

AASB Invitation to Comment

ITC XXX
Month 2023

Post-implementation Review of Selected Public Sector Pronouncements

Comments to the AASB by Date Month 2023

Working Draft - For Discussion Purposes Only



Australian Government

**Australian Accounting
Standards Board**

How to Comment on this AASB Invitation to Comment

The AASB is seeking comment by **Date Month 2023**.

Formal Submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@asb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

COPYRIGHT

© Commonwealth of Australia 2023

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission. Requests and enquiries concerning reproduction and rights should be addressed to The Managing Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

ISSN 1320-8713

AASB INVITATION TO COMMENT

Introduction

The Australian Accounting Standards Board (AASB) is undertaking a post-implementation review (PIR) of certain Australian Accounting Standards (including Interpretations) that apply to public sector entities:

- (a) AASB 1050 *Administered Items*;
- (b) AASB 1051 *Land Under Roads*;
- (c) AASB 1052 *Disaggregated Disclosures*;
- (d) AASB 1004 *Contributions*;
- (e) Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*; and
- (f) AASB 1055 *Budgetary Reporting*, with respect to not-for-profit entities in the General Government Sector.

This Invitation to Comment (ITC) aims to seek feedback from stakeholders that enables the AASB to conclude on a pronouncement's overall effectiveness and efficiency in meeting its original objectives, including whether a pronouncement remains appropriate.

The *AASB Due Process Framework for Setting Standards* (paragraph 7.15.2) sets out that a PIR involves:

- (a) review of research that is relevant to the subject matter under review, including research by AASB staff and academics;
- (b) collation of issues received by the AASB prior to the commencement of the PIR;
- (c) stakeholder consultation to seek feedback on implementation issues and other views on the pronouncement;
- (d) consideration of the feedback received by the AASB;
- (e) publication of the findings of the PIR; and
- (f) consideration of any recommendations for changing the pronouncements, which would require the AASB to undertake a separate standard-setting consultation process.

A PIR is not intended to reconsider an underlying pronouncement in its entirety. Instead, it acknowledges that consultation and due process during the development of a pronouncement are not a substitute for the practical application of the requirements in an issued pronouncement. For example, when the requirements in an issued pronouncement are applied in practice, unexpected issues may arise, such as a pronouncement being more difficult or costly to apply than what was expected. There might also be situations where a pronouncement unintentionally results in divergence in practice. This divergence could be due

to differing judgements in applying the requirements, unclear requirements or new or emerging transactions that were not contemplated when a pronouncement was developed.

The PIR process comprises three broad phases: planning, outreach and feedback and next steps.

Planning phase

The planning phase establishes the scope of matters to be considered by the PIR. These matters are identified through a review of project documentation published when the pronouncements were issued, a review of academic research and other literature, targeted outreach with selected stakeholders and consideration of matters raised by stakeholders during the implementation of the pronouncements and subsequently.

Outreach phase

Following the issue of an ITC, during the outreach phase, the AASB will actively engage with stakeholders to seek feedback on the matters identified. This outreach may include meetings with financial statement users, preparers, regulators, professional service firms, professional bodies and academics and formal written responses from stakeholders.

Feedback and next steps phase

The AASB considers all feedback received during the outreach phase and prepares a feedback statement after the formal PIR consultation process. After considering feedback received during the consultation process, the AASB will decide whether:

- no action is required;
- additional educational material is needed; or
- standard-setting is required.

Where additional educational material or standard-setting is warranted, this would be addressed under a separate AASB project.

We need your feedback

Comments are invited about your experience applying the pronouncements considered in this ITC by Date Month 2023. Stakeholder feedback plays an important role in the AASB's standard-setting process. The AASB regards supportive and non-supportive comments as essential to a review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Comments are most useful if they indicate the specific paragraph of the pronouncement to which they relate, contain a clear rationale, are supported by evidence and, where applicable, provide a suggestion for an alternative approach or additional support the AASB could consider providing to stakeholders. Respondents need not answer all the questions. When answering the questions, respondents are asked to consider the effect of the requirements on:

- (a) the quality and consistency of financial statements and whether they provide relevant and reliable information about an entity's financial position and performance;
- (b) comparability, both from period to period for an entity and between entities; and
- (c) the costs to users and preparers of financial information.

Structure of this Invitation to Comment

This ITC includes 27 questions for respondents and is structured as follows:

- Background to the Pronouncements;
- Topic 1: AASB 1050 *Administered Items*;
- Topic 2: AASB 1051 *Land Under Roads*;
- Topic 3: AASB 1052 *Disaggregated Disclosures*;
- Topic 4: AASB 1004 *Contributions* and Interpretation 1038 *Contributions by Owners made to Wholly-Owned Public Sector Entities*;
- Topic 5: Application of AASB 1055 *Budgetary Reporting* to not-for-profit entities within the General Government Sector; and
- AASB General Matters for Comment.

Background to the Pronouncements

In June 2007, ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* was issued for public comment. AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* were first issued in 1991, 1993 and 1996, respectively, and aimed to improve the quality of financial reporting by public sector entities.

The short-term review of the three Standards led to their withdrawal, and in December 2007, the issue of AASB 1050, AASB 1051, AASB 1052 and (reissue of) AASB 1004.

As stated in ED 156, the primary focus of the short-term review of AAS 27, AAS 29 and AAS 31 was to relocate the requirements, substantively unchanged (with some exceptions), into topic-based transaction-neutral standards. This approach was consistent with the AASB's approach to adopting a more principles-based style of Australian Accounting Standards, focusing on transaction neutrality and developing topic-based standards.

Much of the material in AAS 27, AAS 29 and AAS 31 was moved largely unchanged to the AASB 1050, AASB 1051, AASB 1052 and AASB 1004. It was intended that improvements to the Standards would progress in due course as the AASB undertook a fundamental longer-term review of the requirements.¹

Few substantive changes have been made to the Standards since their issue in 2007, except for the following:

- (a) In 2015, AASB 1058 *Income of Not-for-Profit Entities* was issued, including several paragraphs relocated from AASB 1004. This greatly reduced the scope of AASB 1004. The current scope of AASB 1004 relates to parliamentary appropriations, contributions by owners and the restructure of administrative arrangements.²
- (b) In December 2022, paragraphs 6A and 6B were added to AASB 1050 to provide an accounting policy choice for government departments to apply either AASB 17 *Insurance Contracts* or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* when determining information to be disclosed about administered captive insurer activities.³

AASB 1050, AASB 1051, AASB 1052 and AASB 1004 do not correspond directly with specific International Public Sector Accounting Standards or IFRS Accounting Standards.

1 AASB 1050 paragraph BC14, AASB 1051 paragraph BC5, AASB 1052 paragraph BC11 and AASB 1004 paragraph BC5.

2 AASB 1058 applied to annual reporting periods beginning on or after 1 January 2019.

3 These amendments are made by AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*, which applies to annual reporting periods beginning on or after 1 July 2026.

Topic 1: AASB 1050 Administered Items

Key requirements in the Standard

The objective of AASB 1050 is to specify requirements for government departments relating to administered items. Disclosures made in accordance with AASB 1050 provide users with information relevant to assessing the performance of a government department, including accountability for resources entrusted to it.⁴

The key requirement in AASB 1050 is that a government department must disclose the activities administered by the department in its complete set of financial statements.

Paragraph 7 requires government departments to disclose:

- (a) administered income, showing separately:
 - (i) each major class of income; and
 - (ii) in respect of each major class of income, the amounts reliably attributable to each of the government department's activities and the amounts not attributable to activities;
- (b) administered expenses, showing separately:
 - (i) each major class of expense; and
 - (ii) in respect of each major class of expense, the amounts reliably attributable to each of the government department's activities and the amounts not attributable to activities;
- (c) administered assets, showing separately each major class of asset; and
- (d) administered liabilities, showing separately each major class of liability.

Administered items are not recognised within a government department's own operating statement or statement of financial position but are disclosed separately.⁵

What we have heard so far

The purpose of AASB 1050 is unclear

Within the Standard, it is stated that the disclosure of administered items provides:

- (a) users with information relevant to assessing the performance of a government department, including accountability for resources entrusted to it;⁶

4 AASB 1050 paragraph 1.

5 AASB 1050 paragraph 9 states that "A government department's operating statement only recognises income and expenses of the government department. Similarly, a government department's statement of financial position only recognises assets that the government department controls and liabilities that involve a future sacrifice of the government department's assets."

6 AASB 1050 paragraph 1.

- (b) information about their nature and amount that is relevant for understanding the government department's financial performance;⁷ and
- (c) facilitates an assessment of activity costs and cost recoveries and is therefore relevant to parliamentary decision making and enhances the discharge of accountability obligations. Even though a government department does not control such items, the effective and efficient administration of these items is an important role of the government department.⁸

However, despite those statements in the Standard, some stakeholders believe that the purpose of AASB 1050 is not clear. Other stakeholders consider that the Standard is about accountability, and for some government departments, this can be accountability for a significant number of administered item arrangements. Stakeholders have suggested that a stated purpose of the requirements of the Standard may help clarify what the Standard is attempting to achieve and could help improve consistency in practice across jurisdictions.

Question for respondents

1. Is the purpose of AASB 1050 clear? If not, what changes do you suggest? For example, do you think that adding a statement of purpose to the Standard would be useful?

The definition of administered items

'Administered items' is not defined in AASB 1050. However, the Standard contains examples and factors which can be considered when assessing whether an item is an administered item. Examples include:

- (a) user charges, fines and fees that a government department collects but is unable to use for its own purposes, such as unemployment benefits, family allowances, age and invalid pensions, disaster relief and grants and subsidies made to other governments or to other government or private sector entities;
- (b) taxes that a government department collects but is not able to use for its own purposes; and
- (c) assets that a government department manages in the capacity of an agent.

Some stakeholders have indicated that considerable judgement needs to be exercised when deciding whether an activity is administered or controlled by a government department. As a response, some jurisdictions have issued discussion papers or policy papers to guide their departments. Some jurisdictions have developed their own definitions. For example, the Commonwealth Government defines administered items as follows:

Administered items refer to items that the reporting entity does not control but administers on behalf of the Government. Examples of administered items include taxes, subsidies, grants and personal benefits payments. These items the entity either collects

⁷ AASB 1050 paragraph 21.

⁸ AASB 1050 paragraph 14.

or pays on behalf of the Government, but has no direct control over as they are directly controlled by legislation or government policy.⁹

Question for respondents

2. Is the guidance provided in AASB 1050 for identifying administered items sufficient? If not, what improvements do you suggest?

The Standard may not capture contemporary practice

The application of AASB 1050 is limited to situations where government departments administer items on behalf of a government. This application is due to AASB 1050 originating from the former AASB 29 *Government Departments*.

The scenario inherent in the Standard is that of a government “passing through” monies to a government department, which then passes monies on to recipients. Examples include taxes and welfare payments. However, initial feedback from stakeholders indicates that this scenario may not always reflect current practice, where:

- (a) various types of agencies, not just government departments, administer items on behalf of a government;
- (b) more than one agency may administer an item;
- (c) a department may have varying degrees of discretion over some aspects of an item; and
- (d) a state government may administer items on behalf of local governments, or vice versa, or other government entities.

Thus, some state governments have mandated the application of AASB 1050 to all General Government Sector entities.

Question for respondents

3. Do you have comments on whether the scope of AASB 1050 should be broadened to apply to administered items from all forms of government entities, not just government departments? Please outline your reasons.

The prominence of administered items in the financial statements

Some stakeholders commented that administered items are a significant component of some departments’ operations and suggested that administered items disclosures could be given more prominence in the financial statements, and consideration could be given to the application of disclosure requirements in other accounting Standards for administered items. Some departments are already providing significant disclosures of their administered items.

Questions for respondents

Do you have any comments on:

⁹ Public Governance, Performance and Accountability (Financial Reporting) Rule 2015, as amended 16 December 2021, paragraph 9. Australian Government.

4. the prominence given to administered items in government departments' financial statements?
5. whether additional disclosures about administered items would be useful to users of financial statements? If so, please outline which additional disclosures and explain why they would be useful.

The recognition and measurement of administered items

AASB 1050 paragraph 24 states:

To facilitate the assessment of the costs incurred and the cost recoveries generated as a result of the government department's activities, administered income, expenses, assets and liabilities are reported on the same basis adopted for the recognition of the elements of the financial statements.

Recent work performed as part of the project on insurance contracts in the public sector that resulted in an amendment to AASB 1050 highlighted that the *recognition and measurement requirements* applicable to determining amounts disclosed as administered items may need to be clarified. Specifically, it was noted that it is unclear whether 'the same basis adopted for the recognition of the elements of the financial statements' in AASB 1050 paragraph 24 refers to the financial statements of the administering entity (the government department) or of the controlling entity (the government that controls the related assets, liabilities, income and expenses of the activity/item administered by the department).

Question for respondents

6. Do you have any comments on how the amounts disclosed as administered items are recognised and measured? If so, please provide your views on relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting treatment.

Other matters regarding administered items

Other matters that were commented on anecdotally by stakeholders who were consulted in the development of this ITC include:

- (a) There is no guidance in the Standard about how to account for when an item is reclassified from an administered item to a controlled item in the financial records of a department. For example, should the item be regarded as a contribution (under AASB 1004) or a liability/income?
- (b) There is a lack of consistency in how various jurisdictions report administered items, potentially due to different interpretations of the Standard.
- (c) Including guidance in the Standard about the disclosure requirements may be beneficial when more than one entity is involved in administering an item.

Questions for respondents

Do you have any comments about:

7. how an administered item that has been reclassified as a controlled item should be recognised when an entity obtains control of the item?
8. inconsistencies in how administered items are reported in different jurisdictions?
9. the disclosure requirements when more than one entity is involved in administering an item?

If so, please provide your views on relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting treatment.

10. Are any other changes needed in AASB 1050? If so, please provide details of the changes and explain why you think they would be useful.

Topic 2: AASB 1051 *Land Under Roads*

Key requirements in the Standard

The objective of AASB 1051 is to specify requirements for the financial reporting of land under roads by local governments, government departments, General Government Sectors (GGSs) and whole of governments. The Standard only applies to land under roads acquired before 1 July 2008. Land under roads acquired after 1 July 2008 must be accounted for under AASB 116 *Property, Plant and Equipment*.

In accordance with AASB 1051, an entity may elect to recognise (including continue to recognise or to recognise for the first time), subject to the satisfaction of the asset recognition criteria, or not to recognise (including continue not to recognise or to derecognise) as an asset, land under roads acquired before the end of the first reporting period ending on or after 31 December 2007.¹⁰ This is a one-off election.

What we have heard so far

The ongoing relevance of this Standard

The AASB is not aware of any issues with this Standard.

AASB 1051 relates to the financial reporting of land under roads acquired before 1 July 2008. For land under roads acquired after this date, AASB 116 *Property, Plant and Equipment* apply. As the nominated acquisition date passed some years ago, there may be limited ongoing relevance of this Standard for public sector entities.

However, it may still be possible for governments to “discover” previously unidentified land under roads that were “acquired” before 1 July 2008. An example is previously undocumented land under a bridge which is revealed for the first time during the construction of a new bridge. Such land would have existed prior to 1 July 2008 but was not identified and not recognised in the financial statements of the government entity before its discovery.

In some jurisdictions, AASB 1051 is listed in a table of applicable Australian Accounting Standards.

Question for respondents

11. Are there any issues regarding the application of AASB 1051 that the AASB should be aware of? If so, please provide your views on relevant circumstances and their significance.

¹⁰ AASB 1051 paragraph 8.

Topic 3: AASB 1052 *Disaggregated Disclosures*

Key requirements in the Standard

The objective of the Standard is to specify principles for reporting financial information by function or activity by local governments and financial information about service costs and achievements by government departments.^{11, 12} Thus, AASB 1052 focuses on disclosure.

For *local governments*, the key requirement relates to disclosure by function or activity in the complete set of financial statements. This includes disclosure of:

- (a) the nature and objectives of each function/activity;
- (b) the carrying amount of assets reliably attributable to each function/activity;
- (c) income for the reporting period that is reliably attributable to each function/activity, disclosing components of revenues from related grants separately; and
- (d) expenses for the reporting period that are reliably attributable to each function/activity.¹³

The disaggregated financial information needs to be aggregated and reconciled to agree with the related information in the financial statements of the local government entity.¹⁴

For *government departments*, the key requirements relate to the disclosure of service costs and achievements in the complete set of financial statements. This includes disclosure of:

- (a) in summarised form, the identity and purpose of each major activity undertaken by the government department during the reporting period;
- (b) if not otherwise disclosed in, or in conjunction with, the government department's complete set of financial statements, a summary of the government department's objectives;
- (c) expenses reliably attributable to each of the activities identified in (a) above, showing separately each major class of expenses; and
- (d) income reliably attributable to each of the activities identified in (a) above, showing separately user charges, income from government and other income by major class of income.¹⁵

The financial statements of a government department shall also disclose the assets deployed and liabilities incurred that are reliably attributable to each of the activities identified in paragraph (a) above.¹⁶

11 Requirements for disaggregated disclosures for Whole of Government or General Government Sectors are included in AASB 1049.

12 AASB 1052 paragraph 1.

13 AASB 1052 paragraph 11.

14 AASB 1052 paragraph 12.

15 AASB 1052 paragraph 15.

16 AASB 1052 paragraph 16.

To identify those activities of a government department that require separate disclosure, the Standard specifies that judgment is required. This may involve consideration of the following:

- (a) the objective of the department;
- (b) the likely users of the general purpose financial statements;
- (c) the activity level relevant to users' assessments of the performance of the government department; and
- (d) the concept of materiality.^{17, 18}

What we have heard so far

Different requirements for local government vs government departments

The objectives of the Standard for local government and government departments, as stated in paragraph 1, appear quite different. However, comparing the substance of the disclosure requirements for local government (paragraphs 11 and 12) and government departments (paragraphs 15 and 16) reveals that the requirements are very similar.

One difference is that, unlike government departments, the requirements for local governments do not include the disclosure of the liabilities associated with activities. The differences in the wording of the objectives and requirements for local government and governments may reflect the different times that the pre-cursor standards AAS 29 *Financial Reporting by Government Departments* and AAS 27 *Financial Reporting by Local Governments* were first issued. The different wordings were not harmonised when the material was transferred into AASB 1052 in 2007.

Stakeholders questioned whether the requirements for disaggregated disclosures for local government and government departments should be the same.

Question for respondents

12. Do you have any comments on the differences in the objectives and disclosure requirements for disaggregated disclosures for local government and government departments? If so, please provide your views on relevant circumstances and their significance.

The meaning of “reliably attributed”

Some stakeholders commented that AASB 1052 contains limited guidance on the meaning of “reliably attributed”. This may lead to difficulties in specifying which assets and liabilities can be reliably attributed to a particular activity.

17 AASB 101 *Presentation of Financial Statements* defines information as material “if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

18 AASB 1052 paragraph 20.

Paragraph 14 of AASB 1052 states that AASB 8 *Operating Segments*, while not applicable to local governments, its guidance may be useful in identifying the income, expenses and assets that are reliably attributable to the broad functions or activities of the local government.

Also, not all items need to be allocated to a major activity, and this is recognised in the Standard "... it may not be possible to reliably attribute all expenses, income, assets and liabilities to each of the major activities of a government department. Paragraphs 15 and 16 require that a government department's complete set of financial statements only disclose, on an activity-by-activity basis, information about the expenses, income, assets and liabilities that can be reliably attributed to major activities".¹⁹

Questions for respondents

13. Have you experienced challenges in identifying income, expenses, assets and liabilities that are reliably attributable to a major activity? If so, please provide details of the circumstances and the key factors you considered when determining where an item is 'reliably attributed' to a major activity.
14. Are any other changes needed in AASB 1052? If so, please outline those changes and explain why you think they would be useful.

¹⁹ AASB 1052 paragraph 19.

Topic 4: AASB 1004 Contributions and Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities

Key requirements in the Standard

AASB 1004 sets out requirements for the accounting for different forms of owner contributions for different types of government entities:

- (a) government departments, in relation to parliamentary appropriations, liabilities of government departments assumed by other entities, contributions by owners and distribution to owners, and the restructure of administrative arrangements.
- (b) other government-controlled not-for-profit entities, in relation to the restructure of administrative arrangements; and
- (c) local government and whole of governments, in relation to contributions by owners and distribution to owners.²⁰

AASB 1004 requires the following to be recognised as a direct adjustment to equity:

- (a) parliamentary appropriations;
- (b) contributions by owners;
- (c) distribution to owners;
- (d) assumptions of liabilities in the nature of a contribution by owners; and
- (e) assets and liabilities transferred as a consequence of a restructure of administrative arrangements.

Interpretation 1038 was issued in December 2007 to address “the essential characteristics of contributions by owners” and to provide indicators of when those characteristics exist regarding:

- (a) parliamentary appropriations; and
- (b) other transfers to statutory authorities, government departments and government-owned corporations from other entities within the same group of entities, where the transferee is wholly owned by the controlling government.²¹

What we have heard so far

Scope of AASB 1004

When the amended AASB 1004 was issued in December 2007, the AASB decided to defer consideration of whether disclosures of parliamentary appropriations should apply to not-for-

²⁰ AASB 1004 paragraph 6.

²¹ Interpretation 1038 paragraph 3.

profit public sector entities other than government departments. They noted that in due course, it would consider extending the application of the requirements.²²

In response to ED 260 *Income of Not-for-Profit Entities*,²³ the AASB noted the concerns of some stakeholders that Interpretation 1038 has for-profit public sector entities within its scope, whereas AASB 1004 does not. Application of Interpretation 1038 might prevent a for-profit public sector entity from making an unreserved statement of compliance with IFRSs.

Questions for respondents

15. Do you have any comments on whether the disclosure of parliamentary appropriations should be extended to apply to *not-for-profit public sector entities* other than government departments? Please outline your reasons.
16. How often does a for-profit public sector entity apply Interpretation 1038? Do you consider that the scope of Interpretation 1038 should be amended to exclude for-profit public sector entities?

Definition of contribution by owners

In applying the requirements in AASB 1004, the definition of a contribution is relevant.

Contributions are a non-reciprocal transfer, which is “a transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer.”²⁴

Contributions from owners is defined as “future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which:

- (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) can be sold, transferred or redeemed.”²⁵

Stakeholders responding to ED 260 commented that it is sometimes difficult to determine whether a transfer is reciprocal or non-reciprocal. It can be difficult to assess whether approximately equal value had been provided in exchange to the other party or parties to the transfer. Some stakeholders suggested that a new definition of contributions might reduce diversity of practice.

Some stakeholders also expressed their support for applying the International Public Sector Accounting Standards Board (IPSASB) definition or using their definition as a basis for the

22 AASB 1058 paragraph BC131.

23 In April 2015, ED 260 *Income of Not-for-Profit Entities* was exposed for public comment and included proposals for revisions to the income recognition principles in AASB 1004. ED 260 led to the issue of AASB 1058 *Income of Not-for-Profit Entities*.

24 AASB 1004 Appendix A.

25 AASB 1004 Appendix A.

Australian definition.²⁶ The IPSASB's *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* includes the following broad definitions:

Ownership contributions are “inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.”²⁷

Ownership distributions are “outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.”²⁸

Questions for respondents

17. Do you have any comments on the definition of Contributions and Contributions by Owners? Please explain your views.
18. In your view, are there more appropriate definitions for Contributions and Contributions by Owners than the current definitions in AASB 1004? If so, please outline the alternative definitions and explain why you think they would be more useful than the current definitions.

AASB 1004 may not reflect contemporary government practices

In its response to ITC 46 *AASB Agenda Consultation 2022-2026*, stakeholder responses included the following:

- (a) Administrative restructures can entail a range of matters that are not specified under AASB 1004. For example, an administrative restructure can involve a transfer of assets at fair value, and this may lead to a book surplus for the transferee where there has been no change in substance to the operations of a government department.
- (b) Interpretation 1038 paragraph 12 states that “A transfer designated as a contribution by owners shall not be redesignated as income. Similarly, a transfer designated as income shall not be redesignated as a contribution by owners.” It envisages that a single decision is made by the government at budgeting time as to whether a transfer of funds to a department will be a contribution or not. However, transfers of funds to an entity can be done in several tranches, and a government may make frequent changes to its plans to repurpose the allocation of funds. The accounting treatment of this situation in Interpretation 1038 is open to differing interpretations, with some entities considering a change in accounting treatment is prohibited under Interpretation 1038 paragraph 12, while others consider that if a tranche of funds is yet to be transferred (i.e. the transferor still control the funds and the transferee does not have the right to the funds) that tranche of funds should be treated as a separate transaction based on the new designation.

Questions for respondents

Do you have any comments about:

19. assets transferred at fair value in an administrative restructure.

²⁶ AASB 1004 paragraph BC170.

²⁷ IPASAB Conceptual Framework paragraph 5.33.

²⁸ IPASAB Conceptual Framework paragraph 5.34.

20. how changes in government budgets regarding funds previously designated as a contribution by owners are treated?

If so, please provide your views on relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting treatment.

21. Are any other changes needed in AASB 1004 and Interpretation 1038? If so, please provide details of the changes and explain why you think they would be useful.

Working Draft - For Discussion Purposes Only

Topic 5: Application of AASB 1055 *Budgetary Reporting* to not-for-profit entities within the General Government Sector

AASB 1055 *Budgetary Reporting* was created in 2013 by relocating the budgetary disclosure requirements in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to AASB 1055. Due to this close relationship, AASB 1055 (as applicable to governments and to General Government Sectors) was included in the PIR of AASB 1049 undertaken by the Financial Reporting Council in 2021.

The purpose of including AASB 1055 in this ITC is not to conduct another PIR of the Standard. It is to gather stakeholder feedback on a single matter that was not specifically included in the original PIR; this is, whether the scope of AASB 1055 is appropriate.

Key requirements in the Standard

The objective of AASB 1055 is to specify budgetary disclosure requirements for the whole of government, General Government Sector (GGs) and not-for-profit entities within the GGS of each government.²⁹ The key requirements are:

For an entity's budgeted financial statements reflecting controlled items, the entity shall disclose:

- (a) the original budgeted financial statement presented to parliament, presented and classified on a basis that is consistent with the presentation and classification adopted in the corresponding financial statement prepared in accordance with Australian Accounting standards.
- (b) explanations of major variances between the actual amounts presented in the financial statements and the corresponding original budget amounts.³⁰

Where an entity within the GGS's budgeted financial information reflecting major classes of administered income and expenses, or major classes of administered assets and liabilities, is presented to parliament and is separately identified as relating to that entity, the entity shall disclose for the reporting period:

- (a) that original budgeted financial information presented to parliament, presented and classified on a basis that is consistent with the presentation and classification adopted for the corresponding information about administered items disclosed in accordance with AASB 1050 *Administered Items*; and
- (b) explanations of major variances between the actual amounts disclosed in the financial statements in accordance with AASB 1050 and the corresponding original budget amounts.³¹

²⁹ AASB 1055 paragraph 1.

³⁰ See AASB 1055 paragraph 6

³¹ AASB 1050 paragraph 7.

What we have heard so far

The scope of the Standard

The requirements in AASB 1055 apply to General Purpose Financial Statements of whole of government, General Government Sector (GGS) and not-for-profit entities within the GGS of each government.³²

Some stakeholders have expressed concern that the inclusion of not-for-profit entities within the GGS in the scope of AASB 1055 may be too broad and too onerous for preparers. At least one jurisdiction has noted it invests considerable resources in budgetary reporting for not-for-profit entities within the GGS, and questions the value of such disclosures.

In considering this matter, it is worth reviewing relevant comments received from the PIR of AASB 1049, which are as follows:

- (a) There was strong support for retaining the budgetary disclosure requirements under AASB 1055 based on their usefulness and impact on comparability, transparency and accountability.
- (b) Minor opportunities for improvements to AASB 1055 were suggested, but overall, stakeholders presented strong views that no changes should be made to AASB 1055.
- (c) The budgetary disclosures are a key component of comparability, transparency and accountability.
- (d) Explanations of major variances allow users of financial statements to make a more informed assessment of the financial results.
- (e) The reporting of budgets in the financial statements is a duplication, as budgets are separately reported through the parliamentary reporting process.

However, there were suggestions from a few stakeholders for reducing the extent of budgetary disclosures, including:

- (a) Budgetary reporting relating to the Statement of Financial Position should only focus on items such as capital expenditure, borrowings and unusual or particularly significant items.
- (b) Budgetary information about the Statement of Cash Flows provides little relevant information for users as variations in cash flows are primarily the result of variations affecting the other two statements.
- (c) AASB 1055 should be amended to allow the latest budget, instead of the original budget, in comparison with actual results to better reflect better government accountabilities in practice.

A counter to the argument that the scope of AASB 1055 is too broad is that AASB 1050 specifies the details that need to be disclosed for controlled and administered financial reports that are delivered to parliament, so if there is excessive reporting, it may be driven by the

³² As specified in AASB 1057 *Application of Australian Accounting Standards* paragraph 19 and AASB 1055 paragraph 1.

extent of the parliamentary reporting requirements and the number of not-for-profit entities within the GGS of a particular jurisdiction rather than by the requirements of AASB 1055.

Question for respondents

Do you have any comments about:

22. Do you have any comments on the requirement for all not-for-profit entities within the GGS to prepare budgetary reporting in accordance with AASB 1055? If so, please provide your views on relevant circumstances and their significance.

Working Draft - For Discussion Purposes Only

AASB General Matters for Comment

In addition to the specific matters for comment on each topic, the AASB would also particularly value comments on the following:

23. Does the application of the requirements considered in this ITC adversely affect any regulatory requirements for public sector entities?
24. Does the application of the requirements considered in this ITC result in major auditing or assurance challenges?
25. Overall, do the requirements considered in this ITC result in financial statements that are more useful to users of public sector entity financial statements?
26. In your view, do the benefits of applying the requirements considered in this ITC exceed the implementation and ongoing application costs for public sector entities?
27. Are there any other matters that should be brought to the attention of the AASB as it undertakes this PIR?