



<b>Project:</b>	<b>Post-Implementation Reviews</b>	<b>Meeting:</b>	May 2023 (M195)
<b>Topic:</b>	<b>PIR of selected Public Sector Pronouncements – Draft Invitation to Comment</b>	<b>Agenda Item:</b>	5.2
		<b>Date:</b>	18 April 2023
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Outreach Phase

## Objective of this paper

- At its March 2023 meeting, the Board decided to issue an Invitation to Comment (ITC) for the post-implementation review (PIR) of the following public sector pronouncements:
  - AASB 1050 *Administered Items*;
  - AASB 1051 *Land Under Roads*;
  - AASB 1052 *Disaggregated Disclosures*;
  - AASB 1055 *Budgetary Reporting*, with respect to not-for-profit entities within the General Government Sector (GGS);
  - AASB 1004 *Contributions*; and
  - Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.
- The objectives of this agenda item are for the Board to:
  - consider** a draft ITC (Agenda Paper 5.3); and
  - consider** three additional matters for possible inclusion in the ITC (paragraphs 9–18 of this paper).

## Attachment

Agenda Paper 5.3      Draft ITC: Post-implementation Review of Selected Public Sector Pronouncements.

## Introduction

### *The draft ITC*

- At its March 2023 meeting (M194), the Board considered Agenda Item [5.2](#). This was an update on the activities undertaken in the planning phase of the PIR for the public sector pronouncements outlined in paragraph 1.
- Agenda Item 5.3 sets out a draft ITC. The style of the ITC and the wording in the Introductory section is based on recent ITCs that have been approved by the Board.

- 5 The discussion that precedes each pronouncement is based on the material that was included in Agenda Item [5.2](#) for the March 2023 Board Meeting.

### **Additional matters for possible inclusion in the ITC**

- 6 When planning for the PIR of Appendix E *Australian implementation guidance for not-for-profit entities* of AASB 10 *Consolidated Financial Statements*, staff identified certain matters that are noted in the Basis for Conclusions to the amending Standard<sup>1</sup> which were fundamental to the notion of control, but were beyond the scope of AASB 10. These issues included:
- (a) control of assets;
  - (b) the nature of government departments as reporting entities; and
  - (c) the role that disclosure of disaggregated information in whole of government financial reports might play in providing relevant information to users.
- 7 At the June 2022 meeting, the Board decided to consider these matters as part of this PIR.<sup>2</sup> Paragraphs 9–18 below include an overview of the matters and staff’s suggested text to include in the ITC, which have not been included in the draft ITC (Agenda Paper 5.3).
- 8 At this meeting, staff ask the Board to decide on the content of the ITC, including the background text and questions for respondents needed to cover the three additional matters.

### **Control of Assets**

- 9 Paragraph 49(a) of [Framework for the Preparation and Presentation of Financial Statements](#), applicable to not-for-profit (NFP) entities, states that an asset “is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.” Stakeholders informed staff that often when identifying whether an entity has control over an asset, they would apply paragraph 13 of AASB 138 [Intangible Assets](#) by analogy. That paragraph states that “An entity controls an asset if the entity has the **power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits...**” [emphasis added]
- 10 The notion of paragraph 13 of AASB 138 has been added to the Revised Conceptual Framework, [Conceptual Framework for Financial Reporting](#), which states that:<sup>3</sup>
- (a) an asset is a present economic resource controlled by the entity as a result of past events (paragraph 4.3); and
  - (b) an entity controls an economic resource if it has the **present ability to direct the use** of the economic resource and obtain the economic benefits that may flow from it. Control includes the **present ability to prevent other parties** from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource (paragraph 4.20, emphasis added).
- 11 In recent years, there have been several instances where there have been differing interpretations as to which public sector entity controls certain assets and in which entity’s balance sheet the assets should be recognised. Paragraphs 12–15 describe two examples. If entities cannot agree with who controls assets, the risk is that those assets may not appear in any balance sheet.

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1 AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*.

2 See [Agenda Paper 6.1](#) to the June 2022 meeting.

3 The Board is undertaking a project to consider how the Revised Conceptual Framework should be applied to NFP entities.

- 12 Some local councils have informed staff that,<sup>4</sup> in some cases, it is unclear whether certain parcels of land vested in local councils should be recognised in their balance sheet. For example, in accordance with the relevant enabling legislation (e.g. Local Government Act), in respect to land classified as ‘community land’:
- (a) local councils are prohibited from selling community land or using community land for a commercial purpose, unless the classification as community land is revoked; and
  - (b) local councils do not have the right to revoke the classification of land, that right is vested with the Minister.
- 13 Some stakeholders argue that it is the Minister who has the ‘present ability to direct the use’ of community land and the ‘present ability to prevent other parties (e.g. prevent local councils holding community land) from directing the use’ of community land. They argue that local councils do not control community land and, therefore should not recognise those land.
- 14 Additionally, some of those stakeholders commented that there have been instances where the State Government, via issuing new legislation or treasury direction, directed local councils to transfer a parcel of land to another entity at zero cost or sell a parcel of land and transfer the sale proceeds to the State Government. Those stakeholders are of the view that those instances might be evidence that the State Government has control of local councils’ land and that local councils act as a custodian of land. This is because, in those instances, it is the State Government that has the ‘present ability to direct the use (direct the sale of land) and obtain the economic benefits (the sale proceeds)’ that may flow from the sale, and the ‘present ability to prevent other parties (local council holding the parcel of land) from obtaining the economic benefits (the sale proceeds)’.
- 15 The control of assets issue is not limited to land. Another example is a matter between the NSW Local Government authorities and the NSW Rural Fire Service (an entity within the NSW State GGS) regarding which entity controls rural firefighting equipment and which entity should include the assets in their balance sheet.<sup>5</sup> It appears that both the NSW Local Government authorities and the NSW Rural Fire Service consider that they do not control the firefighting equipment because they are not directly using the equipment, but rather, by the rural fire brigades (mainly consisting of volunteers from the community). Staff understand that due to the differing views about which entity controls the assets, some entities have received a Qualified Audit Opinion on their financial statements.
- 16 Staff recommend seeking feedback on the topic of control of assets to understand whether the matter is significant and widespread. To do this, staff recommend the following text to be included in the ITC:

***Topic 6: Control of assets***

**What we have heard so far**

The AASB is aware of situations in the public sector where entities are either having difficulty determining whether they control certain assets or there are different views about which public sector entity controls certain assets.

For example, the AASB understands that in some circumstances stakeholders consider that they are acting as a custodian of certain assets. In their view, because another party (e.g. a State Government or a Minister) has the power to direct the public sector entity (e.g. a local

4 As part of the outreach on the Board’s Fair Value Measurement for Not-for-Profit Public Sector Entities project

5 Elburn, M. “Ownership v control of RFS appliances – an important issue for local government”, *Australian Emergency Law*, 9 August 2022. <https://australianemergencylaw.com/2022/08/09/ownership-v-control-of-rfs-appliances-an-important-issue-for-local-government/>

council) to divest an asset and surrender any related sale proceeds the entity concludes that it does not have control over the asset and therefore the assets are not recognised in the entity's financial statements.

Similarly, the AASB is aware of circumstances where there are different views about which entity controls certain assets due to the nature of the assets and their use.

The AASB understands that in some cases these differences in opinion have led to certain assets not being recognised in the financial statements of any entity.

### **Questions for respondents**

1. Have you experienced challenges in determining whether an entity has control of an asset? If so, please provide details of the circumstances and explain whether they are significant to the entity's reported financial position and performance.
2. When determining whether/which entity controls an asset, which accounting pronouncements do you apply?
3. The [\*Conceptual Framework for Financial Reporting\*](#), currently applicable to for-profit entities, states that:
  - an asset is a present economic resource controlled by the entity as a result of past events (paragraph 4.3); and
  - an entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource (paragraph 4.20).

The AASB is undertaking a project to consider how this Conceptual Framework should be applied to not-for-profit entities. Do you consider the principles outlined in this Conceptual Framework sufficient in determining whether an entity controls an asset? If not, what other guidance do you think would be helpful?

### **Other matters**

- 17 Similar to the issue of control of assets, the following issues were also identified in the Basis for Conclusions to AASB 2013-8 and the Board agreed to consider them as part of this PIR:
  - (a) the nature of government departments as reporting entities; and
  - (b) the role that disclosure of disaggregated information in whole of government financial reports might play in providing relevant information to users.
- 18 Staff think that the most efficient way to obtain feedback on these two issues would be to add the following text within Topic 3: AASB 1052 *Disaggregated Disclosures* of the ITC.

*Are government departments reporting entities?*

Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* paragraph 40 states: “Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them **for making and evaluating decisions about the allocation of scarce resources.**” [emphasis added]

Paragraph Aus7.2 of AASB 101 *Presentation of Financial Statements* states that “... local governments, governments and **most, if not all, government departments** are reporting entities.” [emphasis added] This paragraph seems to imply that some government departments may not be a reporting entity. Some stakeholders commented that the relevant persons making decisions about allocation of scarce resources to government departments, and to entities within a government department, might not need to rely on general purpose financial reports. This is because those persons are likely to have the power to request access to internal information, including management reports, about any entity within its jurisdiction.

**Question for respondents**

Do you consider government departments reporting entities? If not, please explain whether financial statements of government departments would remain useful to users.

*The scope of AASB 1052*

Some stakeholders commented that disaggregated information about the major activities undertaken by the Whole of Government would be useful for users of financial statements.

**Question for respondents**

Do you consider disaggregated information about the major activities undertaken by the Whole of Government would be useful for users of financial statements? If so, please explain whether you think disaggregated disclosures should be retained in the financial statements of government departments, if the financial statements of the Whole of Government includes disaggregated financial information.

**Questions for Board members**

- Q1 Do Board members agree with the staff recommendation in paragraph 16 to include the topic of control of assets in the ITC? If so, do Board members have comments on the draft text in the box underneath paragraph 16? If not, what do Board members suggest?
- Q2 Do Board members agree with the staff recommendation in paragraph 18 to seek feedback on whether government departments are reporting entities and whether AASB 1052 should also apply to Whole of Governments in the Topic 3: AASB 1052 *Disaggregated Disclosures* section of the ITC? If so, do Board members have comments on the draft text in the box underneath paragraph 18? If not, what do Board members suggest?
- Q3 Do Board members have any comments on the draft ITC, including the introductory section, the background information for each topic or questions for respondents?
- Q4 Are there any other questions for respondents that Board members would like to include in the draft ITC for any of the topics?

## Next steps and project timelines

- (a) The following table outlines the timeline for the remainder of the project, which was approved in March 2023. 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
	<b>Planning phase</b>
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.
<b>Board meeting:</b> 8/9 March 2023	Steps 6: Discuss steps 1–5 with the Board before developing the consultation document.
	<b>Outreach</b>
April/May 2023	Step 7: Draft consultation document.
<b>Board meeting:</b> 4 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 in November 2023.
Q3 2023	Step 9: Undertake targeted outreach to seek stakeholder feedback on the consultation document.
	<b>Consideration of feedback and next steps</b>
Q4 2023	Step 10: Consultation comment period closes in 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.



### Questions for Board members

- Q5 Do Board members have any comments on the next steps and project timeline?
- Q6 Subject to early Board decision, do Board members agree to approve the ITC out-of-session via a sub-committee? If not, what do Board members suggest?