

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 1055.

Background

- BC1 AASB 1055 Budgetary Reporting arises from the Australian Accounting Standards Board’s deliberations of the proposals in Exposure Draft ED 212 *Not-for-Profit Entities within the General Government Sector* (issued in June 2011) relating to budgetary reporting.
- BC2 This is not an area in which the International Accounting Standards Board (IASB) has developed an International Financial Reporting Standard (IFRS). The Board considered the International Public Sector Accounting Standards Board’s IPSAS 24 *Presentation of Budget Information in Financial Statements* and concluded that it does not provide an appropriate basis for budgetary reporting in the Australian environment, particularly because it gives primacy to the budget basis of presentation and classification over the accounting basis of presentation and classification and contemplates explanations of variances being disclosed outside the financial report.
- BC3 Consistent with its general approach of issuing topic-based rather than industry-based standards, the Board decided to locate budgetary reporting requirements for not-for-profit entities within the GGS in a separate topic-based Standard. Accordingly, the Board also decided to relocate the budgetary reporting requirements from paragraphs 59-65 of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*¹ (without substantive amendment) into AASB 1055. Hence, the Board issued, at the same time as AASB 1055, AASB 2013-1 *Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements* to remove the budgetary reporting requirements for each government’s whole of government and GGS from AASB 1049.
- BC4 As explained in paragraphs BC7 and BC12 below, the Board decided that the principles underpinning the budgetary reporting requirements in AASB 1049 should apply to not-for-profit entities within the GGS. Accordingly, in AASB 1055, the budgetary reporting requirements that were in AASB 1049 are integrated with the budgetary reporting requirements for not-for-profit entities within the GGS.
- BC5 In relation to not-for-profit entities within the GGS, AASB 1055 provides guidance on how the budgetary reporting principles previously in AASB 1049 apply in the context of an entity within the GGS, including guidance relating to administered items, for circumstances where:
- (a) an entity’s budgetary information is incorporated into a consolidated budget of its parent; or
 - (b) only summarised budgetary information is presented to parliament.
- BC6 This Basis for Conclusions summarises the Board’s main considerations in reaching the conclusions in developing AASB 1055. It comprises the Board’s main considerations relating to budgetary reporting requirements previously included in the Basis for Conclusions of AASB 1049 and AASB 2011-13 *Amendments to Australian Accounting Standard – Improvements to AASB 1049*, as well as the Board’s subsequent deliberations relating to the relevant proposals in ED 212. Individual Board members gave greater weight to some factors than to others.

Entities Subject to the Requirements

- BC7 The Board decided to extend the application of the principles underpinning the budgetary reporting requirements in AASB 1049 to not-for-profit entities within the GGS, which include government departments and statutory authorities. This was on the basis that adoption of those principles has the potential to improve the financial reporting by those entities in the relatively short term. Furthermore, such entities are a significant group for which there is a convention or formal requirement that budgets are published. Accordingly, the current conventions or requirements for governments to present budgets to parliament provide a context for specifying the budgetary reporting requirements for not-for-profit entities within the GGS.

¹ As noted in the Basis for Conclusions accompanying AASB 1049, AASB 1049 was issued in response to the Financial Reporting Council’s direction. The direction was, among other things, to achieve an Australian Accounting Standard “... in which the outcome statements are directly comparable with the relevant budget statements”. The budgetary reporting requirements previously included in AASB 1049 were consistent with this aspect of the FRC’s direction.

- BC8 In limiting the types of entities that are included within the scope of AASB 1055, the Board noted that governments typically budget on a GGS basis rather than on a whole of government basis, and might present budgets for individual not-for-profit entities within the GGS to parliament.

Entities Not Subject to the Requirements

- BC9 The Board considered expanding the scope of the budgetary reporting requirements to a broader range of public sector entities, for example, local governments or not-for-profit entities controlled by government outside the GGS. However, for the reasons given in paragraph BC7, the Board decided to limit the scope of AASB 1055 to each government's whole of government and GGS and not-for-profit entities within the GGS. The Board noted it could in the future, as a separate project, address budgetary reporting requirements of a broader range of public sector entities.
- BC10 The Board decided not to consider budgetary reporting requirements for private sector entities (whether for-profit or not-for-profit) on the basis that, in contrast to the public sector, it is not typical for there to be a convention or formal requirement to make a private sector entity's budgets public.
- BC11 In developing the budgetary reporting requirements that were previously in AASB 1049, the Board noted that, as part of the Uniform Presentation Framework, typically Australian jurisdictions publish GGS budget information together with budget information relating to the Public Non-Financial Corporation (PNFC) sector (and the Non-Financial Public Sector, comprising the GGS and PNFC sector) but not the Public Financial Corporation (PFC) sector. The Board considered whether sector-based budgetary information should be required to be disclosed in the whole of government financial report. The Board concluded that because the PNFC sector and PFC sector are not required by Australian Accounting Standards to prepare separate financial reports, a requirement to disclose budget information for the PNFC sector and PFC sector in whole of government financial reports would be onerous and of limited use to users even if that budget information is presented to parliament. The Board also noted that GGS budgetary information is required to be disclosed in GGS financial statements in accordance with AASB 1055. Accordingly, the Board concluded that sector-based budgetary information should not be required to be disclosed in whole of government financial statements.

Budgetary Reporting Requirements

- BC12 In issuing AASB 1055, the Board noted that Australian Accounting Standards, including AASB 1055, do not prescribe the preparation of a budget. Within that context, as noted in paragraph BC7, the Board decided that budgetary reporting requirements for not-for-profit entities within the GGS should be consistent with the budgetary reporting requirements previously included in AASB 1049. This was on the basis that the requirements are working satisfactorily in practice, as evidenced by the post-implementation review of that Standard conducted in March 2010, and there is no conceptual reason to not subject such entities to similar budgetary reporting requirements under similar circumstances.
- BC13 The Board decided to extend the application of the budgetary reporting principles in AASB 1049 to not-for-profit entities within the GGS after considering the implications of that decision from the perspective of its role as a standard setter, the scope of financial reporting and its transaction neutral policy. Overall, the Board was persuaded by the importance of budgetary reporting for accountability purposes of those entities. The Board particularly noted that, for those entities, comparisons of current period actuals to the previous period actuals would provide an incomplete picture without the comparisons from budgets to actuals. This was because, for example, in relation to not-for-profit entities within the GGS, machinery of government changes in one period can often cause period to period comparisons to be less informative without the budget against actual comparisons.
- BC14 Accordingly, consistent with the principles underpinning the budgetary reporting requirements previously in AASB 1049, the Board concluded that AASB 1055 should require disclosure of certain budgetary information where budgetary information is presented to parliament, including the original budgeted financial statements, reflecting controlled items. Similarly, where an entity within the GGS's budgeted information reflecting administered items is presented to parliament, the Board concluded that AASB 1055 should require disclosure of original budgeted information reflecting administered items. In addition, the Board concluded that AASB 1055 should require explanations of major variances between actual amounts and the corresponding budget amounts to be disclosed. Specific aspects of these decisions are explained in paragraphs BC15-BC28 below.
- BC15 In relation to extending the budgetary reporting requirements to administered items of not-for-profit entities within the GGS (a government's whole of government and GGS do not have administered items), the Board noted its decision not to proceed with the proposal in ED 212 to require disclosure of information for

administered items ‘coupled’ with controlled items, on the basis that administered items would be the subject of a more fundamental review under the Board’s Control in the Not-for-Profit Sector project. However, the Board considered the proposal relating to budgetary information about administered items to be a separate issue. On that basis, consistent with the budgetary reporting requirements for controlled items, the Board decided that if original budgeted information about administered items is presented to parliament it should be required to be disclosed in the financial report, restated if necessary to align with the presentation and classification adopted in the financial report for the information about administered items disclosed in accordance with AASB 1050.

- BC16 The Board noted that AASB 1055 cannot explicitly cover all of the circumstances in which reporting against original budgets will need to be considered under the Standard. Judgement will need to be exercised to meet the objective of the Standard. Furthermore, there is a variety of circumstances that could occur that would make difficult the application of the principle that budgeted and actual numbers should be reported and variances explained. For example, after an original budget is presented to parliament, entities might be divided or combined (i.e. restructured) in ways that mean actual numbers do not directly relate meaningfully to original budget numbers. However, the Board noted that the principles in AASB 1055 could still be applicable in such circumstances. For example, in some of these circumstances, the original budgets presented to parliament can sensibly be divided or combined in a way that aligns with a post-budget restructure and thereby facilitate explanations of individual variances. However, the Board also noted that in other circumstances it might be necessary to explain a restructuring descriptively because any allocation of the original budget presented to parliament would be quite arbitrary and may not have been replaced for the new entities involved by other budgets presented to parliament in the period of the restructuring.

Budget Presented to Parliament [paragraphs 6, 7 and 14]

- BC17 The Board concluded that the budget first ‘presented’ to parliament is more relevant to users than the budget that is first ‘adopted’ by parliament. This is because the presented budget is the one most widely publicised and, accordingly, is the primary reference point for any assessment of the reliability of budgeting, identification of major variances and assessment of an entity’s performance in relation to the period.
- BC18 As noted in paragraph BC5, the Board identified the need to provide additional guidance to facilitate the application of the principles previously in AASB 1049 to an individual entity within the GGS relating to budgets incorporated into a parent’s consolidated budget or where only summarised budget information is presented to parliament. Accordingly, the Board decided to clarify the meaning of the phrase ‘budget ... presented to parliament’ for not-for-profit entities within the GGS in paragraph 14 of AASB 1055.

Original versus Revised Budget [paragraphs 6(e), 7(a), 9 and 11]

- BC19 For the same reason outlined in paragraph BC17 relating to the presented versus the adopted budget, the Board concluded that the original budget, rather than a subsequently revised budget, is a primary reference point for assessing accountability. This is because a revised budget, possibly revised late in a period, would limit the ability of users to assess how well an entity performed over the whole period against its objectives reflected in the original budget. Accordingly, the Board decided that the budgetary disclosures required by AASB 1055 should be based on the original budget, with a discretion to disclose any additional revised budgets, acknowledging that disclosure of revised budgets may occur late in the financial period and their disclosure can provide useful input to assessments of an entity’s performance and inform users of budget updates.

Restating the presentation and classification of budgetary information [paragraphs 6(e), 7(a), and 12]

- BC20 The Board decided that the budgetary information required by AASB 1055 should be restated, if necessary, to align with the presentation and classification adopted in the financial statements for controlled items and the information about administered items disclosed in accordance with AASB 1050.
- BC21 The Board considered whether the budget should also be required to be recast to align with recognition and measurement principles adopted for actual amounts. The Board noted the practical difficulties of recasting amounts for recognition and measurement differences – e.g. retrospectively determining ‘budgeted’ fair values when hindsight is likely to influence such a determination. Accordingly, the requirements in paragraphs 6(e), 7(a) and 12 of AASB 1055 are expressed in a way that the budget should be restated solely for presentation and classification matters, not for recognition and measurement matters.
- BC22 The Board noted that as a result of this conclusion variances might arise from recognition and measurement principles adopted in the budget being different from the recognition and measurement principles adopted in

the financial statements. Accordingly, AASB 1055 requires disclosure of explanations of major variances between actual and budget amounts that might include variances arising from recognition and measurement differences.

Explanation of Major Variances [paragraphs 6(f), 7(b) and 15]

- BC23 The Board noted that the requirement to include explanations of major variances between budgeted and actual financial information is questioned by some practitioners for two primary reasons:
- (a) in relation to whole of government and GGS financial statements, the requirement to explain variances is unnecessary as the variance explanations are not relevant to users because variance explanations are more relevant at entity level and the reasons for changes in budgetary assumptions are explained every time the budgets are updated; and
 - (b) the inclusion of unaudited budgetary information within the audited financial statements results in references in an audit report in relation to budget information within the statements.
- BC24 However, the Board concluded that the requirement for disclosure of explanations of major variances should be a key feature within the Standard. It did so on the basis that the information is relevant to users and that merely recording the amount of the variance is not sufficient to meet accountability needs. An explanation of major variances is critical if users are to find comparisons between actual and budget valuable input to their analysis of the performance of an entity. A similar requirement exists within the New Zealand Accounting Standards.
- BC25 Although the budgetary disclosures in AASB 1055 are to be based on the original budget, the Board noted that the requirement to disclose explanations of major variances between an original budget and actual amounts might need to include references to revisions during a period, particularly if an entity's structure or objectives are changed during the period, or government policy changes during the period have affected the original budget. For example, where there are major numerical differences between the actual and revised budget amounts, the explanations of major variances might need to include causes that led to such differences, even if there were no major numerical differences between original budget and actual amounts. This would be particularly when omission of such explanations would result in misleading users' analysis of an entity's performance for a period or assessment of accountability.
- BC26 The Board also noted that some question the suitability of referring to 'major' variances, given the role materiality plays in standards. The Board decided to retain the reference, given it was used in AASB 1049 without insurmountable practice issues being identified. However, the Board decided that it would reconsider the matter in due course as part of a broader consideration of terminology associated with 'materiality' used in a range of standards.

Auditability of Budgetary Information

- BC27 The Board noted the concerns expressed by some about the auditability of the budgetary information (including explanations of major variances) that would be required to be disclosed. The Board noted that the auditors would need to understand the budget and the budget processes in order to plan the audit approach to meet the objectives of the audit. However, the auditor does not provide an opinion on the budget. Furthermore, such concerns appear to have been resolved in practice (as evident from the post-implementation review of AASB 1049). In any event, the Board noted that if any audit related issues arise, they would be matters more suited for consideration by the Auditing and Assurance Standards Board (AUASB) rather than the AASB.

The Relationship of Budgetary Requirements in AASB 1055 and Disclosure Requirements about Appropriations in AASB 1004

- BC28 The Board considered the relationship of AASB 1055 to paragraph 64 of AASB 1004 *Contributions*, which requires government departments to provide disclosures of appropriations and other amounts authorised other than by way of appropriations, expenditures against those appropriations or other amounts and material variances between expenditures and appropriations or other amounts. The Board decided that paragraph 64 of AASB 1004 contains fundamentally different requirements from AASB 1055 and should be retained, as it is focused on information concerning the acquittal of appropriations and other advances rather than the more broadly-based requirements in AASB 1055 for actual to budget variance analysis.

Reduced Disclosure Requirements for Entities Applying Tier 2 Reporting Requirements

- BC29 The Board noted that, under AASB 1053 *Application of Tiers of Australian Accounting Standards*, all not-for-profit entities within the GGS are Tier 2 entities (albeit that they might elect or be directed by a regulator to adopt Tier 1 requirements). Accordingly, the Board considered whether all the disclosure requirements of AASB 1055 should be applied to all not-for-profit entities within the GGS, or only those applying Tier 1 requirements. In making this assessment, the Board applied the principles it adopted in determining the disclosures in other standards of which Tier 2 entities should be relieved. Accordingly, having regard to user needs and cost/benefit considerations, the Board decided that not-for-profit entities within the GGS applying Tier 2 requirements should be subject to all the disclosure requirements of AASB 1055.

Transitional Requirements

- BC30 The Board noted that comparative budgetary information in respect of the previous period is not required to be disclosed by AASB 1055. Accordingly, the Board concluded that the requirements in AASB 1055 do not warrant specific transitional relief.

Operative Date

- BC31 The Board considered the date from which AASB 1055 should become mandatory. Given the nature of the requirements, which affects only presentation and classification, and no comparative budgetary information required to be disclosed, AASB 1055 is unlikely to cause insurmountable difficulty in its implementation. Thus, the Board decided that a period of about two years from the issue of AASB 1055 before it becomes mandatory would be sufficient. The Board also decided to allow early adoption of AASB 1055.