

5 August 2021

Dr Kim Langfield-Smith
Principal
Langfield-Smith Consulting

By email: langfieldsmithconsulting@outlook.com

Dear Kim,

Post-Implementation Review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*

CPA Australia represents the diverse interests of more than 168,000 members working in over a 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

The feedback we provide below and in the **Attachment** is based on outreach conducted with some of our public sector members. We obtained feedback on the questions aimed at “users” of Whole of Government (WoG) and General Government Sector (GGS) financial statements which is reflected in the **Attachment** to this letter.

Overall, the feedback we received indicates that both AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) and AASB 1055 *Budgetary Reporting* (AASB 1055) are operating as intended in assisting with the preparation of WoG and GGS financial statements that meet the needs of their users. The requirement to prepare GGS financial statements is considered particularly useful in evaluating public sector performance at the State and Commonwealth levels.

Our members observed that Australian governments are required to prepare and provide information based on accounting policies similar to those prescribed in AASB 1049, to meet the needs of the Australian Bureau of Statistics (ABS), parliamentarians and others. They also observed that the availability of periodic audited financial statements for WoG and GGS, that aligns with government budgets, is important. This has been achieved as AASB 1049 provides a basis for budgets, through requirements of the [Uniform Presentation Framework](#). Accordingly, in our view, AASB 1049 remains a fundamental mechanism for meaningful public sector financial reporting and in order for this to continue, should remain part of the Australian financial reporting framework.

Specific comments gathered through our outreach with members include:

AASB 1049

- It is still considered appropriate that AASB 1049 remains applicable only to State and Commonwealth governments, and not to local government or individual public sector entities
- Identified users who rely on the information contained in WoG and GGS financial statements include parliamentarians, auditors general and the ABS. However, in determining the future direction of AASB 1049, it may be helpful to undertake a holistic review to identify all users of the WoG and GGS financial statements and how they use the information
- The alignment of Australian Accounting Standards (AAS) with the ABS GFS Manual, through AASB 1049, can create challenges for accountants within the public sector who may not necessarily understand the principles and requirements of the ABS GFS Manual. Consideration may need to be given to developing guidance, for accountants involved in the preparation and audit of WoG and GGS financial statements under AASB 1049, to allow them to better understand the principles and requirements in the ABS GFS Manual

- There was support for limiting the use of options in AAS to ensure there is alignment with the ABS GFS Manual and consistency in financial reporting
- Limiting the options in AAS to require non-financial assets to be measured at fair value is considered appropriate, as this provides more useful information. However, there are significant challenges associated with measuring public sector non-financial assets at fair value, particularly given the focus on exit values in AAS. Exit values may not always be appropriate in the public sector context. We appreciate the AASB is currently working on developing further clarifications and guidance to address such challenges
- It was noted that there has been, at times, a lack of rigour and consistency in the determination of which public sector entities form part of GGS and which are part of the Public Non-Financial Corporations sector and Public Financial Corporations sector that are included in WoG financial statements. It was also noted that the boundary of the GGS is critical as this sector is key to governmental decision-making. The inclusion, or exclusion, of certain entities from GGS could affect the way in which governmental financial performance is assessed.

AASB 1055

During our outreach, it was noted that there may be some benefit arising from the inclusion of budget information in financial statements at the agency or department level. It was also noted that the budget information in respect of the Income Statement was more useful than the budget information provided for the Statement of Financial Position and Cash Flow Statements. However, some concern was raised about the quality of explanations provided for budget vs actual variances. For example, when the actual expenditure is higher than budgeted expenditure, an explanation provided could be that “there was a change in timing of projects” or a “change in priorities” rather than, perhaps, a more appropriate and simpler explanation that a budget overspend had occurred.

It was also unclear what information value, if any, could be attributed to any budgetary information included in the GGS/WoG financial statements for the following reasons:

- not all states adopt accruals-based budgeting which leads to a loss of comparability.
- in some jurisdictions, the budget group differs from the accounting group for financial reporting purposes, which results in the exclusion of such information from the financial statements.
- not all jurisdictions subject budget information to assurance, which could bring into question the reliability of the budget information. Such non-assurance also arises where budgetary information included in the notes to the financial statements is based on a different group of entities for budget purposes, compared to the group determined for financial reporting purposes.
- In many cases budget vs actual information is already provided separately from financial statements to Parliaments, which raises the issue of the benefit of incurring costs in repeating the process for financial statements.

In light of our above comments, we suggest a more in-depth review of the usefulness of budgetary information arising from AASB 1055, both at the GGS/WoG level and at the agency/department level in considering the continuing utility of AASB 1055 as part of public sector financial reporting.

If you have any queries about this submission, contact Ram Subramanian, Senior Manager – Reporting Policy, on 03 9606 9755 or ram.subramanian@cpaaustralia.com.au.

Yours sincerely,

Dr Gary Pflugrath FCPA
Executive General Manager,
Policy and Advocacy

Attachment

1. When considering Whole of Government (WoG) and General Government Sector (GGS) financial statements, please explain:
 - (a) what information in those statements you find is of greatest use? and
 - (b) the specific purpose(s) for which you use that information?

See our comments in the cover letter above.

2. Which specific requirements in AASB 1049 and AASB 1055 do you find the most useful, and which do you find are the least useful?
In particular, as a user of WoG and GGS financial statements, please identify the extent to which the following requirements result in useful information, and explain why you believe that is the case:
 - (a) measuring most assets and liabilities at fair value as required by AASB 13 to align with GFS; Fair Value as defined in AASB 13 paragraph 9 is "the value that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the market date".
 - (b) presentation of key fiscal aggregates in accordance with AASB 1049;
 - (c) the provision of reconciliation or explanations about differences in the key fiscal aggregates measured in accordance with the rules of GFS, compared with those measured in accordance with requirements of Australian Accounting Standards;
 - (d) the budgetary disclosure requirements set out in AASB 1055; and
 - (e) other requirements of AASB 1049 or AASB 1055.

Feedback from our members indicates that the most useful requirements in AASB 1049 include:

- the requirement that the WoG and GGS financial statements shall adopt the same accounting policies and be prepared in a manner consistent with other applicable AAS, unless otherwise required by the AASB 1049
- the requirement to apply the principles and rules in the ABS GFS Manual where compliance with the ABS GFS Manual would not conflict with AAS, as well as the requirement to apply the principles or rules in the ABS GFS Manual where AAS allow optional treatments
- the presentation, with specified variations, of the WoG and GGS Primary Financial Statements and notes thereto, in a manner consistent with the requirements in AASB 101 *Presentation of Financial Statements*
- the requirement to provide a list of entities within the GGS, and any changes to that list that have occurred since the previous reporting date and the reasons for those changes

The least useful requirements in AASB 1049 include:

- the requirement for the disclosure of ABS functional information and WoG sector information, which is open to question where the cost of preparing that information outweighs the benefits derived from the information
- the requirement for the reconciliation of the net worth, particularly given the differences in the balance sheet, and the increasing number of differences.

We have not identified any further feedback in respect of AASB 1055 in addition to that identified in the cover letter.

In addition to the above overall comments in response to Q2, we provide specific comments in response to the questions raised in Q2(a) to (e):

2(a) The requirement results in useful information. However, we highlight two matters below for further consideration:

- There is support for making permanent, the option to measure right-of-use assets arising under concessionary leases at cost or at fair value in subsequent periods
- the finalisation of the AASB project to address issues and concerns raised by public sector constituents around challenges associated with the application of AASB 13 *Fair Value Measurement* by public sector entities.

2(b) Subject to our comments above questioning the benefit of the reconciliation of the net worth, we have no further comments.

2(c) Where budgets are prepared on an accruals basis, users may benefit from a "like for like" comparative analysis of line items but it is unclear what benefit is obtained by users from the disclosure of reconciliations or explanations about differences in the key fiscal aggregates measured in accordance with the rules of the ABS GFS Manual, compared with those measured in accordance with requirements of AAS. Where budget information included in reporting is not prepared on an accruals basis, such information is considered to be of little value to users.

2(d) Subject to our comments in the cover letter to undertake a more in depth review of the usefulness of AASB 1055 for individual agencies and departments, we have no further comments.

2(e) Refer to comments above.

3. Identify any amendments to AASB 1049 that you believe may be necessary to provide the type of information that you require.

In your response, please refer to specific paragraphs in the Standard and explain how your proposed amendments would lead to the increased usefulness of information.

Para 31 of AASB 1049 provides helpful information about how to treat areas of difference between accounting and ABS GFS Manual requirements. However, over time, some requirements in para 31 have become outdated due to changes in AAS and/or changes in the ABS GFS Manual. For example:

- para 31(a)(iii) refers to "available-for-sale" which may need to be updated to reflect current terminology used in AASB 9 *Financial Instruments*
- para 31(b)(iii) reflects the ABS GFS Manual's treatment of concessionary loans that applied under the Australian System of Government Finance Statistics: Concepts Sources and Methods Australia 2005 (AGFS05). With the revisions to the ABS GFS Manual under the Australian System of Government Finance Statistics: Concepts Sources and Methods Australia 2015 (AGFS15), this would be better categorised under para 31(a), as there are now requirements in the ABS GFS Manual for such concessional expenses.

In addition, other topics may emerge over time which could benefit from inclusion in para 31. It would be helpful if AASB 1049 (in particular, para 31) is subjected to a regular review to ensure it is kept up to date for changes to AAS and/or the ABS GFS Manual.

We highlight some additional technical matters in AASB 1049 to be considered as part of an update:

- Provide a description of the term "GAAP"
- Clarify para 14(a) to also address the consideration given by AASB 1059 *Service Concession Arrangements: Grantors* when addressing intangible assets
- Para 14(g) refers to AASB 1004 *Contributions*. We suggest considering whether this reference should be updated to refer to AASB 1058 *Income of Not-for-Profit Entities*.

4. If AASB 1049 did not exist, would compliance with other Australian Accounting Standards achieve the objective as outlined in paragraph 1 of AASB 1049?

If your response is "yes", please provide your reasons.

If it is "no", please identify which specific requirements in AASB 1049 lead to better information for you as a user, including information to assist you to assess the stewardship and accountability of a government and in assessing the macro-economic impact of each government and its sector.

Based on feedback we have received from our members; CPA Australia is strongly of the view that AASB 1049 is an essential part of financial reporting by the Australian public sector and should be retained going forward.

As stated in the cover letter, Australian governments are required to prepare and provide information based on accounting policies similar to those prescribed in AASB 1049 to meet the needs of the Australian Bureau of Statistics (ABS), parliamentarians and others. The introduction of AASB 1049 has brought about consistency in the preparation

and provision of such information. Additionally, the availability of periodic audited financial statements for WoG and GGS that correlates to government budgets is important.

Broadly, compliance with other AAS achieves the objective outlined in paragraph 1 of AASB 1049, except that there would be no disclosure requirements for:

- additional information such as reconciliations to key fiscal aggregates determined in accordance with the ABS GFS Manual, and
- functional and sector information.

5. If AASB 1049 did not exist, would financial statements prepared under AASB 1055 still provide sufficient useful information for you as a user of WoG and GGS financial statements?
Please explain the reasons behind your response.

Please see our comments in the cover letter.

6. Overall, to what extent do you consider that the objective of the FRC Strategic Direction has been achieved?
Please provide reasons for your response.

Feedback received from members indicates that the objective of the FRC Strategic Direction has been achieved and the AASB has developed an AAS (AASB 1049) for a single set of Government financial statements which are auditable and comparable between jurisdictions.

The periodic review of AASB 1049 and AASB 1055 (including this PIR) is important to ensure these AAS remain relevant and address evolving financial reporting matters relevant to stakeholders.

Notwithstanding the comments above, it was noted that in recent years, harmonisation challenges arise as differences continue to increase with AAS being updated more frequently than the ABS GFS Manual.