

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 1050.

Introduction

BC1 This Basis for Conclusions summarises the Board’s considerations in developing this Standard in the context of 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*.

Background

- BC2 The Board considered it timely to review the requirements in AASs 27, 29 and 31, in particular 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 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 AASs 27, 29 and 31 should be made mandatory or removed; and
 - (e) remove uncertainty in the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements.
- BC3 The Board considered the following alternative mechanisms for implementing the approach of updating and improving the requirements for local governments, government departments and governments:
- (a) review the requirements in AASs 27, 29 and 31 and where appropriate:
 - (i) amend other Australian Accounting Standards to pick up any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards and have them apply to local governments, government departments and governments; or
 - (ii) create public sector specific topic-based Standards; and consequently withdraw AASs 27, 29 and 31; or
 - (b) review AASs 27, 29 and 31 and re-issue them in light of the latest Australian Accounting Standards, retaining/amending where necessary any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards.
- BC4 The Board chose alternative (a), given the improvements in the quality of financial reporting by local governments, government departments and governments since AASs 27, 29 and 31 were first issued.
- BC5 Where the Board identified that the material in AASs 27, 29 and 31 could be improved within time and resource constraints, improvements have been made. Much of the material in AASs 27, 29 and 31 has been retained substantively unamended. Improvements will be progressed in due course in line with the AASB’s Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.
- BC6 The first stage of the short-term review of the requirements in AASs 27, 29 and 31 was the preparation of a paragraph-by-paragraph analysis of each of AASs 27, 29 and 31, listing each paragraph of each Standard alongside corresponding Standards or other pronouncements that would apply to local governments, government departments or governments in the absence of AASs 27, 29 and 31. The Board’s conclusions and rationale for the treatment of each paragraph in the context of the review were also provided in the analysis. The Board’s primary focus was on dealing with the requirements from the three Standards in such a way as to not leave a vacuum.

- BC7 Each paragraph from AASs 27, 29 and 31 was classified as being:
- (a) no longer needed or adequately dealt with in other Standards;
 - (b) more appropriately dealt with in other Standards; or
 - (c) not adequately and/or appropriately dealt with in other Standards and therefore should be retained or improved and incorporated into other Standards.

The paragraph-by-paragraph analyses considered by the AASB in developing the Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* that gave rise to this Standard are available on the AASB website. They support, but do not form part of, this Basis for Conclusions.

- BC8 In reviewing the paragraphs, the Board noted that some material in AASs 27, 29 and 31 would, under the current style of writing Standards, be located in a separate Basis for Conclusions. For example, paragraph 6.3.12 of AAS 29 provides a rationale for the disclosure of information about administered items. Given the short-term nature of the review of AASs 27, 29 and 31, the Board concluded that explanations of technical issues that both originated in and are being relocated from AASs 27, 29 and 31 should, when appropriate, be located in the body of the Standard to which the relevant requirements are being relocated.
- BC9 The Board decided not to retain the illustrative general purpose financial reports provided in AASs 27, 29 and 31, because their purpose, which was to provide an educational tool in the initial stages of accrual reporting by local governments, government departments and governments, is no longer needed.
- BC10 The remainder of this Basis for Conclusions focuses on issues specific to administered items.

Administered Items

Location of Requirements

- BC11 Consistent with paragraphs BC3(a)(ii) and BC7(c), the Board decided to retain the existing requirements and guidance relating to administered items from AAS 29 and include them, substantively unchanged (although see paragraphs BC15–BC17 below).
- BC12 As an alternative, the Board considered locating the material in an existing Standard such as AASB 101 *Presentation of Financial Statements*. However, the Board concluded that:
- (a) **the material is sufficiently dissimilar from the other requirements of AASB 101 to warrant a separate Standard; and**
 - (b) **a new Standard on administered items would make the requirements easily identifiable by those financial report preparers and auditors most affected by the requirements.**

Short-term Retention of Acknowledged Inadequacies

- BC13 The Board noted that some of the acknowledged inadequacies in AAS 29 are retained, including the lack of extensive guidance for identifying administered items and the potential inadequate prominence given to administered items in a complete set of financial statements. The Board decided that this is justified on the basis that this Standard is a short-term measure until such time as the Board undertakes a longer-term project on administered items as part of a broader review.

Application Limited to Government Departments

- BC14 The Board concluded that it is appropriate for government departments, including for-profit government departments, to be subject to this Standard, consistent with the range of entities that were subject to AAS 29. The Board also concluded that it is appropriate to limit the application of this Standard to government departments because extending the application of the requirements as part of the short-term review would delay the short-term project and impinge on the issues to be addressed in the longer term. The Board noted that, as a part of the Board's fundamental longer-term review of the requirements in AAS 29, consideration will be given to the different treatments available that would result in administered items being given more prominence and disclosed in more detail in the general purpose financial statements of government departments and other entities.

Treatment of Encouragements in AAS 29

- BC15 In line with paragraph BC2(d), the Board considered whether the encouragement in paragraph 5.2.5 of AAS 29 should be removed or amended to require items collected or distributed on behalf of another entity or held in legal custody that are neither administered nor controlled to be disclosed. The Board concluded that the encouragement should be removed. This is in acknowledgement of the implementation difficulties related to the lack of clarity in the short term about the definition of ‘items that a government department collects or distributes on behalf of another entity that are neither controlled nor administered items’. The Board noted that this issue will be addressed as part of the planned longer-term more fundamental review of requirements relating to administered items.
- BC16 Also consistent with paragraph BC2(d), the Board decided that, although transfers not controlled by a government department (such as, in general, pensions paid to beneficiaries) do not qualify for recognition, details of the broad categories of recipients and the amounts transferred to those recipients should be required to be disclosed in a complete set of financial statements (see paragraph 22 of this Standard). This is because the resulting information is relevant for understanding the government department’s financial performance.
- BC17 Paragraph 12.9.4 of AAS 29 encouraged the disclosure of information about administered assets and administered liabilities on an activity basis. Again, consistent with paragraph BC2(d), the Board concluded that the encouragement should be removed, noting that its removal does not create a vacuum.

Other Changes to Requirements in AAS 29

- BC18 The Board decided to delete the following sentence in paragraph 12.9.6 of AAS 29: “In some jurisdictions, this may mean that the basis adopted by a government department for reporting administered items may differ from the basis adopted by the government itself”. The Board considers this sentence to be redundant, given that government departments are typically directed to adopt particular policies by their controlling government.