Australia considers the review of the other not-for-profit entities as a priority and supports any AASB's initiatives in speeding up its review of that sector.

**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.**

CPA Australia supports the reasoning as part of the AASB's short-term review of the three public sector specific standards.

**(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'.**

For other not-for-profit entities, CPA Australia recommends that the requirements be deferred and considered by the AASB as part of its review of the other not-for-profit entities.

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

CPA Australia supports the proposal.

**(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.**

CPA Australia agrees with this proposal.

**(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.**

CPA Australia supports this initiative and suggests that this forms part of the next phase AASB's public sector initiatives.

**(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.**

CPA Australia supports the approach of scoping out 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 part of the AASB's longer term initiatives.

We do not consider the scope out too broad or too narrow.

**(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.**

CPA Australia suggests that this forms part of the longer term review.

**(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).**

CPA Australia suggests the retention of these paragraphs and review as part of the longer term initiatives.

**(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).**

CPA Australia supports the proposal to retain 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).**

CPA Australia supports the proposal to retain these paragraphs.

**(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).**

CPA Australia supports the proposal.

**(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.**

CPA Australia supports the definition in (A) and the requirements in (B) and not specifying a measurement basis (C).

**(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).**

CPA Australia supports the proposal to incorporate these requirements.

**(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-à-vis the absence of such specific requirements in the old section of AASB 1004, create implementation issues for not-for-profit private sector entities?**

CPA Australia supports the proposal to retain these paragraphs. See our comments on the other not-for-profit entities in (viii) below.

**(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.**

CPA Australia considers the review of the other not-for-profit entities as a priority and supports any AASB's initiatives in speeding up its review of that sector.

### **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.**

CPA Australia sees merit of including the information.

**(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.**

CPA Australia agrees with the proposal and the rationale in not retaining the material from the affected paragraphs of the two existing standards.

**(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.**

CPA Australia agrees with the proposal.

### **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.**

CPA Australia agrees with the proposal of not having the explicit guidance on format re net cost of services.

**(b) Performance indicators:**

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

CPA Australia supports not retaining guidance on performance indicators as disclosure of performance indicators has been the norm in most, if not all, government annual financial reports.

**(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.**

CPA Australia, while welcoming such an initiative, recognises that there are more pressing public sector and other not-for-profit issues requiring review by the AASB.

### **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.**

CPA Australia agrees with the approach of and the rationale in removing encouragements from the 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.

CPA Australia considers the definition as defined in AAS 29 continues to be appropriate.

**(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?

We have no comment.

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

CPA Australia considers the short term review as the start. There are many public sector and not for profit issues requiring consideration.

We support the AASB on any on-going and longer term initiatives in developing, revising or updating Australian Accounting Standards to ensure their relevance to the public sector and other not-for-profit entities.