

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 1052.

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. 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 they are 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 disaggregated disclosures.

Disaggregated Disclosures

- BC11 The Board decided to retain, substantially unchanged, the requirements relating to segment-like reporting from paragraphs 86 to 89 of AAS 27 and paragraphs 12.7 to 12.7.4 of AAS 29 and relocate them into a separate new topic-based Standard. Because of the differing requirements, the Board concluded that they should be expressed separately for local governments and government departments. A longer-term separate project on disaggregated disclosures for local governments and government departments will be progressed in due course.
- BC12 The Board considered relocating the material into AASB 114 *Segment Reporting* (and subsequently AASB 8 *Operating Segments*), but rejected this option consistent with its intention to retain requirements substantively unchanged in the short term. The guidance in AASB 114 (and AASB 8), which is not applicable to not-for-profit entities or for-profit government departments, comprehensively addresses segment reporting issues and specifies requirements that differ substantially from those required under AASs 27, 2 and 31.
- BC13 The Board considered whether for-profit government departments should be subject to AASB 114 (and AASB 8) rather than this Standard. The Board noted that for-profit government departments typically do not exist in practice. Consistent with the general approach to the short-term review of AASs 27, 29 and 31, and because AAS 29 applied to government departments, including for-profit government departments, the Board decided that for-profit government departments should continue to adopt policies that are consistent with not-for-profit government departments to the extent previously required by AAS 29. This approach will be reviewed as part of the Board's longer-term consideration of the definition of government departments in the context of the reporting entity concept.
- BC14 Paragraph 12.7.2 of AAS 29 encouraged the disclosure of information about assets deployed and liabilities incurred in relation to each major activity undertaken by a government department. Consistent with paragraph BC2(d), the Board decided that, in relation to disaggregated information, assets deployed and liabilities incurred in relation to and reliably attributable to each major activity undertaken by a government department should be required to be disclosed (see paragraph 16). The information is relevant in assessing the effectiveness, efficiency and economy of operations and of resource allocation decisions.
- BC15 The Board decided not to retain the requirements relating to segment-like reporting from paragraphs 15.12 to 15.12.2 of AAS 31. It is not necessary for this Standard to specify disaggregated disclosure requirements for governments, as AASB 1049 *Whole of Government and General Government Sector Financial Reporting* addresses disaggregated disclosure requirements for governments.