



AGENDA – 101ST FRC MEETING

Date: 10 December 2021

Time: 10.00am – 4.00pm

Location: Webex Meeting

Members of the public are advised that the meeting will be held by Cisco Webex Meetings and public attendance is via registration only. Members of the public should register their interest in attending the public sessions no later than 24 hours in advance of the meeting by emailing frcsecretariat@treasury.gov.au detailing:

- Name
- Affiliation
- Contact details

Registered attendees will be emailed Cisco Webex Meeting details by no later than 9 December 2021.

Item	Report by	Time
NON-PUBLIC SESSION		
1. Matters for non-public session*	Chair	10.00am
PUBLIC SESSION		
2. Introduction		10.15am
A. Attendees and apologies	Chair	
B. Declarations of interest	Chair	
3. Matters for noting / action		10.20am
A. Minutes of previous meeting – 22 September 2021	Chair	
B. Matters arising	Chair	
4. Oversight of Australian Standards (Accounting and Auditing) per s225(1) to s225(2A)		10.30am
A. Accounting Standards	Keith Kendall	
B. Post-implementation Review of AASB 1049	Kim Langfield-Smith	
C. Auditing Standards	Bill Edge	
5. Oversight of Audit Quality per s225(2B) to s225(2C)		11.30am
A. Proposed audit quality survey	Chair	
B. Audit disciplinary processes	Chair	
C. Emerging issues, including strategic themes and strategic risks to audit quality.	Chair	
Lunch		12.30pm

Item	Report by	Time
6. Monitoring and influencing Australian developments		1.00pm
A. Stakeholder reports <ul style="list-style-type: none"> Note in addition to the 11 stakeholder reports provided at item 6A, responses confirming nil updates were received from four stakeholders. 	Chair	
B. XBRL reporting	Douglas Niven	
7. Monitoring and influencing international developments		2.00pm
A. International developments	Chair	
B. Report by XRB – <i>verbal</i>	Michele Embling	
8. Peer review survey		2.15pm
A. FRC peer review survey results	Chair	
B. AASB peer review survey results – <i>verbal</i>	Keith Kendall	
C. AUASB peer review survey results – <i>verbal</i>	Bill Edge	
9. Other business		2.45pm
A. Extended External Reporting update	Chair	
B. FRC website statistics	Chair	
C. FRC meeting dates for 2022	Chair	
10. Next meeting and close		4.00pm
A. Next meeting date to be confirmed	Chair	

* Agenda item 1 will be held in private. The order of agenda items may be changed during a meeting.



ATTENDEES AND APOLOGIES

DESCRIPTION

Attached are the attendees and apologies for this meeting.

ACTION

- For noting.

Participant	Organisation
Lawrence Tremaine (Acting FRC Chair)	
Keith Kendall	AASB Chair
Bill Edge	AUASB Chair
Suzanne Bell	
Tracey Carroll	
Michele Embling	XRB Chair
Cameron McDonald	
Stewart Walters	

Observers	Organisation
Tom Dickson	Treasury
Vaishali Davé	Treasury
Alex Mahdavi	Treasury
Paul Buckingham	Treasury
Emily Morrison	Treasury

Guests	Organisation
Thea Eszenyi	ASIC
Doug Niven	ASIC
Greg Yanco	ASIC
Claire Grayston	CPA Australia
Dr Kim Langfield-Smith	Langfield-Smith Consulting
Justin Williams	Office of the AASB and AUASB
Kimberley Carney	Office of the AASB
Anne Waters	Office of the AUASB

Guests	Organisation
April Mackenzie	External Reporting Board

Apologies	Organisation
Sean Hughes	ASIC
Matthew Bowd	Treasury



DECLARATIONS OF INTEREST

DESCRIPTION

Attached are members' Declarations of Interest.

ACTION

It is recommended that the Council:

- declare any interest that may be relevant (having regard to the meeting agenda and functions of the FRC)
- confirm accuracy of the attached Declarations of Interest.

FINANCIAL REPORTING COUNCIL – REGISTER OF INTERESTS
as at 26 November 2021

FRC Member	Stakeholder / Professional / Organisational Affiliations	Employment / Other Positions Held	Other Interests
Mr Lawrie Tremaine	Fellow, CPA Australia Deputy Chair, Group of 100 National Executive	Chief Financial Officer, Origin Energy Ltd Acting Chair, Financial Reporting Council	
Dr Keith Kendall	Member, New Zealand Accounting Standards Board Fellow, CPA Australia Chartered Tax Adviser, The Tax Institute Member, Law Institute of Victoria Graduate, Australian Institute of Company Directors Member, The Tax Institute Member, Law Institute of Victoria Member, Chartered Accountants Australia and New Zealand	Chair and CEO, Australian Accounting Standards Board Treasurer, Samuel Griffith Society Member, Investment Committee, Royal Historical Society of Victoria Vice-President, Abbotsford Anglers Cricket Club	Director / shareholder / beneficiary: Cuffe Walk Pty Ltd Kendall Control Pty Ltd The Kendall Control Trust The Keith Kendall Family Trust
Mr Bill Edge	Fellow, Chartered Accountants Australia and New Zealand Fellow, Institute of Public Accountants Australia Member, External Reporting Board (NZ)	Chair of the Auditing and Assurance Standards Board.	Fixed payment from PricewaterhouseCoopers (PwC) Retirement Plan Son is employed as Director PwC Advisory Services He is a member of the New Zealand Auditing and Assurance Standards Board.
Ms Suzanne Bell	Member, Chartered Accountants Australia and New Zealand	Audit Partner, KPMG Registered Company Auditor	
Ms Tracey Carroll	Member, Chartered Accountants Australia and New Zealand (CA ANZ)	First Assistant Secretary, Financial Analysis, Reporting and	

FRC Member	Stakeholder / Professional / Organisational Affiliations	Employment / Other Positions Held	Other Interests
	Member, Public Sector Panel of the ACT Regional Council, CA ANZ	Management Division, Department of Finance	
Ms Michele Embling	Chair, New Zealand External Reporting Board (XRB) Fellow, Chartered Accountants Australia and New Zealand (CAANZ) Member, Nominations and Governance Committee Member, CAANZ	Independent Director, Power Group Holdings Limited Board Member, Toitū Tahua: Centre for Sustainable Finance	Fixed retirement benefit payment from PwC New Zealand concludes September 2021
Mr Cameron McDonald	Graduate, Australian Institute of Company Directors (GAICD) Member, CPA Australia (CPA)	Head of Research, Evans & Partners Director, E&P Asia (HK) Pty Ltd	
Mr Stewart Walters	Graduate, Australian Institute of Company Directors (GAICD) Fellow, Chartered Accountants Australia and New Zealand Chair, Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Chief Financial and Operations Officer, NSW Treasury Director, Bateleur Pty Limited (private investment company)	



MINUTES OF PREVIOUS MEETING

DESCRIPTION

Attached are the minutes from the FRC meeting held on Wednesday 22 September 2021, which were approved out of session.

Action items are summarised in item 3B.

ACTION

- For noting.

MINUTES

DATE: Wednesday 22 September 2021

TIME: 10 am – 4 pm

LOCATION: Microsoft Teams meeting

All agenda items except item 1 were discussed in public.

ITEM	AGENDA ITEM																								
	NON-PUBLIC SESSION																								
1	MATTERS FOR NON-PUBLIC SESSION																								
	This agenda item was discussed in private.																								
	PUBLIC SESSION																								
2	INTRODUCTION																								
	Members confirmed that there were no conflicts of interest raised by agenda items for this meeting.																								
2.A	ATTENDEES AND APOLOGIES																								
	<table border="1"> <thead> <tr> <th>Members in attendance:</th> <th>Observers and guests:</th> </tr> </thead> <tbody> <tr> <td>Lawrie Tremaine – Acting FRC Chair</td> <td>Justin Williams – AASB / AUASB</td> </tr> <tr> <td>Keith Kendall – AASB Chair</td> <td>Anne Waters – AUASB</td> </tr> <tr> <td>Bill Edge – AUASB Chair</td> <td>Greg Yanco, Doug Niven, Thea Eszenyi – ASIC</td> </tr> <tr> <td>Suzanne Bell</td> <td>Claire Grayston – CPA Australia</td> </tr> <tr> <td>Tracey Carroll</td> <td>Vaishali Davé, Nena Finocchiaro, Emily Morrison – FRC Secretariat</td> </tr> <tr> <td>Michele Embling</td> <td>Ann Tarca – IASB</td> </tr> <tr> <td>Cameron McDonald</td> <td>Joanna Perry – IFRS Foundation</td> </tr> <tr> <td>Stewart Walters</td> <td>Matthew Bowd – Treasury</td> </tr> <tr> <td></td> <td>April Mackenzie – XRB</td> </tr> <tr> <td></td> <td>Apologies:</td> </tr> <tr> <td></td> <td>Cathie Armour – ASIC</td> </tr> </tbody> </table>	Members in attendance:	Observers and guests:	Lawrie Tremaine – Acting FRC Chair	Justin Williams – AASB / AUASB	Keith Kendall – AASB Chair	Anne Waters – AUASB	Bill Edge – AUASB Chair	Greg Yanco, Doug Niven, Thea Eszenyi – ASIC	Suzanne Bell	Claire Grayston – CPA Australia	Tracey Carroll	Vaishali Davé, Nena Finocchiaro, Emily Morrison – FRC Secretariat	Michele Embling	Ann Tarca – IASB	Cameron McDonald	Joanna Perry – IFRS Foundation	Stewart Walters	Matthew Bowd – Treasury		April Mackenzie – XRB		Apologies:		Cathie Armour – ASIC
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2.B	DECLARATIONS OF INTERESTS																								
	Members confirmed their entries as recorded in the Register of Interests.																								
	Michele Embling will provide further updates to her Declarations of Interest to the FRC Secretariat.																								
	All members except Stewart Walters confirmed they had no conflicts. Stewart Walters indicated he had abstained from commenting on a candidate in the AASB recruitment.																								

3	MATTERS FOR NOTING / ACTION
3.A	<p>MINUTES OF THE PREVIOUS MEETING – 3 JUNE 2021</p> <p>Members noted the minutes from the FRC meeting on 3 June 2021 which had been approved out-of-session.</p>
3.B	<p>MATTERS ARISING</p> <p>The Chair reported that matters arising had been completed, were on the current agenda, or were still in progress.</p> <p>The Chair noted the ongoing items had not been included in meeting paper 3.b.</p> <p>The Chair and Bill Edge undertook to review the ongoing items out of session, to remove those which can be closed and return to members with the remaining items in a relevant form.</p>
4	OVERSIGHT OF AUSTRALIAN STANDARDS
4.A	<p>ACCOUNTING STANDARDS</p> <ul style="list-style-type: none"> • Keith Kendall provided an update on the Australian Accounting Standards Board’s (AASB’s) key priorities including that: • The AASB Chair has signed off on a submission to the International Accounting Standards Board (IASB) consultation agenda, the primary basis on which the IASB is setting its work program for the next five years. • The AASB is reviewing amendments which might be required to AASB 1054 <i>Australian Additional Disclosures</i>, which has given rise to ongoing discussions with other interested parties, including the Accounting Professional & Ethical Standards Board and the American Institute of Certified Public Accountants around relevant disclosures. • The IASB’s <i>Practice Statement 1 Management Commentary</i> remains voluntary, which alleviates AASB member concerns about it. Reporting entities are free to implement the commentary but are not obliged to do so. The AASB maintains most of the content of the practice statement is already covered adequately in Australia. The AASB has issued a document for comment on the practice statement but has not yet discussed whether it will reissue the practice statement in Australia.
4.B	<p>UPDATE ON INDEPENDENT AASB 1049 POST IMPLEMENTATION REVIEW</p> <p>Justin Williams provided an update on the independent Post Implementation Review of AASB 1049. In particular, he noted the independent reviewer received 14 responses to the consultation, largely from Treasury entities and the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).</p>
4.C	<p>AUDITING STANDARDS</p> <p>Bill Edge provided an update on the Auditing and Assurance Standards Board’s (AUASB’s) key priorities, including that:</p> <ul style="list-style-type: none"> • The AASB and AUASB Corporate Plan 2020-21 will be presented to an FRC meeting annually. The plan includes detailed performance summaries for each Board. Unlike previous years, the AASB and AUASB will not table updates to the performance summaries each FRC meeting.

	<ul style="list-style-type: none"> The AUASB has established a Technology Project Advisory Group to address the impact of technology on audits. The AUASB has issued two bulletins to address practical issues when using technology in the performance of an audit. Since meeting paper 4c was submitted, the AUASB has released its second bulletin, regarding the Reliability of Data. The AUASB is now developing its third bulletin. The International Auditing and Assurance Standards Board has issued a draft single standard for less complex entities (LCEs). This is comprised of extracts from the complete 900 pages of international standards. It is unlikely to impact the time taken to complete an audit of the financial reports of an LCE, but it may help navigate the standards. The AUASB has issued a consultation paper to seek feedback from Australian stakeholders on the proposed standard. The consultation includes questions about what else could be done to simplify auditing for LCEs. <p>Members also discussed concerns around audit quality and governance for public sector entities, including that the audit process is overwhelmingly burdensome for public sector entities. The AUASB has established a Public Sector Advisory Group in response to this concern.</p> <p>Members also discussed the new, simplified format of AASB and AUASB reporting to the FRC, and noted they are more focused on strategic issues.</p>
5	OVERSIGHT OF AUDIT QUALITY
5.A	<p>AUDIT QUALITY PLAN</p> <p>Members discussed progress on the FRC’s Audit Quality Action Plan, noting progress towards its outcomes was limited in 2019 as the Parliamentary Joint Committee on Corporations and Financial Services (PJC) undertook its inquiry on the same issues.</p> <p>The FRC Audit Quality Action Plan has been redrafted to better reflect the actions the FRC and the standard setting boards have taken to address audit quality. Members agreed to publish the revised FRC Audit Quality Action Plan.</p> <p>ASIC provided an update on its strategic audit priorities, including with respect to surveillance, enforcement, audit inspection reports, and audit quality.</p> <p>Members discussed allegations in recent media reports regarding disciplinary outcomes for auditor misconduct. In particular, members discussed the role of the professional accounting bodies in disciplining members for misconduct. Members agreed the FRC would write to professional accounting bodies and the Companies Auditors Disciplinary Board to seek an update on their disciplinary processes. The Chair will also consider how to address the specific issues currently being canvassed in the media.</p> <p>More broadly, members discussed the value and role of audit and oversight of audit in emerging audit areas. Members agreed to include a standing agenda item on strategic risks to audit quality across the FRC’s entire portfolio, with a view to including multiple perspectives to consideration of those risks. Issues which fall under this item will include audit staffing. The Chair will consider a process for this discussion for the next meeting, noting this will require engagement from all members. The Chair will reach out to members before the next meeting for content on this item.</p> <p>Members discussed progress on responding to the PJC’s recommendations following its inquiry into the regulation of auditing in Australia. Members agreed to seek an update from Government on when it would respond to the PJC’s recommendations and whether there were any constraints to the FRC responding to the items allocated to it before a Government response is released.</p>

	<p>Members discussed an opportunity to put forward a proposal to Treasury to conduct an audit quality survey, including an option to combine an electronic survey with interviews to better understand stakeholder views. Members supported the idea of an FRC led audit quality survey. The Chair will work with Bill Edge on the design of the survey but invited input from all members on potential service providers and survey design.</p>
6	EXTENDED EXTERNAL REPORTING
6.A	<p>UPDATE ON OUTCOMES FROM JUNE MEETING</p> <p>Members discussed the scope of the FRC, AASB and AUASB’s statutory powers to adopt standards for extended external reporting (EER).</p> <p>The Chair provided an update about his meetings with the Minister and the Minister’s Chief of Staff and officials from the Treasury.</p> <p>The Chair undertook to reach out to both the Minister’s Office and Treasury to invite more feedback on where they see Australia heading with respect to EER and the role of the FRC in that space, as well as to support them on developing options to address the imperative to act on EER standards and seek to influence the international developments on this issue.</p> <p>Bill Edge noted the AASB and AUASB had formed an AASB / AUASB EER Project Advisory Panel comprised of practitioners, academics, professional accounting bodies and other stakeholders to advise the standards boards on any action that should be taken based on the current practice of voluntary disclosures on EER.</p> <p>Bill Edge undertook to circulate a proposed joint statement on EER by the FRC, AASB and AUASB to members after the meeting.</p> <p>The Chair noted the intention was not to develop EER standards, but instead to focus on influencing international developments.</p>
6.B	<p>SNAPSHOT OF IASB’S MANAGEMENT COMMENTARY</p> <p>Ann Tarca (IASB) provided background and detail on the IASB’s release of an Exposure Draft of the revised IFRS Practice Statement 1 Management Commentary.</p> <p>The practice statement outlines a framework for providing better information to investors and addressing issues of fragmentation of information across multiple documents in reports.</p> <p>The practice statement also includes detail on the objectives for disclosure, long term prospects, intangible resources, relationships and environmental, social and governance matters.</p> <p>The practice statement is a focal point for connectivity, including between financial information, sustainability information and other information. The IASB hopes the statement will provide a ‘home’ for disclosures under the sustainability standards developed by the proposed International Sustainability Standards Board (ISSB) when the ISSB is established.</p> <p>Ann Tarca noted the IASB does not envision potential for conflict between the practice statement and any reporting frameworks developed by the ISSB. The IASB will work with the ISSB on reporting frameworks, particularly with respect to intangible assets, and is open to handing the project to the ISSB if it was a better fit.</p> <p>Members discussed the practice statement in detail, including with respect to its application in different jurisdictions, the fact that adoption is voluntary and its application in the Australian context.</p>

	Keith Kendall undertook to further consider the merits of implementing the practice statement in Australia through the AASB.
7	FRC NOMINATIONS COMMITTEE
7.A	<p>UPDATE ON RECRUITMENT FOR AASB / AUASB POSITIONS</p> <p>The Chair provided an update on recruitment of new members to the AASB and AUASB. The FRC Nominations Committee had shortlisted and interviewed candidates for the identified roles and proposed the appointment of three candidates. The proposed candidates were approved for appointment by the FRC.</p> <p>The FRC Secretariat will send letters to all applicants, copying in the AASB and AUASB Chairs as relevant. The AASB and AUASB Chairs intend to reach out to unsuccessful candidates to involve them in Board activities in other ways.</p>
7.B	<p>UPDATED NOMINATIONS COMMITTEE CHARTER</p> <p>Members noted the updated Charter of the FRC Nominations Committee.</p>
8	MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS
8.A	<p>STAKEHOLDER REPORTS</p> <p>Members reviewed reports from eight stakeholders and noted key issues and initiatives.</p>
8.B	<p>REPORT BY EXTERNAL REPORTING BOARD (XRB)</p> <p>Michele Embling provided an update on the key activities of the XRB including:</p> <ul style="list-style-type: none"> • undertaking an organisational restructure to focus on capability building in operations and stakeholder management and communications, particularly in the area of climate reporting • developing a broader conceptual framework for EER reporting, including by liaising with colleagues in the Maori community on integrated and intergenerational thinking • preparing for the release of the XRB’s first discussion paper on climate related financial disclosures on 20 October • preparing for the release of the XRB’s discussion paper on climate reporting strategy, metrics and targets in March 2022, with a view to releasing the final standard in December 2022.
9	MONITORING AND INFLUENCING INTERNATIONAL DEVELOPMENTS
9.A	<p>IFRS TRUSTEES</p> <p>Joanna Perry provided an update on the key activities of the IFRS Trustees including:</p> <ul style="list-style-type: none"> • holding one-off meetings on progress on sustainability reporting and the ISSB • holding a full IFRS Trustees meeting on 15 June, with the next meeting scheduled for October • continuing the nominations process for new IFRS Foundation Trustees • continuing to drive progress on developing a framework for climate related disclosure ahead of COP 26 in November.
10	OTHER BUSINESS

10.A	<p>UPDATE ON PUBLIC SECTOR WORKING GROUP (PSWG)</p> <p>Stewart Walters provided an update on the key activities of the PSWG including:</p> <ul style="list-style-type: none"> • arranging for Karen Sanderson to complete her current term on the IPSASB Consultative Advisory Group despite moving to the United Kingdom, but to seek a replacement nominee in 2022 who can represent the region and be regionally embedded • considering seeking a nomination from the Australasian Council of Auditors-General (ACAG) for a public sector auditing professional on the PSWG • completing a peer review of a comprehensive Tier 3 reporting framework for public sector entities, with a view to sending it to HoTARAC for feedback and commencing consultation on it with ACAG • continuing to consider concerns about ensuring recruitment of appropriately skilled people to public sector reporting to address a current and anticipated future skills gap.
10.B	<p>FRC ANNUAL REPORT 2020-21</p> <p>The FRC Secretariat provided an update on the progress of the FRC Annual Report for 2020-21.</p>
10.C	<p>FRC PEER REVIEW TIMELINE AND QUESTIONS</p> <p>The Chair noted the proposed FRC Peer Review Survey questions have changed from the last survey, with a stronger focus on the FRC meeting its various objectives, rather than critiquing the performance of individual FRC members.</p> <p>Members agreed to the proposed questions subject to question 7 being amended or a new question being included to address statutory objectives with respect to the FRC’s oversight of the standard setting boards.</p>
10.D	<p>STRATEGIC MATTERS</p> <p>Members agreed to discuss XBRL reporting and supply of auditors at the next meeting.</p>
11	<p>NEXT MEETING AND CLOSE</p>
11.A	<p>Members agreed to vacate the 3 November meeting date. The Chair will work with the FRC Secretariat to identify a new date for the meeting.</p>



ITEM 3B

10 DECEMBER 2021

MATTERS ARISING

DESCRIPTION

Attached are the matters arising from the FRC meeting held on Wednesday 22 September 2021 and ongoing items.

ACTION

It is recommended the Council

- note the matters arising
- agree to revise the list of ongoing items as proposed in the Attachment.

100TH MEETING OF THE FRC: 22 SEPTEMBER 2021

Number	Issue	Action required	Owners	Status
1.	FRC AUDIT QUALITY ACTION PLAN	FRC Secretariat to publish the revised FRC Audit Quality Action Plan	FRC Secretariat	Complete – available on FRC website
2.	AUDITOR DISCIPLINARY MATTERS	<ul style="list-style-type: none"> FRC to write to professional accounting bodies and the Companies Auditors Disciplinary Board to seek an update on their disciplinary processes. Chair to consider how to address specific issues about auditor discipline raised in media 	Chair Chair	Complete – letters sent 11 November Complete – item 5B in 10 December agenda
3.	STRATEGIC RISKS	<ul style="list-style-type: none"> Include a new standing agenda item on strategic risks to audit quality as part of broader consideration of emerging themes. Chair to consider a process for discussion of strategic risks. 	FRC Chair	Complete – item 5C in 10 December agenda Complete – item 5C in 10 December agenda
4.	AUDIT QUALITY SURVEY	Chair and Bill Edge to design proposed audit quality survey approach.	Chair / Bill Edge	In progress
5.	EXTENDED EXTERNAL REPORTING (EER)	<ul style="list-style-type: none"> Chair to invite further feedback from Minister’s Office and Treasury on where they see Australia heading with respect to EER and the role of the FRC, as well as to support them on developing options to address the need to act on EER standards and seek to influence international developments. 	Chair	Complete – update to be provided at item 9A of 10 December agenda

Number	Issue	Action required	Owners	Status
		<ul style="list-style-type: none"> Bill Edge to circulate a proposed joint statement on EER by the FRC, AASB and AUASB to members. 	Bill Edge	Complete – statement published on FRC, AASB and AUASB websites (see item 9A of 10 December agenda)
6.	AASB / AUASB RECRUITMENT	<ul style="list-style-type: none"> FRC Secretariat to send letters to all applicants of the 2021 recruitment round, copying in the AASB and AUASB Chairs as relevant. AASB and AUASB Chairs to reach out to unsuccessful candidates to involve them in Board activities in other ways. 	FRC Secretariat Keith Kendall / Bill Edge	Complete – letters sent 29 September Complete
7.	MEETING DATE	<ul style="list-style-type: none"> Chair to work with FRC Secretariat to identify a new date for next meeting. 	Chair / FRC Secretariat	Complete – item 9C in 10 December agenda

ONGOING ITEMS

Items highlighted in red will be removed from the ongoing items list ahead of the next FRC meeting. However, the FRC Secretariat will maintain a record of the items recorded under ‘Public Sector Issues’ and will raise these matters with the FRC Chair on a periodic basis.

Completed items will be removed ahead of the next meeting in accordance with usual process.

Number	Issue	Action required	Owners	Status
1.	INTERNATIONAL APPOINTMENTS	Bill Edge and Stewart Walters to discuss offline the representation on the IPSASB Consultative Advisory Group (CAG).	Bill Edge / Stewart Walters	Complete
2.	UPDATE AND DISCUSSION ON EXTENDED EXTERNAL REPORTING (EER)	FRC to write to the Minister to outline the speed of the international developments, including New Zealand and what the FRC propose going forward.	FRC	Complete – meeting rather than letter
3.	PUBLIC SECTOR MATTERS	FRC Secretariat to circulate a report on Public Sector Matters from Stewart Walters out-of-session.	FRC Secretariat	Complete
4.	FRC ANNUAL REPORT 2020-21	The FRC Annual Report 2020-21 will be drafted for approval out-of-session.	FRC Chair	Complete – report tabled in Parliament and FRC Secretariat to send hard copies to FRC members
5.	FRC PEER REVIEW	Bill Edge to redraft the 2021 FRC Peer Review questions for members to consider out-of-session.	Bill Edge	Complete – FRC Peer Review Survey completed (item 8A of 10 December agenda)

Number	Issue	Action required	Owners	Status
6.	CONFLICTS OF INTEREST AND CODE OF CONDUCT	FRC to revisit the need to draft a revised conflicts of interest and code of conduct policy once the Government has responded to the recommendations.	FRC Chair	Government response will drive future FRC action
7.	PUBLIC SECTOR ISSUES	The AASB should keep the FRC informed of the status of the reporting entity concept as part of the Australian Financial Reporting Framework Project.	AASB Chair	AASB Chair updates FRC each meeting
		AASB to engage with HoTARAC to determine how to set up the Australian Financial Reporting Framework for the public sector.	AASB Chair	AASB Chair consults with HoTARAC several times a year The HoTARAC Chair will provide update the FRC as appropriate
		The AASB should inform the FRC when a reassessment of International Public Sector Accounting Standards (IPSAS) adoption is made.	AASB Chair	Part of Public Sector Working Group (PSWG) agenda
		The FRC would at a future meeting reconsider the direction on harmonisation of Government Financial Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).	FRC Chair	PSWG Chair will advise FRC as appropriate
		The FRC should add public sector issues explicitly into its oversight of audit quality.	FRC Chair	FRC regularly discusses audit quality, including public sector issues Public sector participants will be included in next survey

Number	Issue	Action required	Owners	Status
		The AUASB should reconsider whether there is, and the extent of, divergence in interpretations of auditing standards in the public sector.	AUASB Chair	Being actioned by AUASB Public Sector Advisory Group
8.	OVERSIGHT OF AUSTRALIAN STANDARDS	Members agreed the Public Sector Working Group should lead the independent review of AASB 1049 and the directive and to report back to the FRC in due course.	Public Sector Working Group	Complete – draft report of independent review included at item 4B of 10 December agenda
		FRC to consider and monitor action on ‘Initial Recommendations Pending Inquiry Outcomes’ in the FRC Submission to the Parliamentary Inquiry into Regulation of Auditing.	FRC Members	Government response will drive future FRC action
9.	FRC AUDITOR DISCIPLINARY PROCESSES: REVIEW	FRC to monitor responses by ASIC, Companies Auditors Disciplinary Board (CADB) and the professional accounting bodies to recommendations in FRC Auditor Disciplinary Processes: Review.	FRC Members	Complete – follow up letter sent to ASIC, CADB and professional accounting bodies in November 2021



AASB CHAIR REPORT

DESCRIPTION

Attached is the AASB Chair’s Report covering the key activities undertaken during September – November 2021.

ACTION

- For noting.

Immediate technical priorities	
AASB Staff Paper: <i>Review of Executive Remuneration Disclosure Requirements</i>	<p>AASB staff paper <i>Review of Executive Remuneration Disclosure Requirements</i> assesses how the current Australian executive remuneration disclosure requirements compare to selected overseas jurisdictions for for-profit (listed), not-for-profit and public sector entities to provide further input into the public discussion on this topic.</p> <p>Strategic impact This staff paper aims to provide a basis to support relevant regulators, working collaboratively with other standard setters, users and stakeholders, in their efforts to keep Australian executive remuneration reporting aligned with global best practices.</p>
AASB Staff Paper: <i>Going Concern Disclosures: A Case For International Standard-Setting</i>	<p>AASB Staff Paper <i>Going Concern Disclosures: A Case For International Standard-Setting</i> identifies potential areas for improvement relating to the existing going concern disclosure requirements in the IFRS Standards.</p> <p>Strategic impact The objective of this staff paper is to identify issues relating to</p> <ul style="list-style-type: none"> • the adequacy of going concern disclosures currently required by the Accounting Standards; • the lack of guidance on the basis of preparation where the going concern assumption is no longer appropriate <p>and suggest to the IASB how to address the issues identified.</p>
AASB Invitation to Comment ITC 48 <i>Extended External Reporting</i>	<p>The AASB has issued an Invitation to Comment, ITC 48 <i>Extended External Reporting</i>, which sets out the AASB’s proposed draft Position Statement relating to Extended External Reporting (EER).</p> <p>Strategic impact The draft Position Statement intends to provide direction for preparers seeking to take immediate action on EER while appropriate consultation takes place.</p>

<p>IASB Exposure Drafts (Strategic objectives 1, 3 & 4)</p>	<p>Per the <i>AASB Due Process Framework</i>, the AASB issues IASB consultation documents concurrently in Australia to seek Australian input and prepares formal submissions on issues likely to be of interest to Australian entities. The AASB issued the following Aus-equivalent consultation documents, which are currently open for comment:</p> <ul style="list-style-type: none"> • ED 314 <i>Subsidiaries without Public Accountability: Disclosures</i> • ITC 47 <i>Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 9 Financial Instruments – Classification and Measurement</i> <p>The AASB also made submissions to the IASB on:</p> <ul style="list-style-type: none"> • Request for Information – <i>Third Agenda Consultation</i> • ED/2021/6 <i>Management Commentary</i> <p><i>Strategic impact</i> <i>Actively influencing the IASB by attaining stakeholder engagement on developing IFRS Standards.</i></p>
Medium / longer term technical priorities	
<p>Status of PJC Recommendations relevant to the AASB (Strategic objective 2)</p>	<p>The AASB is reviewing the potential amendments required to AASB 1054 to include fee disclosure requirements for categories of audit and non-audit services recommended by the <i>AASB Research Report 15 Review of Auditor Remuneration Disclosure Requirements</i>. The ED will only be finalised if the Australian Government takes-up the PJC recommendations.</p> <p><i>Strategic impact</i> <i>To make an appropriate legislative change in the Accounting Standards where required to bring into effect the recommendations should these be accepted by the Australian Government.</i></p>
<p>Agenda Consultation (Strategic objectives 3, 4 & 5)</p>	<p>The AASB issued <i>ITC 46 AASB Agenda Consultation 2022–2026</i> to gather views on the potential domestic projects to be included in its work program and priorities for the period 2022–2026. Three potential projects that are aligned with the AASB strategic directions are also included in the ITC for stakeholder feedback:</p> <ul style="list-style-type: none"> • sustainability reporting; • service performance reporting; and • digital financial reporting. <p>The AASB also responded to the IASB’s Third Agenda Consultation (as noted above).</p> <p><i>Strategic impact</i> <i>Actively influence the IASB and to ensure the AASB are responding and focusing on issues that require resolution.</i></p>
<p>Disclosure Requirements in Australian Accounting Standards (Strategic objectives 1 & 4)</p>	<p>The AASB consulted stakeholders via <i>ED 309 Disclosure Requirements in Australian Accounting Standards—A Pilot Approach</i> on the IASB’s project, which proposes a new approach to developing disclosure requirements in accounting standards.</p> <p>The AASB is also proposing via <i>Exposure Draft 312 Disclosure of Accounting Policies – Proposed Amendments to Tier 2 and Other Australian Accounting Standards</i> amendments that would require entities to disclose material accounting policy information rather than significant accounting policies to ensure consistent terminology used in AAS.</p> <p>As mentioned above, the AASB exposed for comment via <i>ED 314</i> the IASB’s proposals on <i>Subsidiaries without Public Accountability: Disclosures</i>. In the future, the AASB will consider a comparison between the AASB 1060 disclosure requirements and the proposals in the Exposure Draft, and any feedback received from stakeholders before deciding on the adoption of the draft Standard and whether it would be appropriate to amend or replace AASB 1060. The AASB has also decided to submit a comment letter to the IASB.</p>

	<p><i>Strategic impact</i> To maintain IFRS compliance and reduce boilerplate information to enhance entities' judgement and maintain principle-based standards.</p>	
<p>IPSASB Exposure Drafts on public sector measurement (Strategic objectives 1 & 4)</p>	<p>The AASB received six submission letters on ITC 45 <i>Request for Comment on IPSASB Exposure Drafts ED 76 Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements and ED 77 Measurement</i>. The majority of stakeholders did not support applying the IPSASB's proposed current operational value (COV) measurement basis in Australia.</p> <p>Respondents also provided feedback on some aspects of the cost approach under COV, which the AASB has reached preliminary views on in the context of fair value.</p> <p><i>Strategic impact</i> Considering the implications of comments received on ITC 45 for the direction of future work on the Fair Value Measurement for Not-for-Profit Entities project, to decide whether amendments is needed in AASB 13 Fair Value Measurement to assist NFP public sector entities apply the principles of the Standard.</p>	
<p>Post-implementation review of AASB 1049 (Strategic objectives 1 & 4)</p>	<p>As engaged by the FRC, Dr Kim Langfield-Smith is undertaking an independent Post-Implementation Review of AASB 1049 <i>Whole of Government and General Government Financial Reporting</i>. <i>Strategic impact</i> <i>Strategic impact</i> Ensuring AASB 1049 is meeting the needs of external report users and is capable of being assured and enforced.</p>	
<p>Key events, meetings or forums run by or attended by AASB in the last period. (Strategic objectives 4 & 6)</p>		
Type of Event	Subject Matter	No. of Attendees
Virtual roundtable	Management Commentary (ED 311) with the IASB	39 attendees
Research Forum	AASB Research Forum	-
Research Program	The AASB staff made a presentation at the Australian Nonprofit Accounting Standards Research Program	-
International Conference	The AASB staff presented on Going Concern at the Asian-Oceanian Standard-Setters Group (AOSSG) Interim Meeting. The AASB staff presented its findings from the Research on Intangible Assets at the AOSSG Annual Meeting.	-
International Conference	The AASB staff attended the World Standard Setters Conference and participated in the panel discussion on the session on Subsidiaries without public accountability.	-
International Conference	The AASB presented its first insights into the AASB Staff Paper on Intangibles at the International Forum of Accounting Standard-Setters (IFASS).	-



ITEM 4B

10 DECEMBER 2021

POST-IMPLEMENTATION REVIEW OF AASB 1049

DESCRIPTION

Attached is a summary of the Post Implementation Review of AASB 1049 and the full report of the review.

ACTION

It is recommended the Council

- note the attached report
- consider next steps with respect to the findings of the report.

REPORT ON THE POST IMPLEMENTATION REVIEW OF AASB 1049

AASB 1049 *Whole of Government and General Government Sector Financial Statements* was developed in response to the Financial Reporting Council (FRC) strategic direction (December 2002) to the AASB to harmonise the Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).

The objective of the FRC strategic direction was to develop an Australian Accounting Standard for a single set of government reports which are auditable and comparable between jurisdictions, and in which the financial (outcome) statements are directly comparable with relevant budget statements.

AASB 1049 (October 2007, as amended) has undergone many amendments since its release. In April 2021, the FRC commissioned an independent Post-Implementation Review (PIR) of AASB 1049.

The purpose of the PIR is, in respect of Whole of Government and General Government Statements, to:

- a) evaluate the extent to which AASB 1049 (October 2007, as amended) and the budgetary disclosure requirements in AASB 1055 *Budgetary Reporting* (March 2013, as amended) have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved;
- b) develop improvements, if needed, to AASB 1049 to better achieve the objective of the FRC strategic direction and the objectives set out in AASB 1049;
- c) evaluate the costs and benefits of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055; and
- d) reassess whether there is a need to have a specific Accounting Standard to harmonise GFS and GAAP.

The PIR involved information gathering and research activities as follows:

- a) Preparation of a Consultation Paper that included questions for users of and preparers of government financial statements, which was circulated to targeted stakeholders and other members of the public on request;
- b) Video conference meetings with stakeholders to discuss their responses to the Consultation Paper, as required;
- c) A review of academic research papers, Australian Accounting Standards, and relevant publicly available documents of the AASB and other standard-setting bodies.

Key findings

All stakeholders who responded to the Consultation Paper stated that the objective of the FRC direction has been achieved - AASB 1049 has been successful in harmonising GFS and GAAP reporting, but harmonisation may be eroding. There is strong support for retaining AASB 1049 and AASB 1055 in their current form.

Report recommendations

- **Recommendation 1:** No significant changes should be made to AASB 1049.
- **Recommendation 2:** Consideration should be made to implementing minor changes to AASB 1049, AASB 1055 and supporting material to improve harmonisation, reduce cost or improve information for users (see section 6.1 of the Report for further detail).

- **Recommendation 3:** The number and magnitude of convergence differences should be monitored over the next three years to gauge the impact on the costs of preparers and users and the impact on usefulness of the financial statements.

Recommendation to the FRC

Acceptance of the Report and consideration, in conjunction with the Public Sector Working Group of next steps.



DRAFT 13 October 2021

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

Prepared for the Financial Reporting Council

Langfield-Smith Consulting
October 2021

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Executive Summary

Background to the Post-Implementation Review

AASB 1049 *Whole of Government and General Government Sector Financial Statements* was developed in response to the Financial Reporting Council (FRC) strategic direction (December 2002) to the AASB to harmonise the Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).¹

The objective of the FRC strategic direction is to develop an Australian Accounting Standard for a single set of government reports which are auditable and comparable between jurisdictions, and in which the financial (outcome) statements are directly comparable with relevant budget statements.

AASB 1049 (October 2007, as amended) has undergone many amendments since its release. In April 2021, the FRC commissioned an independent Post-Implementation Review (PIR) of AASB 1049.²

The purpose of the PIR is, in respect of Whole of Government and General Government Statements, to:

- (a) evaluate the extent to which AASB 1049 (October 2007, as amended) and the budgetary disclosure requirements in AASB 1055 *Budgetary Reporting* (March 2013, as amended) have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved;
- (b) develop improvements, if needed, to AASB 1049 to better achieve the objective of the FRC strategic direction and the objectives set out in AASB 1049;
- (c) evaluate the costs and benefits of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055; and
- (d) reassess whether there is a need to have a specific Accounting Standard to harmonise GFS and GAAP.³

The PIR involved information gathering and research activities as follows:

- (a) Preparation of a Consultation Paper that included questions for users of and preparers of government financial statements, which was circulated to targeted stakeholders and other members of the public on request;

All stakeholders who responded to the Consultation Paper stated that *the objective of the FRC direction has been achieved* - AASB 1049 has been successful in harmonising GFS and GAAP reporting, but harmonisation may be eroding.

There is strong support for retaining AASB 1049 and AASB 1055 in their current form.

¹ GAAP refers to Australian Accounting Standards and GFS is the Australian System of Government Finance Statistics: Concepts, Sources and Methods (ABS cat no 5514.0), most recent update 2015.

² Langfield-Smith Consulting was awarded the public tender to undertake the PIR, independent from the FRC and AASB.

³ *Request for Quotation (Approach to Market) Post-Implementation Review of AASB 1049 Whole of Government and General Government Sector Financial Reporting*, Financial Reporting Council and Australian Accounting Standards Board, 2020.

- (b) Video conference meetings with stakeholders to discuss their responses to the Consultation Paper, as required;
- (c) A review of academic research papers, Australian Accounting Standards, and relevant publicly available documents of the AASB and other standard-setting bodies.

Harmonisation of GFS and GAAP

AASB 1049 applies to the Australian government and each state and territory government (nine jurisdictions). Before AASB 1049, jurisdictions produced a mix of financial reports released at various times and based on different frameworks, including GAAP, cash GFS, and accrual GFS. Several researchers described confusion amongst users, a lack of use of GAAP-based reports by financial markets and rating agencies due to un-timely release, and inconsistencies between budget data and financial reports within the same jurisdiction.⁴

AASB 1049 specifies requirements for the form and content of Whole of Government and General Government Sector financial reports, consistent with GAAP, and with the rules of the GFS manual. Thus, differences between financial statements produced under GFS and GAAP data are reduced – the data is harmonised. AASB 1049 requires the following:

Unless otherwise specified in this Standard, the whole of government financial statements and the GGS financial statements shall adopt the same accounting policies and be prepared in a manner consistent with other applicable Australian Accounting Standards. (paragraph 9)

... where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied. (paragraph 13)

The Australian Bureau of Statistics (ABS) makes adjustments to the GAAP data in the accounts of the Commonwealth, states and territory governments, to produce GFS data. Since the release of AASB 1049, many of the differences between GAAP and GFS have not been significant.

Summary of findings

(a) Has the objective of the FRC strategic direction been achieved?

Without exception, all stakeholders who responded to the Consultation Paper stated that AASB 1049 has been successful in harmonising GFS and GAAP reporting so that *the objective of the FRC strategic direction has been achieved*.

HoTARAC⁵ stated that all of their members “overwhelmingly report that AASB 1049 meets its objectives”. Many stakeholders - users and preparers of government financial statements – were

⁴ See for example, Aggestam et al. (2014) and Challen and Jeffrey (2003). **Appendix C** contains a list of academic references with full citation details.

⁵ HoTARAC - Heads of Treasury Accounting and Reporting Advisory Committee

passionate in their belief that AASB 1049 has had a positive impact on the quality, consistency, and efficiency of government financial reporting.

Not only has harmonisation been achieved, AASB 1049 has led to additional benefits, including improved information to assess stewardship and accountability of governments, greater comparability between end-of-year financial reports and budgets and between reports of jurisdictions, and improved data quality for the ABS.

However, most stakeholders warned that requirements in some new or amended Australian Accounting Standards have started to *erode the level of harmonisation between GAAP and GFS* and thus, the achievement of the objective of the FRC strategic direction.

For example, AASB 16 *Leases*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 1059 *Service Concession Arrangements: Grantors* do not include optional treatments that would enable jurisdictions to comply with both the Australian Accounting Standards and the GFS rules. AASB 16 is the standard of most concern. While convergent differences are reported in the explanatory notes to the accounts (AASB 1049 paragraph 41(a)), there is concern that over time the cumulative differences may increase significantly and consistency between GAAP and GFS will decrease.

One solution is to include optional treatments in AASB 16 or AASB 1059 to reduce convergence. However, this would compromise the integrity of the two standards and the AASB principle of transaction neutrality. Another solution is for the GFS rules to be changed. However, this would compromise the GFS framework and impact the harmonisation of the Australian GFS with the international GFS.

(b) How useful are specific requirements of AASB 1049 and are changes to AASB 1049 needed?

A range of information in the Whole of Government and GGS financial statements was found to be useful to stakeholders and other users.

1. The measurement of non-current assets and liabilities at **fair value** was *supported by stakeholders*. Fair value is accepted by the ABS as a reasonable proxy for the GFS requirement of valuing non-current assets at current market value, and thus supports harmonisation. Fair value provides useful information for macro-economic analysis and the longer-term focus necessary in the public sector, and fair values hold governments accountable for decisions about the existing use of those assets.

The main *shortfalls in using fair value* are the practical challenges of measurement (where there is no or a limited active market for assets), and the ongoing costs incurred by jurisdictions to determine fair value.

2. There was strong support from all stakeholders for retaining the requirement to disclose **key fiscal aggregates**. Stakeholders stressed the usefulness of key fiscal aggregates for a range of users and their decision making, with one stakeholder describing the disclosure of key fiscal aggregates as one of the most useful aspects of AASB 1049.
3. The disclosure of the **reconciliation or explanation about differences in key fiscal aggregates** was not highly valued by many stakeholders, and the arguments provided to retain this disclosure requirement were not strong.

A review of 2019-2020 financial statements of jurisdictions, demonstrates that under AASB 1049 paragraph 41, the disclosure of the reconciliation and/or explanation can be undertaken at quite

manageable levels of detail, and therefore presumably for a modest cost. Continuing to require the difference be disclosed could signal the types of items that make up that convergence and whether convergence difference is increasing (or not). It is only recently that the choice to provide a descriptive explanation of the convergence difference rather than a quantitative reconciliation has been allowed, and this can be expected to be adopted by more jurisdictions in the future.

4. There was strong support for retaining the **budgetary disclosure requirements under AASB 1055** based on their usefulness, and their impact on comparability, transparency and accountability.

Minor opportunities for improvements to AASB 1049 and AASB 1055 were suggested, but overall, stakeholders presented strong views that *no changes should be made to AASB 1049 and AASB 1055*.

(c) Do the benefits to users exceed the costs of compliance with AASB 1049?

The cost of compliance with AASB 1049 is only a small component of the overall cost of financial reporting by governments. Indeed, rather than increasing costs, AASB 1049 provide an efficient way of controlling costs, and minimising the costs associated with meeting the wider public sector reporting requirements. Thus, the costs to preparers are minimal and clearly exceed the benefits to users.

(d) Is there still need for a specific Accounting Standard to harmonise GFS and GAAP?

There is *overwhelming support for retaining AASB 1049 (and AASB 1055) in its their current form*. To rely only on other Australian Accounting Standards would create additional cost for jurisdictions and the ABS, reduce consistency in reporting, negatively impact harmonisation, and reduce the quality of information and auditability.

Recommendations

AASB 1049 (and AASB 1055) have achieved the FRC strategic direction, and a range of other positive outcomes have resulted from the introduction of the two standards.

Recommendation 1 No significant changes should be made to AASB 1049.

Recommendation 2 Consideration should be made to implementing minor changes to AASB 1049, AASB 1055 and supporting material, as outlined in section 6.1.

The potential for erosion in the level of harmonisation between GAAP and GFS has emerged with the release of AASB 16 and AASB 1059. It is still too early to gauge the magnitude of the convergence difference that will result.

If future amendments to Australian Accounting Standards or new Australian Accounting Standards lead to convergence differences that are significant in number and in magnitude, harmonisation between GFS and GAAP will decrease and consideration may need to be given to the ongoing importance of the FRC strategic direction. Growing convergence differences may lead to increased costs for preparers of the financial statements and users (such as the ABS) and may impact the usefulness of accounting data in the financial statements.

Recommendation 3 The number and magnitude of convergence differences should be monitored over the next three years to gauge the impact on the costs of preparers and users and the impact on usefulness of the financial statements.

1. Introduction and context

1.1 The purpose of the Post-Implementation Review

An independent post-implementation review (PIR) of AASB 1049 was commissioned by the FRC in April 2021. The purpose of the PIR is, in respect of Whole of Government and General Government Statements, to:

- (a) evaluate the extent to which AASB 1049 (October 2007, as amended) and the budgetary disclosure requirements in AASB 1055 *Budgetary Reporting* (March 2013, as amended) have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved;
- (b) develop improvements, if needed, to AASB 1049 to better achieve the objective of the FRC strategic direction and the objectives set out in AASB 1049;
- (c) evaluate the costs and benefits of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055; and
- (d) reassess whether there is a need to have a specific Accounting Standard to harmonise GFS and GAAP.

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* was developed in response to the FRC strategic direction (December 2002) to the AASB to harmonise the Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).⁶

With regard to public sector reporting, the Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements (GAAP). (FRC Bulletin 2002/5 18 December 2002, as modified by FRC Bulletin 2003/1 11 April 2003).

1.2 The Australian approach to public sector reporting

AASB 1049 applies to the Australian government and each state and territory government (nine jurisdictions). Prior to AASB 1049, jurisdictions produced a mix of financial reports released at various times and based on different frameworks, including GAAP, cash GFS and accrual GFS. Several researchers described confusion amongst users, lack of use of GAAP-based reports by financial markets and rating agencies due to un-timely release, and inconsistencies between budget data and financial reports within the same jurisdiction.⁷

AASB 1049 specifies the requirements for the form and content of Whole of Government and GGS financial reports, adopting many of the GFS concepts specified in the GFS Manual issued by the Australian Bureau of Statistics (ABS).⁸ Thus, many differences between financial statements produced under GAAP and GFS are reduced.

⁶ Australian Accounting Standards encompass GAAP.

⁷ See for example, Aggestam et al. (2014) and Challen and Jeffrey (2003). Full citations are in **Appendix C**.

⁸ The *ABS GFS Manual* is the Australian System of Government Finance Statistics: Concepts, Sources and Methods (ABS cat no 5514.0) as updated from time to time, most recently 2015.

Unlike some other countries (for example, New Zealand, South Africa⁹), Australia has not adopted specific public sector accounting standards that are fully or partially based on the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB). One reason for Australia's non-adoption is that creating specific public sector accounting standards would counter the AASB policy of *transaction neutrality*. This is a sector-neutral approach where "like transactions and events should be accounted for in a like manner by all types of entities, reflecting their economic substance (transaction neutrality), unless there is a justifiable reason not to do so."¹⁰

Australia has adopted Australian versions of IFRS Standards and has managed the needs of the public sector through AASB 1049 and where warranted, by providing optional treatments in Australian Accounting Standards which are consistent with GFS rules.

The public sector reporting entities

AASB 1049 applies to the Whole of Government and General Government Sector (GGS) reporting entities. AASB 1049 defines the Whole of Government financial statements as:

General purpose financial statements prepared by a government that are prepared in accordance with Australian Accounting Standards, including AASB 10 Consolidated Financial Statements, and thereby separately recognise assets, liabilities, income, expenses and cash flows of all entities under the control of the government on a line-by-line basis.(Appendix A, Defined terms, p 18)

The GGS is one of three government sectors that make up the consolidated Whole of Government entity, as follows:¹¹

- The *General Government Sector (GGS)* includes all government units and non-profit institutions controlled and mainly financed by taxation. These units are legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area and which:
 - (i) are non-market in nature;
 - (ii) provide goods and services to the community or individuals free of charge or at prices that are not economically significant; and
 - (ii) redistribute income and wealth by means of taxes and other compulsory transfers.
- *Public non-financial corporations (PNFC)* include Australian resident government-controlled corporations and quasi corporations that provide goods and services which are mainly market, non-regulatory and non-financial in nature. They are financed predominately through sales to consumers of goods and services, e.g., government-controlled utilities and transport companies.
- *Public financial corporations (PFC)* include Australian resident government-controlled corporations and quasi corporations that provide auxiliary financial services or trade in

⁹ See [International Public Sector Financial Accountability Index | IFAC](#)

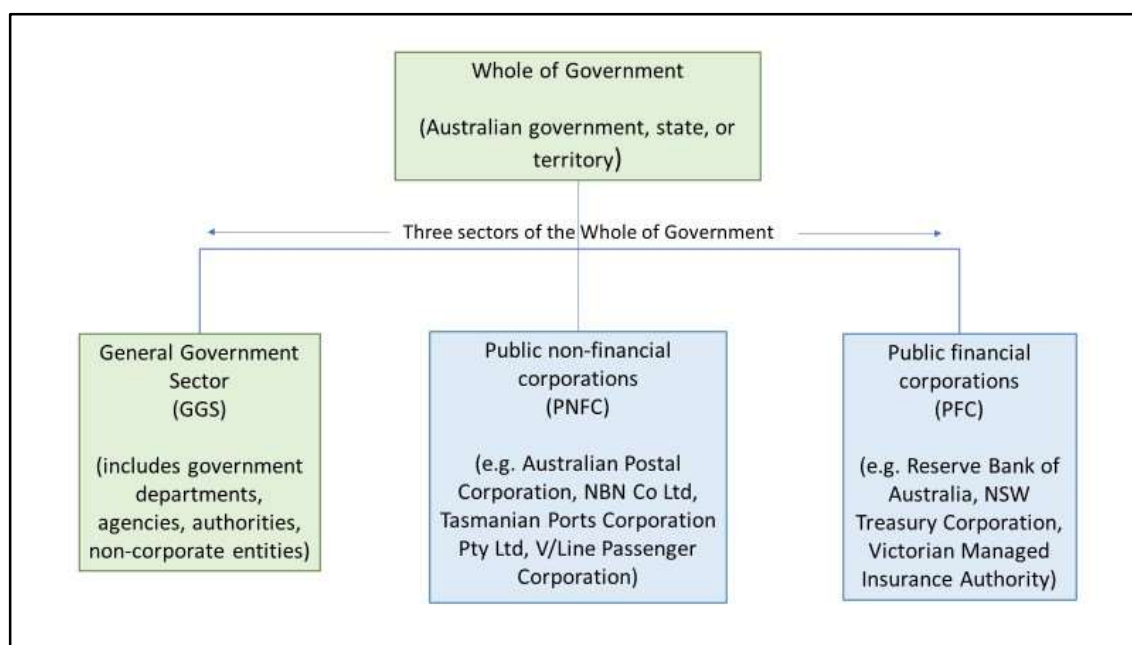
¹⁰ *The AASB's Approach to International Public Sector Accounting Standards*, October 2019, p. 5.

¹¹ Based on AASB 1049, Appendix A Defined terms, pp. 17-18, and [Glossary | Department of Finance](#)

financial assets and liabilities and operate commercially in the financial markets, e.g., government-controlled banks and insurance companies.

Figure 1 illustrates the relationships between the two reporting entities under AASB 1049, shaded in green. AASB 1049 does not apply to the financial reporting by local government. The Treasury or Finance authorities in each Australian jurisdiction are responsible for determining reporting requirements for these entities.

Figure 1 The reporting entities under AASB 1049



The Australian GFS and international harmonisation

The Australian GFS Manual is produced by the Australian Bureau of Statistics (ABS) and GFS are used by government agencies¹² and others for macroeconomic analysis and decision making, preparation of the national accounts and the analysis of fiscal policies.

The principles of Australian GFS are outlined in the 2015 GFS Manual, which is based on two international statistical standards:

- the *System of National Accounts 2008* (SNA 2008), issued jointly by the United Nations (UN), the International Monetary Fund (IMF), the Commission of European Communities, the Organisation for Economic Co-operation and Development (OECD) and the World Bank; and
- the *International Monetary Fund Government Finance Statistics Manual 2014* (IMF GFSM 2014), which is the international statistical standard for GFS. The current version was released in 2015, replacing the 2001 version.¹³ The next version is expected to be released in 2025.

The IMF GFSM 2014 is consistent with SNA 2008, with common statistical concepts and classifications.

¹² For example, the Commonwealth Grants Commission uses GFS data as a basis for allocating GST revenue to states and territories.

¹³ GFS Manual (2015), p. 1-2.

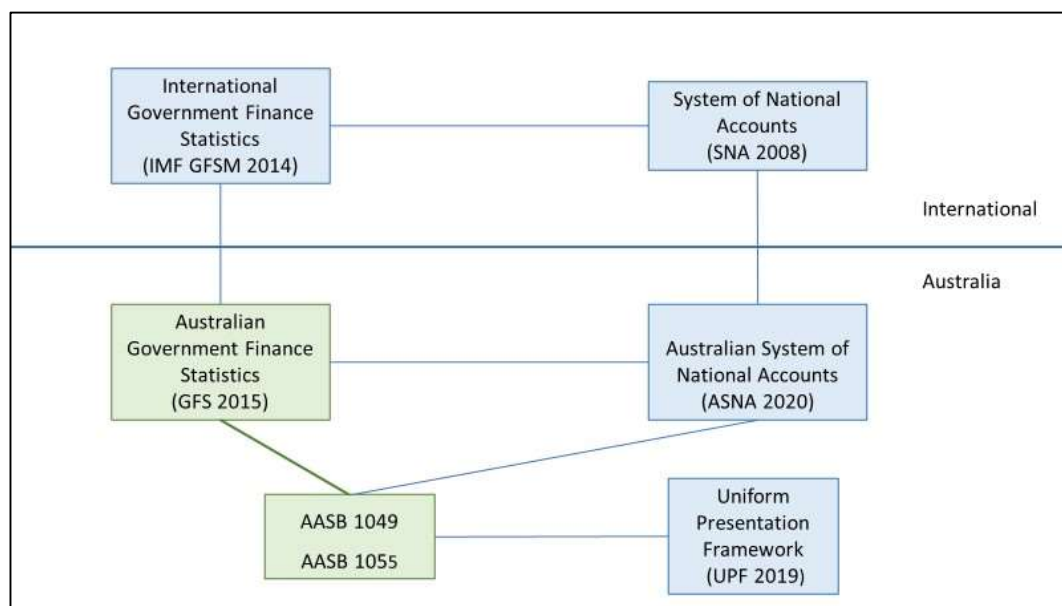
The core definitions and descriptions in the Australian GFS are largely consistent with equivalent descriptions and definitions in the IMF GFSM 2014. As Australia is a member of the IMF, the ABS provides Australian GFS to the IMF for publication along with the data of other IMF member countries. The common framework enables the data to be used for international comparisons of economic and finance data, by agencies such as the OECD, World Bank and the Asia Development Bank.

The Australian System of National Accounts (ASNA)¹⁴ is based on SNA 2008, and the ASNA draws on the Australian GFS data.

Another framework relevant to Australian government financial reporting is the Uniform Presentation Framework (UPF) first agreed to by all Australian governments in 1991. This framework outlines the presentation format for government financial information and is largely consistent with and reinforces AASB 1049.

Figure 2 illustrates the linkages between the various international and Australian frameworks. The harmonisation that is relevant to AASB 1049 and to this PIR is indicated in green. The Australian GFS is consistent, or is harmonised, with the international GFS and this is one constraint that can impact the level of harmonisation between the Australian GFS and GAAP financial reports.

Figure 2 The broader context of harmonisation



Convergence between GFS and accounting data

The Australian GFS draws on accounting data reported in Whole of Government and GGS financial statements. These accounting data comply with Australian Accounting Standards and are largely consistent with that required by the ABS for GFS. However, there are convergence differences between the GFS and GAAP data. Many differences are not significant, and the ABS undertakes adjustments to the accounting data to determine GFS data. Some minor convergence differences existed when AASB 1049 was introduced and have persisted. Recently new convergence differences have emerged as a result of new or amended Australian Accounting Standards.

¹⁴ 5216.0 - Australian System of National Accounts: Concepts, Sources and Methods, 2020-21, released 9 July 2021.

These differences are often due to different underlying frameworks and objectives of GFS versus GAAP. The *objective of the GFS framework* is to facilitate macroeconomic analysis and “provide the means with which to assess and measure the economic impact of government activity and sustainability of fiscal policy” (paragraph 4.2, p. 51, ABS 2015). The *objective of AASB 1049* is to provide financial information about the reporting entity that can be used to make decisions about stewardship by each government, accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government and its sectors; and information that facilitates assessment of the macro-economic impact of each government and its sectors (AASB 1049 paragraph 1).

1.3 The development of AASB 1049

Prior to AASB 1049, Australian governments issued financial statements prepared under GAAP and budget statements based on GFS principles. This was not only confusing to users of the statements, but it also “encouraged governments to indulge in presentation shopping”¹⁵ and “increased the potential for opportunistic reporting of headline results using different frameworks.”¹⁶

The two frameworks had different objectives, definitions and classifications, and rules and recognition criteria. GAAP-based financial reports were not comparable across jurisdictions. GFS reports were not based on accounting standards and were not required to be audited. The significant dates in the history of AASB 1049 are listed in **Table 1** (next page).

AASB 1049 was first issued in September 2006, with a limited scope that included all government units and non-profit units financed by a particular government jurisdiction. The reissued AASB 1049 in October 2007 expanded the scope to encompass the reporting entities outlined in **Figure 1**.

In 2010, a limited PIR of AASB 1049 was undertaken to identify any material issues at an operational level. No major flaws were found. Minor changes included clarifications of requirements in AASB 1049, as well as changes to facilitate the orderly adoption of changes to the GFS Manual and related disclosures. The PIR did not explicitly evaluate whether the objective of the FRC strategic direction had been achieved.

In 2013, the budgetary disclosure requirements in AASB 1049 were relocated to AASB 1055 *Budgetary Reporting*, so the objective of the FRC direction is now being met through both AASB 1049 and AASB 1055. In 2019, the AASB amended AASB 1049 allowing the option to disclose a narrative rather than a quantitative explanation of differences between key fiscal aggregates measured using GFS and GAAP.

Since 2008, AASB 1049 has been amended 21 times to include minor changes to AASB 1049, and consequential changes arising from revisions of, issue of and withdrawal of other Australian Accounting Standards.

¹⁵ Challen and Jeffrey (2003).

¹⁶ Wines and Scarborough (2006)

Table 1 Significant dates and events in the development of AASB 1049

Date	Event
December 2002	FRC strategic direction to the AASB
July 2005	ED 142 <i>Financial Reporting of General Government Sectors by Governments</i> issued.
September 2006	AASB 1049 <i>Financial Reporting of General Government Sectors by Governments</i> issued, to be applied to annual reporting periods beginning on or after 1 January 2009.
May 2007	ED 155 <i>Financial Reporting by Whole of Governments</i> issued.
October 2007	A revised AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i> was issued (effective annual periods on or after 1 July 2008). This Standard drew on ED 142 and ED 155 and superseded AASB 1049 <i>Financial Reporting of General Government Sectors by Governments</i> (September 2006) and AAS 31 <i>Financial Reporting by Governments</i> (November 1996), as amended.
2010	Limited PIR of AASB 1049 was undertaken to consider consistency of application of AASB 1049 across jurisdictions and to identify any material issues at an operational level.
May 2011	Amendments flowing from the limited PIR were AASB 2011-3 <i>Amendments to Australian Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments</i> . The amendments included providing relief from adopting the latest version of the ABS GFS Manual and related disclosures. AASB 2011-13 <i>Amendments to Australian Standards – Improvements to AASB 1049</i> . Amendments included allowing voluntary disclosure of additional fiscal aggregates and providing additional guidance and examples on classification between transactions and other economic flows for GAAP items without GFS equivalents.
March 2013	Budgetary disclosure requirements in AASB 1049 were relocated to AASB 1055.
December 2012	AASB 2012-8 <i>Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms</i>
December 2019	AASB 2019-7 <i>Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations</i> Provided an option to explain (but not quantify) material differences between the GAAP and GFS measures of the key fiscal aggregates
April 2021	PIR of AASB 1049 was commissioned.

1.4 The focus of this report

The remainder of this report will address the four purposes of the PIR that were outlined in **section 1.1**.

This report draws on written responses to the Consultation Paper and interviews with stakeholders. Relevant academic and research papers were referred to, as were other AASB standards, and publicly available AASB documents and meeting agenda papers.

Appendix A lists the specific questions that were part of the RFQ, and which were used as a basis for the design of the questions included in the Consultation Paper. **Appendix B** outlines the research process and sources of evidence.

2. Has the objective of the FRC strategic direction been achieved?

Without exception, all stakeholders who responded to the Consultation Paper stated that *the objective of the FRC direction has been achieved*. That is, AASB 1049 has been successful in harmonising GFS and GAAP reporting.

HoTARAC¹⁷ stated that all of their members “overwhelmingly report that AASB 1049 meets its objectives”.

Many users and preparers of government financial statements were enthusiastic in their belief that AASB 1049 has had a positive impact on the quality, consistency and efficiency of government financial reporting. Not only has harmonisation been achieved, AASB 1049 has led to many positive outcomes.

*AASB 1049 and its GFS/GAAP harmonisation concept is an innovative solution to reporting macro- and micro-economic information and is among the reasons Australia is regarded internationally as being at the forefront of public sector financial reporting.*¹⁸

*AASB 1049 provides Australia with a unique framework to report centrally on accounting and macroeconomic information. This has greatly enhanced public sector reporting in Australia. While Australian governments have agreements on common presentation formats, these cannot address measurement and recognition principles, that rightly belong in formal accounting and economics frameworks. As a component of the AASB's framework, AASB 1049 carries authority and its impacts are well understood by users, including users who are not financial accountants.*¹⁹

2.1 Positive consequences of AASB 1049

The comments by HoTARAC, ACAG²⁰ and other stakeholders emphasised many *positive outcomes* associated with AASB 1049:

- Information is available about stewardship and accountability of the resources entrusted to governments.
- The macro-economic impact of government, and its sectors, is provided in a format that is easy to read and understand.
- Government accountability is achieved through the publication of financial reports, and the tabling of these reports in Parliament.

The key task of the Post-Implementation Review

Evaluate the extent to which AASB 1049 (October 2007, as amended) and the budgetary disclosure requirements in AASB 1055 *Budgetary Reporting* (March 2013, as amended)) have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved.

¹⁷ HoTARAC - Heads of Treasury Accounting and Reporting Advisory Committee

¹⁸ Department of Finance, Commonwealth Government

¹⁹ NSW Treasury

²⁰ ACAG - Australasian Council of Auditors General

- Financial statements of governments are more easily auditable, as they are based on Australian Accounting Standards.
- The quality of budget information has improved, due to the discipline of comparing (unaudited) budget data with (audited) annual outcomes.²¹
- A government's published budget is comparable with year-end financial reporting, supporting transparency and accountability.
- AASB 1049 requires a high level of consistent measurement, recognition and presentation, enabling greater comparability between jurisdictions and between the government sectors.²²
- Improved quality of statistical data available to the Australian Bureau of Statistics (ABS); and
- Improved whole of government consolidation processes through restricting accounting treatments adopted by reporting entities.²³

2.2 Erosion of the level of harmonisation

Despite the high level of agreement that the objective of the FRC's strategic direction has been met, most stakeholders cautioned that recent changes to some Australian Accounting Standards have started to erode the level of harmonisation between GAAP and GFS and the achievement of the objective of the FRC strategic direction.

One source of erosion is that some new or amended Australian Accounting Standards do not include optional treatments that are consistent with GFS principles. These optional treatments enable jurisdictions to comply with both the Australian Accounting Standards and the principles and rules of the GFS Manual. This enhances harmonisation.

AASB 1049 states:

Unless otherwise specified in this Standard, the whole of government financial statements and the GGS financial statements shall adopt the same accounting policies and be prepared in a manner consistent with other applicable Australian Accounting Standards. (paragraph 9)

... where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied. (paragraph 13)

²¹ Most Australian jurisdictions require budgets to be prepared consistent with Australian Accounting Standards to some extent. Not all jurisdictions require their budgets to be audited.

²² Treasury departments stated that harmonisation has been further supported by the implementation in 2008-09 of the AASB 1049-consistent UPF by all jurisdictions.

²³ AASB 1049 restricts accounting policies, both specifically and through reference to GFS principles. This can be leveraged to reduce the variability in accounting policies used by reporting entities, resulting in time and cost savings in examining and adjusting the outcomes of accounting policies when preparing consolidations.

Another source of erosion is the lack of speed and the difficulty of making changes to the rules in the GFS Manual, compared to making changes to the Australian Accounting Standards. There are several reasons for this:

- The ABS is reluctant to initiate frequent changes to the GFS Manual given the purposes for which GFS data is used, domestically and internationally. Consistency of data over time is valued for the National Accounts and other macroeconomic indicators.
- The Australian GFS needs to harmonise with the IMF GFSM 2014 (see **Figure 2**) and any changes to the IMF GFS require the involvement of other IMF member countries and an agreement to make changes.
- As discussed in section 1.2, both the ABS and the AASB are reluctant to make changes that are inconsistent with their underlying frameworks and objectives, and this could lead to irreconcilable differences.

2.3 Stakeholder feedback on new accounting requirements

In recent years, the AASB has invited public feedback on proposals to amend or issue new Australian Accounting Standards. Feedback from preparers and users of public sector financial reports have often focused on the impact of new requirements on the harmonisation of GFS and GAAP, particularly where no GFS-consistent optional treatments are included in the new accounting requirements.

In the Basis for Conclusions, the AASB has frequently stated that in deciding whether to include an optional treatment, they have had to *balance the principle of neutrality with the principles underlying the particular accounting standard and/or harmonisation of GFS and GAAP*.

However, stakeholders state that the lack of an optional treatment has led to an increase in convergence differences between the Whole of Government and GGS financial statements and the GFS fiscal aggregates.

The ABS states that for their purposes small convergence differences are not a threat to harmonisation, and many of the differences have existed from the launch of AASB 1049. However, when convergence differences grow in magnitude, the complexity of determining the GFS data needed by the ABS can increase as can costs for preparers and the ABS.

Three examples of recent changes to Australian Accounting Standards which have led to new convergence differences are outlined below. While harmonisation issues relating to AASB 1058 and AASB 1059 were mentioned by only a few stakeholders, concerns with the impact of AASB 16 on convergence were more widespread.

AASB 16 Leases

AASB 16 *Leases* has replaced AASB 117 *Leases* and no longer distinguishes between a lessees' operating leases and financial leases. The treatment of operating and finance lease for a lessor is largely unchanged under AASB 16. AASB 16 applies to annual reporting periods beginning on or after 1 January 2019.

Under AASB 16, for lessees, leases are now recognised as right-of-use assets with the associated lease liability, interest and depreciation expense. The GFS Manual continues to distinguish between operating and finance leases, which is now clearly inconsistent with GAAP, and no GFS-consistent optional treatment is provided in AASB 16.

The ABS has indicated that the lack of a GFS-consistent option in AASB 16 will create additional cost for the ABS, as they rework data to enable their own GFS reporting. The GFS Manual is very unlikely to change to be consistent with AASB 16 due to its need for consistency with international GFS and due to the different framework underlying the GFS. In particular, the GFS follows the principle of counter-party symmetry, whereas GAAP does not.²⁴ AASB 16 is based on IFRS 16 *Leases*, and the new accounting treatment of leases will be common to the countries who have adopted the IFRS standard.

Some Treasury Departments indicated they are unlikely to continue to retain data to support the GFS classifications of operating and finance leases, due to the high cost of maintaining two sets of data. It is claimed that the growing convergence difference between the GAAP statements and the GFS, due to the adoption of AASB 16, could be confusing for users. Some treasury departments highlighted the impact of the new AASB 16 requirements on the calculation of net debt, which is of significant interest to users of Whole of Government and GGS as a key indicator for the setting of fiscal policy, budget decision making and the analysis of public sector finances.

AASB 1059 Service concession arrangements: Grantors

Under AASB 1059, service concession arrangements involve an operator:

- Providing public services related to a service concession asset on behalf of the grantor; and
- Managing at least some of those public services at the operator's own discretion, rather than at the direction of the grantor.

Examples include bridges, tunnels, and hospitals. The focus of AASB 1059 is as follows:

The standard addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from the grantor's perspective. The Standard is based on International Public Sector Accounting Standard IPSAS 32 Service Concession Arrangements: Grantor and is informed by AASB Interpretation 12 Service Concession Arrangements, which sets out the accounting for the operator in a public-to-private service concession arrangement. For example, the principles for recognition of a service concession asset are broadly consistent with AASB Interpretation 12. (AASB 1059, p. 4)

Only two jurisdictions (Treasury Tasmania and the ABS) mentioned harmonisation issues arising from AASB 1059 in their response to the consultation paper, although all jurisdictions address the matter to some extent in their 2019-2020 financial statements. Queensland and Northern Territory have indicated they are still assessing the implications of AASB 1059 on their statements. AASB 1059 applies to annual reporting periods beginning on or after 1 January 2020. Victoria has early adopted AASB 1059 in their 2019-2020 financial statements, and the impact they disclose is significant.

During the development of AASB 1059, HoTARAC provide feedback to the AASB that the change in AASB 1059 from a risk and reward approach (consistent with the GFS manual) to a control approach would result in significant GAAP/GFS harmonisation differences.²⁵ The difference in recognition

²⁴ Under the GFS rules, an asset will only be recognised by a party to a transaction if the other party recognises a corresponding liability. Under AASB 16, this "symmetry" is not required.

²⁵ AASB Meeting 17 September 2019, Agenda Item 13.2, Letter from HoTARAC to AASB [13.2 HoTARAC Letter M172.pdf \(aasb.gov.au\)](#)

criteria and measurement of the asset/liability for various arrangements could result in significant convergence differences. They argued that this could undermine the credibility, relevance and confidence in public sector financial reporting and require careful narrative explanations of the differences.

The matter was also discussed in the Basis for Conclusions for AASB 1059 (paragraphs BC 109 – 111). The Board explained that in considering the issue they weighed the *policy on GAAP/GFS harmonisation* against the *policy of transaction neutrality*. The Board decided that it was not necessary to amend its decisions reflected in AASB 1059 in order to better achieve GAAP/GFS harmonisation. Thus, any material differences between GAAP and GFS could be reflected in the explanatory note on convergence differences.

AASB 1059 is based on IPSAS 32 *Service Concession Arrangements: Grantor*. However, there are important differences between the two standards. This is an international issue. The Intersecretariat Working Group on National Accounts (ISWGA) has listed this matter on their Research Agenda and has established a relationship with the IPSASB, to consider amending the SNA to follow new accounting standards if appropriate. An updated version of the SNA is under development at the IMF and is due for release in 2025.²⁶

AASB 1058 *Income of Not-for-Profit Entities*

AASB 1058 *Income of Not-For Profit Entities* applies to annual periods beginning on or after 1 January 2019 but before 1 January 2021. Earlier application is permitted for annual periods beginning before 1 January 2019.

Only one stakeholder referred to this standard as a potential issue for harmonisation.²⁷ The adoption of this standard may cause some jurisdictions to defer the recognition of some capital grants to a future accounting period. The provider of a grant may expense the payment in an earlier period. In contrast, the GFS Manual recognises the payment and receipt of grants when the payment is made. This will create new differences between the GAAP data and GFS.

Most differences in treatment between GAAP and GFS will be timing differences, rather than permanent differences. As indicated in the Basis for Conclusion of AASB 1058, when AASB 1058 was developed, the impact of the standard on harmonisation with the GFS was considered.²⁸ The Board advised that some differences in GFS and the GAAP requirements could only be addressed by making changes to the underlying principles in AASB 1058 and AASB 15, which it was not willing to do. It noted that convergence differences could be accounted for in the explanatory note to the accounts.

In conclusion

In summary, it is the lack of a GFS-consistent optional treatment in AASB 16 (and possibly) AASB 1059 that is of concern to stakeholders. While convergent differences can be accounted for in the explanatory note to the accounts under AASB 1049 (paragraph 41(a)), there are claims that over time the cumulative differences may increase and consistency between GAAP and GFS will widen. Changing requirements in AASB 16 and AASB 1059 to accommodate public sector reporting would compromise the integrity of the two standards and also the AASB principle of transaction neutrality.

²⁶ The Intersecretariat Working Group on National Accounts (ISWGA) set up by the UN Statistical Service [System of National Accounts](#)

²⁷ Department of Treasury and Finance, Tasmanian Government

²⁸ AASB 1059 BC 174-176.

As a similar gap between accounting standards and GFS may emerge in other countries, a solution may be available over time.

3. The usefulness of specific requirements of AASB 1049

An important part of the PIR was to identify if any changes to AASB 1049 are needed to better achieve the objective of the FRC strategic direction and the objectives of AASB 1049 in terms of the information needs of users.

3.1 What information in Whole of Government and GGS is of greatest use?

In responding to this question, many stakeholders referred to the objective of AASB 1049 (paragraph 1), that the Standard will provide users with:

- (a) Information about the *stewardship* by each government and accountability for the resources entrusted to it;
- (b) Information about the *financial position, performance and cash flows* of each government and its sectors; and
- (c) Information that facilitates *assessment of the macro-economic impact* of each government and its sectors.

Respondents from **treasuries** specified that the users²⁹ of the Whole of Government and GGS financial statements include public servants, governments, parliamentarians, media and the public. They stated that compliance with AASB 1049 leads to comparability between budgets, the audited financial statements and between different jurisdictions and is this is particularly relevant to:

- Stewardship and accountability for the resources entrusted to government;
- The financial position, performance and cash flows of each government and each sector; and

The information needs of users

Identify the key information needs of users of Whole of Government and GGS financial statements

Identify which specific requirements in AASB 1049 users find most useful, and which do they find least useful:

- (a) measuring most assets and liabilities at fair value in accordance with AASB 13 to align with GFS; and extent to which measuring non-financial assets at fair value provides users with sufficient information about performance and cash flows of non-financial assets.
 - (b) the key fiscal aggregates presented in accordance with AASB 1049;
 - (c) the reconciliation or explanations about the difference in the key fiscal aggregates measured in accordance with GFS compared with those measured in accordance with GAAP; and
 - (d) the budgetary disclosure requirements set out in AASB 1055.
- (RFQ Q 1, 2, 5, 6)

²⁹ There is some ambiguity in identifying the breadth of users of the financial statements and the information they specially find the most use. This has been discussed extensively in the academic and professional literature with little resolution. Several stakeholders stated that more detailed research needs to be undertaken to understand the needs of specific users of Whole of Government and GGS financial statements.

- Assessments of the macro-economic impact of each jurisdiction and its sectors.

Also, the use of a single underlying set of financial information provides a consistent source of data for users such as the ABS, Commonwealth Grants Commission (CGC), and credit agencies. The consistent presentation between the budget and year-end financial reporting required under AASB 1049 (and the UPF) can provide transparency over the budget process and accountability for expenditure of public funds.

The **specific information** that treasuries listed as the most useful, includes:

- Fiscal aggregates (for macro-economic and fiscal sustainability analysis);
- Sectoral information (for macro-economic analysis);
- Separate reporting of each sector and in particular, the GGS;
- Single line recording of PFC, PNFC investments in the GGS financial statements (allowing a clear line of sight to the government investment exposure);
- Separation of other economic flows from transactions (for macro-economic analysis);
- Detailed line-item information for budgetary comparisons (for accountability);
- Analysis of taxes by nature (for inter-jurisdictional and international comparisons);
- Analysis of expenditure by function (for jurisdictional and international comparisons); and
- Notes providing the analysis of balances included in the financial statements (for accountability).

ACAG stated that the following information “is expected to be beneficial for users”:

- Transactions that make up the net operating balance (budget result) of the GGS;
- The requirement to disclose expenses disaggregated by function as this provides users with an additional understanding of economic impacts of where and how taxpayers’ funding is being used at an aggregated level lower than the GGS;
- Net operating balance which is a key measure from a budgetary perspective. This measure allows users to see how well a government is controlling its expenditure given its largely routine nature of revenues; and
- The accrual-based balance sheet recognises non-cash liabilities such as defined benefit superannuation plans and a consolidated debt position (for example, useful in determining credit ratings and understanding the capital structure of a government).

3.2 Measuring assets and liabilities at fair value

While noting the challenges in determining fair value and the ongoing cost of undertaking valuations, there was strong support from stakeholders for retaining fair value as a basis for the measurement of assets and liabilities. This view is consistent with that reported by the AASB in their ongoing *Fair Value Measurement for Not-for-Profit Entities* project.³⁰

Stakeholders provided the following *reasons in support of measuring assets and liabilities using fair value*:

³⁰ This objective of this project is to “address issues and concerns raised by public sector constituents regarding the application of AASB 13 *Fair Value Measurement* by public sector entities”, see [Fair Value Measurement of NFP Entities project summary \(aasb.gov.au\)](https://www.aasb.gov.au/projects/fair-value-measurement-of-nfp-entities)

- Fair value measurement of physical non-current assets and liabilities is accepted by the ABS as a reasonable proxy for the GFS requirement of valuing non-current assets at market value.
- Because of the resulting consistency between GFS and GAAP, jurisdictions do not need to maintain two sets of records for asset values. Prior to AASB 1049, methods used for valuation of non-current assets in the public sector varied, with some jurisdictions valuing some non-current assets at historical cost.
- Fair value is a useful tool for measuring and assessing the changing value of assets and liabilities over time.
- Government decisions about changes in the use of assets, or their disposal are better reflected in the accounting outcomes when fair value is applied.
- Fair value provides useful information for macro-economic analysis and for the longer-term focus needed in the public sector.
- Many assets are held by governments for considerable periods of time, meaning historical cost may be irrelevant or not available. Historical cost would result in many assets recording zero values.
- Arguably, fair values hold governments accountable for decisions about the existing use of those assets.

So, the adoption of fair value for assets and liabilities *supports the harmonisation of GAAP and GFS*, and hence the FRC strategic direction.

The main *shortfalls in using fair value* are the challenges of measurement and the ongoing high cost of undertaking valuations. These issues are also cited in the private sector. Stakeholders cited the following issues:

- There are significant practical challenges in determining fair value in the public sector where there is no or limited active market for assets. This can lead to diversity in the application of principles depending on the assumptions and understanding of individual valuers.
- The ongoing costs incurred by jurisdictions to determine fair value can be high due to the complexity and magnitude of the valuation exercise. ACAG stated it was aware some users wanted to see a disclosure of the comparison between cost and fair value as they struggle to comprehend the basis of fair value for certain assets. They questioned whether it might be useful to reassess whether the widespread use of fair value in the public sector continues to be supportable from a cost/benefit perspective.

One solution suggested by stakeholders was that AASB 13 *Fair Value Measurement* could include options for valuation that are consistent with those methods allowed in the GFS Manual where fair value is not feasible. The ABS stated that other measurement choices are provided in the GFS Manual to provide practical alternatives in situations where fair value is not an option.

Fair value should be retained as a basis for measurement of non-current assets and liabilities in accordance with AASB 13, as it contributes to harmonisation and to information that is valued by users.

3.3 Key fiscal aggregates presented in accordance with AASB 1049

Key fiscal aggregates are defined in AASB 1049 as follows:

Referred to as analytical balances in the ABS GFS Manual, are data identified in the ABS GFS Manual as useful for macro-economic analysis purposes, including assessing the impact of a government and its sectors on the economy. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth and cash surplus/(deficit). (AASB 1049, Appendix A, page 17)

AASB 1049 paragraph 16 requires that the key fiscal aggregates must be disclosed for the Whole of Government and GGS. In addition, governments may choose to disclose additional fiscal aggregates as long as they are clearly distinguished from the key fiscal measures (paragraph 18A, 18D). Both key fiscal aggregates and any voluntarily disclosed aggregates, must be measured in a manner that is consistent with amounts recognised in the corresponding statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flow (AASB 1049, paragraph 16).

There was strong support from stakeholders to retain the requirement to disclose key fiscal aggregates.

Stakeholders who responded to the question on the usefulness of key fiscal aggregates stressed the value for a range of users and their decision making. For example, HoTARAC indicated:

The minimum key fiscal aggregates required by AASB 1049, are commonly referred to by a range of internal and external stakeholders. Headline results for jurisdictions are based on the key fiscal aggregates described in AASB 1049....Decision making by individual agencies and government is informed by reference to these fiscal aggregates.

Some treasuries stated it was:

... the most useful aspect of this standard, providing consistent, robust, well-defined and well-understood financial objects that can be used as a focus of transparent and accountable financial management, analysis, and interjurisdictional comparison.

The availability of well-defined and comparable key fiscal aggregates also facilitates the communication of State policy and related analysis, both for internal policy advice and external purposes.

Also, clearly defined and consistent presentation of key fiscal aggregates, were valuable as they:

- indicate the influence that government activity has on the economy of a jurisdiction;
- indicate the impact to capital markets of financial and investing activities that are undertaken by government;
- inform government fiscal strategy as a component of macro-economic management; and
- facilitate comparable international economic (and social) comparisons between jurisdictions within Australia (through the ABS) and internationally through bodies such as the International Monetary Fund (IMF) and the Organisation for Economic Co-Operation and Development.

ACAG stated that many users and preparers who are not familiar with the economic concepts may find the requirements hard to understand and implement. They suggested there could be benefit in providing additional plain language explanations for these measures.

They also suggested that an additional aggregate the separation of 'Other Economic Flows' from the operating result could be useful as it separates changes in volumes and values in assets that are not necessarily within the government's control from those items that are controlled by the government. This makes the government more accountable for the net operating balance. However, this additional disclosure is currently cited in AASB 1049 paragraph 18A as a potential voluntary disclosure, so there is no prohibition on jurisdictions disclosing this additional aggregate.

Given the value of key fiscal aggregates for a range of users' decision making, there should be no changes made to this disclosure requirement.

3.4 Reconciliations or explanations of differences between key fiscal aggregates

AASB 1049 paragraph 41, requires that, for the Whole of Government and the GGS:

(i) where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates provided pursuant to paragraph 16 of this Standard:

*(A) (1) the key fiscal aggregates measured in accordance with the ABS GFS Manual;
and*

(2) a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences; or

(B) an explanation of how each of the key fiscal aggregates provided pursuant to paragraph 16 of this Standard is calculated and how it differs from the corresponding key fiscal aggregate measured in accordance with the ABS GFS manual

It is only recently that AASB 1049 was amended to allow for an explanation only to be disclosed. This change was driven by stakeholder concern that the potential for differences between the GFS and GAAP data to widen would increase the cost of undertaking a quantitative reconciliation.

Only six stakeholders commented on the usefulness of the disclosure of the convergence differences. Reasons provided *in support of maintaining these disclosures* were not strong, and included the following:

- As the objective of AASB 1049 is to converge the two frameworks, it seems consistent to disclose the explanation of differences, when relevant and practical.
- It is important for users to be aware of the key differences between AASB 1049 and the GFS-based measures, particularly as recent change to Australian Accounting Standards have led to differences between the accounting and GFS measures.

However, all stakeholders who responded expressed doubt whether the explanation of differences was useful or was even used by any user group.

While supporting the reconciliations themselves as useful, ACAG *questioned whether some of the explanations accompanying the reconciliations were of value for users* such as the general public, due to the level of expertise required to understand GAAP and GFS.

ACAG sees greater value in the reconciliation of key fiscal aggregates relating to the Operating Statement compared to the Balance Sheet measures as this allows readers to see how well the government is controlling its expenditure given its routine revenue sources. ... ACAG questions the usefulness of the reconciliation of the net worth key fiscal aggregates due to the large (and increasing) number of differences in accounting for items in the Balance Sheet.

In support of not mandating the disclosure, several respondents stated that the ABS publishes jurisdictional outcomes using GFS data several months after the audited financial statements prepared in accordance with AASB 1049 have been published. The ABS undertakes several adjustments to arrive at the “pure” GFS data. This casts doubt on the value of the Whole of Government and GGS disclosures. It was also noted by one stakeholder that IPSAS 22 does not require such disclosures due to concerns about the practicability, and the costs and benefits.

The ABS noted that they do not use the explanations of the differences in key fiscal aggregates directly as they consult directly with treasuries to access more detailed information that underlies the aggregates to determine the GFS data. However, the narrative disclosures of convergence do alert the ABS to the type of differences that they may need to adjust for in calculating their final GFS data.

In reviewing the disclosures published in the most recent financial statements of jurisdictions, the level of detail of the reconciliation /explanation disclosures differs greatly across jurisdictions.³¹ These range from:

- a descriptive statement of the types of differences between GAAP and GFS that have arisen and the fiscal aggregates they impact (Victoria); to
- detailed explanations running for many pages that include extensive quantitative reconciliations (see the Queensland and Commonwealth governments).

It is clear that the requirements for a reconciliation and/or explanation can be undertaken at quite manageable levels of detail, and therefore presumably for a modest cost. It seems within the scope of jurisdictions to determine the level of detail they will disclose in their note.

A continuing requirement to provide an explanatory note describing the type of items that make up the convergence difference could have advantages in providing an alert to the types of items that make up that convergence, and as a way to signal that convergence differences are increasing (or not).

³¹ This is likely because recent changes which allow a descriptive explanation only, applies to annual periods beginning on or after 1 January 2020, but many adopted this in the 2019-2020 reports.

The value of this disclosure to users is unclear and given that jurisdictions have the option to provide a detailed reconciliation/explanation or brief explanation no change to paragraph 41 is recommended.³²

No changes should be made to the requirement to provide reconciliation or explanations for convergence differences between GFS and GAAP, particular given the recent changes to allow qualitative reconciliations.

3.5 Budgetary disclosure requirements in AASB 1055

Only five stakeholders responded to this matter and comments were brief. There was a strong agreement among stakeholders that the budgetary disclosure requirements in AAS 1055 were useful.

Several treasury stakeholders reflected on the state of budgetary reporting prior to AASB 1049 and AASB 1055, when citing the following *positive comments*:

- The disclosures are a key component of comparability, transparency, and accountability.
- Explanations of major variances allow users of financial statements to make a more informed assessment of the financial results.
- The introduction of AASB 1055 has standardised budgetary disclosures requirements, leading to more consistent format and improving comparability across jurisdictions and between actual and budgeted results.

HoTARAC further stated that the objectives of AASB 1055 rely on the requirements in AASB 1049 by:

- mandating recognition and measurement bases;
- requiring presentation by sector; and
- requiring alignment with the GFS framework.

However, ACAG noted some *limitations* that may impact the usefulness of the budgetary disclosures:

- The quality of budgetary reporting disclosures varies across jurisdictions, being brief and not fully explaining the sources of variations from budget.³³
- The reporting of budgets in the financial statements is a duplication, as budgets are separately reported through the parliamentary reporting process.

There were suggestions for *reducing the extent of budgetary disclosures* from some treasury stakeholders and ACAG.

- Budgetary reporting relating to the Statement of Financial Position should only focus on items such as capital expenditure, borrowings and unusual or particularly significant items. (ACAG)

³² This reasoning is consistent with the Basis for Conclusions in AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliation*.

³³ This is not a limitation of AASB 1055.

- Budgetary information about the Statement of Cash Flows provides little relevant information for users as variations in cash flows are primarily the result of variations affecting the other two statements. The explanations of movements in the cash flow refer to the underlying movements and offer little informative value. (ACAG)
- The most useful variances relate to the Statement of Comprehensive Income. Variances in the Statement of Financial Position are often driven by closing balance differences and variance in the Statement of Cash Flows duplicate those found in the other two statements. (A treasury stakeholder)

Another suggestion from a treasury stakeholder is that AASB 1055 should be amended to allow the latest budget, in addition to or instead of the original budget, in the comparison with actual results. This would reflect better government accountabilities in practice.³⁴

Also, the requirement to provide explanations for variances to original budget provides an unnecessary burden (given other commonly available publications such as Mid-year Reviews and more recent Budget Papers include details of changes since the previous forecast) and can create confusion amongst users (due to different bases for variance reporting in the different reports).

Given the lack of compelling evidence of any major shortcomings in the requirements of AASB 1055, there should be no major amendments made to the standard.

³⁴ Most jurisdictions require some form of mid-year budget update, which serves as the point of accountability following its release. For example, at the Federal level, this is the Mid-Year Economic and Fiscal Outlook.

4. The costs of AASB 1049

The benefits that have arisen from AASB 1049 are outlined in sections 2 and 3 of this report. These need to be compared to the costs of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055.

4.1 The costs to preparers

Stakeholders that responded to these questions were the preparers of GAAP and GFS reports - the treasuries and the ABS

The total cost to governments of producing financial statements has been estimated in prior research. For example, in a AASB discussion paper, the cost of preparation (including the valuation of non-financial assets) and audit of public sector financial statements was estimated to be more than \$1 billion per annum.³⁵

This included the costs of financial reporting well *beyond that required for AASB 1049*, which only applies to the Whole of Government and GGS financial statements. In particular, the cost of complying with State or Territory legislation or Treasurer's instructions, usually includes preparing Tier 1 reporting for the many entities (departments, agencies and business enterprises) that make up the Whole of Government and GGS.³⁶ The cost of this compliance is significant.³⁷

The cost to treasuries

This report does not provide an estimate of the cost to treasuries of complying with AASB 1049. As several treasury stakeholders stated, they do not keep separate data or undertake separate processes to produce Whole of Government and GGS statements under AASB 1049. However, two stakeholders did estimate some indicative annual costs, which were remarkably similar:

- Queensland Treasury estimated their current costs to fulfil all financial reporting obligations under AASB 1049, GFS and UPF and budgeted financial data to be approximately \$2 million per year. This includes direct salaries and an estimate of direct and indirect software and IT related costs.
- WA Treasury estimated the cost related to AASB 1049 disclosures at around \$1.3 million per year for salaries, superannuation and related costs. The cost of the auditor-general related to AASB 1049, was estimated at about \$0.40 million per annum.

Key areas of focus

How costly is it to a jurisdiction to comply with the requirements in AASB 1049?

How useful are the financial data provided under AASB 1049 to the ABS?

Would the costs change if jurisdictions were required to prepare financial statements under Australian Accounting Standards without AASB 1049?

Could compliance and preparation costs reduce by changing the principles underlying AASB 1049 in whole or in part?

Do the benefit to users in having financial statements prepared in accordance with AASB 1049 outweigh the cost to a jurisdiction?

(RFQ Q 8, 9, 10, 11, 12)

³⁵ AASB Discussion Paper: *Improving Financial Reporting for Australian Public Sector*, June 2018.

³⁶ Tier 1 reporting apply applies to Australian Government, State and local governments under AASB 1053. South Australia and Queensland and the Australian Government allow Tier 2 reporting for entities below Whole of Government.

³⁷ The AASB project on *Improving Public Sector Reporting in the Public Sector*.

Most treasury stakeholders stated that the cost of complying with AASB 1049 could not be quantified, as they cannot isolate this cost from the cost of complying with other reporting frameworks. The lack of separability of these costs is largely a result of the alignment of GAAP and GFS requirements, in accordance with AASB 1049, as well as other reporting needs that they needed to comply with.

There was a common theme in the responses from treasuries that the introduction of AASB 1049 has *decreased costs for treasuries*, and if AASB 1049 was to cease to exist, *the costs would likely increase*. (See section 5 for further discussion.) In particular:

- The UPF prescribes the minimum disclosures for financial statements and other tables, and this is needed for interjurisdictional comparison;
- GFS data needs to be provided to the ABS, so for example, the cost of estimating fair values of assets and liabilities would still be required in the absence of AASB 1049.
- Current values of assets need to be determined for insurance purposes, where appropriate. Consequently, savings from not applying AASB 13 *Fair Value Measurement* (required because of the application of AASB 1049) would be minimal. The requirement to determine fair values of assets and liabilities would continue to be required for GFS purposes, even if not required under Australian Accounting Standards; and
- Other state or territory legislation, which requires the production of financial statements and other financial information for government entities would continue.³⁸

The Commonwealth Department of Finance noted:

The requirements of other AAS incur greater preparation costs than AASB 1049. For example, AASB 13 Fair Value Measurement, AASB 16 Leases, the disclosure provisions of AASB 119 Employee Entitlements and AASB 7 Financial Instruments: Disclosures. A comprehensive review of preparation costs/benefits should consider the provisions of these other accounting standards.

HoTARAC stated that current financial management systems in jurisdictions have been designed to manage government reporting requirements based on the harmonisation of accounting and GFS concepts. Before the introduction of AASB 1049, governments needed to maintain two sets of records, in order to meet their obligations to provide GFS information to the ABS and to prepare budget statements and outcome reports.

The costs to the ABS

The ABS, a major user of the financial statements, outlined the impact of AASB 1049 on their costs:

- The ABS incurs limited direct costs as a result of AASB 1049.
- The need to collect GFS data from jurisdictions would exist in the absence of AASB 1049.
- The ABS has worked closely with treasuries over many years to find efficiencies that reduce the costs of GFS data reporting for both the ABS and treasuries.
- AASB 1049 adds value by helping streamline GFS data reporting requirements, which allow single sources of data and outputs to be used in multiple ways with minimal intervention.

³⁸ These requirements may differ across jurisdictions. For example, in most states and territories treasury instructions require most entities to use Tier 1 reporting. However, South Australia, Queensland and the Commonwealth allow Tier 2 reporting for entities below Whole of Government level (*AASB Research Report No 6: Financial Reporting Requirements Applicable to Australian Public Sector Entities*, May 2018, p. 16).

However, the ABS stated that substantial resourcing is required by the ABS to make adjustments to bring jurisdiction data in line with GFS principles. They saw this cost as likely to increase as changes to some Australian Accounting Standards have led to the emergence of new convergences between GFS and GAAP.

In particular, the changes to AASB 16 *Leases* and AASB 1059 *Service concession arrangements: Grantors* do not align with the current GFS Manual. The ABS needs to adjust the data in the financial statements of Whole of Government and GGS to determine the required GFS data. The ABS saw the key issue as the lack of an optional GFS-consistent treatment in these standards as contributing to an erosion of harmonisation between GAAP and GFS, and an increase in their costs.

The costs to other users

The Commonwealth Department of Finance reflected on the likely impact of AASB 1049 on the costs to users:

- Direct costs to users of accessing and interpreting information are *minimised by AASB 1049* as only one set of financial statements needs to be accessed and interpreted;
- The indirect costs to users if information is unclear or inconsistent are *reduced by AASB 1049* as there is a single, consistent set of financial statements;
- Costs to regulators may be *increased or reduced by AASB 1049*, depending on the regulation model;
- Costs to the AASB, which has to manage frequent amendments and feedback, are possibly *increased by AASB 1049*;
- Cost to the ABS *have decreased*, due to receipt of more consistent and compliant accounting data with fewer deviations from GFS; and
- Audit and assurance costs could be higher under AASB 1049 because auditors need to understand both Australian Accounting Standards and the GFS Manual.

4.2 Impact on costs of preparing financial statements without AASB 1049

Informal conversations and formal responses from stakeholders indicated that treasuries have developed purpose-driven templates or models that integrate the requirements for Australian Accounting Standards and GFS reporting. Treasuries do not maintain “two sets of books”. Thus, treasuries have developed efficient ways to manage the complexity of the cost of reporting under the various frameworks.

Rather than costs increasing through AASB 1049, it was reported that AASB 1049 provides an *efficient way of controlling the costs of compliance*, with some treasuries stating that the introduction of AASB 1049 has probably *minimised the costs* associated with broader public sector reporting requirements, and that if AASB 1049 was withdrawn, the Whole of Government financial statements and accompanying explanatory note disclosures would still need to be prepared annually, with the exception of some notes e.g. GFS/GAAP convergence. Information on sectors is already required under the UPF. GFS data would still need to be reported to the ABS.

If AASB 1049 was to cease to exist, costs would likely be incurred by treasuries in developing new accounting policies and possible new models to address the reporting gap that this withdrawal would create.

4.3 Impact on costs of changing the principles underlying AASB 1049

Key principles that underly AASB 1049 include the following:

- Whole of Government and GGS financial statements shall be consistent with applicable Australian Accounting Standards.
- Where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied.
- When optional treatments in Australian Accounting Standards are available, the option that is aligned with the principles or rules in the ABS GFS Manual shall be applied.

Treasuries have indicated that the application of AASB 1049 has not led to increased preparation costs. AASB 1049 has not only impacted on the comparability of financial reporting across jurisdictions; it provides an efficient approach to enabling this. The principles outlined above are core to the approach taken in AASB 1049 and are consistent with the AASB principle of transaction neutrality.

An analysis of recent amendments to accounting standards that do not have the GFS-consistent optional treatments is that in response to feedback from public sector stakeholders, changes are not accommodated as this would require either changing the principles that underlie the particular accounting standard or changing the transaction neutral principle.

An area of debate is the cost of fair value measurement:

- ACAG stated that the high cost of requiring fair valuation may not be sustainable.
- Some treasuries stated that they need to value assets using fair value for insurance purposes and for GFS purposes.
- Conversations with stakeholders revealed that the fair values are often achieved using indices, which reduces cost.

As the separable costs of compliance with AASB 1049 are not significant, no changes need to be made to AASB 1049 to reduce costs.

4.4 Costs versus benefits of AASB 1049

Based on the above discussion, the costs of compliance with AASB 1049 by treasuries, do not appear to be significant and in fact treasuries see AASB 1049 as creating cost efficiencies. Clearly for jurisdictions, the high cost of complying with State or Territory legislation or Treasurer's instructions for financial reporting are far more significant.

The costs of complying with other standards, such as AASB 13 *Fair Value Measurement*, can be high, but as explained, in some jurisdictions fair values need to be estimated for other purposes. When this is compared with the significant benefits of AASB 1049 as claimed by stakeholders, it is clear that benefits to users exceed the costs to preparers.

5. Is there still a need for a specific Accounting Standard to harmonise GFS and GAAP?

In prior sections, the benefits of AASB 1049 contributing towards the harmonisation of GFS and GAAP has been presented. The costs of complying with AASB 1049 by preparers are not significant.

Harmonisation of GFS and GAAP has increased since AASB 1049 was introduced – albeit with some concerns about possible erosion.

Is there still a need for a specific standard to harmonise GFS and GAAP?

5.1 Would AASB 1055 alone provide sufficient information for users?

Stakeholders indicated that in the absence of AASB 1049, AASB 1055 alone would not provide sufficient information for users of financial statements.

HoTARAC and several Treasury Departments elaborated on *the disadvantages of relying only on AASB 1055 and other Australian Accounting Standards:*

- Financial statements would not be required to be produced at the GGS level. While jurisdictions could regulate this requirement through their own legislation, AASB 1049 provides a consistent basis for performing this consolidation across jurisdictions;
- The Statement of Comprehensive Income line items, including key subtotals, may no longer reflect GFS presentation rules. AASB 1049 requires transactions to be presented consistent with GFS;
- Different transactions could potentially be measured and recognised inconsistently across jurisdictions and between government sectors. AASB 1049 effectively reduces the options available under Accounting Standards.
- There would be no mandated consistent basis for recognition and measurement, which is currently in AASB 1049;
- Financial statements and budget statements might return to the pre-AASB 1049 days when the two statements were based on different frameworks. This would make it difficult to explain variations between the budget and the actuals in the financial statements and potentially confuse users.
- Key fiscal aggregates would not be required, and their measurement would not be prescribed;
- Reconciliations of convergence differences would not be provided.

While some of the above could be included in other Australian Accounting Standards this could lead to complexity for preparers and further difficulties for harmonisation.

Area of focus

Determine whether financial statements prepared in accordance with AASB 1055, in the absence of AASB 1049, would still provide sufficient information for users of Whole of Government and GGS financial statements.

Assess whether compliance with other applicable AASB Standards, without AASB 1049, could achieve the objectives outlined in paragraph 1 of AASB 1049.

(RFQ Q 3, 7)

5.2 Would compliance with other Australian Accounting Standards be sufficient for user needs?

All stakeholders agreed that in the absence of AASB 1049, compliance with other Australian Accounting Standards *would not achieve the objectives as outlined in paragraph 1 of AASB 1049*, in relation to stewardship, accountability and assessing macroeconomic impact of governments and their sectors

There was overwhelming agreement among stakeholders that AASB 1049 must be retained in its current form.

It was stated that many of the requirements of AASB 1049, impact on disclosure of information that is valuable for users. Other Australian Accounting Standards do not require this information be disclosed. In particular:

- **The reporting of the GGS entity.** Prior to AASB 1049, separate financial reporting of the GGS was not required by Accounting Standards. The GGS is considered of particular value to users. AASB 1049 also outlines how the consolidation should be accounted for. AASB 10 *Consolidated Financial Statements* does not currently provide this guidance.
- **Consistency of financial reporting across jurisdictions.** Without AASB 1049, jurisdictions would have more discretion on what information to include in financial reports, which could lead to a reduction in comparability in the financial statements of the states, territories and the Commonwealth as each jurisdiction would exercise its own discretion regarding the information to include (which may or may not be relevant for their users).
- If there was no AASB 1049, the Uniform Presentation Framework (UPF) could provide guidance for jurisdictions. However, the UPF currently draws on AASB 1049 and the GFS. The UPF is a presentation framework and does not specify recognition criteria or measurement.
- **Consistency of GAAP reporting with GFS.** AASB 1049 requires jurisdictions to present items in the Whole of Government and GGS statements consistent with GFS classifications, which enhances comparability across jurisdictions. Without AASB 1049, users may need to refer to two separate sets of financial statements to meet their information needs. While consolidated financial statements prepared under Australian Accounting Standards would provide some information about the stewardship and accountability, many of the useful financial statement disclosures required by AASB 1049 would be lost in the absence of AASB 1049.
- **Reporting of key fiscal aggregates.** The requirement to report key fiscal aggregates is not included in other Australian Accounting Standards. It was claimed that these data are widely used by decision-makers to assess the financial performance and position of a jurisdiction and are often used as measures or targets in a government's fiscal strategy, particularly net operating balance (budget result), and net debt.
- **Constraining choices in accounting treatments.** AASB 1049 constrains the choices available when presented with options in Accounting Standards, which enhances comparability of financial reporting across jurisdictions.
- **Macroeconomic analysis.** GAAP based financial reports do not assist the macro-economic impact of government activities unless they have been prepared consistent with the GFS framework. They are unlikely to provide information that facilitates assessments of the macro-economic impact of each government and its sectors.

- **Auditability of government statements AASB 1049** requires the preparation of financial statements and the basis of preparation, which are generally subject to an audit process. Without AASB 1049, it would be up to each jurisdiction to determine what level of scrutiny their GFS information would be subject to. It was stated by HoTARAC that alternative approaches outside of AASB 1049 may not be sufficiently robust for auditors.

Thus, the requirements in AASB 1049 that provide better information for users in understanding the stewardship and accountability of each government and in assessing the macro-economic impact of each government and its sector are as follows:

- The disclosure of key fiscal aggregates
- Requirements to report financial statements for the GGS
- Compliance with the GFS framework
- Publication of WOG and GGS at same time
- Adoption of optional treatments

AASB 1049 is based on the principle of harmonisation and to abandon this would likely lead to increased costs for treasuries, and the ABS and other user groups.

6. Minor amendments to AASB 1049 and AASB 1055

In this last section, suggested amendments to AASB 1049 and AASB 1055 will be summarised. Many of these have already been mentioned in prior sections of this report.

No major flaws in AASB 1049 or AASB 1055 were uncovered in this review, so the suggested amendments are minor.

Positive comments included:

We are not aware of any significant outstanding areas of concern formally expressed by key constituents, either in response to AASB outreach or initiated by users, in relation to the current operation of this accounting standard.³⁹

Alternate ways of achieving the FRC strategic direction are also considered.

6.1 Potential improvements to AASB 1049 and AASB 1055

Stakeholders provided strong statements urging that *no changes to be made to AASB 1049*, particularly changes that would impact the harmonisation of GAAP and GFS and comparability across jurisdictions. However, minor amendments were suggested to improve harmonisation, reduce cost, or improve information for users.

Potential amendments to AASB 1049

Identify what amendments to AASB 1049 would be necessary to provide the information users require and/or whether there may be alternative approaches to achieving the FRC strategic direction

Are there alternative approaches to achieving the FRC strategic direction?

(RFQ Q 4)

³⁹ Department of Treasury and Finance, Victoria

Improvements to AASB 1049

- **Consider simplifying** the requirement for disclosure of total assets by function (paragraph 48 (b)).⁴⁰ This disclosure is not mandated by the ABS GFS manual; the ABS only require disclosure of total expenses by function. The attribution of functions to total assets is problematic when it comes to assets such as cash or investments or office accommodation and can result in significant judgements being exercised which may not be consistent across jurisdictions. An option might be to restrict the disclosure to property, plant and equipment.
- Remove the mandatory requirement to disclose assets by function (AASB 1049 paragraph 48(b)). In contrast one treasury stated that it is likely that this information is widely used, and the disclosure could be voluntary.
- Review, rationalise and update the information on harmonisation differences and the examples that are currently provided (AASB 1049 paragraph 14);
- **Rationalise the examples appended to AASB 1049.** These examples are extensive and potentially costly to maintain for the AASB.
- Allow for **more user-defined fiscal aggregates**, in addition to those mandated as key fiscal aggregates in AASB 1049.
- Remove the public sector requirement to present a **statement of changes in equity** in circumstances where it is redundant because it does not provide additional information to that in the other statements and explanatory notes.

Opportunities to strengthen AASB 1049 guidance material are as follows:

- Improve the clarity and utility of required disclosures of the differences between the GFS framework and the GAAP, particularly those resulting from the increasing complexity in the requirements of new Australian Accounting Standards which create additional convergence differences;
- Incorporating guidance on accounting for the treatment of accumulated equity reserve balances on Machinery of Government entity changes in the financial statements of the transferee, the transferor and at a consolidated set of financial statements level;
- Clarify the criteria for capital transfers from the GGS to other government sectors to be classified as equity injections, as opposed to contributions giving rise to income in the hands of the recipient; and
- Incorporate disclosure guidance in respect of financial instruments (AASB 9) and fair value measurement of non-financial assets (AASB 13), targeted to the needs of the users of the public sector consolidated government financial reports.

Out of date paragraphs

Update the out-of-date paragraphs of AASB 1049:

- Paragraphs 29 and 30;
- Update the page references to the GFS in the Appendix A Key Terms to reflect the page numbers in the current GFS Manual.

⁴⁰ Some stakeholders stated that this disclosure is not useful while others cited it as one of the advantages of AASB 1049.

Potential improvements to AASB 1055

As discussed in section 3.5, there were suggestions for reducing the extent of budgetary disclosures from treasury stakeholders and ACAG.

- Budgetary reporting relating to the Statement of Financial Position should only focus on items like capital expenditure, borrowings and unusual or particularly significant items.
- Budgetary information about the provides little relevant information for users as variations in cash flows are primarily the result of variations affecting the Statement of Comprehensive Income and. The explanations of movements in the cash flow refer to the underlying movements and offer little informative value.
- Consider whether the budgetary reporting relating to the Balance Sheet should only focus on items like capital expenditure, borrowings and unusual or particularly significant items.
- Budgetary information on the Statement of Cash Flows could be removed as variations in cash flows are primarily the result of variations affecting the Operating Statement and Balance Sheet, therefore the explanations of movements in the cash flow refer to the underlying movements and offer little informative value.
- AASB 1055 should be amended to allow the principal budget v actual comparison to use the latest budget, in addition to or as a replacement for the current original Budget comparison requirement. This would reflect government accountabilities in practice. As background, the unique circumstances of the public sector mean that budgets are reviewed more often than is the case in the private sector; and
- it would be useful to require entities provide meaningful disclosures on the elements contributing to movements recorded as 'Other Economic Flows' are made, rather than just a narrative about what each item is. For example, if there is a material change to an actuarial assumption, disclosure of the key factors causing the material change would be useful

6.2 Are there alternative approaches to achieving the FRC strategic direction?

As discussed in prior sections, stakeholders have stated that AASB 1049 provides an efficient and cost-effective means for ensuring consistent, accurate reporting across jurisdictions. The costs to preparers of complying with AASB 1049 do not appear to be significant, due to the need for preparers to produce similar data for other reporting obligations.

Two alternatives to using AASB 1049 to achieve the FRC strategic direction could include the following:

- *Relying on local legislation to regulate reporting in each Australian jurisdiction.* This approach would be challenging (and costly to each jurisdiction and the ABS) due to the difficulty in ensuring consistent legislative requirements across jurisdictions and would potentially reduce comparability in reporting requirements and measurement. This was the approach in place prior to AASB 1049 and the problems associated with this are well known and have been discussed earlier in this report.
- *Relocating the provisions of AASB 1049 and AASB 1055 throughout other Australian Accounting Standards.* This would add complexity for the users of Australian Accounting Standards, adding time and cost for preparers of financial statements, and would make the other accounting standards more complex.

Harmonisation between GAAP and GFS would be difficult to maintain under either alternative. Harmonisation is one of the core principles of Australian public sector reporting, and because of the advantages of consistent information for users and cost efficiencies. AASB 1049 appears to be the best way for achieving this.

Appendix A Scope of the Project

The Request for Quotation specified the following key responsibilities and duties for the project, to include (but not limited to):

a) perform outreach to stakeholders, research and analysis in order to determine:

Information needs of users of Whole of Government and GGS financial statements

1. Identify the key information needs of users of Whole of Government and GGS financial statements in each jurisdiction.
2. Identify which specific requirements in AASB 1049 do users find most useful, and which do they find least useful. This includes identifying which key fiscal aggregates determined in accordance with GFS users find most useful. In particular, but not limited to, identify the extent that the following requirements of AASB 1049 provide useful information to users:
 - (a) measuring most assets and liabilities at fair value in accordance with AASB 13 to align with GFS;
 - (b) the key fiscal aggregates presented in accordance with AASB 1049;
 - (c) the reconciliation or explanations about the difference in the key fiscal aggregates measured in accordance with GFS compared with those measured in accordance with GAAP; and
 - (d) the budgetary disclosure requirements set out in AASB 1055.
3. Determine whether financial statements prepared in accordance with AASB 1055, in the absence of AASB 1049, would still provide sufficient information for users of Whole of Government and GGS financial statements. That is, consider whether budget statements and the corresponding financial statements that are presented under the same measurement basis in accordance with Australian Accounting Standards – but might not necessarily be measured at fair value to align with GFS and do not provide key fiscal aggregates information – provide sufficient information for users.
4. Identify what amendments to AASB 1049 would be necessary to provide the information users require and/or whether there may be alternative approaches to achieving the FRC strategic direction.
5. In addition to 2(a) above, research on the extent that measuring non-financial assets held by public sector at fair value under AASB 13 provide useful information to users of financial statements. Identify whether the current values in financial statements is sufficient in meeting the objective stated in paragraph 1(b) of AASB 1049 to provide sufficient information to users about the performance and cash flows (as appropriate) of non-financial assets in each government.
6. Assess whether and to what extent do the current Whole of Government and GGS financial statements, prepared in accordance with AASB 1049, achieve the objectives outlined in paragraph 1 of AASB 1049, including whether financial statements:
 - a. provide users with information about the stewardship and accountability of each government; and
 - b. facilitate assessments of the macro-economic impact of each government and its sectors.

7. Assess whether compliance with other applicable AASB Standards, without AASB 1049, could achieve the objectives outlined in paragraph 1 of AASB 1049. If not, identify which specific requirements in AASB 1049 would lead to better information for users in understanding the stewardship and accountability of each government and in assessing the macro-economic impact of each government and its sector.

Costs to comply with AASB 1049

8. Assess how costly is it to a jurisdiction to comply with the requirements in AASB 1049 – the Treasury Department in each jurisdiction is required to provide GFS reporting to the Australian Bureau of Statistics (ABS) as well as compile financial statements in the agreed format of the Uniform Presentation Framework (UPF)³, which is largely harmonised with key requirements of AASB 1049 to facilitate comparability among the jurisdictions.
 9. In respect of 8 above, assess the cost savings to a jurisdiction for not having to keep a separate set of records and reports to provide GFS and UPF reporting, as a result of aligning GAAP and GFS in accordance with AASB 1049. Assess whether costs would change if jurisdictions were required to prepare financial statements under Australian Accounting Standards without AASB 1049.
 10. Given that leases and service concession arrangements cannot be aligned with GFS under the current GFS Manual and ABS is able to make adjustments to the information in the financial statements of Whole of Government and GGS to compute the required GFS information, assess the usefulness to ABS of the current financial statements of Whole of Government and GGS being prepared under AASB 1049.
 11. Whether compliance and preparation costs could be reduced by changing the principles underlying AASB 1049 in whole or in part;
 12. Assess whether and to what extent does the benefit to users in having financial statements prepared in accordance with AASB 1049 outweigh the cost to a jurisdiction; and
- b) prepare a report to the FRC documenting the above research and outreach findings, their analysis and recommendations.

Appendix B Stakeholder Consultation

The consultation processes

In May 2021, a Consultation Paper was completed by Langfield-Smith Consulting (LSC), an independent consultant. The Consultation Paper provided the background to the PIR and included a series of open-ended questions for users and preparers of government financial statements.

To ensure that the PIR was an independent review, the Consultation Paper was not published on the FRC or AASB websites and stakeholder submissions were not submitted to the FRC or AASB. LSC developed a stakeholder contact list, sent invitations to stakeholders to respond to the questions in the CP, managed queries in relation to the PIR and advised that responses to the Consultation Paper be emailed directly to LSC.

The process for stakeholder consultation included the following:

- A stakeholder mailing list was developed. The list of stakeholder groups listed in the RFQ provided the starting point. Web searches and phone calls to offices helped ensure that the correct person or committee was on the mailing list.
- Emails were sent by LSC to individual stakeholders inviting them to respond to the questions in the Consultation Paper that were the most relevant to them as a user or as a preparer.
- Email invitations were followed up by phone calls to ensure that the email had been sent to the most relevant person at the agency or department.
- Some stakeholders recommended other agencies or individuals as additional contacts.
- Stakeholders who contacted LSC directly were added to the mailing list and were emailed invitations to respond to the Consultation Paper.
- A three-month consultation period was set, ending Monday 9 August 2021.
- Phone calls were conducted with some stakeholders, who did not wish to send a written submission or as an addition to their submission.
- All stakeholders on the mailing list were sent a reminder email three weeks before the due date of 9 August 2021.
- Late responses were accepted and included in the analysis.

It was important that the Consultation Paper was publicised as widely as possible to maximise the breadth of responses:

- FRC and AASB placed ongoing notices on their public websites indicating that LSC was undertaking the PIR and those interested in contributing should contact LSC directly to obtain a copy of the Consultation Paper.
- Finance and Accounting Association of Australia and New Zealand (AFAANZ), the peak body for accounting and finance academics, placed a notice in their Monthly Newsletter over three months, inviting academics to respond to the Consultation Paper.
- An invitation was sent to The Economics Society of Australia to publicise the PIR among their members.

Responses

Fifty-eight email invitations were sent to stakeholders and 14 written responses were received as outlined in **Table 3** (next page). As invitations and responses were sent and received from both groups and individual stakeholders, it is not appropriate to calculate a response rate.

ACAG and HoTARAC were invited to participate in on-line group discussions. On-line group meetings were conducted with staff from the International Monetary Fund (IMF), Australian Bureau of Statistics (ABS), the Commonwealth Grants Commission and ACAG.

Most written responses were comprehensive and detailed, and included deep coverage of the issues.

The spread of submissions was dominated by submissions from Treasury departments (ten responses), who are preparers of government financial statements and are also users of those statements. While there were similarities in their responses, there were some different perspectives based on their specific jurisdictional situations. The response of the Auditors General (ACAG) was a more arms-length perspective on the issues.

Major users of government financial statements such as the ABS, and users of GFS (Australian Grants Commission and IMF) provided views that balanced the opinions of Treasury.

The lack of responses from academic researchers was disappointing. Anecdotal responses indicated that public sector financial reporting is now a far less popular research area compared to previous decades.

Stakeholders providing written responses or engaging in on-line meetings

The following stakeholders submitted written comments and/or engaged in on-line group meetings:

- Australasian Council of Auditors General (ACAG)
- Australian Bureau of Statistics (ABS)
- Australian Grants Commission (AGC)
- CPA Australia
- David Hardidge (individual response)
- Department of Treasury and Finance, Tasmanian Government
- Department of Treasury and Finance, Victoria
- Department of Treasury, Western Australia
- Department of Treasury and Economic Development, ACT
- Department of Treasury and Finance, South Australia
- Department of Treasury and Finance, Northern Territory
- Department of Finance, Australian Government
- Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC)
- International Monetary Fund (IMF)
- NSW Treasury
- Queensland Treasury

Table 3 Invitations and responses to the consultation paper

Stakeholders	Invitations to comment	Declined invitation to submit written comments	On-line group meetings	Written Submissions
Australian Bureau of Statistics (ABS)	1	0	1	1
Academic researchers (including academic accounting and economics peak bodies)	12	4	0	0
Australian Grants Commission (AGC)	1	1	1	
Government Audit Offices (including Australasian Council of Auditors General (ACAG))	10	0	1	1
International Monetary Fund (IMF)	1	1	1	0
Journalists	3	0	0	0
Parliamentarians	6	0	0	0
Professional accounting bodies	3	0	0	1
Public Accounts Committees/Parliamentarians	9	4	0	0
Ratings agencies	2	0	0	0
Treasury offices (including Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC))	10	0	0	10
Other government departments	1	0	0	0
Individual submission	0	0	0	1
Total	59	10	4	14

Appendix C Academic Research and Literature Review

A search for academic research papers relevant to this PIR was undertaken as follows:

- Experts in economics and accounting were contacted to build up a list of active researchers in the areas of public sector financial reporting and public sector accounting standards in Australia and New Zealand.
- The websites of academic researchers were reviewed for relevant published or unpublished papers or conference presentations.
- Databases of journal content and journal articles were searched, e.g., Google Scholar, SSRN, Academia.com and ResearchGate, using key words and author names.
- The content of journals that specialise in public sector accountability and reporting were reviewed, via the publisher websites.

There was a surprisingly small number of papers that addressed AASB 1049 directly or public sector financial reporting.

The following academic articles were reviewed.

Aggestam, C., Chow D., Day, and Pollanen, R., (2014) *Whole of government accounts: who is using them?* The Association of Chartered Certified Accountants (ACCA), August 2014.

Challen, D., and Jeffery, C., (2003) Harmonisation of Government Finance Statistics and Generally Accepted Accounting Principles. *Australian Accounting Review*, 13 (30):48-53.

Chow, D., Day, R., Baskerville, R., Pollanen, R., and Aggestam, C., (2015), *Consolidated government accounts: How are they used?* The Association of Chartered Certified Accountants (ACCA), June 2015.

Chow, D., Pollanen, R., Baskerville, R., Aggestam-Pontoppid and, C., and Day, R., (2019), Usefulness of consolidated government accounts: A comparative study. *Public Money & Management*, 39(3): 175–185.

Day, R., (2009), Implementation of whole of government reports in Australia. *Public Money & Management*, 29(4): 229-234.

Kober, R., Lee, J., and Ng, J., (2013), GAAP, GFS and AASB 1049: perceptions of public sector stakeholders. *Accounting & Finance*, 53(2): 471–496.

Kober, R., Lee, J., and Ng, J., (2012), Conceptual framework issues: perspectives of Australian public sector stakeholders. *Accounting and Business Research*, 42(5): 495– 518.

Gilchrist, D., and Simnett, R., (2019), Research horizons for public and private not-for-profit sector reporting: moving the bar in the right direction. *Accounting & Finance*, 59(1): 59–85

Heiling, J., and Chan, J. L., (2013), New development: Towards a grand convergence? International proposals for aligning government budgets, accounts and finance statistics. *Public Money & Management*, 33(4), 297-303.

Schührer, S., (2018), Identifying policy entrepreneurs of public sector accounting agenda setting in Australia. *Accounting, Auditing & Accountability Journal*, 31(4): 1067-1097.

Wines, G., Scarborough, H., (2006), Comparing Australian Commonwealth, state and territory, budget balance numbers. *Australian Journal of Public Administration Australia*, 65(3): 74–89.



AUASB CHAIR REPORT

DESCRIPTION

Attached is the AUASB Chair's Report covering the key activities undertaken during September – November 2021.

Also attached is a diagrammatic presentation of the AUASB's Strategic Priorities for 2020-21.

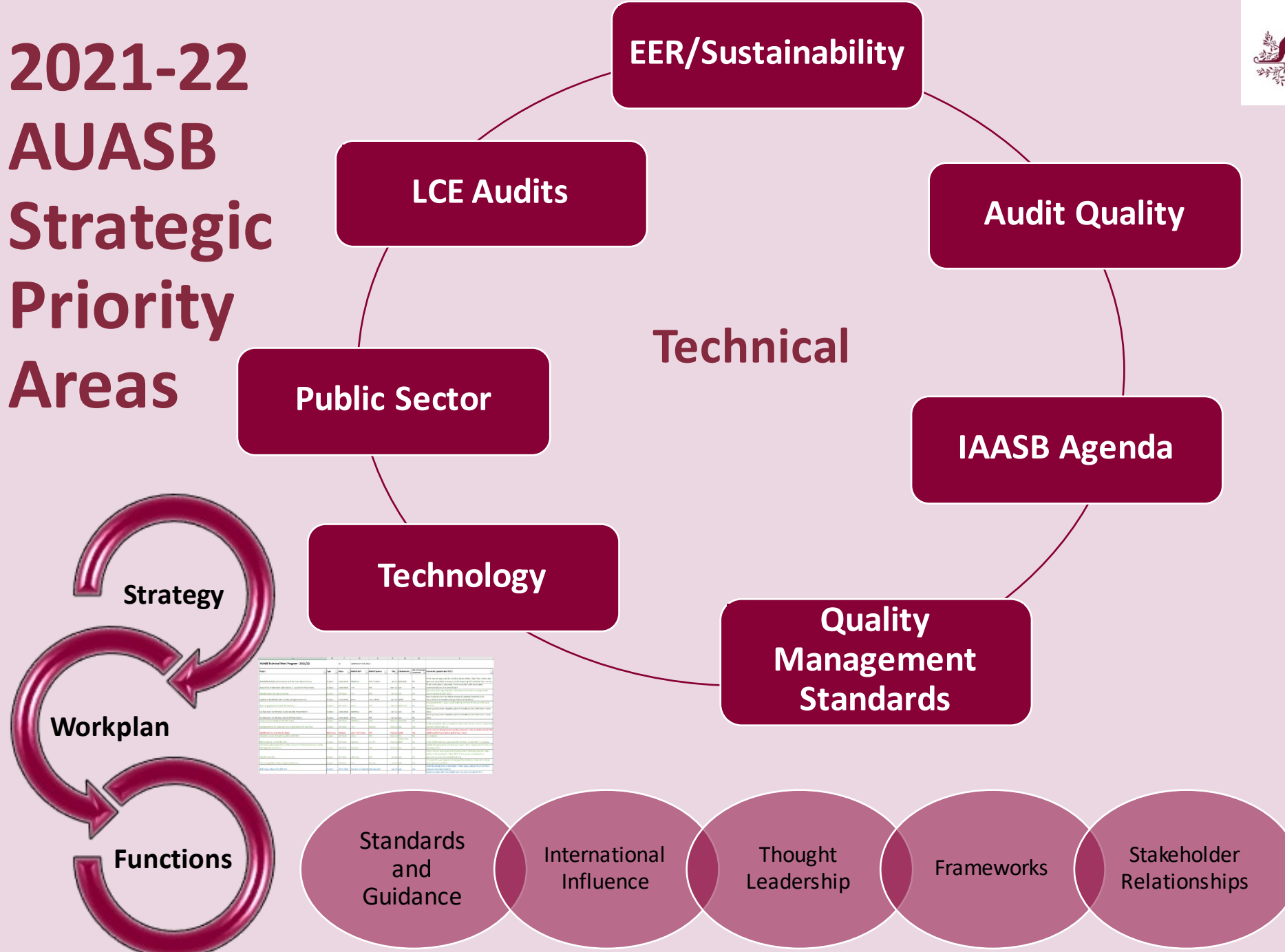
ACTION

- Chair to report.

Immediate technical priorities	
Extended External Reporting (EER)	<p>The following initiatives are underway:</p> <ul style="list-style-type: none"> • The FRC / AASB / AUASB Position Statement on Extended External Reporting and Assurance has been released. • The AASB and the AUASB have established an AASB/AUASB EER Project Advisory Panel consisting of practitioners, professional bodies and academics who specialise in EER and assurance. The purpose of this group is to identify initiatives to support EER and assurance in Australia. The PAG has met three times to date. • An AASB and AUASB staff paper on current state of sustainability / EER reporting and assurance in Australia is in development. <p><i>Strategic impact</i></p> <p>As the international and local momentum and focus on EER builds the position statement sets out how the current institutional arrangements will address the desire for authoritative EER requirements in Australia.</p>
Audit Quality	<p>The AUASB have developed a bulletin <i>Supporting Auditors in Enhancing Audit Quality</i> to communicate actions taken by the AUASB to assist auditors to improve audit quality including those in response to matters identified during recent ASIC audit inspections. The AUASB will continue to work with ASIC and auditors on identification of further initiatives to assist.</p> <p><i>Strategic impact</i></p> <p>An improvement in ASIC's audit inspection findings is important in maintaining trust in audited financial reports.</p>
Exposure Draft for Audits of Less Complex Entities (LCEs)	<p>In recognition of the increasing complexity of the International Auditing Standards and challenges auditors are facing in applying these for audits of LCEs, the IAASB have developed a new draft standard for audits of LCE. The AUASB have issued a Consultation Paper to seek feedback from Australian stakeholders on the proposed standard and also on other potential areas to further explore how to assist auditing LCEs. The</p>

	<p>AUASB has conducted a number of virtual roundtables to obtain feedback which will inform its submission to the IAASB.</p> <p><i>Strategic impact</i></p> <p>The proposed auditing standard represents a significant change to our current framework and practice. It is important the AUASB obtains stakeholder feedback on whether the proposed standard will meet the needs of Australian stakeholders and serves in the Australian public interest. The AUASB will also seek feedback on other possible Australian initiatives which may assist.</p>
Use of Technology in an Audit of a Financial Report	<p>The AUASB have prioritised the importance of providing guidance to auditors on technology matters in advance of the International Auditing and Assurance Standards Board (IAASB). The AUASB has established a Project Advisory Group consisting of representatives from the major firms to assist in developing a series of bulletins to address practical issues when using technology when performing an audit. A second Bulletin <i>Integrity of Data Obtained for the Purpose of an Audit of a Financial Report</i> has been released, and the next priority is a bulletin on Reliability of Data to be released shortly.</p> <p><i>Strategic impact</i></p> <p>To respond to impacts of technology on audits which is not being addressed by the IAASB in a timely manner.</p>
Implementation support for ASA 315 and Quality Management Standards	<p>AUASB staff have released implementation support for ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> which becomes effective in January 2022.</p> <p>The AUASB staff has also released a series of “five-minute video guides” to the new and revised Quality Management Standards to raise awareness of the key elements audit practitioners need to know.</p> <p><i>Strategic impact</i></p> <p>Supporting practitioners in managing quality.</p>
Public Sector Audit Issues: Guidance Statement 023 <i>Special Considerations – Public Sector Engagement</i>	<p>Due to differences between engagements undertaken in the public and private sectors, public sector auditors may face challenges in applying the AUASB Standards. In response the AUASB have formed a Project Advisory Group (PAG) to assist in addressing public sector audit issues. The first deliverable is GS 023 to address challenges related to ASA 210 <i>Agreeing the Terms of Audit Engagements</i> which is being approved by the AUASB at its November / December 2021 meeting. The PAG and AUASB staff will now develop guidance on challenges related to ASA 570 <i>Going Concern</i>.</p> <p><i>Strategic impact</i></p> <p>Supporting practitioners who audit public sector entities in complying with our standards.</p>
Medium / longer term technical priorities	
Status of PJC Recommendations relevant to the AUASB	<p>The FRC PJC Inquiry Working Group continues to meet to ensure all relevant bodies are working effectively together as we plan to respond to the recommendations. Whilst the Australian government is yet to accept the report the working group will continue to prepare for implementation of the recommendations.</p> <p>The International Auditing and Assurance Standards Board is progressing with projects on fraud and going concern (recommendation number 8) and through the AUASB’s Chair and Technical Advisor the AUASB will be directly involved in global developments.</p> <p><i>Strategic impact</i></p> <p>To work with relevant bodies to bring into effect the recommendations.</p>

2021-22 AUASB Strategic Priority Areas



Item	Priority	Start Date	End Date	Status	Responsible
1. EER/Sustainability	High	2021-01-01	2021-12-31	On Track	John Smith
2. LCE Audits	Medium	2021-03-01	2021-09-30	Completed	Jane Doe
3. Audit Quality	High	2021-01-01	2021-12-31	On Track	John Smith
4. Public Sector	Medium	2021-04-01	2021-10-31	On Track	Jane Doe
5. IAASB Agenda	High	2021-01-01	2021-12-31	On Track	John Smith
6. Technology	Medium	2021-02-01	2021-11-30	On Track	Jane Doe
7. Quality Management Standards	High	2021-01-01	2021-12-31	On Track	John Smith
8. Standards and Guidance	Medium	2021-03-01	2021-09-30	On Track	Jane Doe
9. International Influence	Medium	2021-04-01	2021-10-31	On Track	John Smith
10. Thought Leadership	Medium	2021-05-01	2021-11-30	On Track	Jane Doe
11. Frameworks	Medium	2021-06-01	2021-12-31	On Track	John Smith
12. Stakeholder Relationships	Medium	2021-07-01	2021-12-31	On Track	Jane Doe



PROPOSAL FOR AUDIT QUALITY SURVEY

DESCRIPTION

At the 22 September 2021 meeting of the Financial Reporting Council (FRC), members discussed an opportunity to put forward a proposal to Treasury to conduct an audit quality survey. Members supported the idea of an FRC led audit quality survey. It was agreed the Chair would work with Bill Edge on the design of the survey but members were invited to provide input on potential service providers and survey design.

The proposed approach is for the FRC to engage an academic to conduct a survey and supplementary interviews and analysis of ASX 300 Audit Committee Chairs and professional investors. The results are intended to provide additional evidence and insights to the FRC's periodic surveys of financial report users, and enable it to better execute its statutory functions.

ACTION

- For noting and comment.



ITEM 5B

10 DECEMBER 2021

AUDIT DISCIPLINARY PROCESSES

DESCRIPTION

As agreed by the FRC at its 22 September 2021 meeting, the FRC Chair wrote to the Australian Securities and Investments Commission, the Companies Auditors Disciplinary Board (CADB) and the professional accounting bodies to seek an update on their disciplinary processes and outcomes. Written responses were received from all entities and have been provided to FRC members.

The Chair also met with representatives of CADB and Chartered Accountants Australia & New Zealand (CA ANZ) to discuss the matters the subject of the letter.

ACTION

- FRC Chair to report.



ITEM 5C

10 DECEMBER 2021

EMERGING THEMES

DESCRIPTION

It is proposed this new standing item on the Financial Reporting Council (FRC) will support ongoing identification, discussion and prioritisation of strategic themes and strategic risks to audit quality.

1. **Broad Strategic Themes:** themes should be relevant to the FRC's statutory objectives, and could include, for example, EER and cyber security.
2. **Strategic Risks to Audit Quality:** could include rate of resignation of registered company auditors and continuing industry capability following the COVID-19 pandemic.

ACTION

- Members to discuss with a view to identifying relevant strategic themes and strategic risks.



STAKEHOLDER REPORT: AUSTRALIAN CHARITIES & NOT-FOR-PROFITS COMMISSION

FOR ATTENTION OF THE FRC

- For noting

Report received from Melville Yates, Director, Reporting, Red Tape Reduction & ACNC Corporate Services

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- The [Australian Charities and Not-for-profits Commission Amendment \(2021 Measures No. 3\) Regulations 2021](#) commenced 13 November 2021, implementing recommendations 12, 14 and 15 of the [ACNC legislation review](#). As a result of the amendments to the ACNC Regulation 2013 and administrative action by the ACNC:
 - ACNC financial reporting thresholds for small charities will increase from \$249,999 to \$499,999 and for medium charities from \$999,999 to \$2,999,999 for the 2021-22 financial year onwards.
 - Large size charities with two or more key management personnel preparing special purpose financial statements will be required to report aggregated remuneration paid to those personnel for the 2021-22 financial year onwards.
 - All charities will be required to report related party transactions for the 2022-23 financial year onwards.

The ACNC has been working with the charity sector to develop appropriate guidance and education resources to help charities to easily understand and meet these new reporting requirements.

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- The ACNC participated in a roundtable on the AUASB's Consultation Paper for Audits of Less Complex Entities.
- The ACNC made a submission for part 2 of the IFR4NPO financial reporting guidance project [consultation paper](#).



STAKEHOLDER REPORT: AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

FOR ATTENTION OF THE FRC

- For noting.

Report received from David McElrea Senior Policy Adviser, Advocacy

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- Development of guide to Periodic comprehensive review of the external auditor
- Discussion of emerging trends in non-financial reporting

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

Nil.



ITEM 6A

10 DECEMBER 2021

STAKEHOLDER REPORT: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

FOR ATTENTION OF THE FRC

- For noting

Report received from Brandon Khoo, Executive Director, Insurance Division

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- APRA will be releasing a response paper on AASB 17 *Insurance Contracts* towards the end of the year. The response paper will be accompanied by the release of the draft prudential and reporting standards. A Quantitative Impact Study (QIS) will accompany the release of the response paper. All insurers will be invited to participate in the QIS.
- During the pandemic, APRA continues to monitor provisioning and capital levels at Australian authorised deposit-taking institutions.
- APRA is also engaging with a wide range of impacted stakeholders on a number of superannuation matters, including amendments to Attachment A of SPS 310 (with consequential refinements to the Independent Auditor's Report) applicable to RSEs. Impacted stakeholders APRA is working with include the largest four and some second-tier audit firms, ASIC, the ATO, the AUASB and the professional accounting bodies. APRA intends to issue a formal letter communicating its proposed changes to Attachment A of SPS 310 in the near future.

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

n/a



STAKEHOLDER REPORT: CHARTERED ACCOUNTANTS AUSTRALIA AND NEW ZEALAND

FOR ATTENTION OF THE FRC

- For noting

Report received from Zowie Pateman, Deputy Leader, Reporting and Assurance

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- CA ANZ, in collaboration with ACCA, CPA Canada and the Canadian AASB, has examined the auditor's role in the areas of fraud and going concern, and the related expectation gap and published a report; [Closing the expectation gap in audit – The way forward on fraud and going concern: A multi-stakeholder approach](#). Informed by a series of virtual roundtables and interviews with stakeholders around the world it explores how gaps in knowledge, performance and the evolution of audit all contribute to the audit expectation gap. The report also offers several recommendations to tackle the expectation gap related to fraud and going concern, where all stakeholders play a vital role in meaningful change.
- Published [Maximising the value of audit: A guide for not-for-profits and charities](#), a new guide aiming to help not-for-profits and charities get the most out of an audit.
- CA ANZ led the global #auditorproud campaign for 2021, extending the celebration of the important role and work of auditors to a full week. Overall, the week focused on integrity and the well-being of auditors, highlighting the value of their work in the economy.
- We are supporting the IAASB and AUASB consultation on Auditing Less Complex Entities (LCEs) including through organising outreach activities with SMP firms and dissemination. In November, we arranged three sessions with a network of 30+ Chartered Accountant SMP audit firms and invited the AUASB to participate in a deep dive update and feedback session on the proposals. We have also facilitated feedback sessions with existing committees, forums and the CA ANZ audit conferences and disseminated the LCE survey to more than 20,000 practitioners through reporting and assurance updates.
- We issued a [Conflicts of Interest Guide](#) designed to assist CA ANZ members better understand how to identify conflicts of interest and then how to respond to them. The guide is intended to be very practical and includes several example scenarios.
- We acknowledged Global Ethics Day with a panel presentation discussing changes to the Code of Ethics. The session was attended by almost 1,000 members.



- On 1 July 2021 changes to our Continuing Professional Development (CPD) requirements commenced. Key changes included the introduction of 2 hours mandatory ethics CPD each triennium, the inclusion of on-the-job training as a category of verifiable CPD and changing the automatic aged-based exemption to a retirement-based exemption. We created a [video](#) to assist members understand the changes.

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- Facilitated input from members and completed several [submissions](#) including: IFR4NPO Part 2, IASB Agenda Consultation, ACNC Regulations, IPSASB measurement package and AASB ED 312 (accounting policies) and 314 (disclosures for subsidiaries without public accountability).



ITEM 6A

10 DECEMBER 2021

STAKEHOLDER REPORT: CERTIFIED PRACTISING ACCOUNTANT AUSTRALIA (CPA AUSTRALIA)

FOR ATTENTION OF THE FRC

- For noting

Report received from Claire Grayston, Senior Manager, Audit & Assurance Policy

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- **ESG developments:** CPA Australia, at the invitation of the FRC, has joined the AASB-AUASB EER Project Advisory Panel and participated in its three meetings to date. The focus of the Advisory Panel will no doubt intensify in 2022 with the announcement at COP 26 of the formation by IFRS Foundation of the Sustainability Standards Board (ISSB) and the expected release for public consultation of two IFRS Sustainability Disclosure Standards. CPA Australia and CA ANZ also meet on a regular basis with ASIC with respect to regulatory and disclosure issues associated with climate change. As part of driving business awareness of economic and regulatory shifts which are underway, CPA Australia organised, with the G100 Reporting Committee, a virtual forum *COP 26: Implications for the financial and accounting profession*. As part of preparing our members for the changes ahead, and in recognition that response to climate change impacts across the full breadth of corporate disclosure, we have produced with MinterEllison [Climate change and financial reporting](#), a primer which provides an overview of climate-related issues on which accounting professionals can build their expertise and understanding of the topic. CPA Australia is a member of the ASX Corporate Governance Council and subsequent to the Council's meeting of November 23rd, has written to the Chair emphasising that in any contemplated 5th edition of the Principles & Recommendations, due regard should be given to the international and domestic developments around climate change and sustainability more broadly. We held a webinar on [Opportunities for Assurance on Non-financial Information](#), to highlight the changing demands for assurance, with speakers including AUASB EER PAG Chair, Jo Cain.
- **Registrable Superannuation Entities:** In September, CPA Australia made a joint [submission](#) to Treasury with CA ANZ and IPA, on a draft Bill setting out new financial and auditing requirements, equivalent to those for listed companies, for RSEs. The Bill is yet to be introduced to Parliament, and its status is unclear. One of the issues identified is in relation to comparative data required for financial reporting, including for the proposed half-yearly reporting. If the Bill is passed it is proposed to apply from



periods commencing 1 July 2022, requiring comparatives for the half-year and full year commencing 1 July 2021. As the half year end is approaching any requirements for RSEs to provide comparative data for this reporting period will be challenging, if not impossible. We are raising this with the Minister for Superannuation, Financial Services and the Digital Economy, Senator the Hon Jane Hume as a matter of urgency.

- **Financial Reporting:** We have published a [report](#) of the key takeaways from the policy think tank event, “understandability of accounting standards”. We are currently finalising two research reports, one on the “decision usefulness of not-for-profit annual reports” and another on “digital reporting experiences from the G20 and implications for policy formulation”.

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- **Technology:** We held a webinar on [Cybersecurity and the External Audit](#) during cybersecurity week. The webinar included ASIC Commissioner Cathie Armour, AUASB Technology PAG Chair Rodney Piltz and the PAG member from VAGO, leveraging the AUASB Bulletin on Cybersecurity. We also held another webinar on [How Cyber Attacks Affect Accounting Firms in 2021](#).



STAKEHOLDER REPORT: INSTITUTE OF PUBLIC ACCOUNTANTS

FOR ATTENTION OF THE FRC

- For noting

Report received from Vicki Stylianou, Group Executive, Advocacy and Policy

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- Nil.

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- Despite the Government announcement to 'freeze' the ASIC industry funding levy for financial planners and to conduct a review, the accounting bodies have continued to advocate for similar relief for auditors and liquidators.
- Our in-house professional indemnity insurance (PII) broker has raised concerns about the impact on the PII market from recent very large claims against auditors.
- The accounting bodies and the Financial Planning Association jointly presented evidence at a public hearing before the Senate Constitutional Affairs References Committee on the adequacy and efficacy of Australia's AML-CTF regime. This impacts the whole of the accounting profession.



STAKEHOLDER REPORT:

The purpose of these Stakeholder Reports is to bring to the attention of the FRC matters that the Stakeholder believes are relevant to the FRC objectives.

The FRC objectives in general terms are as follows:

“The FRC is the key external advisor to the Australian Government on the ‘financial reporting system’.

In summary, its functions are to provide broad oversight of the processes for setting accounting and auditing standards for the public and private sectors, to provide strategic advice on the quality of audits conducted by Australian auditors, and to advise the Minister, and in some areas the professional accounting bodies, on these and related matters to the extent that they affect the financial reporting system in Australia.

The FRC is a statutory body under Part 12 of the Australian Securities and Investments Commission Act 2001, which specifies the FRC’s specific functions and powers.

The FRC’s objectives are to support the Act’s objectives outlined in Part 12 of the Act, to fulfil its functions effectively and efficiently and to provide timely and relevant advice to the Minister.

The objects of Part 12 of the Act are broadly to facilitate the development of high quality accounting standards that require the provision of financial information and the development of auditing and assurance standards and related guidance materials in order to facilitate the Australian economy and to maintain investor confidence in the Australian economy, including its capital markets.”

STAKEHOLDER REPORT: AUSTRALIAN SHAREHOLDERS' ASSOCIATION

The Stakeholder Report need not exceed one A4 page and should include the following three sections.

FOR ATTENTION OF THE FRC

This section is likely to have no comments from most stakeholders, but there may be relevant issues that have not been dealt with out of session or elsewhere on the FRC meeting agenda.

[Insert comment]

KEY ACTIVITIES/MATTERS RELEVANT TO THE FRC OBJECTIVES

This section need include only 2 – 3 key bullet points to be noted by the FRC.

ASA continues to attend AGMs in recent months as proxy holder for a number of retail shareholders. These have been a mixture of virtual meetings and hybrid meetings plus some physical meetings.

ASA continues to encourage better reporting.

- FRC can facilitate improvement to reporting through: Streamlining remuneration reporting. to be dealt with in the Corporations Act rather than the Accounting Standards, and stakeholder agreement on streamlined remuneration reports could be facilitated by FRC.
- Corporate reporting generally — streamlining annual reports to ensure they are more easily read and absorbed by retail shareholders.
- Non-statutory information — lack of clear definitions makes it challenging for retail shareholders to do comparative analysis and understand non-financial information.
- Support for standardised reporting of ESG metrics and matters such as proposed by ISSB. This will reduce costs and enhance comparability.

OTHER ACTIVITIES/MATTERS RELEVANT TO THE FRC OBJECTIVES

This section need include only, by bullet points, other activities/matters to be noted by the FRC.

Audit Quality – ASA notes the publication of FRC/AASB/AUASB Position Statement on Extended External Reporting and Assurance and FRC Audit Quality Action Plan - November 2021. We await the final report arising from UK consultation paper (CP) 382 Restoring trust in audit and corporate governance; Consultation on the government's proposals.



ITEM 07A - NOVEMBER 2021

STAKEHOLDER REPORT: AUSTRALIAN BUSINESS REPORTING LEADERS FORUM

Institutional arrangements for global system near complete - IFRS Foundation Announcements at COP 26

"The biggie for business at COP 26 wasn't saving forests ... The unlikely beacon was the creation of the International Sustainability Standards Board, which will sit alongside the International Accounting Standards Board, and elevate sustainability reporting to the same status as financial reporting." Australian Financial Review, 5 November 2021.

- International Sustainability Standards Board (ISSB):
 - The Board will sit alongside and work closely with IASB, but be independent of it
 - Both boards will be overseen by IFRS Foundation Trustees
 - Trustees are accountable to Monitoring Group of capital market authorities (jurisdictional responsibility)
 - TCFD and WEF support has been expressed for formation of ISSB
 - A public ISSB agenda consultation will take place in 2022
- Consolidation into IFRS Foundation – includes:
 - Value Reporting Foundation - <IR> Framework and SASB Standards
 - Climate Disclosure Standards Board - an initiative of Climate Disclosure Project
 - Likely <IR> Framework - umbrella for corporate reporting - will fall under IFRS Foundation, not ISSB
- Publication of prototype disclosure requirements:
 - Climate and general disclosure requirements were published
 - Technical Readiness Working Group (VRF, CDSB, ISASB, TCFD, WEF) chaired by IFRS Foundation did preparatory work over six months for the ISSB - give ISSB a running start
 - Supported by IOSCO's Technical Experts Group (TEG), on which ASIC is represented
 - Work program welcomed in G20 Rome Leaders Declaration and by Financial Stability Board

Australian Implications and Actions

Janine Guillot, CEO of the Value Reporting Foundation, will address the Australian Business Reporting Leaders Forum webinar on global developments on Tuesday 30 November. A discussion of Australian implications and actions will follow Janine's address, with a focus on the matters set out below. FRC members are welcome.

BRLF Recommendations to Government and Treasury

1. Australia needs to again have an IFRS Foundation Trustee after a gap of a number of years, particularly given that Australia is the sixth largest funder of the IFRS Foundation. Australia also needs to have a Director of the ISSB, recruiting for which is expected to commence shortly.
 - There could be an opportunity for an Australian Trustee if the IFRS Foundation Trustees review their composition in the light of the <IR> Framework residing within the IFRS Foundation, as well as an Australian appointment to the ISSB. Specialist expertise will be required on both bodies in relation to integrated reporting, integrated thinking and sustainability (ESG) reporting
 - Australia's case for these appointments will be stronger if the Australian corporate reporting system is closely aligned with the transforming global corporate reporting system.
 - The FRC needs to be heavily involved in this matter, working closely with Treasury and the Australian Government, who would need to drive this matter globally.
2. In relation to this alignment, Australia should form a third standard-setting board to sit alongside the Australian Accounting Standards Board (AASB) and Australian Auditing and Assurance Standards Board (AUASB) - a Board which is the Australian equivalent of the new ISSB, potentially named the *Australian*



Sustainability Reporting Standards Board. Achieving a third Board will take time, a revisiting of the objectives of the FRC, and budget allocation. Notwithstanding, the matter is urgent given Recommendation 1 above.

- There needs to be a separate board in view of the specialist expertise required in relation to integrated reporting, integrated thinking and sustainability (ESG) reporting.
- The third Board should be overseen by the Australian Financial Reporting Council (FRC) in the same way that FRC oversees the AASB / AUASB, and that IFRS Foundation will oversee ISSB as well as IASB.
- The FRC itself should be renamed and fully resourced in keeping with the changing global environment, effectively becoming the Australian equivalent of the IFRS Foundation.
- Current appointment of a new permanent chair of the FRC is an opportunity to ensure that appointee has the right attributes, global connections and local relationships if Australia is to make the most of this one-off opportunity.
- The current AASB / AUASB Extended External Reporting Advisory Panel (EERAP) may be able to act in an equivalent capacity as the Technical Readiness Working Group (TRWG) chaired by IFRS Foundation did in its advance work on behalf of the yet-to-be-formed ISSB on developing prototype climate standards.
- The EERAP can work with ASIC and Treasury's specialist Corporate Reporting Unit in the same way as the TRWG worked with IOSCO's Technical Experts Group (TEG)

3. 'Intangibles' – including governance, management, business models and approaches to innovation - are a critical component of enterprise value. However, balance sheets of the S&P 500 record on average only 10% of market capitalisation today. Unrecorded intangibles comprise much of the other 90%.
- In addition, it is thought that there may be significant latent intrinsic value of intangibles not captured in market capitalisation today. Integrated reporting can **unlock** hidden intrinsic value of intangibles through driving more *integrated thinking* in the c-suite, and can assist Boards in **revealing** that value to investors in *integrated reports*.
 - Integrated reporting is the form of reporting most suited to reporting on intangibles. High quality reporting on 'intangibles' is being constrained by significant under-investment, and is at risk of being further 'crowded out' by the current massive (but necessary) investment in climate reporting. Reporting on all non-financial matters is equally important.
 - Australia should discuss with the IFRS Foundation a plan to establish an ISSB hub within the Australian Sustainability Reporting Standards Board which houses an *Intangibles Centre of Excellence* such that Australia becomes a key part of the multi-location ISSB as it is formed over the next few months. The hub would be a strong demonstration of the alignment of Australia with the ISSB, but more importantly would also be a strong contribution to the Australian national interest.
 - Reporting on climate matters is in fact closely related to reporting on intangibles as an instrument of enterprise value creation. A case study demonstrating this point is Australia's recent formalised commitment to 'net zero by 2050', with its focus on innovation and new technologies. As the innovation required will take place in the future, and technologies will be required which do not yet exist or have not yet been successfully commercialised, there will be a need for a form of reporting that allows investors and other stakeholders to distinguish the companies / project promoters with the best governance, management, business models and approaches to innovation from 'the rest', and so being deserving of financing. We believe that form of reporting is integrated reporting.
 - Australian participation in these globally-led developments will require an investment. The investment will be worth it and small in the context of the federal budget and the potential benefits in terms of Australia's global positioning.

Assurance

- Investors are increasingly demanding assurance of broader corporate reporting. From IFAC study, '*The State of Play in Sustainability Assurance*' (June 2021): 91% of top companies in key jurisdictions report ESG



information, 51% with assurance (limited), usually from an accounting firm, and usually under ISAE 3000. Auditing standards in relation to ISSB Standards are likely.

- We believe that integrated reporting is the ideal connector of financial and ESG reporting, so that investors will understand the business context for financial and ESG disclosures. ESG reporting assurance is a stepping stone / building block towards integrated reporting assurance.
- IIRC / IFAC paper, '*Accelerating Integrated Reporting Assurance in the Public Interest - IFAC and the IIRC Support Pathway to Integrated Reporting Assurance*' (February 2021) explains the concept of integrated reporting assurance. Forms of integrated reporting assurance (we call it 'integrated reporting assurance-lite') are already legislated in France as part of that country's response to EU reporting directives, and building non-mandatory market momentum in Russia, providing a further stepping stone towards full integrated reporting assurance. Instances of full integrated reporting assurance around the world, with Australia and Sri Lanka leading, which to date have been delivered mainly by large accounting firms.
- An example of integrated reporting assurance was included in the International Auditing & Assurance Standards Board's Extended External Reporting Assurance guidance. More guidance on integrated reporting assurance will be required when it becomes more widespread and practitioners outside of the large accounting firms begin to deliver it.
- IOSCO has called for a comprehensive assurance conceptual framework to underpin all forms of assurance, including ESG and integrated reporting assurance.
- Work on assurance needs to happen in parallel to work of the IFRS Foundation and ISSB, and not sequentially following it. It is therefore urgent. This work is outside the remit of the IFRS Foundation and is thought to be beyond current resourcing of the International Auditing and Assurance Standards Board. Value Reporting Foundation is working with IFAC on thought leadership in this area.

Australia

- 70% of the ASX 200 are already using the concepts of integrated reporting, if not fully adopting the Integrated Reporting Framework. In addition, Australia is well positioned for integrated reporting assurance and ESG reporting assurance is already widespread¹.
- Australia is global leader for providing integrated reporting assurance, for which the global population is currently small. ASX Corporate Governance Recommendation 4.3 covers the verification and assurance of periodic corporate reports other than financial reports, including OFRs using integrated reporting concepts and integrated reports.
- Australia is the global leader as integrated reporting assurance emerges from zero instances in 2018. The existing instances of integrated reporting assurance in Australia have all been delivered by Big 6 accounting firms, which are well resourced internally to develop their own guidance and risk management procedures. Interim AUASB guidance would be warranted if IAASB guidance lagged integrated reporting assurance developing strong momentum and moving beyond the Big 6 accounting firms.
- In the absence of further work in the short term by the IAASB, the AUASB should give consideration to developing interim Australian guidance on integrated reporting assurance. Sustainability (ESG) reporting assurance is far better catered for by existing IAASB guidance, although interim Australian guidance may be warranted in view of the likely rapid gestation of the ISSB's climate reporting standard – for instance, guidance may be developed regarding the prototype climate reporting standard developed by the TRWG.

¹ IFAC study, '*The State of Play in Sustainability Assurance*': 100% of top 50 Australian companies report ESG information, 56% with assurance (limited), always from an audit firm, virtually always under ISAE 3000



STAKEHOLDER REPORT: GROUP OF 100

FOR ATTENTION OF THE FRC

- For noting

Report received from Stephen Woodhill, CEO and Executive Director.

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- Payment Time Reporting Framework issues - concern over reporting.
- Proxy Holders - concerns on influence/engagement.
- COP26 and reporting issues - looking at issues impacting reporting.

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- Work on Class Actions/Litigation Funders - submission, legislative outcome
- Accounting for power purchase agreements.
- Digital Reporting.
- Accounting for Software as a Service



ITEM 6A

10 DECEMBER 2021

STAKEHOLDER REPORT: HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

FOR ATTENTION OF THE FRC

- For noting

Report received from Anne Bible, Associate Director, Accounting Policy and Legislation

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- HoTARAC continues to support the Public Sector Working Group (PSWG) on the FRC proposals for Tier 3 financial reporting.

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- HoTARAC members attended a presentation on Outcomes Budgeting Reforms from NSW Treasury's Budget Reporting team.
- HoTARAC continues to review how it engages with standard setters and other stakeholders, with the objective of exchanging more information on emerging issues, earlier in the standard setting cycle.
- HoTARAC continues to review how it can enhance its role in supporting financial reporting capabilities in the public sector.

BACKGROUND

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.



STAKEHOLDER REPORT: PUBLIC SECTOR WORKING GROUP

FOR ATTENTION OF THE FRC

- For noting

Report received from Anne Bible, Associate Director, Accounting Policy and Legislation

KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- The Public Sector Working Group (PSWG) continues to work with HoTARAC on proposals related to Tier 3 financial reporting.
 - A principles paper was provided to HoTARAC members who provided supportive feedback. Further views will be gathered as the consultation process continues.
 - The PSWG will need to determine what its engagement strategy will be with local government to determine whether the relevant principles remain in the paper.
- It is understood that the consultant's post implementation review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* has been passed to the FRC Secretariat.

OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

- The PSWG was reconstituted after a brief hiatus and members have agreed that their responsibilities to the FRC are strategic in nature.



XBRL REPORTING

DESCRIPTION

At the 22 September 2021 meeting of the Financial Reporting Council (FRC), members agreed to discuss XBRL reporting at their next meeting. The FRC Chair subsequently requested the Australian Securities and Investments Commission (ASIC) to prepare a paper to assist the FRC in its consideration of the issue.

ACTION

It is recommended the Council:

- Undertake to further consider whether to publicly support mandatory Digital Financial Reporting.

DIGITAL FINANCIAL REPORTING

DESCRIPTION

What are digital financial reports (DFRs)?

1. DFRs provide an opportunity for entities to present financial information in a more usable and accessible manner for investors, analysts and other users of financial reports.
2. DFRs provide tagged data for analysis and can also be viewed in a human-readable form.
3. Companies have been able to voluntarily lodge DFRs with ASIC since 1 July 2010.

What is tagging about?

4. DFRs provide financial report information in an electronically accessible structured form for consumption and analysis.
5. DFRs use a reporting language called XBRL (eXtensible Business Reporting Language). XBRL applies a common set of identifiers (tags) to information in the financial report (e.g. sales revenue). The tags allow investors and analysts to electronically extract information for comparison and analysis. Collectively, the tags form “a taxonomy”.
6. Because tagging is performed by the entity to standard definitions, it is of higher quality than information classified by third parties such as data aggregators.
7. The ASIC financial reporting taxonomy (the ‘IFRS AU Taxonomy’) is consistent with the International Financial Reporting Standards (IFRS) Taxonomy published by the IFRS Foundation and includes additional tags for Australian specific disclosure requirements. ASIC publishes updated versions of the taxonomy annually.
8. The IFRS Taxonomy is also used in the EU and other countries, including for foreign issuers lodging DFRs with the US Securities and Exchange Commission (US SEC).

Are DFRs human readable?

9. DFRs allow the information to be presented in a human readable form in the most meaningful manner having regard to the circumstances of the entity.
10. In-line XBRL (iXBRL) allows DFRs to be formatted and displayed like a PDF file for human readability using popular web browsers. This allows financial report information to be presented in a flexible manner that is most useful and meaningful to users having regard to the different businesses and circumstances of each entity. The use of hyperlinks allows users to more easily navigate, or drill down, to the information they require.
11. ASIC adopted iXBRL in February 2015, removing the need for paper and PDF financial reports.

Are entities publishing DFRs?

12. No entities have voluntarily lodged digital financial reports with ASIC to date. This is largely due to a ‘chicken and egg’ situation where entities do not lodge the reports

because analysts have not updated their systems to use DFRs, while analysts are not updating their systems because no entities publish DFRs.

13. While financial report lodgments have moved from paper to PDF format, many PDF files are only available as an image and the contents are not searchable.

Are DFRs required in other countries?

14. DFRs have been required for a number of years in the US, the UK, Singapore, the Netherlands and other countries.
15. Australian entities may need to produce DFRs to compete for capital in global markets given the increasing requirement for DFRs in other countries.
16. About eleven Australian entities with securities listed in the US have been required to lodge DFRs with the US SEC since years ending on or after 15 December 2017. The European Union also requires all entities listed on European exchanges to lodge DFRs from years commencing 1 January 2020, and this may affect a hundred or more Australian companies.

What are the benefits and costs?

17. Benefits and costs of digital financial reporting for different groups are summarised in the table below:

Benefits	Costs
<i>Investors, analysts, etc</i>	
<ul style="list-style-type: none"> • Access to timely and comprehensive detailed electronic information in a structured form for analysis, including comparisons across entities and over time. • Helps to address the complexity of financial reporting by allowing users to more readily access information relevant to them. • Higher quality and consistent financial data due to tagging by entities using common definitions, and due to automatic validation of data. • No need to compile large volumes of information for analysis (e.g. credit rating agencies scan and check information from large numbers of financial reports). Reduces errors and removes the need to interpret how to classify amounts. • Better addresses the ways that newer generations consume information. 	<p>Costs of updating any existing systems, training staff and ongoing maintenance.</p>
<i>Companies</i>	
<ul style="list-style-type: none"> • Meet demands of investors and others for timely, high quality digital information in international and domestic markets, potentially enabling access to capital at lower cost. • Facilitates reporting and consolidation accounting for cross-border operations and newly acquired entities where the IFRS Taxonomy is used for tagging. 	<p>Up front implementation costs, and ongoing maintenance and review.</p>

Benefits	Costs
<ul style="list-style-type: none"> • Duplication in reporting to government agencies might be reduced if the same tagged information can be used to meet different reporting obligations. • May enhance the efficiency of internal reporting processes where XBRL tags are used in underlying systems and for internal reporting. • Provides flexibility for entities to tell the story in their reports but not lose comparability due to the use of common tags. The use of hyperlinks can assist in addressing the complexity of financial reports, • Identifying certain reporting errors through use of automated validation. 	
<i>Software developers</i>	
<ul style="list-style-type: none"> • Sell software updates to entities, and possibly software to users of financial reports. • May be able to use software developed for other countries with minimal changes. 	Costs of modifying software.

18. In the UK, HM Revenue & Customs indicated that average implementation costs were in the range of £50 to £1,000 for most of the 2 million companies lodging financial reports. In particular, off the shelf accounting software could automatically generate DFRs for smaller companies.
19. Overseas experience shows that software vendors have met the needs of users at acceptable costs. Discussions with software vendors in the UK have shown that costs to produce DFRs in the second year and beyond reduced by 70%.
20. One large listed Australian group with securities listed in the US outsourced the production of a DFR for a first year cost of \$60,000.

What has previously taken place on mandating DFRs?

21. In late 2012, the government released a paper canvassing the possibility of requiring DFR. Following feedback from stakeholders, consideration was postponed until 2015 when companies would be accustomed to lodging information electronically with the ATO and make superannuation contributions electronically.
22. The interim and final reports for the PJC Inquiry into the Regulation of Auditing in Australia included a recommendation concerning mandatory digital financial reporting. The government response to the recommendations in the report is pending.

How could DFRs be mandated?

23. While ASIC has no power to mandate DFRs, they could be mandated through legislation, ASX listing rules or lodgement requirements specified by the Registry operation under the ATO.

Are there other considerations on mandating DFRs?

24. Other considerations relevant to any requirement for DFRs might include:
 - (a) Which of the 32,000 entities lodging financial reports under the *Corporations Act 2001* should be required to lodge DFRs;

- (b) When any requirement should first apply; and
 - (c) Whether to initially require full tagging of the notes to the financial statements as well as the primary financial statements.
25. Generally, stakeholders have indicated that full tagging in the first year is preferred. That is more efficient for preparers and provides better data for users.

Is digital reporting relevant for sustainability reporting?

26. The IFRS Foundation is likely to extend the IFRS taxonomy to cover sustainability reports prepared under future standards of the International Sustainability Standards Board.

Where can further information be found?

27. Further information about digital financial reporting can be found on the ASIC website (<https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/preparers-of-financial-reports/digital-financial-reports/>) and in an introductory ASIC video (<https://www.youtube.com/watch?v=SArROedhOjl>).
28. ASIC held a Digital Financial Reporting webinar on 8 June 2021 on international developments in digital financial reporting and the opportunities for Australia (see <https://www.youtube.com/watch?v=VtcsAl53xAs>).

ACTION

- It is suggested that the FRC consider whether to publicly support mandatory Digital Financial Reporting.



INTERNATIONAL DEVELOPMENTS

DESCRIPTION

The COP26 UN Climate Change Conference took place (COP26) from 31 October to 12 November 2021. On 3 November 2021, the IFRS Foundation Trustee Chair announced the formation of the International Sustainability Standards Board (ISSB) at COP26.

Attached is a copy of the announcement published on the IFRS Foundation website. A further update, including a live panel discussion from COP26, moderated by Clara Barby (CEO, Impact Management Project) and featuring Erkki Liikanen (Chair, IFRS Foundation Trustees) Richard Samans (Chair, Climate Disclosure Standards Board) and Richard Sexton (Co-Chair, Value Reporting Foundation Board) is available at [IFRS - An update on ...~https://www.ifrs.org/news-and-events/news/2021/11/An-update-on-the-ISSB-at-COP26/](https://www.ifrs.org/news-and-events/news/2021/11/An-update-on-the-ISSB-at-COP26/).

ACTION

- For noting.

Home > News and events > News

> IFRS Foundation announces ISSB, consolidation with CDSB and VRF, & prototype publication

03 November 2021

IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements

As world leaders meet in Glasgow for COP26, the UN global summit to address the critical and urgent issue of climate change, the IFRS Foundation Trustees (Trustees) announce three significant developments to provide the global financial markets with high-quality disclosures on climate and other sustainability issues:

- The formation of a new **International Sustainability Standards Board (ISSB)** to develop—in the public interest—a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs;
- A commitment by leading investor-focused sustainability disclosure organisations to consolidate into the new board. The IFRS Foundation will complete consolidation of the **Climate Disclosure Standards Board** (CDSB—an initiative of CDP) and the **Value Reporting Foundation** (VRF—which houses the Integrated Reporting Framework and the SASB Standards) by June 2022;
- The publication of prototype climate and general disclosure requirements developed by the **Technical Readiness Working Group (TRWG)**, a group formed by the IFRS Foundation Trustees to undertake preparatory work for the ISSB. These prototypes are the result of six months of joint work by representatives of the CDSB, the International Accounting Standards Board (IASB), the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), the VRF and the World Economic Forum (Forum), supported

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Together, these developments create the necessary institutional arrangements, set out in the **Foundation's revised Constitution**, and lay the technical groundwork for a global sustainability disclosure standard-setter for the financial markets. They fulfil the growing and urgent demand for streamlining and formalising corporate sustainability disclosures.

The ISSB will sit alongside and work in close cooperation with the IASB, ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB's standards—IFRS Sustainability Disclosure Standards. To ensure public interest legitimacy, both boards will be overseen by the Trustees, who are in turn accountable to a Monitoring Board of capital market authorities responsible for corporate reporting in their jurisdictions. The ISSB and the IASB will be independent, and their standards will complement each other to provide comprehensive information to investors and other providers of capital.

Proven demand

Financial markets need to assess the risks and opportunities facing individual companies which arise from environmental, social and governance (ESG) issues, as these affect enterprise value. This is driving significant demand for high-quality information. Investors and other providers of capital want global sustainability disclosure standards that meet their information needs. Voluntary reporting frameworks and guidance have prompted innovation and action, although fragmentation has also increased cost and complexity for investors, companies and regulators.

Many investors and regulators have called for the IFRS Foundation to build upon market-led initiatives and to use its experience in creating accounting standards used in more than 140 jurisdictions to bring globally comparable reporting on sustainability matters to the financial markets.

The Trustees' decision to create the ISSB is informed by the feedback received in their two public consultations, discussions with advisory groups, frequent dialogue with the IFRS Foundation Monitoring Board and with support from IOSCO and others.

Comprehensive global baseline

The ISSB will develop IFRS Sustainability Disclosure Standards, including disclosure requirements that address companies' impacts on sustainability matters relevant to assessing enterprise value and making investment decisions. The ISSB's standards will enable companies to provide comprehensive sustainability information for the global financial markets. The standards will be developed to facilitate compatibility with requirements that are jurisdiction specific or aimed at a wider group of stakeholders (for example, the European Union's planned Corporate Sustainability Reporting Directive as well as initiatives in the Americas and Asia-

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Consolidating and building on existing initiatives

Consistent with feedback received through consultation, the ISSB will build on the work of existing investor-focused reporting initiatives to become the global standard-setter for sustainability disclosures for the financial markets. To achieve this goal, the IFRS Foundation has reached commitments with the CDSB, whose secretariat is hosted by CDP, and the VRF to consolidate their technical expertise, content, staff and other resources with the IFRS Foundation. It is intended that the technical standards and frameworks of the CDSB and the VRF, along with those of the TCFD and the Forum Stakeholder Capitalism Metrics, will provide a basis for the technical work of the new board.

Recognising the urgency and the desire to provide the ISSB with a solid foundation on which to start its work, the Trustees created the TRWG—comprising representatives from the CDSB, TCFD, IASB, VRF and the Forum—to provide recommendations to the ISSB. The TRWG has concluded its work on **two prototype documents published today**—one which focuses on climate-related disclosures that build on the TCFD’s recommendations and includes industry-specific disclosures, and a second that sets out general sustainability disclosures. The ISSB will consider the prototypes as part of its initial work programme.

Informed by expert advice

The ISSB will draw upon expertise from several advisory groups. Technical advice on sustainability matters will be provided to the ISSB by a new Sustainability Consultative Committee, whose members will include the International Monetary Fund, the Organisation for Economic Co-operation and Development, the United Nations, the World Bank and additional expert members drawn from public, private and non-governmental organisations.

The remit and expertise of the IFRS Advisory Council will be extended to provide strategic sustainability-related advice and counsel to the ISSB, as well as the Trustees and the IASB. Finally, the Trustees have formed a working group to create a mechanism for formal engagement on standard-setting between the ISSB and jurisdictional representatives, including from emerging markets (similar to the Accounting Standards Advisory Forum, which fulfils this role for the IASB).

The Foundation intends to leverage the existing CDSB and VRF advisory groups, which include investors and other experts who have demonstrated long-standing support for improved sustainability disclosure. As well, the Forum’s private sector coalition will be engaged. The Foundation also intends to use the International Integrated Reporting Council to provide advice on establishing connectivity between the work of the IASB and the ISSB via the fundamental concepts and guiding principles of integrated reporting.

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developing and emerging economies will be an important priority.

Offices in Frankfurt (the seat of the Board and the office of the Chair) and in Montreal will be responsible for key functions supporting the new Board and deeper co-operation with regional stakeholders. Offices in San Francisco, following the consolidation with the VRF, and London will also provide technical support and platforms for market engagement and deeper cooperation with regional stakeholders.

Based on expressions of interest received, the IFRS Foundation will engage without delay with Frankfurt and Montreal to make the necessary arrangements to enable the ISSB to commence work early in 2022. Further discussions will continue with proposals for offices from Beijing and Tokyo to finalise the new Board's footprint in the Asia Oceania region. Timely actions are needed to respect the urgency expressed by IOSCO and other important stakeholders.

Next steps

The Trustees are at advanced stages in appointing a Chair and Vice-Chair(s) to the ISSB. The Trustees will commence shortly a search for the additional board positions, up to the full complement of 14 members.

The ISSB's work is expected to commence as soon as the Chair and Vice-Chair(s) have been appointed and to begin with public consultations to inform the ISSB's work plan and on proposals informed by recommendations from the TRWG. Following these consultations, the ISSB's work will follow the IFRS Foundation's rigorous due process, including public discussions by the ISSB of feedback received to the consultations and possible improvements to the proposals prior to their finalisation as standards. The entire process will be overseen by the Trustees' Due Process Oversight Committee.

Erkki Liikanen, Chair of the IFRS Foundation Trustees, said:

Sustainability, and particularly climate change, is the defining issue of our time. To properly assess related opportunities and risks, investors require high-quality, transparent and globally comparable sustainability disclosures that are compatible with the financial statements. Establishing the ISSB and building on the innovation and expertise of the CDSB, the Value Reporting Foundation and others will provide the foundations to achieve this goal.

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Development of the ISSB's global baseline will deliver transformative change in sustainability disclosures for the financial markets. The TCFD welcomes the formation of the ISSB, which builds upon the foundation of the globally accepted TCFD framework and the work of an alliance of sustainability standard setters. The ISSB represents a major step forward in establishing consistent, comparable global reporting standards.

Richard Sexton and Robert K Steel, Co-Chairs of the Value Reporting Foundation Board, commented:

Today's announcement is a reflection of the changed world we live in—a world in which sustainability and long-term thinking are increasingly at the heart of business and investor decision-making. This is a transformation that both the IIRC and SASB helped lead, made possible by the many thousands of stakeholders who volunteered time and offered resources to develop the Integrated Thinking Principles, Integrated Reporting Framework and SASB Standards that are today used by businesses and investors around the world. The Value Reporting Foundation Board believes the consolidation announced today will help deliver effective disclosures to drive global sustainability performance. We count on your continued collaboration as we embark on this exciting next step.

Richard Samans, Chairman of CDSB, and Paul Simpson, CEO of CDP said:

CDP pioneered environmental disclosure twenty years ago and has hosted CDSB since its formation in 2007. CDSB's global partnership of business and environmental organisations supported by the international accounting community was formed to create a generally-accepted framework for corporate reporting of material climate, environmental and

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financial disclosures. The ISSB's integration of CDSB will ensure that the new board has a strong foundation and can move rapidly building on existing best practice. CDP looks forward to supporting the ISSB process with its global market led environmental disclosure mechanism and expertise on data.

Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, said:

Creating long-term value requires both a focus on financial and sustainability performance. This means we need tools for measuring sustainability performance just as we have for financial performance. The World Economic Forum and its private sector coalition made a contribution on this front, proposing a core set of 'Stakeholder Capitalism Metrics'. We are pleased that this effort will provide a basis for the technical work of the ISSB. We look forward to continuing our partnership with the IFRS Foundation in support of the ISSB, during its establishment and as it delivers on its historical mandate.

The IFRS Foundation will also be hosting its own live broadcast at 14:30 GMT on 3 November, providing further information about the ISSB. The event will be [livestreamed on our site](#) and via the [IFRS Foundation's LinkedIn](#) and [YouTube channels](#).

[Watch our short video](#) in which Erkki Liikanen introduces the above announcement. [Read his speech from COP26](#).

[Read the Feedback Statement](#) summarising stakeholder feedback received on the Trustees' consultation on proposed amendments to the *Constitution* to facilitate the creation of the ISSB.

Related information

[Erkki Liikanen's COP26 speech](#)

[Feedback Statement on proposed amendments to the IFRS Foundation's Constitution](#)

[IFRS Foundation Constitution](#)

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ITEM 7B

10 DECEMBER 2021

REPORT BY XRB

DESCRIPTION

Report by Chair of the External Reporting Board of New Zealand.

ACTION

- Michele Embling to report.



FRC PEER REVIEW SURVEY

DESCRIPTION

Attached is a collation of the results of the Financial Reporting Council (FRC) Peer Review Survey for 2021.

The Survey was open from 8 October to 10 November 2021. Responses were received from 8 out of 8 FRC members.

ACTION

It is recommended the Council:

- Note the results of the FRC Peer Review Survey and agree priority actions arising from the Survey.

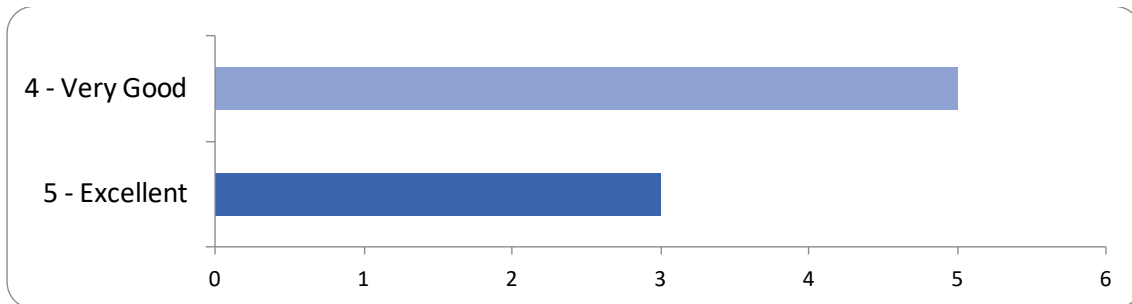


FRC PEER REVIEW SURVEY

SKILLS AND BEHAVIOUR

1: WHAT IS YOUR RATING OF THE SKILLS AND BEHAVIOUR THE MEMBERS BRING TO THE FRC TO COLLECTIVELY ENABLE CONSTRUCTIVE AND INFORMED DISCUSSION ABOUT THE RELEVANT ISSUES?

There were 8 responses to this part of the question.



Option	Total	Percent
1 - Poor	0	0.00%
2 - Fair	0	0.00%
3 - Good	0	0.00%
4 - Very Good	5	62.50%
5 - Excellent	3	37.50%
Not Answered	0	0.00%

2: IF YOUR RATING IS NOT A 5 WHAT DO YOU SUGGEST IN ORDER FOR YOUR RATING TO BE A 5?

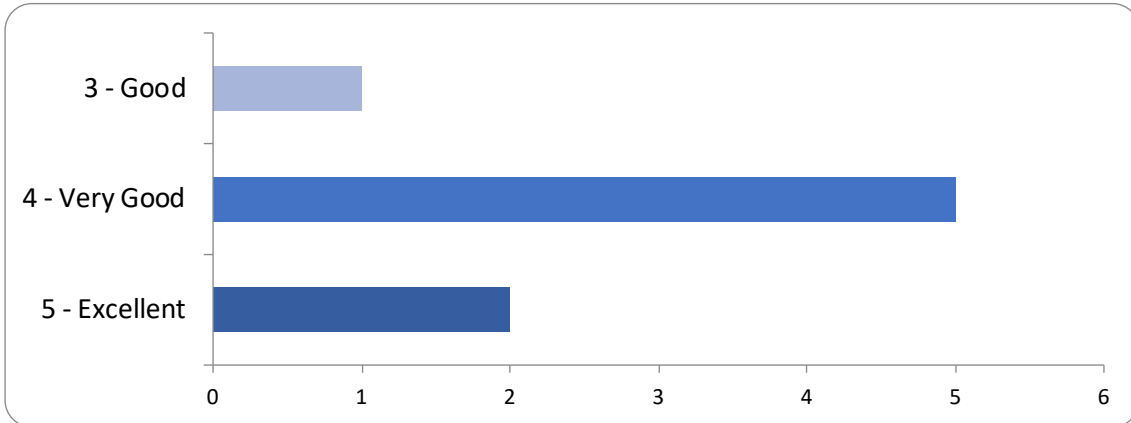
There were 5 responses to this part of the question.

- Greater connection (via continual interactions) with stakeholders in the financial reporting system.
- Sometimes I would like to focus more on why we can do things as opposed to why we can't do something.
- Effective transition into the role - backgrounding on role of board, strategy and focus and landscape (key stakeholders globally and locally and how they relate to each other).
- FRC members have been more engaged over the past year, but still room for more proactivity.
- Solid technical skills but additional strategic orientation - possibly inherent but needs to be brought to bear.

FRC AND FRC COMMITTEE COMPOSITION

3: WHAT IS YOUR RATING OF THE DIVERSITY OF SKILLS, GENDER, TENURE OF MEMBERS AND THE ALIGNMENT WITH THE FRC'S NEEDS?

There were 8 responses to this part of the question.



Option	Total	Percent
1 - Poor	0	0.00%
2 - Fair	0	0.00%
3 - Good	1	12.50%
4 - Very Good	5	62.50%
5 - Excellent	2	25.00%
Not Answered	0	0.00%

4: IF YOUR RATING IS NOT A 5 WHAT DO YOU SUGGEST IN ORDER FOR YOUR RATING TO BE A 5?

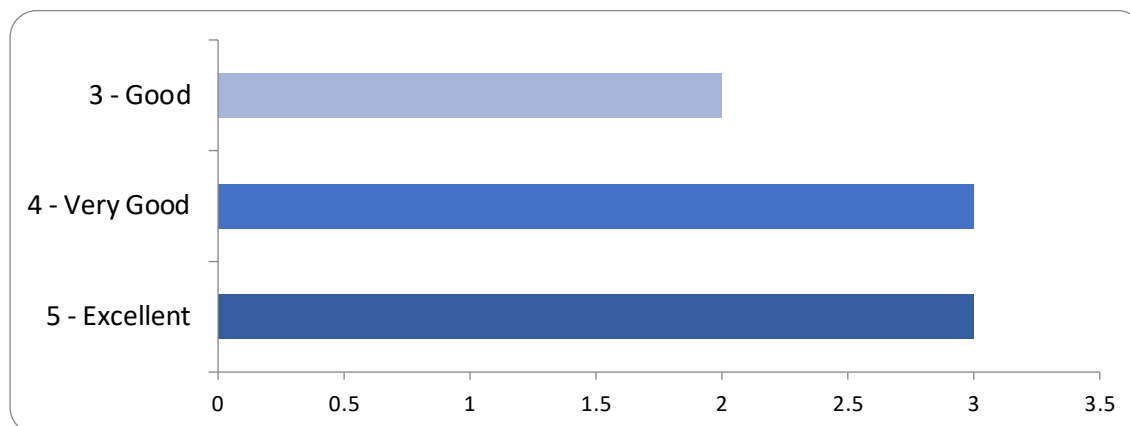
There were 6 responses to this part of the question.

1. An increase in the number of members would assist, say, two more.
2. Given turnover of board members and the fact that succession is not planned in the way most high performing boards would expect, we sometimes we miss the perspectives that institutional knowledge or history can bring. We need to think about how to bring that perspective or experience to our conversations. I appreciate that this is more challenging in a virtual meeting environment without the advantage of informal conversation before and after each meeting.
3. Tenure of the group remains short, but this will resolve over time.
4. There are a large number of new members, which has resulted in the FRC losing momentum. However, over time, this issue will resolve itself. The skill and experience mix of FRC members is appropriate and balanced.
5. Further diversity required - ethnicity, age.
6. Perhaps another preparer rep.

FRC AND FRC COMMITTEE MEETINGS

5: WHAT IS YOUR RATING OF THE MECHANICS OF MEETINGS, INCLUDING QUALITY OF PAPERS AND EFFECTIVENESS OF MEETING PROCEDURES?

There were 8 responses to this part of the question.



Option	Total	Percent
1 - Poor	0	0.00%
2 - Fair	0	0.00%
3 - Good	2	25.00%
4 - Very Good	3	37.50%
5 - Excellent	3	37.50%
Not Answered	0	0.00%

6: IF YOUR RATING IS NOT A 5 WHAT DO YOU SUGGEST IN ORDER FOR YOUR RATING TO BE A 5?

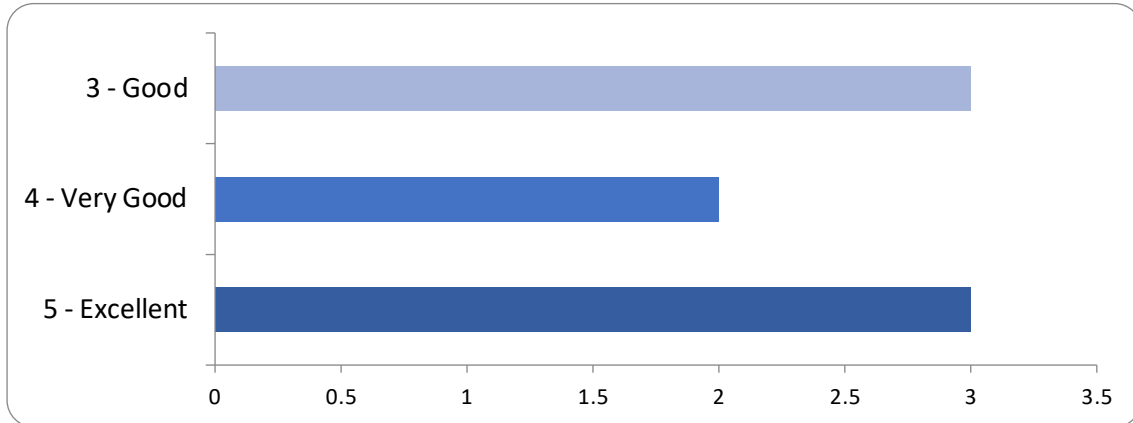
There were 5 responses to this part of the question.

1. Can sometimes be difficult to keep across of meeting papers when they come out via email and in batches. Suggest either the use of a board paper platform, or if that is too costly, then that a complete set of papers be sent out as a PDF the evening before.
2. The meetings run well, and the papers are of a high quality. Papers should be provided a week before the meeting to enable members to be appropriately prepared.
3. Significant recent improvement with papers being better focused and condensed. Stakeholder reports - we don't seem to be getting a lot from them - opportunity to reconsider / refresh the way we engage with stakeholders.
4. There has been more discussion of the emerging issues/topics over the past year, replacing some of the information download. This should increasingly be the focus of meetings going forward.
5. The move to further accept papers as read and discuss by exception is positive - continue and accentuate time spent discussing topical issues of strategic or key operational nature.

STRATEGY

7: WHAT IS YOUR RATING OF THE STRATEGIC PLAN AND THE EXTENT TO WHICH IT ALIGNS WITH ACHIEVEMENT OF THE FRC'S STATUTORY OBLIGATIONS?

There were 8 responses to this part of the question.



Option	Total	Percent
1 - Poor	0	0.00%
2 - Fair	0	0.00%
3 - Good	3	37.50%
4 - Very Good	2	25.00%
5 - Excellent	3	37.50%
Not Answered	0	0.00%

8: IF YOUR RATING IS NOT A 5 WHAT DO YOU SUGGEST IN ORDER FOR YOUR RATING TO BE A 5?

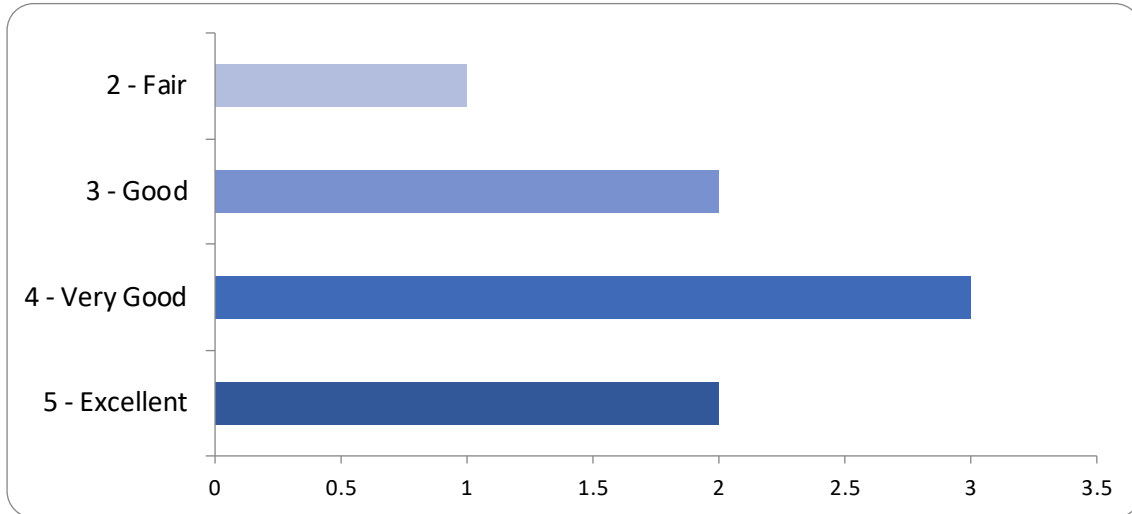
There were 5 responses to this part of the question.

1. I am not sure that the strategic plan is as forward looking as it should be. Perhaps a challenging question for the board would be "what would be in our strategic plan if we weren't constrained by our current legislative mandate or structure?".
2. Goes back to my earlier point about action. I also think it's very difficult to accurately measure the impact the FRC has on some of the objectives.
3. Fit for purpose and addresses the stat requirements. Opportunity to engage to consider if the scope remains appropriate.
4. The FRC should continue to identify the important few emerging issues and focus time and resource on these. The FRC needs to continue to find a way to resource the initiatives directly aligned with its ASIC Act objectives including Audit Quality.
5. Trending well but even more ambition and cut through.

STAKEHOLDER ENGAGEMENT

9: WHAT IS YOUR RATING OF THE FRC'S PERFORMANCE IN STAKEHOLDER ENGAGEMENT, INCLUDING KEY RELATIONSHIPS AND ENGAGEMENT PROCESSES?

There were 8 responses to this part of the question.



Option	Total	Percent
1 - Poor	0	0.00%
2 - Fair	1	12.50%
3 - Good	2	25.00%
4 - Very Good	3	37.50%
5 - Excellent	2	25.00%
Not Answered	0	0.00%

10: IF YOUR RATING IS NOT A 5 WHAT DO YOU SUGGEST IN ORDER FOR YOUR RATING TO BE A 5?

There were 6 responses to this part of the question.

1. All members to increase their interaction with stakeholders, outside their normal employment.
2. My sense is that this has improved over the last 12 months and the Chair and others have been more proactive at engaging with stakeholders. However, we have been constrained by the impact of COVID. Maybe time to think of an engagement strategy as the COVID restrictions are relaxed.
3. Stakeholder engagement could always be better.
4. Needs a rethink in terms of what both parties are getting out of the relationship.
5. Many interactions with stakeholders appear to be perfunctory with little impact on the objectives of the FRC.
6. More frequent ministerial reach out.

GENERAL QUESTIONS

11: WHAT DO YOU SEE AS THE EMERGING ISSUES FOR THE FRC OVER THE NEXT 12 MONTHS?

There were 8 responses to this part of the question.

1. Appropriate approach to sustainability reporting matters.
2. Key issues currently being addressed will continue to be high priority i.e., Particularly Extended External Reporting and Audit Quality .
3. ESG and the sense that Australia (and NZ) is falling behind the rest of the world. This will become more significant as sustainability concerns impact global capital flows.
4. Extended External Reporting frameworks is going to be a key activity over the next year. I also think the FRC should as the Regulator ask more questions of the bodies it oversees about improvements/disciplinary processes.
5. Audit quality, digital reporting, extended external reporting and the role of FRC to support this in Australia.
6. ESG, capability to deliver on reporting demands and digital reporting.
7. EER and audit quality.
8. Audit quality and sustainability reporting.

12: WHAT SHOULD THE FRC START, STOP OR CONTINUE DOING?

There were 8 responses to this part of the question.

1. Continue current approach to oversight of AASB and AUASB, providing direction only when needed.
2. Increase resources at staff level with expertise in the financial reporting system. Increase number of FRC members by say, two.
3. Meet in person as soon as possible and continue to push on ESG as a priority.
4. I think we also examine more critically the issue of audit quality - continuing to report that it remains an issue ultimately doesn't address the problem.
5. FRC should continue on the path it is on to support EER in Australia. FRC should seek more targeted feedback/updates from relevant stakeholders on commitments they have made or areas where they play a key role aligned to FRC. Stakeholder reports can read as marketing and a source of good news, rather than e.g. updates on activities to support audit quality, including where planned activities might have changed or timing has slipped.
6. Nil response.
7. Ensure adequate resourcing and time allocated to focus areas of EER and Audit Quality.
8. Continue to utilize the experience and insights of the diverse members. Seek more input from govt to ensure we tackle issues of the day.



AASB PEER REVIEW SURVEY

DESCRIPTION

The Australian Accounting Standards Board (AASB) peer review survey was open from 8 October to 18 November 2021. Responses were received from 9 of 11 AASB members.

ACTION

- AASB Chair to report.



AUASB PEER REVIEW SURVEY

DESCRIPTION

The Auditing and Assurance Standards Board (AUASB) peer review survey was open from 8 October to 7 November 2021. Responses were received from 11 of 11 AUASB members.

ACTION

- AUASB Chair to report.



EXTENDED EXTERNAL REPORTING UPDATE

DESCRIPTION

At the 22 September 2021 meeting of the Financial Reporting Council (FRC), members engaged in a substantive discussion about the scope of the FRC and standard boards' statutory powers to adopt standards for extended external reporting (EER). The Chair also provided an update about his meetings with the Minister and the Minister's Chief of Staff and officials from the Treasury. The Chair undertook to reach out to both the Minister's Office and Treasury to invite more feedback and to support them on developing options to address the imperative to act on EER standards and seek to influence the international developments on this issue. Bill Edge undertook to circulate a proposed joint statement on EER by the FRC and the standard boards.

A copy of the joint FRC, AASB and AUASB statement on EER is attached. It was also published on the FRC website at <https://frc.gov.au/publication/frcaasbauasb-position-statement-extended-external-reporting-and-assurance>.

It is relevant to note that in November 2021, the IFRS Board released its [Climate-related disclosures prototype](#), developed by the Technical Readiness Working Group, chaired by the IFRS Foundation, to provide recommendations to the International Sustainability Standards Board for consideration.

ACTION

- Chair to report.

It is recommended the Council:

- Note the attached EER position statement, which was published on the FRC, AASB and AUASB website.



FRC/AASB/AUASB Position Statement on Extended External Reporting and Assurance

The FRC, the AASB and the AUASB (“the Boards”) recognise the desire for authoritative guidance on Extended External Reporting in Australia. To this end, the Boards are taking active steps to ensure Australia adopts a reporting regime that meets the needs of users of financial and non-financial reporting information and supports Australia’s international competitiveness.

Structure

The Boards seek to adopt an Extended External Reporting regime within the current institutional framework in place for financial reporting. Specifically, the AASB intends to develop reporting requirements for non-financial information and the AUASB intends to simultaneously update relevant assurance standards, which are already capable of addressing current voluntary disclosures. The FRC will continue to provide strategic oversight of the Boards.

This approach is designed to take advantage of the significant experience, expertise and credibility, that the AASB and the AUASB have in standard setting. It will also help ensure appropriate links between the financial reporting framework and the Extended External Reporting framework, as well as addressing assurance requirements in a timely fashion.

Accordingly, the Boards do not support, at this time, establishing a new body that would specialise in developing sustainability reporting standards.

Objectives

Having undertaken preliminary stakeholder engagement, the Boards have identified the following objectives to guide the development of the reporting framework:

- To provide comparability in Extended External Reporting with an initial focus on sustainability reporting;
- To provide a basis for directors and auditors to meet stakeholder expectations and legislative requirements (subject to discussions with relevant regulators);
- Provide meaningful disclosures for users of Extended External Reporting information in the private, public and not-for-profit sectors;
- Establish and maintain appropriate links between the financial reporting framework and the Extended External Reporting framework; and
- To provide meaningful, relevant and timely guidance on assuring Extended External Reporting with an initial focus on sustainability reporting.



Developing the framework

In developing an Extended External Reporting framework for Australia, the Boards will be taking the following measures:

- Maintain close links with the International Financial Reporting Standards (IFRS) Foundation in the development of the proposed International Sustainability Standards Board to ensure Australia's interests are appropriately represented;
- Liaise closely with counterparts in New Zealand to maintain consistency between jurisdictions as far as possible, consistent with the Closer Economic Relations policy;
- Maintain close links with other stakeholders and regulators in developing the framework for the private, public and not-for-profit sectors;
- Establish a Project Advisory Panel as a forum for open communication between the Boards and the stakeholder community so that the Boards are aware of stakeholder developments and thought leadership as they occur;
- Continue stakeholder liaison, including as part of the forthcoming AASB Agenda Consultation 2022–2026 Invitation to Comment; and
- Recruit additional in-house technical expertise and for the Boards as developments continue.



FRC WEBSITE STATISTICS

DESCRIPTION

In November 2020, the Financial Reporting Council (FRC) considered data on traffic to the FRC website for the following date ranges:

- 17 October 2018 to 30 June 2019
- 1 July 2019 to 31 December 2019
- 1 January 2020 to 30 April 2020.

By way of update, the FRC Secretariat has obtained data on traffic to the FRC website for the period 1 July 2020 to 30 June 2021, being the 2020-21 financial year.

ACTION

- For noting.

Measure	Data (1 Jul 2020 – 30 Jun 2021)
Page views	53,889 (41,396 unique views)
New visitors	12,686 (12,651 New Users)
Peak viewing period	September 2020 to October 2020.
Most frequently viewed pages	Homepage (14.27%) FRC Annual Reports (9.98%) Publications (7.04%) Submission (6.48%) About the FRC (6.04%)
Language setting (English/US is the default setting on most computers)	English/US: (46.32%) English/GB: (14.05%) English/AU: (12.86%)



FRC MEETING DATES FOR 2022

DESCRIPTION

The FRC Secretariat circulated an online poll to identify suitable dates for meetings of the Financial Reporting Council (FRC) in 2022.

The poll results indicated the following dates were suitable for all or most members:

- 2 June
- 8 September

The poll did not identify a suitable date for meetings in March or December.

It is proposed that the FRC Secretariat circulates a second doodle poll to identify suitable dates for these meetings.

ACTION

It is recommended the Council:

- agree to meet on 2 June and 8 September 2022
- agree to the FRC Secretariat circulating a further doodle poll to identify suitable meeting dates in or around March or December 2022.



ITEM 10A

10 DECEMBER 2021

NEXT MEETING AND CLOSE

DESCRIPTION

Next meeting date is to be confirmed.

ACTION

- Chair to report.