



18 February 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Dr Kendall

Invitation to Comment (ITC 46) AASB Agenda Consultation 2022-2026

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to contribute to the future domestic work program of the AASB. Please find attached the ACAG response to the *AASB Agenda Consultation 2022-2026* (ITC 46).

ACAG supports the AASB's current and proposed work program of standards-level projects and research projects as they are critical areas of attention for public sector financial reporting. However, ACAG encourages the AASB, as part of its consultation process for new projects and standards to consider opportunities to simplify financial reporting requirements, wherever possible. ACAG would also support this being explicitly considered as part of the AASB Due Process Framework for Setting Standards.

ACAG's specific comments on the 2022-2026 work program are based on our experiences as the auditor of public sector financial reports of not-for-profit and for-profit entities.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Margaret Crawford'. The signature is fluid and cursive.

Margaret Crawford

**Chair
ACAG Financial Reporting and Accounting Committee**

QUESTIONS FOR RESPONDENTS

Question 1 – Inactive projects

Are there any inactive projects you think should be retained in the AASB 2022–2026 work program?

ACAG is of the view that it is not necessary to retain the inactive projects listed in Table 2 of ITC 46 in the 2022-2026 work program.

ACAG believe it would be more beneficial for the AASB's resources to be applied to the current domestic projects noted in Table 1 and the proposed external reporting projects listed in Table 3 (which we have commented on specifically under Question 2).

Specific comments on each project are outlined in the table below.

Project	Comments
Remuneration reporting	<p>The recent AASB Staff Paper 'Review of Executive Remuneration Disclosure Requirements' indicated that Australia 'sits at the top end of the disclosure requirements' when compared to other jurisdictions and that further review would likely be focussed on streamlining reporting requirements and cutting 'red-tape' in Australia.</p> <p>ACAG, in its comments on the AASB Agenda Consultation 2017-2019, suggested that a Post Implementation Review (PIR) of AASB 124 'Related Party Disclosures' be performed. ACAG notes that a PIR on AASB 124 is forthcoming and is supportive of this, particularly regarding its application to not-for-profit public sector financial reports.</p> <p>ACAG has not encountered any significant issues in applying the AASB 124 requirements for remuneration reporting in the public sector and believes the PIR on AASB 124 is sufficient. On this basis, ACAG does not believe applying further AASB resources to this project should be a priority at this time.</p>
Crowd-sourced equity funding	<p>ACAG supports removing this project from the work program on the basis that it has been considered as part of the development of the Australian Financial Reporting project and ACAG has not encountered any significant accounting issues regarding crowd-sourced equity funding.</p>
Definition of fundraising	<p>ACAG is of the view that 'fundraising' would be better defined by the ACNC. One of the ACNC's objects is to reduce red tape. This includes harmonising ACNC regulatory requirements with the numerous state and territory laws that cover charities. Consistency in the application of the definition could also be sought through consultation with the ACNC as part of the AASB's 'Not-for-Profit Private Sector Financial Reporting Framework', 'Public Sector Financial Reporting Framework' and 'Service Performance Reporting' projects.</p>
Long term discount rates	<p>ACAG supported the Board's decision in May 2017 to conduct preliminary research on the impact of the volatility of spot rates on defined benefit liabilities of the public sector.</p> <p>A positive observation by ACAG is that the use of market yields on government bonds promotes a consistent approach to discounting post-employment benefit obligations. ACAG still acknowledges that the use of a spot discount rate can create volatility in the profit and loss statements for public sector entities.</p> <p>When considering the AASB's current resource capacity and the limited number of accounting issues ACAG has encountered with the application of this approach (aside from the volatility issues noted), ACAG does not believe retaining this project on the work program would be an effective use of the AASB's resources at this time. The limited progress of the project to-date is also evidence of this fact.</p>

Question 2 – Potential Projects

(a) Do you agree that the AASB should add any of the proposed external reporting projects to the work program? Include any feedback as to the scope of the proposed external reporting projects.

ACAG agrees that all three of the proposed projects have merit and should be included in the work program. Feedback on the scope of the proposed projects is provided in the table below.

Project	Feedback
Sustainability reporting	<p>ACAG agrees there is a growing demand for global harmonisation and better disclosure in this area of reporting. This project will be important to ensure the AASB can influence key developments and achieve consistency in sustainability reporting, particularly with any input into any new standards proposed by the International Sustainability Standards Board.</p> <p>ACAG supports the AASB's intent to proactively gather feedback from stakeholders on the matter as it develops. This will ensure the AASB's input into international standard-setting projects is well-informed and can mitigate issues upon implementation of any new standards and guidance developed.</p>
Service performance reporting (SPR)	<p>ACAG supports this project as:</p> <ul style="list-style-type: none"> • there is a growing demand for this type of reporting, and • it can lead to more relevant and understandable information about the entity's financial and non-financial performance, promote greater consistency in NFP reporting and help better discharge accountability obligations. <p>In the public sector context, performance information and measures are an important accountability mechanism. This information can be used by stakeholders to understand how efficient and effective an agency has been in delivering its legislative objectives. The Commonwealth and some state jurisdictions have established performance frameworks, and some have also established assurance requirements over this information. However, this is not the case in all jurisdictions and concerns have been raised in the past around the quality and consistency of how agencies report their performance in annual reports or other accountability documents. ACAG believes having a standard would promote greater consistency and comparability across state and territory governments, and the Commonwealth government.</p> <p>Several issues were raised on Exposure Draft 270 <i>Reporting Service Performance Information</i> including:</p> <ul style="list-style-type: none"> • whether service performance reporting should be mandatory, and if so, when. If a standard was not mandatory, it may lead to inconsistent application and reporting. • whether there is a need for service performance information at a consolidated level in the public sector • the need to establish a user-friendly, principles-based, framework that is not rigid and too prescriptive. This will be important to better enable users from non-accounting backgrounds to also be able to comply with the standard

Project	Feedback
	<ul style="list-style-type: none"> the equally important need for those principles to be clear on outcome measures to enable a baseline level of disclosure that can be consistently applied by all preparers. <p>Additional areas ACAG believes the project could focus on include, but are not limited to:</p> <ul style="list-style-type: none"> understanding the information needs of users of this information understanding the current state of performance reporting, including divergent practices researching current performance frameworks adopted in the public and private sectors researching approaches and standards that support the collection and/or development of reliable, accurate and complete information on which performance information and measures are based. <p>Reporting of performance-based information should closely align to an entity's objectives so that the information is relevant and should be transparent and unbiased. A performance reporting framework should support these principles.</p> <p>ACAG suggests when developing the scope for this project, these issues are considered and addressed to mitigate any issues upon future implementation. ACAG also agrees with the AASB's view that service performance reporting and sustainability reporting are potentially closely related projects and suggest that the scoping of each be designed to complement one another. Scoping should also be designed with a view of achieving consistency in reporting across states and territories.</p> <p>ACAG also suggest that the AASB consider the reviews conducted by Australian Auditors-General of performance reporting in the public sector as the AASB Literature Review focused on academic publications and had little material covering the public sector.</p>
Digital financial reporting (DFR)	<p>ACAG supports this project as it will be important for the AASB to be actively involved with the Australian Government in implementing the recommendation by the Parliamentary Joint Committee (PJC) to make DFR standard practice in Australia.</p> <p>Whilst the recommendation was to make DFR standard practice through legislation, it will be important for the AASB to establish frameworks that enable consistency in how DFR is prepared and presented in Australia.</p> <p>ACAG would highlight that the use of DFR in the public sector has not been considered and would suggest this be included within the scope of the project. There are several benefits from the use of DFR that are transferrable to the public sector such as increasing transparency, leading to improvements in financial statement quality. It would also be important to understand to what extent benefits outweigh the costs to produce DFR in the public sector and their ability to embrace digital reporting. For example, DFR would be beneficial for whole-of-government reporting where increased transparency and increased comparability of financial information between states and territories would be useful for users. However, the costs may exceed the benefits for smaller agencies within government which may justify the continued manual production of their financial reports.</p>



(b) Are there any other projects you think the AASB should include as part of its work program for 2022–2026? Specify the scope of these projects and take into consideration the AASB’s capacity for additional projects.

ACAG supports the AASB’s current and proposed work program of standard-setting projects as they are important and relevant areas of attention for public sector financial reporting.

ACAG does not recommend the inclusion of any additional projects to the proposed AASB work program as the current and proposed projects are adequate and cater for a range of constituents such as for-profit entities, not-for-profit entities and public sector entities.

(c) What priority would you give to each of the potential projects – high, medium or low?

Project	Priority	Reasons
Sustainability reporting	High	With the establishment of the International Sustainability Standards Board, it is likely that progress in developing standards on sustainability reporting will accelerate significantly in the coming years. It will be important for the AASB to be involved in this process to ensure future standards developed consider Australian specific issues.
Service performance reporting	High	ACAG supports the AASB’s view that service performance reporting and sustainability reporting could be closely related projects. It makes sense that these projects be given equal priority to enable parallel scoping that would facilitate benefits to be realised and leveraged from both.
Digital financial reporting	Medium	ACAG believes digital financial reporting may take longer to implement in Australia than sustainability and service performance reporting due to the practical issues of implementation. For example, preparers may need more time to implement new systems and procedures to produce DFR. If the Australian Government makes DFR standard practice through legislation, this could also take time to enact. On this basis, treating the DFR research project as a medium priority, longer-term project may be more appropriate.

Question 3 – Research projects

(a) Do you agree that the AASB should add any of the proposed research projects to the work program?

ACAG is of the view that research projects related to the proposed standard-setting projects in section 2 of ITC 46 should be added to the work program. These are complex and evolving areas of reporting that will require research to inform the standard setting process. The reasons for this are included in our comments on Question 2 (a).

(b) Are there any other research projects you think the AASB should include as part of its work program for 2022–2026? Specify the scope of these projects and take into consideration the AASB’s capacity for additional projects.

ACAG supports the AASB’s current and proposed work program of research projects as they are important and relevant areas of attention for public sector financial reporting.

ACAG does not recommend the inclusion of any additional projects to the proposed AASB work program as the current and proposed projects are adequate and cater for a range of constituents such as for-profit entities, not-for-profit entities and public sector entities.

(c) What priority would you give to each of the potential projects – high, medium or low?

Project	Priority	Reasons
Encouraged disclosures	Low	While ACAG believes there is merit in this research project, other research projects are a higher priority at this time. ACAG also notes that these types of disclosures will be reviewed by the IASB in its Disclosure Initiative standard-level project.
AASB 112 Income Taxes and tax transparency disclosures	Low	While ACAG believes there is merit in this research project, other research projects are a higher priority at this time.
Intangible assets: recognition and measurement	Low	While ACAG believes there is merit in this research project, other research projects are a higher priority at this time.
Sustainability reporting	High	Efficiencies can be obtained by prioritising research in both sustainability reporting and service performance reporting concurrently with the standard-setting projects. Sustainability reporting and service performance reporting are novel and evolving areas of interest and continued, targeted research in these areas will be crucial to inform the standard-setting process.
Service performance reporting	High	
Digital financial reporting	High	The Parliamentary Joint Committee’s recommendation for the Australian Government to make digital financial reporting standard practice in Australia will create an urgency for a standard/framework. Therefore, research on this topic will be a high priority to inform the legislative and standard-setting process.
Costs and benefits analysis	Low	While ACAG believes there is merit in this research project, other research projects are a higher priority at this time.

Question 4 – Other comments

Do you have other comments on the AASB's activities and work program?

ACAG welcomes the inclusion of the public sector financial reporting framework project on the work plan. A contemporary and simplified public sector financial reporting framework will assist with realigning financial reporting requirements to the current needs of users of financial reports at all levels of government. ACAG believes this project warrants a high priority on the work plan given its significance to the sector.

ACAG also notes and welcomes the high priority projects in Appendix C of ITC 46, including fair value measurement for public sector entities and implementation issues related to AASB 1058 and AASB 1059.

Appendix D of ITC 46 lists the forthcoming post-implementation reviews (PIRs). ACAG agrees with the inclusion of the post-implementation reviews of domestic standards and interpretations listed in Appendix D on the AASB's work plan.

While all of the PIRs are important, ACAG believes that some of the PIRs are of higher priority to the public sector than others.

The table below outlines the PIRs that ACAG believes are higher priority for the public sector.

Standard/Interpretation	Reasons
AASB 1059 Service Concession Arrangements: Grantors	<p>The majority of jurisdictions, except Victoria (which early adopted AASB 1059) applied AASB 1059 for the first time from 1 January 2020. Whilst AASB 1059 has only been effective for a short period of time, the public sector has encountered practical challenges and issues in its application.</p> <p>Service concession arrangements are often unique and complex and can vary from agreement to agreement. ACAG has identified some practical application issues associated with implementation of AASB 1059.</p> <p>ACAG would welcome the opportunity to provide feedback to the AASB on implementation issues.</p>
AASB 1058 Income of Not-for-Profit Entities and AASB 15 Revenue from Contracts with Customers: Appendix F Australian Implementation Guidance for Not-for-Profit Entities	<p>The public sector has encountered practical challenges and issues in its application of AASB 15 and AASB 1058, particularly in relation to the assessment of the existence of sufficiently specific performance obligations.</p> <p>ACAG would welcome the opportunity to provide feedback to the AASB on implementation issues.</p>
AASB 1050 Administered Items	<p>The AASB carried forward the differentiation in accounting treatment of administered items of government departments from AAS 29 <i>Financial Reporting by Government Departments</i>, which was only meant to be a short-term measure. There is a need to reconsider:</p> <ul style="list-style-type: none"> the scope of AASB 1050 as this does not reflect contemporary government structures where agencies other than departments manage administered items on behalf of the government, for example in NSW, Treasury mandates the application of AASB 1050 to all general government sector entities. giving the disclosure of administered items more prominence in the financial statements, including whether other disclosure requirements in accounting standards should be disclosed for administered items.

Standard/Interpretation	Reasons
	<p>It would also be beneficial to include guidance on:</p> <ul style="list-style-type: none">• key criteria for “controlled” or “administered”, including how these terms link to an entity’s potential role as merely an “agent” responsible for administering items on behalf of the government• the disclosure requirements when more than one agency may administer the item.