

29 November 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Kris

Invitation to Comment (ITC) 41—*The AASB’s approach to International Public-Sector Accounting Standards (IPSAS)*

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the ITC. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG notes the ITC is proposing to replace the “*AASB Approach to IPSASs*” document and is not a consultation on the merits of adoption of IPSAS. ACAG’s response is therefore framed in this context, focusing on the AASB’s approach to IPSAS and the conditions necessary for adoption of IPSAS.

As outlined in ACAG’s submission to ITC 37 *The AASB’s Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities*, ACAG observe the suite of issued AASB standards do not provide a framework to support service delivery and outcome oriented accountability mechanisms relevant to the not-for-profit public sector. There is merit therefore in the AASB considering how these accountability mechanisms could form part of the AASB’s approach to IPSAS.

Whilst ACAG fully supports the AASB’s approach to IPSAS, we suggest that the AASB continues to review the prevalence of IPSAS in the global public sector landscape, the benefits and costs to the Australian economy and that the approach is reviewed in less than five years time.

ACAG notes that it is for regulators (including governments) to determine not only which not-for-profit entities need to report publicly, but also to determine what framework and standards to adopt. ACAG has a neutral position in this regard.

The attachment to this letter addresses the AASB’s matters for comment within the ITC.

ACAG appreciates the opportunity to respond and trust that you find our comments useful.

Yours sincerely



Andrew Greaves
Chairman
ACAG Financial Reporting and Accounting Committee

AASB matters for comment

The AASB is inviting comments on the following:

1. The proposed conditions necessary for the AASB to adopt IPSAS for not-for-profit public sector accounting

ACAG agrees with the proposed conditions outlined in paragraph 23 of the paper. However, ACAG suggests that the AASB also outlines proposed assessment criteria, and conclusions, for each of the conditions included in the ITC. Many of the conditions identified are subjective, and clarity on the relevant assessment criteria would be considered beneficial.

ACAG also suggests that the AASB outlines the expectations of the number of conditions to be met to drive adoption i.e. does the AASB expect to consider adoption of IPSAS only when all necessary conditions are met?

Paragraph 2 of the ITC suggests “that the conditions necessary for the adoption of IPSAS would be reviewed periodically...and the results of that assessment made public”. ACAG suggests that the AASB also makes its assessment on the current—and future—state of each condition, public.

ACAG also suggests that paragraph 23(c) is amended to note that IPSAS not only continue to be based on IFRS standards, but that they remain based on the current version of IFRS standards

2. Additional conditions the AASB should consider

ACAG suggests the AASB consider the needs of users of public sector statements and the tendency for these users to focus on service performance information, rather than solely on financial results. As mentioned in ACAG’s submission to ITC 37, ACAG notes that in the AASB’s most recent work program, the AASB is undertaking a ‘literature review’ of reporting service performance information following on from ED 270 *Reporting Service Performance Information*. ACAG considers that existing reporting of service performance measures and outcomes remain an under-developed and under-utilised accountability mechanism for public sector entities.

ACAG considers that the reporting of key service performance information should have at least equal standing to the entities’ reporting of historical financial information. ACAG appreciates that there is no commonly accepted and adopted conceptual framework in Australia that sets out the qualitative (and where appropriate quantitative) characteristics of ‘good’ performance information; the elements of the performance statements; nor the nature and form of assurance that should be provided regarding the reliable and fair presentation of such statements.

ACAG would support the development of a principles-based approach to the reporting of service performance information that is relevant and appropriate for differing circumstances. ACAG considered the proposed principles that were contained in ED 270 broad enough in nature to enable the various existing Australian frameworks to continue to be applied. The fact that frameworks exist for most, but not all Australian public sectors, means that there is demand for this information.

ACAG notes the costs and benefits consideration in paragraphs 23 (j) and 25 of the ITC, however, ACAG also recommends that consideration of the broader impact on the Australian economy—and more specifically the public sector—is included as a condition for the AASB’s deliberation i.e. that the AASB includes a condition about whether the adoption of IPSAS will provide greater benefits to the Australian economy, than the costs to implement. As part of such a condition, ACAG suggests the AASB considers the following points:

- a potentially reduced pool of professional firms with the required skills, expertise and resources to advise on financial reporting under IPSAS and conduct public sector audits

- costs to transition financial reporting from IFRS to IPSAS, including training staff and auditors in the additional framework, and any necessary system changes
- ongoing maintenance of knowledge, training and expertise of two sets of Standards
- the desire for a reduced disclosure, simplified measurement and recognition regime for public sector reporting in Australia
- the lack of an interpretation structure similar to IFRIC
- the lack of readily available interpretative guidance, similar to what the large global accounting firms produce with their IFRS manuals, and regular IFRS publications.

3. Potential precedence of some conditions over others

It is not clear from the ITC whether the AASB places priority, importance or weighting on some of the stated conditions over others. ACAG recommends the AASB clarifies this position in the final document.

In terms of priorities, ACAG suggests that user needs, quality of IPSAS, costs and benefits to the Australian economy, the prevalence of public sector specific topics, the continued alignment with current IFRS (as applicable to the public sector) and the level of global adoption are prioritised over the other conditions outlined within paragraph 23 of the ITC.

4. The AASB's level of involvement in IPSASB standard-setting processes

ACAG believes the AASB should maintain a strong level of input into the development of IPSAS. The approach outlined in paragraphs 26 – 32 appears reasonable in the current context.

ACAG suggests the AASB clarifies its position on the inclusion of specific statements of differences to existing Australian Accounting Standards and IPSAS, not just newly issued AASB standards. In particular, ACAG suggests that the AASB update any statement after the IPSASB issues new IPSAS and modified IPSASs. For example, any statement of differences in AASB 9 *Financial Instruments* should be updated for the issue by IPSASB of IPSAS 41 *Financial Instruments*, and updated when the IPSASB updates IPSAS 41 for *Prepayment Features with Negative Compensation* (Amendments to IFRS 9).

5. Other significant facts that the AASB should consider

ACAG suggests the AASB consider outlining a specific timeframe in paragraph 2 of the ITC, rather than stating reviews will occur 'periodically'.

ACAG also suggests that the AASB reduces the timeframe included in paragraph 24 (b) to three years, coupled with an annual assessment of the current state of conditions outlined in paragraph 23. Whilst ACAG acknowledges the requirement of paragraph 24 (a), five years in the current global landscape appears to be too long for the AASB's reconsideration.

Other comments

As outlined in ACAG's submission to ITC 37, ACAG observe that the suite of issued AASB standards do not provide a framework to support service delivery and outcome oriented accountability mechanisms relevant to the not-for-profit public sector. There is merit therefore in the AASB considering how these additional accountability mechanisms could form part of the AASB's approach to IPSAS.

As further outlined in ACAG's submission to ITC 37, almost all major jurisdictions develop and maintain their own set of public sector specific standards. ACAG notes there are 22 national governments, bodies and organisations who have adopted, or have stated plans to adopt IPSAS, including the European Union, Canada, China, and India.

ACAG notes from the AASB research on public sector accounting standards that Canada, Hong Kong, Singapore and the UK have developed local GAAP for public sector financial reporting which is based on IFRS. ACAG also notes that New Zealand and South Africa have adopted IPSASs with some modifications. ACAG acknowledges that compliance with New Zealand public sector accounting standards does not result in compliance with IPSAS standards because of the modifications.

ACAG notes that it is for regulators (including governments) to determine not only which not-for-profit entities need to report publicly, but also to determine what framework and standards to adopt. ACAG has a neutral position in this regard.