



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

Ms Kris Peach  
The Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Dear Ms Peach <sup>Kris</sup>

## **Invitation to Comment (ITC) 41 – The AASB’s Approach to International Public Sector Accounting Standards**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ITC 41 - *The AASB’s Approach to International Public Sector Accounting Standards*.

HoTARAC appreciates the AASB’s clarification of the approach to the possible future adoption of IPSAS in Australia, but recommends additional necessary conditions including GFS harmonisation, Tier 2 reporting and maintaining the integrity of the public sector reporting framework.

HoTARAC is also of the view that significant work and analysis of the implications of considering the adoption of IPSAS in Australia would be necessary prior to any serious consideration being given to this issue. We note that the implications of a change of this magnitude would need to be fully understood and debated by interested parties (including governments and parliaments) before it could be seriously contemplated.

The attachment to this letter sets out HoTARAC’s response to the specific matters for comment. If you have any queries regarding HoTARAC’s comments, please contact Vincent Padgham from the Australian Government Department of Finance on (02) 6215 1927 or by email to [vincent.padgham@finance.gov.au](mailto:vincent.padgham@finance.gov.au).

Yours sincerely

David Nicol  
CHAIR

Heads of Treasuries Accounting and Reporting Advisory Committee  
14 December 2018

## **HoTARAC Comments to the AASB Invitation to Comment, ITC41, The AASB's Approach to International Public Sector Accounting Standards**

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

HoTARAC welcomes the AASB's paper setting out its current approach to IPSAS as providing clarity and a framework through which to monitor and assess the future development of IPSAS and their relevance to Australia. HoTARAC agrees with the conditions set out in paragraph 23, particularly the statement that "the results of widespread outreach to support the move" would be necessary to support a formal adoption of IPSAS at a future time. Outreach will be particularly important, given the need for judgement in making assessments against the criteria set out in paragraph 23.

Question 2. Are there any additional conditions the AASB should consider?

HoTARAC's view is that it is important to ensure transaction neutrality to the greatest extent possible over the long term, and that this should be a key focus in seeking constituent commentary on Australia's relationship to IPSAS.

In addition to the points listed in paragraph 23, HoTARAC is of the view that the following three points be considered necessary conditions for adopting IPSAS for the Australian not-for-profit (NFP) public sector:

- **An IPSAS equivalent to the GAAP/Government Financial Statistics (GFS) harmonisation approach, currently embodied in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).**

HoTARAC appreciates that the AASB has listed the extent of convergence with GFS as a necessary condition for IPSAS adoption. HoTARAC notes that conceptual differences between financial and statistical accounting make it unlikely full convergence is possible. For example, provisions are fundamental to financial accounting, but rarely recognised under GFS as they do not involve a transaction between two parties. AASB 1049 results in a single accounting framework for all Commonwealth and State budget and actuals reporting. Accordingly, HoTARAC regards the continuation of AASB 1049 or an equivalent as an essential precondition to IPSAS adoption.

AASB 1049 is also the basis for the Uniform Presentation Framework (UPF), a national agreement between Commonwealth, States and Territories for consistency between Commonwealth and State financial reporting. HoTARAC has recently reviewed and updated the UPF.

In addition to a single accounting framework facilitating user understanding of financial statements, independent audit of actuals enhances public confidence in Commonwealth and State budgets. Prior to the introduction of AASB 1049, two sets of budgets were prepared by a number of jurisdictions: one under Australian Accounting Standards (AAS) and the other under GFS. Allan Barton AO, the then Emeritus Professor of the Australian National University, noted in his 2011 paper, *Why Governments Should Use the Government Finance Statistics Accounting System*, that this resulted in questions over which budget presented the 'true and fair' view and which budget should be approved by parliament<sup>1</sup>.

The retention of an AASB 1049 equivalent for reconciling aggregates prepared under two different frameworks therefore remains pertinent, irrespective of whether the AASB adopt IPSAS or continue to use IFRS as the basis for financial reporting in the public sector.

- **The IPSAS should continue to be based on up to date International Financial Reporting Standards (IFRS).**

HoTARAC notes the AASB's view that any eventual adoption of IPSAS should involve full adoption, without significant modifications. In that context, HoTARAC recommends that the AASB's condition 23(c) should be strengthened so make clear that IPSAS should themselves be based on up to date IFRS (as is the current case for AAS).

The adoption of an approach of "not going backward" is consistent with the New Zealand (NZ) approach. That is, where IPSAS were based on earlier versions of IFRS, the Australian public sector should not be required to go backwards to apply IPSAS.

HoTARAC notes that IPSAS continue to develop, but considers that, if IPSAS continued to lag behind IFRS, the public sector would not be applying a current accounting framework; this would compromise the quality of its financial reports<sup>2</sup>. It would also end the AASB's policy of transaction neutrality as noted in paragraph 22. Additionally, as ITC 41 notes, accountants trained in current IFRS will have difficulties transitioning to IPSAS public sector reporting, and accounting skills will no longer be easily transferable between the private and public sectors.

- **The existence of an IPSAS equivalent to the current reduced disclosure requirement of Tier 2.**

HoTARAC notes the AASB's current work on the reporting framework, and supports the attempt to reduce unnecessary clutter in the financial statements and to ensure that they are appropriately focussed on user needs.

Although some HoTARAC jurisdictions allow some entities to use Tier 2 disclosures, and the Commonwealth adopts Tier 2 by default, this is not uniform across Australia. It will therefore be important to ensure that comparable arrangements can be put in place if the AASB were to adopt IPSAS in the future.

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<sup>1</sup> Allan Barton, (2011). *Why Governments Should Use the Government Finance Statistics Accounting System*. Abacus, 47(4), pp.411-445

<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=67525077&site=ehost-live>

<sup>2</sup> As at September 2018, most IPSAS were based on outdated IFRS

[http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.6%20IPSAS%20IFRS%20Alignment%20Dashboard\\_September%202018.pdf](http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.6%20IPSAS%20IFRS%20Alignment%20Dashboard_September%202018.pdf)

- **Any future adoption of IPSAS should not compromise the standards and requirements of government financial and performance reporting or budget reporting and outcomes.**

The recent *Independent Review into the Operation of the Public Governance, Performance and Accountability Act 2013 and Rule*<sup>3</sup> provides recommendations on improving transparency and accountability of financial management and reporting. These improvements are based on the application of current NFP AAS. Transparency and accountability were also assessed by the Western Australian government in considering the application of Tier 2 under AASB 1053<sup>4</sup>. Any change in the accounting framework must not result in less rigorous public sector reporting, as this will not meet users' needs.

Further, Commonwealth and State Parliaments scrutinise matters arising from Auditor-General's reports. Recommendations arising from parliamentary scrutiny into audited financial statements indicate a continuing desire for further strengthening of transparency and accountability of the public sector in financial management and reporting.

Question 3. What are some potential precedence of some conditions over others?

HoTARAC considers condition (i) of paragraph 23, constituent feedback that IPSAS adoption is desirable, the most important condition precedent. This is particularly important given the level of judgement required in assessing the stated conditions.

Additionally, condition (g) of paragraph 23, noting the difficulty in preparing group accounts under different accounting frameworks, is critical. At the present time, there are no IPSAS for 'for-profit' public sector entities. If this was to continue, and IPSAS was adopted, it could result in 'for profit' public sector entities incurring additional costs in keeping separate sets of books: IFRS for accountability and IPSAS for consolidation into whole of government reports. In the current IPSAS arrangements, 'for profit' public sector entities that adopt a version of IPSAS may no longer be comparable with their private sector counterparts.

Question 4. What are the AASB's level of involvement in IPSASB standard-setting processes?

If, over time, the adoption of IPSAS became a realistic prospect for Australia, HoTARAC considers that it would be essential for the AASB to be represented at the IPSASB and its committees to ensure the Australian public sector are represented in developing standards and other guidance.

This increased engagement could include seeking to become a member of the Board but, at a minimum, would include Australian experts on technical panels and IPSASB subcommittees.

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<sup>3</sup> The *Public Governance, Performance and Accountability Act 2013*, is an Act about the governance, performance and accountability of, and the use and management of public resources by, the Commonwealth, Commonwealth entities and Commonwealth companies, and for related purposes.

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[http://parliament.wa.gov.au/publications/tables/papers.nsf/displaypaper/4011444a7149b97578e65727482582b900168697/\\$file/1444.pdf](http://parliament.wa.gov.au/publications/tables/papers.nsf/displaypaper/4011444a7149b97578e65727482582b900168697/$file/1444.pdf)

Question 5. What other significant facts that the AASB should consider?

HoTARAC reiterates its longstanding view that the best possible long-term approach would be for a merger to take place between the International Accounting Standard Board (IASB) and IPSASB. This would see a truly uniform set of International Financial Reporting Standards meeting the needs of both the private and public sectors.

The timing of any implementation of IPSAS is important, particularly where there is a risk that the IPSAS are incompatible with the relevant IFRS. For instance, the Australian public sector is in the process of implementing the new standards, AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases*, and AASB 1058 *Income of Not-for-Profit Entities*. The current IPSAS exposure draft on leases, ED 64, proposes a different approach to lessor accounting than IFRS 16. Should this IPSAS leasing proposal be adopted in Australia as it currently stands, separate leasing standards could apply to the public and private sectors, resulting in the same transaction being treated differently under the two standards? HoTARAC recommends the AASB continue to seek feedback on the importance of transaction neutrality and comparability between the public and private sectors, to users and preparers of financial statements.

In addition, significant forward planning would be required to assist with any future transition to the IPSASB accounting standards. Forward planning would be necessary to ensure seamless transition, at least cost and disruption.

HoTARAC notes that changes in the accounting framework may also require legislative changes, which will need to be considered in any transition planning. For example, GFS and AAS are mandated for budget reports by the *Charter of Budget Honesty Act 1998*, and AAS are mandated for financial statements by the Commonwealth and State legislation. This could be mitigated by the AASB issuing IPSAS under their own brand as they currently do with IFRS and reviewing the cross references in AASB 1049.

