



Project:	Post-Implementation Reviews	Meeting:	March 2023 (M194)
Topic:	PIR of Selected Public Sector Standards – introduction and findings from the planning phase	Agenda Item:	
		Date:	20 February 2023
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		Decision-Making:	Low
		Project Status:	Planning Phase

Objective of this paper

- The objective of this staff paper is to:
 - provide the Board with an update on preliminary work undertaken on the Public Sector Domestic Post-Implementation Reviews (PIRs) for Category 2, Part A pronouncements: AASB 1050 *Administered Items*, AASB 1051 *Land Under Roads*, AASB 1052 *Disaggregated Disclosures*, AASB 1004 *Contributions* and Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*;
 - outline the key reasons for issuing the pronouncements and the policy options considered at the time of issue;
 - outline the key requirements of the pronouncements and implementation issues;
 - consider initial feedback from academic research, other sources and anecdotal feedback; and
 - prioritise issues to determine the scope of stakeholder consultation.
- Staff note that the ultimate aim of the PIRs is to determine an appropriate standard setting response in respect of the above pronouncements, which could range from doing nothing to undertaking a fundamental review.

Background

- At its September 2021 meeting (M183), the Board considered a proposed post-implementation review (PIR) process for undertaking PIRs for domestic Australian Accounting Standards, including Interpretations.
- The Board agreed to progress its PIR work in tranches over the 2021-2025 period. The first tranche of PIR work (the “Category 1 PIRs”) comprises the review of topics that could be expected to inform the Board’s decision-making on its Not-for-Profit Financial Reporting Framework project (the “NFP domestic PIRs”).¹ Progress on these PIRs has been reported to the Board in prior meetings. The “Category 2 PIRs” commenced with the PIR of AASB 1059

¹ The NFP domestic PIRs address topics of: Control/consolidation; Definition of a structured entity; Related party disclosures; and SPFS basis of accounting – compliance with Australian Accounting Standards.

Service Concession Arrangements: Grantors being reported to the Board in a prior meeting. AASB 1059 relates to the public sector and is “Category 2 PIR Part B.”

- 5 This paper is the first report to the Board relating to the “Category 2 PIRs Part A”. These PIRs relate to the public sector, are medium priority, and apply to the following Standards and Interpretation:
 - (a) AASB 1050 Administered Items;
 - (b) AASB 1051 Land under Roads;
 - (c) AASB 1052 Disaggregated Disclosures;
 - (d) AASB 1004 *Contributions*; and
 - (e) Interpretation 1038 Contributions by Owners made to Wholly-Owned Public Sector Entities.
- 6 In the planning for the PIRs of these Standards, the Board agreed that preliminary feedback from targeted stakeholders may not be necessary, given their nature and the intention to undertake a public consultation. However, as part of the preparation of this Board paper, preliminary discussions were undertaken with three key stakeholders to determine if there were any major concerns with the implementation of the pronouncements. An examination of stakeholder comments in unrelated ITCs provided further insight into any matters of concerns with the Standards.
- 7 At this stage there appears to be very few concerns with AASB 1051, AASB 1052, or Interpretation 1038. Stakeholders did reveal some matters relating to AASB 1050 and AASB 1004 that could form part of the ITC for this PIR.

Structure of this paper

- 8 The remainder of this paper reports on the following.
 - (a) Literature review;
 - (b) Overview of the Category 2 Part A public sector accounting standards;
 - (c) Overviews of AASB 1050, AASB 1051, AASB 1052 and AASB 1004/Interpretation 1038;
 - (d) Other matters identified by staff; and
 - (e) Next steps and project timeline.
- 9 Each overview describes:
 - (a) the Board’s rationale for issuing the pronouncement;
 - (b) key requirements of the pronouncement;
 - (c) implementation issues;
 - (d) proposed matters for inclusion in stakeholder consultation.

Literature review

- 10 A search was undertaken to identify any published academic research relevant to the PIRs of AASB 1050, AASB 1051, AASB 1052, AASB 1004 and Interpretation 1038. The search was limited to papers published from 2007 onwards. This is the year of the issue of the pronouncements (December 2007) and issue of the related exposure draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* (June 2007).
- 11 No published papers were found in respect to AASB 1050, AASB 1052, AASB 1004 and Interpretation 1038.

- 12 Three published papers² were found that addressed matters relating to AASB 1051 *Land under roads*. These papers outline diversity of practice in local government in the recognition of land under roads and issues in valuation. However, the matters discussed are either historical and related to the valuation of land under roads, which is not relevant to AASB 1051.
- 13 Similarly, a recent study published by CPA Australia³ surveyed stakeholders to examine how public sector organisations across three levels of government use the annual report, including the financial statements. The only Standard mentioned that was relevant to this Board paper is AASB 1051, and comments again related to the challenge of valuing the asset and the usefulness of the valuation.
- 14 To compensate for the lack of academic research, other publicly available documents were sought that included comments relating to the targeted public sector pronouncements. These included policy papers and implementation advice issued by jurisdictions, and stakeholder responses to AASB exposure drafts and ITCs that included comments on the relevant standards. These documents are referenced in this Board paper, where relevant.

Overview: Category 2 Part A public sector accounting standards

Board's rationale for issuing the accounting standards

- 15 The four public sector accounting standards – AASB 1050, 1051, 1052 and 1004⁴ were issued in December 2007 following the Board's short-term review of the requirements in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments*, and AAS 31 *Financial Reporting by Governments*. The three former standards were first issued in 1991, 1993, and 1996 respectively, and were aimed at improving the quality of financial reporting by public sector entities.
- 16 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. This led to the withdrawal of the three standards, and in December 2007, the issue of AASB 1050, AASB 1051, AASB 1052, and (reissue of) AASB 1004.
- 17 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, a focus on transaction neutrality, and the development of topic-based standards.
- 18 At the time, the AASB characterised the review of the requirements in AAS 27, AAS 29 and AAS 31 as a short-term review. In that context, the Board aimed to:
 - (a) review the extent to which local governments, government departments and governments should continue to be subject to requirements that differ from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. The Board concluded that differences should be

2 Elhawary, H. M. A., West, B., 2015. "All for Nothing? Accounting for Land under Roads by Australian Local Governments" *Australian Accounting Review*, Vol. 25, Issue 1, pp. 38-44; Elhawary, H.M.A. 2018. "Land under roads and the power of politic", *Pacific Accounting Review*, Vol. 30 No. 1, pp. 73-91; Walker R. G., 2011. "Issues in the Preparation of Public Sector Consolidated Statements", *Abacus*, Vol. 47, No. 4, pp. 477-500.

3 Jubb, C., Muir, J., Pathirana, N. and Shying, M., 2022. Annual Reports of Australian Public Sector Organisations – Insights from stakeholders, CPA Australia.

4 AASB 1004 *Contributions* existed prior to 2007 and was amended to include paragraphs from AAS 27, AAS 29 and AAS 31.

- removed, where appropriate and timely, to improve the overall quality of financial reporting;
- (b) bring requirements applicable to local governments, government departments and governments up to date with contemporary accounting thought;
 - (c) consider the implications of the outcomes of its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS), in particular on the requirements in AAS 31;
 - (d) decide whether the 'encouragements' in AAS 27, AAS 29 and AAS 31 should be made mandatory or be removed; and
 - (e) remove uncertainty in the application of cross-references to other Australian Accounting Standards and the override provisions in AAS 27, AAS 29 and AAS 31 that made the requirements in AAS 27, AAS 29 and AAS 31 take precedence over other requirements.⁵
- 19 Much of the material in AAS 27, AAS 29 and AAS 31 was moved largely unchanged to the new standards AASB 1050, 1051, 1052 and 1004. It was intended that improvements to the new standards would progress in due course as the AASB undertook a fundamental longer-term review of the requirements.
- 20 None of the Standards AASB 1050, 1051, 1052 and 1004 correspond directly with specific IPSAS or IFRS Accounting Standards.

Overview: AASB 1050 Administered Items

Board's rationale for issuing the Standard

- 21 AASB 1051 was issued as part of the short-term review of AAS 27, AAS 28 and AAS 29 and the issue of new standards AASB 1050, 1051 and 1052 and reissue of AASB 1004 (outlined in paragraphs 15-20 of this paper). The need for the new standards was driven by the AASB's approach to adopting a more principles-based style of Australian Accounting Standards, a focus on transaction neutrality, and the development of topic-based standards.
- 22 The requirements and guidance relating to administered items in AAS 29 were relocated to AASB 1050 substantively unchanged, except for the following:
- (a) In AAS 29 paragraph 5.2.5, the disclosure of items collected or distributed on behalf of another entity or held in legal custody that are neither administered nor controlled was encouraged. This requirement was not included in AASB 1050, due to the implementation difficulties related to the lack of clarity about the definition of "items that a government department collects or distributes on behalf of another entity that are neither controlled or administered items". The Board noted⁶ that this issue would be addressed as part of the planned longer-term more fundamental review of requirements relating to administered items.
 - (b) In AAS 29 paragraph 10.5.15, transfer payments not controlled by a government department did not qualify for recognition. However, paragraph 22 of AASB 1050 requires that details of the broad categories of recipients and the amounts transferred to those recipients be disclosed in the government department's financial statements.

5 These aims can be found in each of AASB 1050, AAB 1051, AASB 1052, and AASB 1004 in the Basis of Conclusions, BC2.

6 See AASB 1050, BC15.

- (c) Paragraph 12.9.4 of AAS 29 encouraged the disclosure of information about administered assets and administered liabilities on an activity basis. AASB 1050 does not contain this encouragement; and
- (d) Paragraph 8 of AASB 1050 requires the principles in AASB 1052 to be applied in disclosing administered income and expenses reliably attributable to activities. AAS 29 did not include this requirement.

Key requirements of the Standard

- 23 The objective AASB 1050 is to specify requirements for government departments relating to administered items.
- 24 “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 an entity collects but is unable to use for its own purposes;
 - (b) taxes that a government entity collects, but is not able to use for its own purposes;
 - (c) government assets that the entity manages in the capacity of an agent.
- 25 Commonwealth Government legislation provides a description:

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 or pays on behalf of the Government, but has no direct control over as they are directly controlled by legislation or government policy.⁷
- 26 The key requirement in AASB 1050 relates to disclosure. A government department is required to disclose in its complete set of financial statements, activities administered by the department:
 - (a) *administered income*, showing separately each major class of income and for 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 each major class of expense and for 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. (AASB 1050, paragraph 7)
- 27 Thus, administered items are not included within a government department’s operating statement or statement of financial position, but are disclosed separately.

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. (AASB 1050, paragraph 9)

7 Public Governance, Performance and Accountability (Financial Reporting) Rule 2015, as amended 16 December 2021, paragraph 9. Australian Government. [Public Governance, Performance and Accountability \(Financial Reporting\) Rule 2015 \(legislation.gov.au\)](https://www.legislation.gov.au)

- 28 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.⁸

Implementation issues

- 29 In the Basis for Conclusions (AASB 1050, BC13), the Board noted that in transferring substantively unchanged material from AAS 29 to AASB 1050, some of the ‘acknowledged inadequacies’ in AAS 29 were retained. These included:
- (a) the lack of extensive guidance for identifying administered items; and
 - (b) the potential inadequate prominence of administered items in a complete set of financial statements.
- 30 The Standard *does not define ‘administered item’*, only providing examples. Thus, considerable judgement needs to be exercised by those implementing the standard 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.⁹
- 31 The application of AASB 1050, like its predecessor AASB 29, is *limited to government departments*. A broader application to other government entities was not considered at the time, as it would have delayed the issue of the new standards (BC14).
- 32 In its response to ITC 46 *AASB Agenda Consultation 2022-2026*, The Australasian Council of Auditors’ General (ACAG) stated that the PIR of AASB 1050 is a *high priority for the public sector*. ACAG suggested:
- (a) the *scope of AASB 1050 be broadened* as it does not reflect contemporary government structures where various types of agencies, not just government departments, manage administered items on behalf of the government. Thus, in NSW, Treasury mandates the application of AASB 1050 to all general government sector entities.¹⁰
 - (b) the *disclosure of administered items could be given more prominence* in the financial statements, and consideration could be given to the application and other disclosure requirements in accounting standards for administered items.
 - (c) more guidance could be given to disclosure requirements *when more than one agency administers an item*.
- 33 Other matters that were commented on anecdotally by stakeholders who were consulted in the writing of this Board paper include:
- (a) There is no guidance in the Standard about how to account for a situation where an item is reclassified from an administered item to a controlled item. Should it be regarded as a contribution (under AASB 1004) or a transfer?

8 AASB 2022-9 Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector.

9 See for example: “Accounting Policy: Guidance on Administered Items”, NSW Treasury Policy and Guidelines Paper TPP21-03, April 21 [Policy and Guidelines Paper TPP \(nsw.gov.au\)](https://www.nsw.gov.au/policy-guidelines/paper-tpp-21-03). FRR 2E Controlled and Administered Items. Trusts Transactions and Agency Arrangements, Queensland Treasury, June 2021. [Financial Reporting Requirements for Queensland Government Agencies \(treasury.qld.gov.au\)](https://www.treasury.qld.gov.au/financial-reporting-requirements-for-queensland-government-agencies)

10 Similarly, NSW Treasury suggests that limiting the scope of AASB 1050 to government departments may not reflect the current practice where government agencies, rather than departments administer items on behalf of government.

- (b) The assumption of a 'pass-through' of monies from government to a department and then to recipients may be too simplistic. A department may have varying degrees of discretion over some aspects of an item.
 - (c) There is a lack of consistency in how various jurisdictions report administered items, potentially due to different interpretations of the Standard.
- 34 The recent work performed as part of the project on insurance contracts in the public sector that resulted in the amendment to AASB 1050 (see paragraph 28 of this paper) highlighted the issue that the *recognition and measurement requirements* applicable to determining amounts disclosed as administered items may need to be clarified. There appears to be a general, but not universally-accepted, notion that the recognition and measurement requirements of the relevant AASB pronouncements would apply as if the administered items were to be recognised within the department's financial statements.

Proposed questions for stakeholder outreach for AASB 1050

- 35 Based on the above discussion, questions that could be considered as part of targeted outreach are as follows:
- (a) Is the guidance provided in AASB 1050 for identifying administered items sufficient? If not, what improvements would you suggest?
 - (b) Is the prominence given to administered items in a complete set of financial statements sufficient?
 - (c) Should the scope of AASB 1050 be broadened to apply to all forms of government entities, not just government departments?
 - (d) Is it clear how the amounts disclosed as administered items should be recognised and measured? If not, what improvements do you suggest?
 - (e) Are any other changes needed for AASB 1050? If so, please outline those changes.

Question for Board members

Q1. Do Board members have any comments or suggestions on the proposed areas for targeted outreach for AASB 1050?

Overview: AASB 1051 *Land Under Roads*

Board's rationale for issuing the standard

- 36 AASB 1051 was issued as part of the short-term review of AAS 27, AAS 28 and AAS 29 and the issue of new standards AASB 1050 and AASB 1052 and reissue of AASB 1004 (outlined in paragraphs 15-20 of this paper). The need for the new standards was driven by the AASB's approach to adopting a more principles-based style of Australian Accounting Standards, a focus on transaction neutrality, and the development of topic-based standards.
- 37 An important change included in AASB 1051 was the amendment of the previous transitional relief from the recognition of land under roads provided in AAS 27, AAS 28 and AAS 29. Under AASB 1051 entities can elect whether to recognise land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 (AASB 1051, BC11). This change was made to acknowledge the potentially onerous demands on entities if they were required to retrospectively identify, assess the recognition criteria, and recognise and measure land under previously acquired roads.

Key requirements of the Standard

- 38 This Standard specifies the requirements for the financial reporting of land under roads by local governments, government departments, General Government Sectors (GGs) 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*.

- 39 The Standard specifies that
- (a) An entity may elect to recognise (including continue to recognise or to recognise for the first time), subject to 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 (paragraph 8). This is a one-off election.
 - (b) Any adjustments that arise from a final election that is made effective as at that first day shall be made against the opening balance of accumulated surplus (deficiency) of that next reporting period (paragraph 9).
 - (c) An entity that recognises land under roads acquired before the end of the first reporting period ending on or after 31 December 2007, after its first-time adoption of Australian equivalents to IFRSs and under paragraphs 8 and 9, can elect to:
 - (i) measure the fair value of land under roads as at the date of the election and use that fair value as the deemed cost;
 - (ii) use an earlier revaluation of land under roads as its deemed cost; or
 - (iii) use an earlier deemed cost of land under roads established from an event-driven fair value measurement as its deemed costs. (paragraph 14)

Implementation issues

- 40 Following the issue of AASB 1051, the recognition and valuation of land under roads in financial statements was not consistent across states or local councils.¹¹ Some states elected to recognise land under roads acquired prior to 1 July 2008 (e.g., Queensland and Victoria). Other states did not (e.g., South Australia). Many local councils elected to not value land under roads acquired before 1 July 2008.
- 41 Reasons for non-recognition or valuation included
- (a) the difficulty in measuring a reliable value at the date of acquisition or date of transition;
 - (b) the lack of documents available to identify the land under roads;
 - (c) the uncertainty as to the ownership title of the land under roads; and
 - (d) in some states, the lack of control of local councils over land under roads.
- 42 For some states, there were inconsistencies between the requirements of AASB 1051 and State-based local government legislation. For example, at that time the Queensland *Local Government Act 2009* prohibited the recognition of land under roads as an asset in local government financial reports where such land is controlled (but not owned) by the relevant local government. Also, the WA Local Government (Financial Management) Regulation (16) prohibited (i) recognition of Crown Land which local governments did not own but controlled, and (ii) land that is not owned by the local government but which is under the control or management of the local government. (This regulation no longer exists.)

11 See Elhawary, H. M. A., West, B., 2015. "All for Nothing? Accounting for Land under Roads by Australian Local Governments" *Australian Accounting Review*, Vol. 25, Issue 1, pp. 38-44.

- 43 For land under roads acquired since 1 July 2008, some local governments still do not recognise or value the land under roads under AASB 116, as they maintain it cannot be reliably measured.
- 44 Stakeholders who were consulted in the writing of this Board paper did not have any comments in relation to this Standard.

Proposed questions for stakeholder outreach for AASB 1051

- 45 AASB 1051 relates primarily to the actions of entities during the transition period (i.e., up to 1 July 2008). After this date, the provisions in AASB 116 apply to the recognition of land under roads. AASB 1051 does not impose any other requirements for entities beyond the transition period.
- 46 It is highly likely that feedback from stakeholders as part of a PIR would not relate to AASB 1051. For example, feedback could include opinions about the benefits of that asset recognition for public sector financial reporting and the difficulties of assessing reliable valuation. This feedback relates to AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*, not AASB 1051.
- 47 There are two options for the Board to consider.
- (a) As the Standard appears to have limited ongoing relevance, no stakeholder feedback needs to be sought and the PIR should not proceed;
 - (b) The PIR should proceed, but the ITC could include *a single focused question, such as "Does AASB 1051 have any ongoing relevance for your entity?"*. This option may be more attractive to the Board as it provides transparency for any subsequent decision that might be taken by the Board to withdraw the Standard.

Question for Board members

Q2. Do Board members agree that the PIR for AASB 1051 should proceed and include only a single question about the ongoing relevance of the Standard?

Overview: AASB 1052 Disaggregated Disclosures

Board's rationale for issuing the Standard

- 48 AASB 1052 was issued as part of the short-term review of AAS 27, AAS 28 and AAS 29 and the issue of new standards AASB 1050 and 1051 and reissue of AASB 1004 (outlined in paragraphs 15-20 of this paper). The need for the new standards was driven by the AASB's approach to adopting a more principles-based style of Australian Accounting Standards, a focus on transaction neutrality, and the development of topic-based standards.
- 49 The content of AASB 1052 was taken from AAS 27 (paragraphs 86 to 89) and AAS 29 (paragraphs 12.7 to 12.7.4) substantially unchanged. Thus, differences between the requirements for local governments and for government departments were retained. It was envisaged that a project on disaggregated disclosures for local governments and government departments would progress in the future (AASB 1052, BC11).
- 50 Before issuing AASB 1052, the Board considered relocating material from AAS 27 and AAS 29 to AASB 114 *Segment Reporting* (and subsequently AASB 8 *Operating Segments*). This was rejected, consistent with its intention to retain requirements substantively unchanged in the short term. AASB 114, which was not applicable for not-for-profit entities or for-profit government departments, addressed reporting issues and specifies requirements that differ substantially from those required under AAS 27, AAS 29 and AAS 31. (AASB 1052, BC12).
- 51 Noting that for-profit government departments typically do not exist in practice, the Board considered whether for-profit government departments should adopt AASB 114 and AASB 8 instead of AASB 1052. This was rejected because the Board saw value in having the same

reporting requirements for both for-profit and not-for-profit government departments. They considered that this could be reviewed in a future project. (AASB 1052, BC13).

- 52 Requirements relating to segment-like reporting in paragraphs 15.12 to 15.12.2 of AAS 31 were relocated to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Key requirements of the Standard

- 53 The objective of the Standard is to specify principles for reporting:
- (a) financial information by function or activity by local governments; and
 - (b) financial information about service costs and achievements by government departments. (paragraph 1)
- 54 This standard applies to general purpose financial statements of local governments and government departments.¹²
- 55 The key requirement for Local Government relates to disclosure according to function and activity, as follows:
- The complete set of financial statements of a local government shall disclose in respect of each broad function or activity:
- (a) by way of note:
 - (b) the nature and objectives of that function/activity; and
 - (c) the carrying amount of assets that are reliably attributable to that function/activity; and
 - (d) by way of note or otherwise:
 - (e) income for the reporting period that is reliably attributable to that function/activity, with component revenues from related grants disclosed separately as a component thereof; and
 - (f) expenses for the reporting period that are reliably attributable to that function/activity. (paragraph 11)
- 56 Information needs to be aggregated and reconciled to agree with the related information in the financial statements of the local government (paragraph 12).
- 57 The requirements for *disclosure of “service costs and achievements”* for government departments state that the complete set of financial statements of a government department shall disclose:
- (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

12 Requirements for disaggregated disclosures for Whole of Government or General Government Sectors (GGs), are in AASB 1049.

- (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. (paragraph 15)
- 58 Paragraph 16 states that “The complete set of 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 15(a)”.
- 59 Judgement is required to identify those activities of a government department that require separate disclosure. 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 that is relevant to users’ assessments of the performance of the government department; and
 - (d) The concept of materiality.¹³ (paragraph 20)

Implementation issues

- 60 Policy documents issued by some state jurisdictions discuss the limitations of AASB 1052 and provide implementation guidance to their departments.¹⁴ These include the following:
- (a) 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. The ACT Government suggests that the definition of “reliable financial information” (a qualitative characteristic of financial information) from SAC 3 could be used to make these assessments.¹⁵
 - (b) Government departments use the term “outcome” rather than “activity”.
 - (c) There may need to be elaboration of the matters to consider when deciding which activities warrant separate disclosure (see AASB 1052 paragraph 20).
- 61 The objectives of the Standard for local government and for government departments as stated in paragraph 1 appear to be quite different. However, a comparison of 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 essentially the same.¹⁶ A rewriting of the objectives and the requirements in similar language would greatly simplify the Standard.

13 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”.

14 See for example, ACT Government Treasury, [Disaggregated Disclosures Policy \(act.gov.au\)](http://act.gov.au)

15 Reliability is the “quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or events that either it purports to represent or could reasonably be expected to represent” (SAC 3, paragraph 5).

16 One difference is, unlike for government departments, the requirements for local governments do not include 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 (1993) and AAS 27 (1991) were first issued. The different wordings were not harmonized when material was transferred into AASB 1052.

Proposed questions for stakeholder outreach for AASB 1052

- 62 Based on the above discussion, questions that could be considered as part of targeted outreach are as follows:
- (a) Should *local government* and *government departments* have the same disclosure requirements for disaggregated disclosures?
 - (b) Should “reliably attributed” be defined in the standard?
 - (c) Are any other changes needed for AASB 1052? If so, please outline those changes.

Question for Board members

Q3. Do Board members have any comments or suggestions on the proposed areas for targeted outreach for AASB 1052?

Overview: AASB 1004 Contributions and Interpretation 1038

Board’s rationale for issuing the Standard

- 63 AASB 1004 was reissued as part of the short-term review of AAS 27, AAS 28 and AAS 29 and the issue of new standards AASB 1050, 1051 and 1052 (outlined in paragraphs 15-20 of this paper). The need for the new standards was driven by the AASB’s approach to adopting a more principles-based style of Australian Accounting Standards, a focus on transaction neutrality, and the development of topic-based standards. Unlike the other standards – AASB 1050, AASB 1051 and AASB 1052 – AASB 1004 *Contributions* already existed at the time of the review of AAS 27, AAS 28 and AAS 29.
- 64 Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* was reissued in 2007, at the same time as the new accounting standards.
- 65 The Board transferred paragraphs on contributions from AAS 27, AAS 29 and AAS 31 to AASB 1004, and eliminated any duplication of material that was already in AASB 1004. The Board chose to not rewrite the entire standard. There were minimal changes in content pending a future review of this area and the longer-term project on public sector reporting.
- 66 In 2015, AASB 1058 *Income of Not-for-Profit Entities* was issued, which includes 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*.

Key requirements of the Standard

- 67 AASB 1004 includes requirements related to 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 restructure of administrative arrangements; and
 - (c) local government and whole of governments, in relation to contributions by owners and distribution to owners. (Paragraph 6)
- 68 Interpretation 1038 further clarifies AASB 1004, when there are appropriations and other transfers to statutory authorities, government departments and government-owned corporations from other entities within the same group of entities but only where the transferee is *wholly owned by the controlling government*. (Interpretation 1038, paragraph 3)

- 69 Relevant to the implementation of AASB 1004 are the following definitions (Appendix A, AASB 1004).
- (a) Contributions are “non-reciprocal transfers to the entity”, where a non-reciprocal transfer 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.
- (b) Contributions by owners:
- 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.
- (c) Administrative arrangements:
- The reallocation or reorganisation of assets, liabilities, activities and responsibilities amongst the entities that the government controls that occurs as a consequence of a rearrangement in the way in which activities and responsibilities as prescribed under legislation or other authority are allocated between the government’s controlled entities.
- 70 A key requirement of AASB 1004, is that *parliamentary appropriations to a government department* are recognised as equity, when the appropriation satisfies the definition of a contribution to owners (AASB 1004 paragraph 32). Interpretation 1038 further clarifies that there needs to be a written agreement that the transfer is designated as equity and this agreement must be made on or before the time the transfer occurs (Interpretation 1038 paragraph 32)
- 71 When *liabilities of government departments are assumed by other entities*, the transferor government department shall extinguish the liability and either recognise the amount of the liability transferred as income (assuming the transfer is not a contribution) or make a direct adjustment to equity (if the liability is in the nature of a contribution) (AASB 1004 Paragraph 39). An example, of where these situations may occur is when an employee transfers from one government department to another, and the liability in respect of accrued employee benefits is transferred to the transferee government department.
- 72 *Contributions by owners and distribution to owners of local governments, government departments and whole of government*, are also recognised as direct adjustments to equity when the contributed assets qualify for recognition (paragraph 48). Correspondingly, distributions are a direct adjustment to equity, when the associated reduction in assets, rendering of services or increase in liabilities qualifies for recognition (paragraph 49).
- 73 For the *restructure of administrative arrangements*, government departments, and other government controlled not-for-profit entities the following requirements apply:
- (a) The transferor entity shall recognise distributions to owners and the transferee entity shall recognise contributions by owners, in respect of assets transferred. Similarly, the transferor entity shall recognise contributions by owners and the transferee entity shall recognise distributions to owners in respect of liabilities transferred (paragraphs 45 and 55) In these situations, a net contribution by owners or distribution to owners is recognised, as applicable (paragraph 56).

- (b) The transferee entity must disclose the expenses and income attributable to the transferred activities for the reporting period (paragraph 57).
- 74 Interpretation 1038 was issued in December 2007. The purpose of the Interpretation is to address “the essential characteristics of contributions by owners” and to provide indicators of when those characteristics exist. (paragraph 2)
- (a) The interpretation applies to parliamentary appropriations and other transfers to statutory authorities, government departments and government-owned corporations from other entities within the same group of entities but only where the transferee is wholly owned by the controlling government. (paragraph 3)
 - (b) It does not apply to “restructures of administrative arrangements”, as defined in AASB 1004.(paragraph 4)

Implementation issues

- 75 When the amended AASB 1004 was issued in December 2007, the Board decided to defer consideration of whether disclosures of parliamentary appropriations should apply to not-for-profit public sector entities other than government departments; noting that *in due course, it would consider extending the application of the requirements* (AASB 1058, BC131)
- 76 Stakeholders responding to ED 260 *Income of Not-for-Profit Entities* raised several matters relating to AASB 1004 that the Board did not consider for detailed review.¹⁷ These included the following: (AASB 1058, BC168)
- (a) The definition of “Contribution by owners” includes determining whether a government department gains control during a reporting period. It was suggested that a new definition might reduce diversity of practice. Specifically,
 - (b) the definition could include within its scope *for-profit entities*.
 - (c) while there is no equivalent IFRS Accounting Standard definition there is a broader definition in the IPSASB’s *Public Sector Conceptual Framework* as follows:¹⁸
 - Ownership contributions: 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
 - Ownership distributions: 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
 - (d) The Board noted the concerns of some constituents of inconsistencies in that Interpretation 1038 includes for-profit public sector entities within its scope, where AASB 1004 does not.
 - (e) The Board considered whether they would commence a due process to either withdraw the definition of “contributions by owners” from AASB 1004, adopt the IPSAS definition or commence a new project to consider the definition (AASB 1004, BC172). As ensuring adequate due process to consider the definition would delay finalisation of the AASB

17 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*.

18 The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, International Public Sector Accounting Standards Board, October 2014, p. 55-56.

1058, no changes were made to the definition in AASB 1004 or Interpretation 1038 at that time.

- (f) Determining whether a funding transaction is reciprocal or non-reciprocal may be difficult in practice. Under AASB 1004, non-reciprocal funding transactions are recognised as changes in equity. This can be difficult to test in practice as it requires determining whether “approximately equal value had been provided in exchange to the other party or parties to the transfer, and contended that in many instances the immediate recognition of income in a non-reciprocal transaction did not faithfully represent the underlying financial performance of the entity” (AASB 1058, BC3).

77 In its response to ITC 46 *AASB Agenda Consultation 2022-2026*, the Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) responded as follows:

- (a) In relation to AASB 1004: “There are a range of issues that are particularly prevalent or applicable to public sector entities when there is an administrative restructure, as defined in AASB 1004.” For example, it is unclear how to account for situations where an administrative restructure involving a “transfer” of assets at fair value, results in a surplus where there has been no change in substance to the operations of a government department.
- (b) Interpretation 1038: “Modern public sector practice includes frequent changes to allocations of funds, a situation not envisaged by the wording or application of the existing interpretation.” This comment refers to situations where a government repurposes an appropriation after it is budgeted, and the accounting treatments under Interpretation 1038 are open to differing interpretations.

Proposed questions for stakeholder outreach for AASB 1004 and Interpretation 1038

78 Based on the above discussion, questions that could be considered as part of targeted outreach are as follows:

- (a) Should the *disclosures of parliamentary appropriations* be extended (for government) to apply to not-for-profit public sector entities other than government departments?
- (b) Is the definition of *Contributions to Owners* appropriate? If not, what changes do you suggest? Is the IPSAS definition more suitable?
- (c) Does *Interpretation 1038* provide sufficient guidance to assist in the implementation of AASB 1004? If not, how should it be amended?
- (d) Are any other changes needed for AASB 1004 and Interpretation 1038? If so, please outline those changes.

Question for Board members

Q4. Do Board members have any comments on the proposed areas for targeted outreach for AASB 1004 and Interpretation 1038?

Other matters identified by staff

79 In September 2021, the Board agreed to not consider AASB 1055 *Budgetary Reporting* in the planned public sector standards PIRs.¹⁹ This was because a PIR of AASB 1055 was being undertaken by the Financial Reporting Council whilst it was also undertaking a PIR of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. That PIR addressed AASB 1055 only in the context of Whole of Government and GGS financial

¹⁹ See [Agenda Paper 14.2](#) to the September 2021 meeting.

statements. However, AASB 1055 also applies to General Purpose Financial Statements of not-for-profit entities *within* the GGS.²⁰

- 80 Staff are aware of some concerns that the scope of AASB 1055 may not be appropriate. For example, there is at least one jurisdiction that invests considerable resources into budgetary reporting for not-for-profit entities within the GGS. Staff are unsure whether this is consistent with the experience in other jurisdictions.
- 81 Staff propose that the public consultation for the PIRs of the public sector accounting standards be expanded to include limited consideration of whether it is appropriate for AASB 1055 to continue to apply to not-for-profit entities within the GGS.

Question for Board members

Q5. Do Board members agree that the scope of the public sector PIRs be expanded to include limited consideration of whether it is appropriate for AASB 1055 to continue to apply to not-for-profit entities within the GGS? If not, do Board members have suggested alternative issues that could be raised?

Next steps and project timelines

- 82 The next step is for the draft Invitation to Comment to be prepared and tabled at the May 2023 Board meeting for Board comment and approval.
- 83 The following table outlines a tentative proposed timeline for the remainder of the project, for the Board’s consideration. The timeline might need to change depending on the matters highlighted in responses to the Invitation to Comment.

Proposed timeline	Project milestones based on the PIR process
	Planning phase
Q2/3 2022	Steps 1, 2: Review of original project documentation and collation of identified issues.
Q3 2022	Step 3: Academic research – collate and summarise.
Q3 2022/Q1 2023	Step 4: Seek preliminary feedback from targeted stakeholders
Q1 2023	Step 5: Prioritise issues from the planning phase to determine scope of the consultation process.
Board meeting: 8/9 March 2023	Step 6: Discuss steps 1–5 with the Board before developing the consultation document.
	Outreach
April/May 2023	Step 7: Draft consultation document.
Board meeting: 3 May 23	Step 8: Discuss draft consultation document with the Board and approve for issue. Staff intend to ask the Board to approve the ITC out-of-session either via the full Board or a subcommittee. Staff propose a comment period of approximately 150-days. Comments on the consultation paper are expected to close end of November 2023.

²⁰ As specified in AASB 1057 Application of Australian Accounting Standards paragraph 19.

Proposed timeline	Project milestones based on the PIR process
Q3 2023	Step 9: Undertake targeted outreach to seek stakeholder feedback on the consultation document.
	Consideration of feedback and next steps
Q4 2023	Step 10: Consultation comment period closes at the end of November 2023. Step 11: Review and summarise responses received on the consultation document and through outreach. Perform follow-up processes.
Q1 2024	Step 12: Identify possible 'next steps' to respond to findings. Step 13: Discuss feedback and possible next steps with the Board.

Question for Board members

Q6. Do Board members have any comments on the proposed project timeline and milestones?