



Australian Government

Australian Accounting Standards Board

How the AASB Sets Accounting Standards for the Australian Public Sector



Brief history

Before the 1990s

Government Business Enterprises (GBEs) = full accrual accounting

Non-GBEs = cash/modified accrual/fund accounting

During 1990s

Developed a 'sector neutral' Conceptual Framework

Issued accrual standards for governments (Federal, State, Territory, Local) and government departments

Implementation

Entities were given a 4-5 year transitional period before required to initially recognise difficult-to-measure assets (eg infrastructure)

Mid-2000s

Adoption of IFRS (2005)

Transaction neutrality (2005)

GAAP/GFS harmonisation (2008)



Benefits from accrual accounting

Asset management

- It encouraged better asset management, eg:
 - it removed incentive to defer asset maintenance (by reporting depreciation)
 - it removed cash accounting's bias against capital expenditure

Comprehensive information

- It consolidated all controlled entities into the financial reports

Costing of services

- It reported government employee costs (eg pensions) when incurred rather than when paid



Transaction neutrality

Irrespective of whether an entity is for-profit or not-for-profit

And whether it is in the private or public sector

Similar transactions should be accounted for in the same way

Unless there is a good reason to account for them differently



Transaction neutrality

Benefits

- Entities in different sectors can be compared
- Provides a rigour for the AASB's decisions, based on high-quality global Standards
- Accountants are mobile between sectors
- Users can understand government accounts without specialist public sector knowledge

Challenges

- IFRSs are written for for-profit entities
- IFRSs do not deal well with
 - Non-exchange transactions (eg grants, donations, taxes)
 - Non-cash generating activities (eg heritage assets, infrastructure assets)
- Consolidating GBEs into the Government's financial statements might entail aligning accounting policies



Backing for adoption of AASB Standards

- Legal requirements
 - Commonwealth Government
 - Finance Minister's Orders
 - States and Territories
 - issue orders/regulations requiring compliance
 - Local governments
 - are subject to State and Territory requirements to comply
- Professional requirements



AASB's approach

IFRS topics

- Adopt IFRSs word-for-word
- Add 'Aus' paragraphs for the public/NFP sector where necessary

Other topics

- Issue Australian standards for public sector topics
- eg administered items; budgetary reporting

IPSASB topics

- Consider as basis for 'Aus' paragraphs or separate standards
- eg service concession arrangements

IPSASB topics

- Sometimes not suitable for Australia, if too different from IFRS
- eg control; revenue recognition



AASB's relationship with IPSASB

An AASB staff member is Technical Advisor to Australia's representative

An AASB staff member attends all IPSASB meetings

AASB invites constituent comments on IPSASB proposals

AASB comments on all IPSASB Consultative Documents

Participant in Conceptual Framework Standard Setters Advisory Panel



Some current public sector issues

Control (adding public sector guidance to AASB 10, which incorporates IFRS 10)

Revenue recognition (adding public sector guidance to IASB draft Standard)

Service concession arrangements – Grantor (adapting IPSAS 32 to Australian circumstances)

Related party disclosures (adding public sector guidance to AASB 124, which incorporates IAS 24)

Emission trading schemes – Government perspective (consider need for public sector guidance)

Disaggregated disclosures (consider nature of government departments relative to whole of government)

Service performance reporting (consider users' need for non-financial information)