

**Issues Paper – AASB 1049 *Whole of Government and General Government
Sector Financial Reporting (October 2007) Implementation Issues***

Staff disclaimer: This paper captures a high level summary of the main post-implementation issues faced by jurisdictions during the implementation of AASB 1049 (October 2007) identified by staff. Staff have endeavoured to reflect faithfully the issues raised by constituents, but have exercised significant judgement in identifying the main points and interpreting the comments.

An earlier version of this paper was circulated to AASB subcommittee members and this paper reflects their comments and views. Comments were received from 3 members (the fourth member was unavailable during the comment period). Issues where an individual subcommittee member's view differs from a reconsidered staff view (and where subcommittee members have not agreed amongst themselves) are noted in the paper.

Some meaning may have been inadvertently lost in the process of summarisation.

Please note that this paper is based on a confidential paper provided as agenda paper 11.2 of the AASB's 30 July 2010, to remove references that attribute views to particular individuals.

1. Background

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007)¹ is the result of Part 1 of Phase 1 of the AASB's GAAP/GFS Harmonisation project. The 2008-09 financial year is the first year in which all jurisdictions in Australia have adopted AASB 1049 [or AASB 1049 (2007, as amended)²] for their whole of government (WoG) financial statements. However, the Commonwealth adopted AASB 1049 in 2008-09 only for WoG and not for the General Government Sector (GGS). In accordance with the Board's commitment to undertake a post-implementation review of AASB 1049, staff commenced the review following the March 2010 AASB meeting.

This paper identifies a list of implementation issues and staff views pertinent to each issue, where applicable, having regard to the Board's policy of issuing principles-based Standards. It is not the objective of this paper to identify breaches in applying AASB 1049.

In developing staff views, we have had regard to comments made by the AASB subcommittee members on an earlier draft of this paper. In addition, this paper identifies issues where subcommittee members did not agree among themselves, or where staff views differ from an individual subcommittee member's views.

We do not regard all the issues identified in this paper as being necessarily significant. However, we took the view that if AASB 1049 is to be amended for significant issues, the Board could take advantage of the opportunity to make some improvements to the Standard. One subcommittee member disagreed with our approach on the basis that an accounting standard should address minor issues or obscure interpretations by particular preparers. Accounting standards should address significant issues only and the AASB should only adjust Standards for significant issues. To adjust for the minor and obscure issues or interpretations sends the wrong message to preparers (especially for a Standard with a limited number of preparers) to seek further amendments to agree with their interpretations, leading to a rule book.

In accordance with the Board's decision at its March 2010 meeting, the scope of the post-implementation review is limited to implementation experiences at an operational level. Accordingly, this paper does not focus on issues concerning the fundamental technical requirements of AASB 1049. Although section 2 of this paper notes a number of these more fundamental issues, it is provided as a matter of record and we have not expressed any views recommending amendment(s) to AASB 1049 in relation to them.

1 References to AASB 1049 throughout this document are to AASB 1049 (October 2007) unless otherwise stated.

2 AASB 1049 (2007, as amended) requires the presentation of a statement of changes in equity which is not required by the superseded AASB 1049. Some jurisdictions early adopted the revised AASB 1049.

The implementation issues noted in this paper have been developed by:

- reviewing jurisdictions' WoG and GGS financial statements for the 2008-09 financial year;
- reviewing the AASB staff's technical query database;
- reviewing e-mail correspondence with constituents since AASB 1049 was issued;
- reviewing the implementation issues explicitly identified at the AASB February 2007 and September 2008 meetings;
- consulting with constituents [those from each jurisdiction's Department of Treasury and Finance and Auditor-General's Office with AASB 1049 implementation experience] through a program of field visits/teleconferences (to help us understand the issues faced in each jurisdiction);
- consulting with the ABS; and
- reviewing a letter from a constituent dated 16 June 2010 (see agenda paper 18.1).

We think the Board should consider our recommendations, presented in text boxes at the end of relevant issues, as the basis for an ED proposing amendments to AASB 1049.

Summary

Shaded rows indicate issues for which staff have recommended there be no amendments to AASB 1049. Italicised text highlights where at least one subcommittee member disagrees with the staff view.

Issue number	Issue heading	Relevant paragraphs from AASB 1049	Nature of issue	Summary of staff recommendation
2.1-2.6	General issues		General issues	There is no staff recommendation in relation to these issues because they are beyond the scope of the post-implementation review, or have more general implications beyond AASB 1049.
3.1	Preparation of GGS Financial Statements	7	Are GGS financial statements required to be prepared?	Yes. Accordingly, paragraph 7 should be amended to clarify that both WoG and GGS financial statements are required to be prepared. <i>One subcommittee member thinks this amendment is unnecessary.</i>
3.2	WoG and GGS financial statements presented in one document	7 & Illustrative Examples A & B	How should GGS financial statements be presented relative to WoG financial statements?	AASB 1049 should not be restrictive on this issue. Accordingly, the introduction to the Illustrative Examples should be amended to note that a columnar format is acceptable. <i>One subcommittee member thinks this amendment is unnecessary because jurisdictions know that a columnar approach is acceptable.</i>
3.3	GGS financial report not prior to WoG financial report	8 & 39(a)	When should the GGS financial report be made available?	At the same time or within a reasonable time after the WoG financial statements, and WoG should cross-reference to GGS. Paragraphs 8 & 39(a) should be amended accordingly. <i>One subcommittee member thinks this amendment should be less limiting by simply requiring WoG & GGS to issue on a timely basis and cross-refer.</i>

Issue number	Issue heading	Relevant paragraphs from AASB 1049	Nature of issue	Summary of staff recommendation
3.4	GPFR/SPFR	12 & BC6	Should the GGS financial report specify whether it is a GPFR or SPFR?	No. Therefore, no amendments should be made to AASB 1049 in relation to this issue. The issue should be addressed as part of the Differential Reporting project. <i>One subcommittee member disagrees with the staff recommendation to address the issue as part of the Differential Reporting Project, because this issue should be addressed now.</i>
3.5	Adoption of options in GAAP that align with GFS			
3.5.1	Land under roads	13 & 14	Should the option for land under roads be included as an example in AASB 1049?	Yes. Accordingly, paragraph 14 should be amended to include land under roads as an example. Furthermore, if future Standards introduce further options, consideration should be given to whether they should give rise to consequential amendments to paragraph 14. <i>One subcommittee member thinks this amendment is unnecessary because land under roads is not a significant issue and most jurisdictions have now resolved that issue one way or another.</i> <i>Another subcommittee member questions this amendment and is of the view that it looks out of place in AASB 1049 and wonders whether land under roads is material at the GGS or WoG level.</i>
3.5.2	Early adoption of new Standards	13	Should early adoption of a new Standard be required when it would align with GFS?	No. Accordingly, paragraph 13 should be amended to clarify the meaning of the GAAP/GFS harmonisation option principle. <i>One subcommittee member thinks this amendment is unnecessary because no jurisdiction interpreted paragraph 13 in a way requiring the early adoption of new Standards that are not mandatory.</i>
3.5.3	Examples of particular optional treatments in GAAP	14	Should AASB 1049 specify for each option in GAAP which option aligns with GFS?	No. But revisit this decision in light of the Board's decisions relating to GAAP/GFS harmonisation for entities within the GGS.
3.5.4	Concept of most closely aligns with GFS	13 & 14	Should the principle be the GAAP option that 'most closely aligns' with GFS?	Yes. Accordingly, paragraph 13 should be amended – currently it refers to 'aligns' rather than 'most closely aligns'. However, it should also be clarified that if both GAAP options are permissible under GFS, then both of them should be allowed.
3.6	Presentation of the WoG/GGS statement of financial position	15	Should the statement of financial position be required to sub-classify non-financial assets between produced/non-produced? Should the statement of financial position be allowed to be presented in order of the ABS GFS Manual's balance sheet?	No. Accordingly, the Illustrative Examples should be amended to remove the sub-classification. <i>One subcommittee member thinks this amendment is unnecessary because the Illustrative Example is an example only and most jurisdictions do not use the produced/non-produced subclassification.</i> Not necessarily. Accordingly, the introduction to the Illustrative Examples should be amended to note that the order presented in the ABS GFS Manual might be suitable where it results in a liquidity order presentation. <i>One subcommittee member thinks this amendment is unnecessary.</i>

Issue number	Issue heading	Relevant paragraphs from AASB 1049	Nature of issue	Summary of staff recommendation
3.7	Presentation of additional fiscal aggregates	16 & 18	Is AASB 1049 clear on the relationship between key fiscal aggregates and other fiscal aggregates?	No. Accordingly, paragraph 18 should be amended to clearly differentiate between key fiscal aggregates and other fiscal aggregates. Also, the last sentence of paragraph 18 should be amended to align with the tails of paragraphs 41(a)(i) & 52(b)(ii). <i>One subcommittee member thinks this amendment is unnecessary.</i>
3.8	Individual amounts for PNFC and PFC sectors	20 & 23	Should the amount recognised for an investment in a PNFC or a PFC be allowed to be negative?	No. Accordingly, paragraph 23(c) should be amended to be consistent with paragraph 20(c). <i>One subcommittee member disagrees with this amendment because these two paragraphs are not inconsistent.</i>
3.9	Transactions with owners as owners in a GGS context	26	Do transactions with owners as owners arise in a GGS context?	Yes. Accordingly, paragraph 26 should be amended. <i>One subcommittee member thinks this amendment is unnecessary because this issue is a minor one.</i>
3.10	Presentation of components of other economic flows	29	Can OEFs be itemised in a note rather than on the face?	Yes, to the extent that would be consistent with AASB 101 (which requires on the face itemisation of other comprehensive income). Accordingly, the Illustrative Examples should be amended to include a footnote that acknowledges that OEFs that are not within OCI could be aggregated on the face and itemised in the notes. <i>One subcommittee member thinks this amendment is unnecessary because the presentation of components of other economic flows should be clear from the principles in AASB 1049 and this issue to be a minor one.</i>
3.11	Presentation of operating result on the face	29	Should AASB 1049 continue to require presentation of operating result on the face?	Yes, consistent with the fundamental basis upon which AASB 1049 was developed. Accordingly, AASB 1049 should not be amended in relation to this issue.
3.12	Transactions vs. other economic flows	30 & 55(b)	Is AASB 1049 clear on how to apply the GFS classification to items that only arise in a GAAP context?	No. Accordingly, include in AASB 1049 some commentary to clarify the meaning of 'in a manner that is consistent with the principles in the ABS GFS Manual'. However, our tentative view is that it is not necessary to amend paragraph 55(b) in relation to its comments about the classification of deferred tax amounts.
3.13	Treatment of non-cash items in relation to cash flow statements	18 & 37	Should non-cash items be included on the face of the cash flow statement?	No. Accordingly, include in AASB 1049 some commentary to clarify that non-cash items (including the value of assets acquired under finance leases and similar arrangements) should not be presented on the face, even if a separate heading is used before the line item. <i>One subcommittee member thinks this amendment is unnecessary because it is not the role of an accounting standard to consider every potentiality.</i>
3.14	Reconciliation requirements	41(a)(i)B & 52(b)(ii)B	Are the requirements clear and should they be retained?	Yes. Accordingly, AASB 1049 should not be amended in relation to this issue.

Issue number	Issue heading	Relevant paragraphs from AASB 1049	Nature of issue	Summary of staff recommendation
3.15	Disclose explanations of key technical terms	41(a)(iv) & 46	Are the requirements clear and should they be retained unamended?	<p>The requirements are clear, but paragraph 46 should be amended to be expressed as a principle rather than a rule.</p> <p><i>One subcommittee member disagrees with the recommendation to state as a principle. If the requirement is principles-based, then there is a potential for increased inconsistency.</i></p>
3.16	Disclose a list of entities within the GGS, and changes therein, and reasons for change; and a list of significant investments in PNFC and PFC sector entities	41(b)(i)-(ii)	Are the requirements clear and should they be retained unamended?	<p>AASB 1049 should be amended to acknowledge that GFS might include entities within the GGS that GAAP regards as not controlled, thereby giving rise to reconciling differences. AASB 1049 should also clarify that an investment does not need to be evidenced by formal share certificates.</p> <p><i>One subcommittee member disagrees with our recommendation and is of the view that AASB 1049 does not need amendment in relation to these two issues.</i></p>
3.17	Disclosure of the aggregates of dividends and other distributions to owners as owners	41(b)(iii)	Are the requirements clear and should they be retained unamended?	<p>The Illustrative Examples should be amended to avoid the implication that dividends and income tax equivalents are similar in nature. Paragraph 41(b)(iii) should also be amended to require disclosure of the amount of gross contributions from the GGS in its capacity as owner of PNFC/PFC sector entities to enable users to calculate the amount of 'net distributions'.</p> <p><i>One subcommittee member thinks these amendments are unnecessary. It is OK to have a line item on the face of the operating statement combining dividends and income tax equivalents, as long as they are separately disclosed in the notes. Unsure whether the gross contributions matter is a significant issue.</i></p>
3.18	Statutory liabilities and assets	44	Should statutory liabilities and assets be classified as financial assets and liabilities?	No. Accordingly, AASB 1049 should not be amended in relation to this issue.
3.19	Carrying amount of recognised assets attributable to functions	48(b)	Are the requirements clear and should they be retained unamended?	<p>Yes. However, the requirements should be reviewed in due course in the context of the separate Disaggregated Disclosures project.</p> <p><i>One subcommittee member disagrees with retaining the disclosure requirement. This requirement was mainly included to align with GFS, but this is not a GFS requirement and should be omitted.</i></p>
3.20	Expenses, excluding losses, included in operating result, by function	48(c)	Are the requirements clear and should they be retained unamended?	<p>Yes. However, the requirements should be reviewed in due course in the context of the separate Disaggregated Disclosures project.</p> <p><i>One subcommittee member disagrees with retaining the disclosure requirement. 'Expenses from transactions', is a similar concept, and aligns with how jurisdictions report.</i></p>
3.21	Presentation of total non-financial public sector information	52, 18 & BC34	Should AASB 1049 require disclosure of the total non-financial public sector?	No. Accordingly, AASB 1049 should not be amended in relation to this issue.

Issue number	Issue heading	Relevant paragraphs from AASB 1049	Nature of issue	Summary of staff recommendation
3.22	Presentation of sectoral statements of financial position	58	Should AASB 1049 be amended to provide relief for the fact a third balance sheet might be required (because of AASB 101)?	No. Accordingly, AASB 1049 should not be amended in relation to this issue. However, staff should continue its work on considering the implications of the IASB's Financial Statement Presentation project for AASB 1049.
3.23	Interpretation of 'presented on a basis consistent with' in the context of budgetary information	59(a)	Should the budget be recast to reflect differences in recognition and measurement adopted in the financial statements compared with the budget? Should the requirement to compare with the original budget be changed to refer to the revised budget?	No. Accordingly, AASB 1049 should be amended to clarify that the budget should only be recast in relation to presentation and classification, and to clarify that variances caused by recognition and measurement changes would be among variances that might require explanation. No. Accordingly, AASB 1049 should not be amended in relation to this issue.
3.24	Explanations of variances from budget	59(b)	Are the requirements clear and should they be retained unamended?	Yes. Accordingly, AASB 1049 should not be amended in relation to this issue.
3.25	Appendix A			
3.25.1	Definition of the ABS GFS Manual (its scope and process for change)	Appendix A & 13	Is the scope of the ABS GFS Manual and the manner in which it is changed appropriate?	This is not something that the AASB can control. However, the AASB should write to the ABS formally advising it of the concerns expressed by interviewees and encouraging the ABS to clarify the scope of the ABS GFS Manual and establish an agreed process for amending or interpreting it.
3.25.2	Definition of the ABS GFS Manual (which version)	Appendix A	Should the definition continue to be ambulatory?	No, subject to the outcome of consultation with the ABS (see issue 3.25.1 above). Accordingly, the definition should be amended to remove the reference to 'as updated from time to time'. In addition, AASB 1049 should be amended to explicitly note that the hierarchy in AASB 108 would apply when determining the GFS policies to adopt. <i>One subcommittee member is concerned about the implications for the Board's work program of this recommendation. Another subcommittee member questions whether the principles in AASB 108 can or should be applied in a GFS context.</i>
3.26	Illustrative Examples			
3.26.1	Presentation of discontinued operations	Illustrative Examples A & B	Should discontinued operations be illustrated?	No. Accordingly, AASB 1049 should not be amended in relation to this issue.
3.26.2	Tax-effect accounting by the GGS	Explanatory Note r(ii)	Should AASB 1049 continue to contemplate that GGS might recognise deferred tax balances that 'mirror' the deferred tax balances recognised by PNFC/PFC sector entities?	No. We acknowledge that issues relating to the recognition of a taxing authority of taxes is the subject of AASB 1004 (and ED 180) rather than AASB 1049. However, our tentative view is that explanatory note r(ii) should be amended to avoid implying that a tax equivalent regime that emulates the Australian Income Tax Assessment Act could give rise to mirror accounting by the GGS. <i>One subcommittee member disagrees with this recommendation. The treatment of deferred tax and the contemplation about the 'mirror' deferred tax was agreed as part of the AASB due process.</i>

2. General issues relating to AASB 1049 and its implementation

2.1 Implementation experience as a whole

In broad terms, it is apparent that all jurisdictions have been able to implement AASB 1049 without encountering insurmountable issues. However, a number of jurisdictions acknowledged that they are still on a 'learning curve' and once they have compared their reporting to their peers, they expect to modify some aspects.

Many interviewees identified some areas where AASB 1049 could have been improved to make their first time implementation easier. However, because they have now dealt with the issues, it is not necessary to amend AASB 1049 and, in any event, arguably the issues are general in nature and therefore not specific to AASB 1049 requirements. Examples of such issues include: fair value measurement of power and utility assets and property, plant and equipment. Except in relation to issue 2.4(a) below, these issues are not addressed further in this paper, and, as noted in section 1 above, staff do not recommend amendments to AASB 1049 in response to them.

In addition to issues relating to fair value, some of the other issues raised during our interviews go beyond GAAP/GFS harmonisation per se, for example, the requirement to align accounting policies of for-profit subsidiaries with the policies of the not-for-profit parent. Except in relation to issue 2.4(b) below, these issues are beyond the scope of the post-implementation review and therefore are not addressed further in this paper. Accordingly, staff do not recommend amendments to AASB 1049 in response to them.

It was evident from our discussions with interviewees that many potential implementation issues in AASB 1049 did not arise in practice in the first year of implementation on the basis that their effect was not material. For example, one interviewee did not consider fair value measurement as a major implementation issue because property, plant and equipment within the public sector is considered to be immaterial.

Interviewees also identified some areas where AASB 1049 could be improved to make ongoing implementation easier – these are the issues that are the focus of this paper, and for which we have made recommendations in relation to amendments to AASB 1049.

The remainder of section 2 (in particular issues 2.2 – 2.7) is provided as a matter of record and as a context to section 3.

2.2 Usefulness of AASB 1049 harmonised information

Some interviewees expressed the view that AASB 1049 harmonised information is useful to users because:

- (a) AASB 1049 better aligns a jurisdiction's budget papers with the consolidated financial statements; and
- (b) the number of financial statements are reduced by allowing the presentation of harmonised information.

However, some interviewees expressed uncertainty about whether users understand AASB 1049 harmonised information because:

- (a) users (i.e. parliamentarians) do not query them about AASB 1049 harmonised information although such users tended to query pre-AASB 1049 financial statements;
- (b) users with limited financial and GFS knowledge are unable to understand the format of the harmonised financial statements because users are confused with the terminology used in those financial statements and find such information too complex;
- (c) the face of the financial statements looks cluttered (see issues 3.6, 3.10, 3.11);
- (d) GFS concepts are confusing;
- (e) GFS and GAAP information should be presented separately. Harmonised information confuses users who are used to the Uniform Presentation Framework; and
- (f) even professional accountants find it confusing.

Also, one interviewee thought harmonising GAAP with a framework that the Board has no control over creates a risk for the Board. We note this is an issue at a conceptual level, which is beyond the scope of this review, although the issue is relevant to AASB 1049 in relation to the definition of 'ABS GFS Manual' – which is addressed as issue 3.25.1.

2.3 Comparability and consistency across jurisdictions

The staff desktop review of jurisdictions' WoG and GGS 2008-09 financial statements and consultative meetings with jurisdictions identified areas where there is diversity in practice among jurisdictions in applying AASB 1049. Those diverse practices that have come to our attention are detailed throughout this paper, for example issues 3.14 regarding reconciliations and 3.26.2 regarding mirror accounting for deferred tax amounts.

Some interviewees are of the view that there should be greater consistency across jurisdictions in applying AASB 1049. However, one interviewee questions whether consistency and comparability are achievable across jurisdictions because jurisdictions, at times, may interpret and apply the principles and rules in AASB 1049 in different ways. Also, that interviewee commented that the dates AASB 1049 financial statements are published vary across jurisdictions, which makes it difficult to review other jurisdictions' treatment of issues affecting all jurisdictions.

2.4 Adoption of same accounting policies by WoG and GGS (paragraphs 9, 13-14)

Implementation issues raised by jurisdictions in relation to the requirement to adopt the same accounting policies by WoG and GGS included fair value measurement and for-profit accounting treatments.

(a) Fair value measurement

Those jurisdictions that identify complying with the requirement of the ABS GFS Manual to measure assets at fair value as an implementation issue do so because:

- (a) the transition to fair value measurement is a costly and time consuming exercise (especially when measuring power, water and utility assets);
- (b) such measurement would continue to be a costly exercise in the future;

- (c) selling prices for some of the governments' assets are not readily available (and nor are buying prices on occasions), which makes it difficult to obtain market prices;
- (d) assets are only measured at fair value for compliance purposes;
- (e) the ABS does not 'push' jurisdictions to comply with the requirement to measure assets at fair value; and
- (f) independent boards of agencies do not want to accept the mandated fair value measurement policy.

On a separate note, jurisdictions measure their work in progress at cost because the ABS GFS Manual is silent on the matter and they are of the view that cost, in this case, is a reasonable approximation of fair value.

Consistent with our introductory comments under section 2.1 we believe this issue is beyond the scope of the post-implementation review. Irrespective of this, we would not recommend amendment to AASB 1049 in relation to it, because we think it is an issue of general applicability not limited to AASB 1049.

(b) Not-for-Profit vs. For Profit Policies

For example, interviewees identified that the mandatory capitalisation of borrowing costs creates an issue for them upon consolidation because the option to expense all borrowing costs in AASB 123 *Borrowing Costs* is only provided to not-for-profit public sector entities and material borrowings are undertaken by for-profit entities in each of these jurisdictions.

Consistent with our introductory comments under section 2.1 we also believe this issue is beyond the scope of the post-implementation review. In any event, we would not recommend amendment to AASB 1049 in relation to it on the basis that 'Consolidation of for-profit entities into not-for-profit groups' is a topic in Table 3 'Agenda Decisions to be Made' of the Board's Work Program – see agenda item 18.

2.5 ABS GFS Manual

Some concern was expressed about a lack of due process and consultation in relation to changes made by the ABS in applying (including interpretation of) the ABS GFS Manual to the 2008-09 financial year and in the future. Particular concern was expressed about the risk that GFS numbers in the AASB 1049 financial statements (typically published in September to December) would differ from the ABS GFS numbers (published in April of the following year).

The ABS is aware of these concerns and intends putting in place mechanisms to mitigate the concerns. However, it would not be possible to accelerate GFS compilation processes to remove entirely the lag between publication of AASB 1049 financial statements and ABS GFS numbers. Therefore, there will continue to be some risk that the ABS GFS published numbers will differ from the GFS numbers published in the financial statements.

The practical implications of this issue are addressed in section 3.25.1 below.

2.6 Transactions vs. Other Economic Flows Split in the Operating Statement

Some interviewees commented on the requirement to adopt GFS classifications for financial reporting purposes. Some issues raised by interviewees relating to transactions versus other economic flows that are not specifically addressed in section 3 of this paper include:

Treatment of revenue arising from land transactions under GFS
Treatment of sale of energy business
Treatment of sale of rail assets
Treatment of gains/losses on investments
Treatment of dividends paid by entities within the PFC sector

Some interviewees faced a disaggregation issue relating to income arising from land sales. The proceeds from sale of undeveloped land need to be divided between Land Revenue (Value Add Component) classified as transactions and Land Revenue (Market Gains on Land Sales) classified as other economic flows. These two components cannot be readily disaggregated. In practice, the amount recorded as value add is established as the value the seller would be deemed to have added through a range of activities, such as ‘packaging’, promotion and marketing.

Other interviewees expect to face an issue with the treatment of transferring electricity retailing operations to the private sector.

Also, GFS treats payment of dividends as an expense whereas GAAP treats such payment as an equity transaction.

Yet other interviewees had an issue with the GFS classification of gains/losses on investments held by insurance entities and related dividends. They expressed concern that the gains/losses are classified as other economic flows, which may mean that a negative ‘net result from transactions – net operating balance’ is shown in the AASB 1049 financial statements. They commented that the ‘net operating balance’ provides a potentially misleading picture of insurance activities because insurance contract premiums and claims (which relate to the investments) are ‘transactions’. In addition, they commented that a negative ‘net operating balance’ followed by a positive ‘operating result’ is confusing for users.

The classification of items as transactions or other economic flows can depend on interpretations of the ABS GFS Manual. Determining the appropriate classification requires the use of professional judgement having regard to particular facts and circumstances. Consistent with a principles-based approach to Standards, we do not think AASB 1049 should be amended to address the issues relating to land transactions, privatisation of government businesses, GFS classification of gains/losses on investments held by insurance entities and dividends paid by entities within the PFC sector. However, in section 3.12 we make some specific recommendations relating to how AASB 1049 specifies the requirements for making a distinction between transactions and other economic flows.

3. Specific issues relating to AASB 1049 and its implementation

This section looks at specific issues relating to the implementation of AASB 1049 at the operational level along with relevant staff recommendations. Those specific issues are broadly presented in the order of the paragraphs in AASB 1049.

3.1 Preparation of GGS Financial Statements (paragraph 7)

The intention of paragraph 7 of AASB 1049 was to specify that both WoG and GGS financial reports are required to be prepared (see for example paragraphs BC5 and BC25). However, one interviewee expressed a view that the paragraph might be ambiguous and could be read in a way that does not require financial reports to be prepared but instead merely specifies requirements for financial reports if they are prepared.

Staff recommendation 3.1: To make the requirements clearer, paragraph 7 should be split into two sentences along the following lines:

“A government shall prepare a WoG financial report and a GGS financial report. Those financial reports shall be prepared in accordance with the requirements of this Standard.”

One subcommittee member disagrees with the staff recommendation and thinks it is not necessary to amend paragraph 7 in relation to this issue for the reasons noted in section 1 above (see the fourth paragraph on page 2 of this paper).

On its own, we do not think this issue is significant enough to warrant AASB 1049 being amended. However, if AASB 1049 is being amended for more substantive issues, then we think it would be opportune to make this suggested improvement.

3.2 WoG and GGS financial statements presented in one document (paragraph 7)

The following table summarises how each jurisdiction presented its GGS relative to its WoG financial statements for the 2008/09 financial year. It excludes the Commonwealth because the Commonwealth has not published its GGS financial statements for 2008-09 (see issue 3.3 below).

Jurisdiction	In one document, GGS F/Ss presented in front of WoG F/Ss, on separate sequential pages, followed by a single set of notes covering both the WoG and GGS	In one document, WoG F/Ss presented in front of GGS F/Ss on separate sequential pages, followed by a single set of notes covering both the WoG and GGS	In one document, GGS F/Ss & notes presented in front of WoG F/Ss & notes on separate sequential pages	In one document, GGS F/Ss presented to the left of WoG F/Ss on the same page in columns, followed by a single set of notes covering both the WoG and GGS	In one document, GGS F/Ss presented to the right of GGS F/Ss on the same page in columns, followed by a single set of notes covering both the WoG and GGS
ACT		✓			
NSW				✓	
NT	✓				
QLD			✓		
SA	✓				
TAS				✓	
VIC					✓
WA	✓				

All jurisdictions (excluding the Commonwealth) presented their WoG and GGS financial statements for the 2008-09 financial year in a single document.

Those jurisdictions that presented the WoG and GGS financial statements on separate pages said they did so because they:

- (a) think the GGS financial report should be presented with more prominence than the WoG financial report; or
- (b) wanted to have room to present budgeted figures in column(s) next to actuals in each statement; or
- (c) followed the Illustrative Examples within AASB 1049.

Of those that presented in columns on the same page, only TAS presented its budgeted figures as a column in its financial statements.

Some interviewees asked whether AASB 1049 needs to be amended to facilitate greater consistency in how WoG & GGS financial statements are presented when they are made available in a single document.

Staff recommendation 3.2: We note that paragraph 7 of AASB 1049 does not mandate a format for jurisdictions to follow for the presentation of their WoG relative to GGS financial statements when they are made available in one document. We do not think AASB 1049 should mandate such display, consistent with the Board's policy of issuing principles-based Standards. The introduction to the Illustrative Examples in AASB 1049 currently states:

"The styles and formats illustrated are not mandatory. Other styles and formats may be equally appropriate if they meet the requirements of this Standard."

To reinforce the fact that a WoG/GGS columnar presentation is also acceptable, the introduction to the Illustrative Examples could also state:

"Whilst the Illustrative Example presents the GGS financial statements and WoG financial statements separately, they could be presented together as columns in single statements."

One subcommittee member thinks it is unnecessary to make such a statement because it is clear that jurisdictions already know that a columnar format is acceptable.

We agree that the statement is not necessary, but think it would marginally improve the Standard, and allows for the fact that there will be turnover of personnel involved in applying AASB 1049

3.3 GGS financial report not prior to WoG financial report (paragraph 8)

For the 2008-09, the Commonwealth has published its WoG financial statements but has not published its GGS financial statements. An explanation for this is that, under the *Charter of Budget Honesty Act 1998*, the Australian Government is required to

publicly release and table a Final Budget Outcome report for the GGS³ no later than three months after the end of the financial year, whereas the WoG financial report is not generally released until nearly six months after the end of the financial year, after final audit clearance of the consolidated financial statements and controlled entities. If the Commonwealth were to comply with the AASB 1049 requirement that the GGS financial report be released at the same time or after the audited WoG financial report, the GGS financial report would not be published within a reasonable time after the end of the annual reporting period. Accordingly, the Final Budget Outcome report for the GGS is not prepared to comply with AASB 1049 because it is regarded as being of most importance to users and published before the WoG financial report is able to be finalised.

The Board was aware of the issues faced by the Commonwealth in relation to the relative timing of WoG and GGS financial reporting at the time the Board issued AASB 1049. Paragraphs BC18 and BC19 outline the Board's rationale for the approach adopted:

"BC18 As noted in paragraph BC2, the Board concluded that, because of the relationship between the GGS (partially consolidated) financial report and the whole of government (fully consolidated) financial report, the GGS financial report should not be made available prior to the whole of government financial report being made available. Furthermore, the GGS financial report should include a cross-reference to the whole of government financial report (see paragraph 39(b)(iv)). This approach ensures that GGS financial reports are given due prominence within an appropriate context. That context is the whole of government financial reports that provide information about all the resources controlled by the government.

3 "The Final Budget Outcome 2008-09 has been prepared in a manner consistent with the Charter of Budget Honesty Act 1998 (the Charter). The Charter requires that, inter alia, the Government provide a final budget outcome report no later than three months after the end of the financial year. Consistent with these requirements, this report encompasses Australian Government general government sector fiscal outcomes for the 2008-09 financial year and is based on external reporting standards. The first part of the report provides the general government sector budget aggregates for 2008-09 together with an analysis of the 2008-09 final budget outcome. This includes summary analysis of revenue, expenses, net capital investment, cash flows and the balance sheet (net debt, net financial worth and net worth). The second part presents the Australian Government financial statements for 2008-09 with the ABS GFS as the basis for accounting policy, except for where the Government has decided to depart because Australian Accounting Standards provide a better conceptual treatment for presenting information of relevance to users of public sector financial reports. This data covers the general government sector as well as the Australian Government public corporations sectors."
(http://www.budget.gov.au/2008-09/content/fbo/html/preliminaries_foreword.htm.)

- BC19 Board consultations indicated that most jurisdictions would be able to meet the requirement for the whole of government financial report to be available at the time the GGS financial report is prepared in the short term. One jurisdiction faced a number of impediments, including legislative provisions, to achieving completion of the whole of government financial report at the same time as a GGS financial report could be prepared. The Board therefore decided to specify a mandatory operative date for the Standard of the year beginning 1 July 2008, and to allow early adoption (see paragraphs 3 and 4). The Board's decision not to permit the preparation and presentation of GGS financial reports at an earlier date than for the whole of government financial report is consistent, by analogy, with the requirements in AASB 127 that parent entity financial reports cannot be prepared and presented unless consolidated financial statements are available."⁴

Based on the Commonwealth experience, issues that arise from implementing the requirements of paragraph 8 of AASB 1049 include:

- although paragraph 39(b)(iv) of AASB 1049 requires a GGS financial report to cross reference to the WoG financial report, there is no requirement for a cross-reference the other way. Accordingly, users of the WoG financial report would not know whether a GGS financial report exists or whether and when the entity intends to publish its GGS financial report in accordance with AASB 1049;
- under AASB 1049, the time allowed between making available the WoG financial report and GGS financial report is indefinite, constrained only by the concept of timeliness (see paragraph 43 of the Framework); and
- if a government does not intend to prepare a GGS financial report, the auditor does not have a natural vehicle in which to express an opinion on the non-existence of the financial report. One way to address this is to require the GGS financial report to be published at the same time and in the same document as the WoG financial report. However, at the time AASB 1049 was developed, there was a strong view that WoG and GGS financial reports should be able to be presented separately. Also, a requirement to publish the GGS financial report at the same time as the WoG financial report could delay finalisation of the WoG financial report in some circumstances.

4 The analogy referred to in the last sentence of paragraph BC19 was written prior to the *Corporations Amendment (Corporate Reporting Reform) Bill 2010* which proposes to remove the requirement to present parent entity financial statements in certain circumstances.

Staff recommendation 3.3: On balance, we think paragraph 8 should be amended to require a GGS financial report to be made available at the same time or within a reasonable time after (but, consistent with the current requirement in AASB 1049 and the rationale in the last 2 sentences of paragraph BC18, not before) the WoG financial report is made available. Also, we would prefer that where the WoG financial report is presented separately from the GGS financial report, the WoG financial report provides a cross-reference to the GGS financial report (where it exists) or an indication of the expected publication date where the GGS financial report is to be published after the WoG financial report.

One subcommittee member thinks the amendment should be less limiting than the one proposed by staff. AASB 1049 should be amended to require both WoG and GGS financial reports to be produced on a timely basis and cross-referred to each other. However, we note that this would be inconsistent with the rationale in the last 2 sentences of paragraph BC18 of AASB 1049.

3.4 GPFR/SPFR (paragraphs 12 and BC6)

The following table summarises how jurisdictions dealt with references to GPFR and/or SPFR – in relation to the 2008-09 Annual report. It should be read in conjunction with the table in issue 3.2.

Jurisdiction	Reference to GPFR or SPFR
ACT	Page 19 states: “This general purpose financial report has been prepared to comply with ‘Generally Accepted Accounting Principles’ (GAAP) as required by the FMA”. Thereafter, reference is made to ‘this financial report’ or ‘this consolidated financial report’ or ‘the GGS financial statements’ without explicit reference to ‘general purpose’ or ‘special purpose.’
CTH	N/A
NSW	Page 1-11 states: “The financial report of the Total State Sector is a general purpose financial report. The financial report of the General Government Sector is included as a separate column adjacent to the Total State Sector financial information.”
NT	Page 45 states: “The 2008-09 Treasurer’s Annual Financial Statement (TAFS) is a general purpose financial report that has been prepared in accordance with all relevant new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are effective for the current annual reporting period.”
QLD	Page 6-05 states, in relation to GGS: “This financial report of the General Government sector (GGS) of Queensland has been prepared in accordance with AASB 1049 Whole of Government and General Government Sector Financial Reporting which requires compliance with all Australian Accounting Standards except those identified below.” Page 7-05 states, in relation to WoG: “These consolidated financial statements have been prepared in accordance with the <i>Financial Accountability Act 2009</i> .” ... “This financial report is a general purpose financial report.”
SA	Page 12 states: “This general purpose financial report including the financial statements of the general government sector and the whole of government has been prepared in accordance with applicable Australian Accounting Standards; in particular with Australian Accounting Standard AASB 1049: Whole of Government and General Government Sector Financial Reporting (incorporating amendments included in AASB 2008-09); Treasurer’s Instructions and Accounting Policy Statements issued pursuant to the Public Finance and Audit Act 1987.”
TAS	Page 3-12 states: “The Treasurer’s Annual Financial Report is a general purpose financial report and has been prepared in accordance with Australian Accounting Standards, including AASB 1049 <i>Whole-of-Government and General Government Sector Financial Reporting</i> , which requires compliance with all Australian Accounting Standards except those identified in below.” Page 3-2 states: “The General Government Sector financial statements for the year ended 30 June 2009 have been prepared in accordance with AASB 1049.” ... “The Total State Sector general purpose financial report for the year ended 30 June 2009 has been prepared in accordance with AASB 1049.”
VIC	Page 51 states: “The annual Financial Report represents the audited general purpose consolidated financial report of the Government of Victoria (the State) and the Victorian general government (GG) sector.”
WA	Page 54 states: “The financial statements constitute a general purpose financial report.” ... “The reporting entities are the Government of Western Australia (the total public sector) and the general government sector, and include entities under their control.”

Paragraph BC6 of AASB 1049 notes:

“The Board concluded that it is not necessary to specify whether the GGS is a reporting entity and whether the GGS financial report prepared in accordance with the Standard is a general purpose financial report (GPFR) because the Standard itself prescribes the particular requirements for the scope of the GGS and the form and content of the GGS financial report.”

All jurisdictions apparently coped with the manner in which AASB 1049 dealt with the GPFS/SPFS issue. This was aided by the fact that all jurisdictions, other than QLD (which published WoG and GGS in separate sections of the one document with separate audit opinions) and the Commonwealth (which did not publish GGS), published WoG and GGS financial statements in a single document that was subject to one audit opinion. Those jurisdictions that published a single Annual Report could be regarded as effectively treating the GGS aspects of the report as a component of

the WoG GPFR. Because the Commonwealth has not published its separate GGS financial report, it has not confronted the question of the status of such a report.

Based on our discussions with interviewees, we understand all interviewees perceive their GGS financial reports to be GPFSs because all preparers (other than the Commonwealth) table their GGS financial statements (together with WoG financial statements) in parliament and make them available to the public.

The Board briefly discussed this issue at its June 2010 meeting in the context of its Differential Reporting project. An extract from the draft minutes 15(e) record:

“General Government Sector financial statements would not be specifically identified as general purpose but would be subject to Tier 1 reporting requirements.”

Therefore, the issue could be reconsidered as part of the Differential Reporting project. For example, stage 2 of that project will consider clarifying the meaning of general purpose financial statements, and the role of the concept of reporting entity in accounting standards.

Staff recommendation 3.4: The current way in which AASB 1049 deals with the GPFS/SPFS issue did not create insurmountable issues for jurisdictions. Accordingly, we suggest that it not be amended at this time. Instead, consideration should be given to it being amended as part of stage 2 of the Differential Reporting project.

One subcommittee member disagrees with the staff recommendation and thinks this issue should be dealt as part of the post-implementation review. However, we are concerned that until the notions of general purpose financial statements and reporting entity are clarified through the Differential Reporting project, there would be an insufficient basis for fundamentally changing the approach adopted in AASB 1049. The approach in AASB 1049 was adopted after a significant amount of time-consuming deliberations and to re-open the issue as part of this ‘operational review’ of AASB 1049 could unduly delay the review.

3.5 Adoption of options in GAAP that align with GFS (paragraph 13)

Paragraph 13 of AASB 1049 states the main GAAP/GFS harmonisation principle is to adopt optional treatments in GAAP that align with the GFS. Interviewees find the examples of applying this principle in paragraph 14 helpful but note that they faced implementation issues regarding optional treatments that are not included as examples in paragraph 14. This section focuses on those issues raised by interviewees and/or potential issues identified by AASB staff.

3.5.1 Land under roads (paragraph 13)

The following table summarises the treatment of land under roads in jurisdictions’ annual reports for the 2008-09 financial year.

Jurisdiction	Is land under roads acquired on or before 1 July 2008 recognised?	If land under roads acquired on or before 1 July 2008 is recognised, is it measured at FV?	Comments
ACT	Y	Y	-
CTH	N/A	N/A	Land under roads is not material for the Commonwealth.
NSW	N	N/A	A qualified audit opinion is issued because the auditor-general is of the view that land under roads is reliably measurable.
NT	N	N/A	Land under roads acquired prior 1 July 2008 is not recognised because they cannot be measured reliably at this stage.
QLD	Y	Y	-
SA	N	N/A	-
TAS	Y	Y	-
VIC	Y	Y	-
WA	Y	Y	-

Interviewees note that AASB 1051 *Land Under Roads* (which was issued after AASB 1049 was issued) gave rise to AASB 1049 implementation issues. This was because AASB 1051 provides an option for the recognition and measurement of certain land under roads but the ABS GFS Manual requires the recognition of assets (including land under roads) at market value. This is acknowledged in paragraph BC14 of the Basis for Conclusions accompanying AASB 1051 – which led to some debate about how to apply the GAAP/GFS harmonisation principle. This debate was generated in part because of the way in which paragraph BC14 in AASB 1051 is worded and because AASB 1051 did not make consequential amendments to AASB 1049 by, for example, adding the land under roads option to the examples in paragraph 14. In addition, some interviewees noted that the issue of measuring land under roads at fair value caused debate between preparers and auditors about reliable measurement.

Staff recommendation 3.5.1: Noting the diversity in the way jurisdictions dealt with the recognition and measurement of land under roads, paragraph 14 of AASB 1049 should be amended to include the example of land under roads. Furthermore, where future standards introduce an option, consideration should be given to whether they should give rise to consequential amendments to paragraph 14.

For information purposes, paragraphs BC13 – BC15 of AASB 1051 state:

- BC13 Consistent with the entities that were subject to AASs 27, 29 and 31, this Standard applies to local governments, government departments (including for-profit government departments), and WoGs. In addition, the application of this Standard extends to GGSs (GGSs), which facilitates consistency in financial reporting by GGSs and WoGs.
- BC14 In relation to GGSs and WoGs, the Board considered the relationship between this Standard and the principle in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* that GGSs and WoGs should adopt optional treatments in Australian Accounting Standards that align with the principles or rules in the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) Manual. The Board noted that the recognition relief provided in this Standard for land under roads is potentially inconsistent with GFS principles. However, the Board also noted that land under roads is not recognised under GFS in practice in certain circumstances, depending on the availability of information pertinent to measurement. Accordingly, the Board concluded that the impact of AASB 1049 relative to this Standard on the recognition of land under roads would be expected to be limited.
- BC15 Accordingly, the Board decided that the broad principle adopted in AASB 1049 that a GAAP option should be adopted where it aligns with GFS should be retained without an exception for land under roads. In making this decision, the Board also noted that any difference between GFS principles and practice is beyond the control of the AASB, and that land under roads does not create unique issues in a GAAP/GFS harmonisation context.

Two subcommittee members disagree with the staff recommendation and think it is unnecessary to amend paragraph 14. Their reasons include:

- jurisdictions have resolved the issue one way or another;
- paragraph 14 does not need to provide an exhaustive list;
- AASB 1049 is not the right place to tackle this issue; and
- it is questionable whether land under roads is material at the GGS and WoG levels.

3.5.2 Early adoption of new Standards (paragraph 13)

Paragraph 13 of AASB 1049 could be interpreted to require jurisdictions to early adopt a new standard if its adoption is more in line with GFS than the requirements of the standard being superseded. Interviewees had not explicitly considered this issue in preparing their financial statements because they did not interpret AASB 1049 in that way.

Staff recommendation 3.5.2: For the sake of clarity, AASB 1049 should be amended to state that early adoption of a new Standard to align a GAAP treatment with the principles and rules in the ABS GFS Manual is available but not required.

One subcommittee member disagrees with the staff recommendation and thinks it is unnecessary to amend paragraph 13 in relation to this issue on the basis that no jurisdiction has interpreted paragraph 13 in a way to require the early adoption of new Standards which are not mandatory yet. However, we are mindful of the potential for turnover of personnel implementing/auditing AASB 1049, and therefore possible unintended interpretations emerging in the future.

3.5.3 Examples of particular optional treatments in GAAP (paragraph 14)

One constituent suggested that the Board should fully analyse optional treatments in GAAP and specify directly in AASB 1049 those treatments to be adopted, to avoid the need for preparers to refer directly to the ABS GFS Manual. We note that this is the approach the Board has tentatively decided to take in developing an Exposure Draft relating to GAAP/GFS harmonisation for entities within the GGS (see Agenda paper 14.1).

Staff recommendation 3.5.3: Had AASB 1049 originally taken the approach of analysing the available accounting policy options, the implementation issues may not have been as significant. However, this can now be regarded as an issue on transition that has been resolved through practice.

Although there is some merit in the suggestion to explicitly state each GAAP option to be adopted going forward, it would involve a significant amount of work and we have not yet been able to assess how effective the approach would be for entities within the GGS. Therefore, on balance, we do not suggest fundamentally changing the approach in AASB 1049.

This view should be revisited in the light of the Board's decisions relating to GAAP/GFS harmonisation for entities within the GGS.

3.5.4 Concept of 'most closely aligns with GFS' (paragraphs 13 & 14)

Although not raised by constituents as an issue we note that paragraph 13 of AASB 1049 requires adoption of an option that 'aligns' with GFS, although some of the examples in paragraph 14 illustrate the option that 'most closely aligns' with GFS [e.g. paragraph 14(d)].

Staff recommendation 3.5.4: For clarity and consistency with paragraph 14, paragraph 13 of AASB 1049 should be amended to refer to 'most closely aligns'. However, AASB 1049 should make it clear that where, for example, both GAAP options are permissible under GFS then both options continue to be allowed. [For example recognition of actuarial superannuation gains/losses in other comprehensive income' or 'operating result', as GAAP options, are acceptable under GFS].

3.6 Presentation of the WoG/GGS statement of financial position (paragraph 15)

AASB 1049 requires jurisdictions to prepare a statement of financial position that is consistent with the principles and rules in the ABS GFS Manual. The ABS GFS Manual provides two formats (paragraphs 2.128 and 5.21) to display a statement of financial position. One of those formats is sub-classification of non-financial assets between ‘produced’ and ‘non-produced’ and the other does not use such a subclassification.

Therefore, it is not clear that the ABS GFS Manual requires the subclassification. An implementation question is, given such a subclassification is optional under GAAP, would the GAAP/GFS harmonisation principle in AASB 1049 require the subclassification? The illustrative example in AASB 1049 shows the subclassification. The table below shows whether a jurisdiction adopted such a subclassification or not in its 2009-10 financial statements.

Jurisdiction	Does the statement of financial position subclassify non-financial assets between produced/non-produced categories
ACT	Y
CTH	N
NSW	N
NT	N
QLD	N
SA	Y
TAS	N
VIC	Y ⁵
WA	N

Some interviewees are of the view that the ABS GFS Manual does not require such a subclassification. One jurisdiction did not provide such a subclassification on the grounds of cost/benefit. Another provides the subclassification in the notes based on a view that it is not an important issue for users. Yet another provides the subclassification because their chart of accounts allows the mapping of non-financial assets between produced/non-produced categories, but they found subclassifying intangible assets between produced/non-produced categories difficult.

We understand the ABS uses information provided by the ‘produced’ and ‘non-produced’ subclassification.

Our discussions with interviewees also focused on the presentation of assets and liabilities in order of liquidity. Some interviewees followed the Illustrative Examples A and B of AASB 1049, others followed the ABS GFS Manual balance sheet order.

5 VIC subclassifies in the notes.

Staff recommendation 3.6: Given the illustrative example in AASB 1049 is designed to illustrate minimum requirements, it should be amended to remove the produced and non-produced subclassification. Also, the illustrative example should note the presentation of assets and liabilities in order of liquidity is only an example and the order presented in practice may be different, depending on circumstances, and that the order presented in the ABS GFS Manual might be suitable if it results in a liquidity order presentation.

One subcommittee member disagrees with the staff recommendation and thinks it is unnecessary to amend the Illustrative Examples in relation to this issue because the Illustrative Examples are supposed to be only examples and some jurisdictions already elect not to follow them. It is also unnecessary for AASB 1049 to be amended in relation to clarifying the liquidity-order presentation requirements. Again we agree that neither suggested amendment is essential, but we think they would marginally improve the Standard.

3.7 Presentation of additional fiscal aggregates (paragraphs 16 & 18)

Appendix A of AASB 1049 defines key fiscal aggregates as:

“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 requires, as a minimum, the following key fiscal aggregates to be disclosed: net worth, net operating balance, total change in net worth, net lending/(borrowing), and cash surplus/(deficit). AASB 1049 also contemplates other fiscal aggregates being disclosed.

The following table summarises other fiscal aggregates disclosed in the WoG/GGS financial report of jurisdictions:

Jurisdiction	Other fiscal aggregates disclosed in the WoG/GGS financial report
ACT	Net financial worth Net financial liabilities Net debt (including superannuation related investments) Net debt (excluding superannuation related investments) GFS Cash surplus
CTH	GFS Cash surplus
NSW	Net Debt Net Financial Liabilities
NT	Net Debt Net financial worth Net financial liabilities GFS Cash surplus
QLD	GFS Cash surplus
SA	GFS Cash surplus
TAS	Net debt
VIC	Net debt Net cash flows from operating activities Net cash flows from investments in non-financial assets
WA	Net debt Net cash flows from operating activities Net cash flows from investments in non-financial assets

All jurisdictions elect to disclose fiscal aggregates that are additional to the key fiscal aggregates requirements of AASB 1049, and use professional judgement in determining which ones to disclose, based on their judgement of users' needs. However, we are concerned that in presenting their financial statements these other fiscal aggregates are not clearly distinguished from key fiscal aggregates, and we don't think AASB 1049 is clear enough on this issue.

The last sentence of paragraph 18 of AASB 1049 states:

"... Measures of key fiscal aggregates that are not in accordance with this Standard or the ABS GFS Manual are not disclosed as key fiscal aggregates."

and paragraphs 41(a)(i) and 52(b)(ii) state:

"... Other measures of the key fiscal aggregates shall not be included in the financial report;"

Paragraph 18 can be viewed as being inconsistent with paragraphs 41(a)(i) and 52(b)(ii) because paragraph 18 implies that other measures of key fiscal aggregates could be presented as other fiscal aggregates.

Some interviewees expressed concerns that requirements relating to key fiscal aggregates are too restrictive – not allowing jurisdictions to report fiscal aggregates that they think are most relevant to their users.

Staff recommendation 3.7: Paragraph 18 should be amended to require a jurisdiction to clearly differentiate between key fiscal aggregates and other fiscal aggregates presented in its financial reports if a government elects to disclose other fiscal aggregates. Furthermore, the last sentence of paragraph 18 should be amended to align with paragraphs 41(a)(i) and 52(b)(ii), and thereby prohibit the disclosure of other measures of key fiscal aggregates as either key fiscal aggregates or other fiscal aggregates.

One subcommittee member thinks the suggested amendment is unnecessary.

3.8 Individual amounts for PNFC and PFC sectors (paragraph 20 & 23)

Paragraph 20 of AASB 1049 states:

"A GGS equity investment in a government controlled entity that is within the PNFC sector or PFC sector shall be recognised as an asset in the GGS statement of financial position. It shall be measured:

...

- (c) at zero, where fair value is not reliably measurable and the carrying amount of net assets of the PNFC sector or PFC sector entity before consolidation eliminations is less than zero..."

Paragraph 23 of AASB 1049 further states:

"For the purposes of determining the carrying amount of net assets of entities within the PNFC sector and PFC sector recognised and measured in accordance with paragraph 20(b):

...

- (c) individual amounts for each PNFC sector and PFC sector entity are aggregated and presented on a net basis..."

Paragraph 23(c) seems to be inconsistent with paragraph 20 because paragraph 20 implies individual amounts may be less than zero whereas paragraph 23(c) says individual amounts cannot be less than zero.

Staff recommendation 3.8: Staff think paragraph 23(c) should be amended to be consistent with paragraph 20(c) by removing the reference to the net basis.

One subcommittee member disagrees with this staff recommendation because these two paragraphs are not inconsistent.

3.9 Transactions with owners as owners in a GGS context (paragraph 26)

Paragraph 26 of AASB 1049 states

“... transactions with owners as owners ... do not arise in a GGS context because there is no ownership group identified for the GGS. They may arise in a whole of government context in relation to partly owned subsidiaries. They may also arise between PNFC/PFC sector entities and their owner, the GGS.”

Our discussion with some interviewees revealed that, although not common, transactions with owners in their capacity as owners that are not eliminated on consolidation could arise in a GGS context from a GAAP perspective because of minority interest attributable to entities outside the GGS. For example, there is a minority interest in the Australian Synchrotron Holding Company⁶, which is a not-for-profit entity within the GGS controlled by the Victorian Government.

Staff recommendation 3.9: Paragraph 26 of AASB 1049 should be amended to acknowledge the fact that transactions with owners in their capacity as owners can, although not typically, arise in the GGS context from a GAAP perspective.

One subcommittee member thinks our suggested amendment to paragraph 26 is unnecessary because transactions with owners as owners in a GGS context is a minor issue. However, we continue to think that the suggested amendment would make a marginal improvement to the Standard.

3.10 Presentation of components of Other Economic Flows (paragraph 29)

One interviewee suggests AASB 1049 should be amended to allow the components of other economic flows to be presented in the notes, to reduce congestion on the face of the statement of comprehensive income.

Currently, paragraph 82 of AASB 101 requires each component of other comprehensive income to be presented on the face. Therefore, to the extent other economic flows are within other comprehensive income, AASB 1049 does not allow jurisdictions to present the information in the notes. However, under GAAP many ‘other economic flows’ are included in operating result, and AASB 101 is less prescriptive about on-the-face itemisation of those (see for example paragraphs 82 & 85 of AASB 101). The ABS GFS Manual provides limited guidance on the presentation of other economic flows (see, for example, the bottom half of Table 52.4 on page 69; the right-hand side of Table 7.4 on page 85; and section 6 on page 160). Therefore, it is apparent that, as drafted, AASB 1049 allows for a reasonable degree of discretion as to where details about many types of other economic flows are presented – whether on the face or in the notes.

6 The Victorian Government holds approximately 76% of the issued shares – Refer to the Victorian Government Financial Report 2008-09, page 214.

Staff recommendation 3.10: Amendment of AASB 1049 to allow the presentation of items of other comprehensive income in the notes would not be consistent with the broad approach taken in AASB 1049 whereby GFS information is overlaid onto GAAP rather than fundamentally changing GAAP presentation of financial statements. Accordingly, AASB 1049 should not be amended for this issue – although a footnote could be added to the Illustrative Example in AASB 1049 to acknowledge that other economic flows that are not within Other Comprehensive Income could be aggregated on the face and itemised in the notes.

One subcommittee member thinks our suggested amendment is unnecessary because the principles in AASB 1049 already adequately address the issue. However, we think making the suggested footnote to AASB 1049 would marginally improve the Standard.

3.11 Presentation of operating result on the face (paragraph 29)

Interviewees from one jurisdiction queried whether AASB 1049 should be amended to allow the operating result not to be presented on the face of the statement of comprehensive income statement on the basis that its presentation on the face clutters the operating statement. This is consistent with the view that users are most interested in the ‘net result from transactions – net operating balance’, and that including the ‘operating result’ on the face has the potential to confuse users.

Staff recommendation 3.11: AASB 1049 should continue to require the presentation of operating result on the face of the operating statement on the basis that operating result is a key GAAP sub-total [per paragraph 82(f) of AASB 101]. Retaining the requirement would be consistent with the fundamental basis upon which AASB 1049 was developed – retain GAAP and accommodate GFS.

3.12 Transactions vs. other economic flows (paragraph 30)

Most jurisdictions encountered some issues in the course of classifying amounts between transactions and other economic flows. Those issues relate to the interpretation and application of the ABS GFS Manual. Some interpreted the requirement in paragraph 30 of AASB 1049 in a way that all GAAP items that do not have GFS equivalents are other economic flows, because, by definition, they are not transactions, and other economic flows is the ‘bucket’. Others applied the principle from the ABS GFS Manual and potentially classified GAAP items without GFS equivalents as transactions.

Interviewees from one jurisdiction have an issue with the requirement in paragraph 55(b) of AASB 1049 to classify deferred tax amounts in the ‘Other Economic Flows’ section of the Operating Statement. They argue that because such items result from exchanges and are transactions, and they should be classified as transactions in accordance with paragraphs 30 and 31 of AASB 1049. They further argue that, by analogy, land tax paid on revalued land is unquestionably a transaction, even that amount attributable to the revaluation component.

At the time AASB 1049 was being developed, the Board considered this issue in detail. An extract from the October 2007 Board meeting records:
“In reviewing the draft Standard (Agenda paper 2.2), the Board decided that:

...

- (f) paragraph 55(b), which provides an example of a convergence difference in PNFC/PFC sectors relating to deferred tax balances, should be retained. The Board considered amending the paragraph to require deferred tax expense, for example, to be classified as a transaction (rather than classified in a manner consistent with the classification of the underlying item). However, the Board decided that the current draft is appropriate, noting that GFS does not recognise deferred tax expense and therefore it is necessary to extrapolate from the general GFS principles for classification. The Board noted that although the draft Standard might require deferred tax expense to be classified as an other economic flow, when that deferred tax balance reverses, it would give rise to current tax which would be classified as a transaction (consistent with GFS). The Board also decided that (see decision (l) below), because paragraph 55 is not an exhaustive list of examples, it is not necessary for the paragraph to contemplate the classification by a GFS that recognises, for example, the mirror (revenue) of a deferred tax expense.”

Staff recommendation 3.12(a): Staff suggest amending AASB 1049 to clarify the meaning of ‘in a manner that is consistent with the principles in the ABS GFS Manual’ in paragraph 30, to help avoid it being interpreted in a way that means all GAAP items for which there are not GFS equivalents are classified as other economic flows.

Staff recommendation 3.12(b): Consistent with the Board’s October 2007 decision staff tentatively think the last sentence of paragraph 55(b) should not be amended. We note that, if deferred tax amounts were to be presented as transactions, such an approach would lead to a complex format of the statement of comprehensive income because there would be a separate line item for the tax effect of other economic flows presented in the transaction section of the operating statement, despite GAAP classifying them as other comprehensive income.

3.13 Treatment of non-cash items in relation to cash flow statements (paragraphs 18 and 37)

The following table summarises how each jurisdiction treats a certain non-cash item (‘value of assets acquired under finance leases and similar arrangements’) in relation to cash flow statements.

Jurisdiction	Presentation of the value of assets acquired under finance leases and similar arrangements on the face of the cash flow statement (Y/N)⁷	Described GFS cash surplus/deficit as key fiscal aggregate (see also issue 3.7)
ACT	Y	N
CTH	Y	Y
NSW	N	–
NT	Y	Y
QLD	Y	N
SA	N	–
TAS	N	–
VIC	N	–
WA	N	

⁷ In preparing the table above, which analyses the application of paragraph 37 of AASB 1049, AASB staff concluded that if a non-cash item is presented on the same page (even with a different heading before the line item) with the cash flow statement, such presentation is classified as presentation on the face.

Paragraph 37 of AASB 1049 states:

“The whole of government statement of cash flows and the GGS statement of cash flows shall also include cash surplus/(deficit) and its derivation ... without the deduction of the value of assets acquired under finance leases and similar arrangements.”

Paragraph 18 of AASB 1049 states:

“A government may elect to disclose key fiscal aggregates or other information in accordance with the ABS GFS Manual that are additional to the requirements of this Standard. If a government elects to make additional disclosures, they are made in a way that does not detract from the information prescribed in this Standard ...”

Some preparers prefer to present the value of assets acquired under finance leases and similar arrangements on the face of the WoG cash flow statement and GGS cash flow statement because they think such information is useful for users and such a presentation is consistent with the principles and rules in AASB 1049. Under the Uniform Presentation Framework⁸, the ABS GFS cash surplus/deficit is obtained by deducting finance leases from the AASB 1049 cash surplus/deficit for all sectors.

AASB staff believe, consistent with the objective of AASB 107 *Statement of Cash Flows*, non-cash items should not be presented on the face of the cash flow statement, because such presentation may confuse users and the presentation of non-cash items on the face is not consistent with AASB 1049.

Staff recommendation 3.13: AASB 1049 should be amended to clarify that non-cash items should not be presented on the face of the cash flow statement, even if a separate heading is used before the line item.

One subcommittee member thinks it is unnecessary to amend AASB 1049 in relation to this issue because it is not the role of an accounting standard to specify the obvious about every potentiality. However, given the diversity we have found in the practice, we think our suggested amendment would improve the Standard.

3.14 Reconciliation requirements [paragraphs 41(a)(i)B & 52(b)(ii)B]

AASB 1049 requires WoG and GGS to disclose reconciliations of GAAP and GFS measures of certain key fiscal aggregates, and an explanation of the differences.

The table below shows how jurisdictions have applied the reconciliation requirements in, paragraphs 41(a)(i)B and 52(b)(ii)B.

8 “The May 1991 Premiers’ Conference agreed to the introduction of the Uniform Presentation Framework (UPF) in 1991. The primary objective of the UPF is to ensure that Commonwealth, State and Territory governments provide a common ‘core’ of financial information in their budget papers. It was recognised that a more uniform approach to the presentation of financial data would facilitate a better understanding of individual governments’ budget papers and provide for more meaningful comparisons of each government’s financial results and projections. The format of the UPF is based on the reporting standards of the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) framework. This ensures a high degree of consistency in the preparation and presentation of financial data. Following the introduction of AASB 1049, the framework was updated to align with AASB 1049.” (http://www.treasury.gov.au/documents/1371/HTML/docshell.asp?URL=2008_UPF-01.asp)

State	Length of reconciliation note (pages)	Number of differences (line items)	Number of explanations (in addition to line item descriptions)	Two largest differences
VIC	4	GGs – 7 WoG – 7	GGs – 4	<ul style="list-style-type: none"> Accounts receivable – provision for doubtful debts Investments in other sector entities
QLD	8	GGs – 4 WoG – 16	GGs – 3 WoG – 8	<ul style="list-style-type: none"> Deferred tax liabilities Shares and other contributed equity
NSW	4	GGs – 8 WoG – 8	GGs – 7 WoG – 7	<ul style="list-style-type: none"> Classification of GFS PNFC/PFC net worth as a liability Deferred tax assets/liabilities
WA	2	GGs – 5 WoG – 5	0	<ul style="list-style-type: none"> Capital grants – prepaid AusLink road grants Provision for doubtful debts
NT	1	GGs – 2 WoG – 5	0	<ul style="list-style-type: none"> Remeasurement of shares and other contributed capital Dividends to GGs from other sector entities
TAS	N/A	N/A	N/A	No material differences
ACT	N/A	N/A	N/A	No material differences
SA	2	GGs – 12 WoG – 12	GGs – 4 WoG – 4	<ul style="list-style-type: none"> Exclusion of tax effect accounting transactions from GFS Net gain/(losses) on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities)
CTH	4	GGs – 17 WoG – 10	GGs – 7 WoG – 3	<ul style="list-style-type: none"> Defence weapons platforms and inventory Shares and other contributed capital

Most interviewees would like the reconciliation requirement in AASB 1049 to be removed.

We note the diversity among jurisdictions in presenting the reconciliation and the level of detail in explanations and think it should continue to be left up to each jurisdiction to determine a presentation style that meets users' needs.

We understand that the reconciliation schedule in AASB 1049 is useful to the ABS, as a key user of AASB 1049 financial statements, as it allows them to look at recognition, measurement, classification and presentation differences between GAAP and GFS, and compare them across jurisdictions. Also, they have the comfort of

looking at audited information as the reconciliation schedule is a part of the audited financial statements in all jurisdictions but one⁹.

We acknowledge that some may argue that the ABS is a specific user who could command the information it needs. It is probably valid to say that, in theory, the ABS has the authority to command information. However, practice shows that the ABS is a general user, because it relies on general purpose financial statements as input to the compilation of statistics.

We did not come across any evidence (but nor did we look for it, as it was outside the scope of our work) that other users (general users) made use of the reconciliations and explanations.

Retaining the requirement for the reconciliations and explanations would be consistent with the objective of AASB 1049 that is articulated in paragraph 1 of AASB 1049 as:

“...Whole of government financial statements and GGS financial statements prepared in accordance with this Standard provide users with:

...

- (c) information that facilitates assessments of the macro-economic impact of each government and its sectors.”

Therefore, removal of the reconciliation requirement would arguably warrant a fundamental rethink of the basis upon which AASB 1049 was developed.

Staff recommendation 3.14: AASB 1049 should not be amended in relation to requirements for reconciliations and explanations of convergence differences.

3.15 Disclose explanations of key technical terms [paragraphs 41(a)(iv) & 46]

Paragraph 41(a)(iv) stipulates that explanations of key technical terms used in the financial report must be disclosed in the WoG and the GGS financial reports. AASB staff note that paragraph 46 is expressed as a rule and we suggest that it be amended to be expressed as a principle. We do not think that AASB 1049 should specify which terms are key technical terms, such a decision should be left to each jurisdiction.

Staff recommendation 3.15: AASB 1049 should not specify which terms are key technical terms because such decisions should be made by jurisdictions preparing AASB 1049 financial statements having regard to users’ needs.

One subcommittee member disagrees with this staff recommendation, being of the view that no amendment is necessary, as the explanations of key technical terms are essential in understanding GAAP/GFS. AASB 1049 should express the requirement as a rule rather than a principle for increased consistency.

3.16 Disclose a list of entities within the GGS, and changes therein, and reasons for change: and a list of significant investments in PNFC sector and PFC sector entities [paragraph 41(b)(i)-(ii)]

Interviewees in one jurisdiction noted an issue in preparing the list of significant investments in the PNFC sector because the ABS has classified three local government owned corporations to the PNFC sector which are not controlled by the State. Those local government owned corporations are not included in

9 The audit mandate in SA does not require the Auditor-General to give a view on AASB 1049 financial statements

AASB 1049 2008-09 financial statements because they were not trading in that year, they will be included in 2010-2011. This demonstrates that, at times, determining the classification of entities within the GGS, PNFC and PFC may not be straight forward due to complex ownership arrangements. In such circumstances, jurisdictions may be required to consider external advice given by the ABS.

Interviewees from another jurisdiction questioned whether share certificates are necessary for a significant investment to be listed because government owned corporations may not issue share certificates to the government holding the investment and rather may have formal shareholder agreements to set out shareholding arrangements between a shareholding government and other entities.

Staff recommendation 3.16(a): AASB 1049 does not need to explain ‘significant’, ‘reason for change’ or how to classify entities within the GGS, PFC and PNFC sectors in light of the Board’s policy of developing principles-based Standards. However, AASB 1049 could be amended to acknowledge that GFS might, in rare circumstances, include entities within the GGS of a particular jurisdiction that GAAP regards as not controlled by that jurisdiction¹⁰. Such circumstances would give rise to reconciling differences (see issue 3.14).

One subcommittee member disagrees with our recommendation on the basis that control has not been confirmed as a convergence difference. However, we think that because it is conceivable that a convergence difference could arise in relation to the application of the control concept, the Standard would be improved if it were to acknowledge the possibility.

Staff recommendation 3.16(b): AASB 1049 could clarify that it is not necessary for investments to be represented by formal share certificates.

One subcommittee member does not think the share certificate issue warrants an amendment. We continue to think that, if AASB 1049 is to be amended for substantive issues, it could at the same time be marginally improved by clarifying this issue.

3.17 Disclosure of the aggregate of dividends and other distributions to owners as owners [paragraph 41(b)(iii)]

Paragraph 41(b)(iii) of the AASB 1049 requires disclosures in the GGS financial report that show the aggregate amount of dividends and other distributions to owners as owners from PNFC sector and PFC sector entities to the GGS.

The following table shows how each jurisdiction has presented dividends and tax income in its 2008-09 financial statements, highlighting which jurisdictions present them in the same line.

10 Please note, as noted in the Preface to AASB 1049, AASB 1049 does not deal with multi-jurisdiction entities (such as universities).

Jurisdiction	Line item description	Where dividends & other items are combined on the face – are they separately disclosed in the notes?
ACT	Dividend and Income Tax Equivalent Income	Y
CTH	N/A	N/A
NSW	Dividend and Income Tax Equivalents	Y
NT	Income tax equivalents and dividends	Y
QLD	Dividend and income tax equivalent income	Y
SA	Dividends and income tax equivalents	Y
TAS	Dividend, tax and rate equivalent income	Y
VIC	Dividends, income tax and rate equivalent revenue	Y
WA	Tax equivalent income, and dividends, on separate lines	N/A

Some interviewees think the wording of paragraph 41(b)(iii) is confusing because it is unclear as to what is meant by ‘other distributions’. In particular, PNFC and PFC sectors pay payroll tax, gaming tax, interest and fees in the ordinary course of business. They also pay community service obligation payments, tax equivalents and competitive neutrality fees. Para 2.124 of the ABS GFS Manual refers to distributions paid as dividends and other returns to owners and shareholders made by public corporations. Thus, under GFS, other distributions do not include income tax equivalent payments from PNFC sector or PFC sector entities to the GGS.

As evident from the above table, most jurisdictions present the aggregate amount of dividends and income tax equivalents income in a manner consistent with the presentation method adopted in the Illustrative Examples A and B of AASB 1049. However, we do not think tax equivalent income satisfies the definition of other distributions to owners as owners because it is not a return of capital or on capital. Presenting dividends and income tax equivalents as a single item may confuse users and cause them to think inappropriately that income tax equivalents are returns on capital.

Discussions with constituents on this ‘other distributions’ issue highlighted another issue concerning the disclosure of contributions from the GGS in its capacity as owner to PNFC sector and PFC sector entities to enable derivation of ‘net distributions’. The ACT, VIC, QLD, and WA have disclosed contributions from the GGS in its capacity as owner to PNFC sector and PFC sector entities in their 2008-09 financial report and those contributions usually include capital injections and/or equity contributions. AASB staff think disclosing gross contributions from the GGS to PNFC and PFC sector entities is necessary to allow users to calculate net distributions, and presenting contributions and distributions on a gross basis would be more transparent than presenting them on a net basis.

Staff recommendation 3.17: The aggregation of income tax equivalents income with dividends in the AASB 1049 illustrative examples adds to the potential for confusion. Although it is not necessary to clarify the meaning of ‘other distributions’ [because it is clearly referring to owners as owners in paragraph 41(b)(iii)], Illustrative Examples A and B could be amended to avoid the implication that dividends and income tax equivalents are similar in nature.

AASB 1049 should be amended to require disclosure of the amount of gross contributions from the GGS in its capacity as an owner of PNFC sector and PFC sector entities and therefore enable users to calculate the amount of ‘net distributions’.

One subcommittee member thinks it is unnecessary to amend the Illustrative Examples A and B for this issue because it is OK to have a line item on the face of the operating statement combining dividends and income tax equivalents, as long as they are separated in the notes. Whilst we agree that it is not essential to make the suggested amendment, we think the Standard would be marginally improved – we are not suggesting prohibition of the single line item, merely suggesting that it not be illustrated that way.

The same subcommittee member does not object to amending AASB 1049 to require disclosure of gross contributions, but is not convinced that this is a significant issue.

3.18 Statutory liabilities and assets (paragraph 44)

Some interviewees question why statutory receivables and payables are excluded from financial asset and liability definitions, given that they are settled in cash. We note that their exclusion is consistent with paragraph AG12 AASB 132 *Financial Instruments: Presentation*, which states:

“... Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets...”

Staff recommendation 3.18: The post-implementation review of AASB 1049 is not the right place to address this issue, and therefore AASB 1049 should not be amended in relation to this issue as a result of this review.

3.19 Carrying amount of recognised assets attributable to functions [paragraph 48(b)]

AASB 1049 requires disclosure of the carrying amount of recognised assets that are reliably attributable to each function (paragraph 48). Interviewees question the relevance of disclosing assets by function when this is not an ABS GFS Manual concept, and question the information content for users.

In addition, some interviewees noted that there are multiple uses for assets even at the department level, with some assets maintained centrally. For example, financial assets are difficult to allocate across sectors. An interviewee from one jurisdiction noted that it does not believe making broad assumptions is appropriate in classifying assets. Some jurisdictions were not able to disclose the carrying amounts of assets by function. Some interviewees felt that AASB 1049 provides insufficient guidance to assist in the classification of assets, which will result in inconsistent classification across jurisdictions. However, we note AASB 1049 only applies to “... assets...”

reliably attributable to ... function” – which necessarily entails the exercise of professional judgement.

After noting interviewees’ comments, we understand that the ABS, a key user¹¹ of AASB 1049 financial statements, does not use such information.

We note that paragraph BC56 of AASB 1049 states:

“The Board noted that governments are already providing comparable disaggregated information of GFS expenses and net acquisitions of GFS non-financial assets as part of their GFS reporting requirements and it does not appear to be unduly onerous. The Standard makes it clear that disaggregation should only occur where it can be reliably attributable to a function.”

Also, paragraph 50 of AASB 1049 explains how disclosure of functional information would assist users:

“... Disclosure of this information assists users in identifying the resources committed to particular functions and the costs of service delivery that are reliably attributable to those functions. Functional classification of financial information, where it can be determined reliably, will also assist users in assessing the significance of financial or non-financial performance indicators reported by the government ...”

Staff recommendation 3.19: Disclosure of the carrying amount of assets by function should continue to be required, to be reviewed in the context of the project on disaggregated disclosures. This project is currently included as a high priority project in the [AASB’s work program](#).

One subcommittee member disagrees with retaining the disclosure requirement, being of the view that the requirement to disclose the carrying amount of assets by function was mainly included to align with GFS, but this is not a GFS requirement and should be omitted.

3.20 Expenses, excluding losses, included in operating result, by function [paragraph 48(c)]

AASB 1049 requires disclosure by way of note, of ‘expenses, excluding losses, included in operating result’ that are reliably attributable to each function (paragraph 48). However, interviewees note that ‘expenses excluding losses’ is not a term used elsewhere in the financial statements. They therefore suggest that inclusion of this term in the functional information could confuse users (and preparers) as there is no clear definition of what is intended to be included in this calculation.

It was further noted that in practice, losses were not subtracted from expenses because the relevant losses were immaterial.

An interviewee from one jurisdiction queried why AASB 1049 does not require disclosure of ‘expenses from transactions’, thereby avoiding the reconciliation required by paragraph 49(a). Staff note the following two reasons for the current requirement in AASB 1049:

- (a) initially, the Board proposed in ED 142 *Financial Reporting of General Government Sectors by Governments*, issued in July 2005, to require

11 See our more general comments about users in sections 2.2 and 3.14 above.

disclosure of expenses, excluding losses; net gains/(losses); GFS expenses; and GFS net acquisitions of non-financial assets. Some constituents responding to ED 142 commented that providing such information would confuse users and be extremely resource intensive. The Board then decided that mandatory disaggregated functional information should be limited to expenses (excluding losses) and assets. If the reference to ‘excluding losses’ had been dropped, it would seem to be anomalous to include losses, but not gains, given that gains and losses relating to an item might be netted off; and

- (b) ‘expenses (excluding losses)’ more closely aligns with GAAP than ‘expenses from transactions’, because ‘expenses from transactions’ does not include GAAP expenses classified as other economic flows.

Staff recommendation 3.20: We think paragraph 48(c) of AASB 1049 should continue to refer to ‘expenses, excluding losses, included in operating result’ because it aligns with GAAP and therefore the fundamental underlying approach taken in AASB 1049.

One subcommittee member disagrees with retaining the disclosure requirement and suggests AASB 1049 is amended to require a jurisdiction to disclose ‘expenses from transactions by function’, which is similar in concept to ‘expenses, excluding losses, included in operating result’, but aligns better with how jurisdictions report.

3.21 Presentation of total non-financial public sector information (paragraphs 52, 18 and BC34)

The following table shows whether each jurisdiction has chosen to present the total non-financial public sector in addition to PNFC and PFC sectors.

Jurisdiction	Is the total non-financial public sector presented in addition to PNFC and PFC sectors? (Yes/No)
ACT	No
CTH	No
NSW	No
NT	Yes
QLD	Yes
SA	No
TAS	Yes
VIC	No
WA	Yes

Paragraph 52 of AASB 1049 requires the WoG financial report to disclose certain information for the GGS, PNFC and PFC sectors. The non-financial public sector combines the GGS and PNFC sector. Four jurisdictions disclose the total non-financial public sector (consistent with the Uniform Presentation Framework) in their WoG financial reports because they are of the view that such information is useful to users. The question arises whether AASB 1049 should be amended to require it to be disclosed in the WoG financial statements.

Staff recommendation 3.21: Paragraph 18 of AASB 1049 acknowledges a government may disclose additional information in accordance with the ABS GFS Manual that is additional to the requirements of AASB 1049. Consistent with paragraph 18, paragraph BC34 of AASB 1049 acknowledges that the total non-financial public sector is an additional sector that a government may choose to present information about. Therefore, AASB 1049 does not warrant amendment in relation to this issue, in light of the Board's policy of developing principles-based Standards. AASB 1049 is sufficiently flexible to accommodate jurisdictions' choice to disclose information about the total non-financial public sector.

3.22 Presentation of sectoral statements of financial position (paragraph 58)

Paragraph 10(f) of AASB 101 requires the presentation of a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Interviewees from one jurisdiction raised concerns over the presentation of sectoral information in cases when a third balance sheet has to be presented because the face of the statement of financial position would look too cluttered – with too many columns to fit reasonably on a page (particularly if a budgetary column(s) is also provided).

Staff recommendation 3.22: The post-implementation review of AASB 1049 is not the place to address this issue (or other non-GAAP/GFS harmonisation presentation issues). The third balance sheet requirement applies to reporting periods beginning on or after 1 July 2009 and we have not yet seen how practice intends dealing with the issue. At this stage, we do not think amendment to AASB 1049 is warranted as the Standard is sufficiently flexible enough to be applied in the circumstances of a third balance sheet through the application of professional judgement.

In addition, we note that the IASB's project on financial statement presentation will potentially have a more fundamental impact on the format of the financial statements. Staff are currently in the process of reviewing the proposals included in the IASB Exposure Draft *Presentation of Items of Other Comprehensive Income* and the forthcoming IASB Exposure Draft *Financial Statement Presentation* and their implications for AASB 1049.

3.23 Interpretation of 'presented on a basis consistent with' in the context of budgetary information [paragraph 59(a)]

Paragraph 59(a) of AASB 1049 requires disclosure of the original budgeted financial statements, presented on a basis that is consistent with the basis prescribed for the financial statements by AASB 1049. However, there was some confusion in practice over the meaning of 'presented on a basis consistent with'. In particular, it was questioned whether the budget would be required to be recast solely for presentation and classification issues or whether the requirement extends to recognition and measurement. The practical difficulties of recasting for recognition and measurement changes were noted – e.g. retrospectively determining 'budgeted' fair values when hindsight is likely to influence such a determination. Interviewees from one jurisdiction also questioned whether the budget should be recast if a PNFC sector entity moved in/out of the GGS during the year.

Another interviewee queried whether the original budgeted financial statements presented in AASB 1049 financial statements would need to be recast if there are amendments to some accounting standards applied during a budget year that result in accounting changes for presentation, classification, recognition and measurement purposes.

Some constituents questioned why AASB 1049 requires a comparison of actuals against the original budget rather than the revised budget because by the time actuals are compared to the original budget, the original budget is already outdated.

Paragraph BC59 of AASB 1049 explains the reason for comparing actuals against the 'presented' (original) budget rather than the 'adopted' budget or the 'revised' budget:

"The Board concluded that the 'presented' budget is more relevant to users than the 'adopted' budget. The presented budget is the one most widely publicised and, accordingly, is the primary reference point for any assessment of the reliability of budgeting, identification of major variances and assessment of the quality of stewardship in relation to the period. Therefore, this Standard mandates inclusion of the first budget presented to parliament. This Standard also allows for revised budgeted financial statements to be disclosed, acknowledging that revised budgets may occur late in the financial period and their disclosure can play a role in demonstrating an aspect of stewardship."

Staff recommendation 3.23(a): AASB 1049 should be amended to clarify that the budget should be recast solely for presentation and classification, not for recognition and measurement purposes. We note that explanations of the variance between budgeted and actual financial information (refer issue 3.24), would provide information regarding possible implications of any differences in recognition and measurement.

Staff recommendation 3.23(b): In relation to the criticism of comparing actuals against the 'original budget', we do not think AASB 1049 should be amended because governments should be held accountable for the 'original budget' and AASB 1049 allows the presentation of a 'revised budget'.

3.24 Explanations of variances from budget [paragraph 59(b)]

The requirement to include explanations of variances between budgeted and actual financial information was questioned by some interviewees for two primary reasons:

- (a) the requirement to explain variances was deemed unnecessary as the variance explanations do not help anyone because variance explanations appear to be more relevant at entity level and the reasons for changes in budgetary assumptions are explained every time the budgets are updated. For example, the UPF Outcomes report includes commentary on variances from the last budget update and the preface to the financial statements includes a comparison to actual results. Inclusion of yet another layer of explanation with a different comparator makes for confusing reading on the part of the user (particularly when it refers to an older version of information to that provided in the UPF report); and
- (b) the inclusion of unaudited budgetary information within the audited financial statements results in audit report comments (in VIC, QLD and WA) in relation to budget information within the statements. This could be seen by users as a

lack of confidence in the State's budget but actually stems from the fact that the budget data is not auditable. It is unfair for auditors to report on the accuracy and completeness of the variance explanations provided when they do not have a detailed knowledge of the budget data or the process by which it is developed. In particular, the interviewee from one Auditor-General's Office noted that whilst audit of variances between budgeted and actual data was possible at the higher levels, at a lower level there is insufficient evidence available to make assessments.

AASB staff think disclosure of variance information provides useful information for users and facilitates the discharge of accountability by governments. In relation to the issue concerning audit of variance information, we think it is beyond the scope of AASB 1049.

Staff recommendation 3.24: Disclosure of information about variances between actual and budgeted amounts should continue to be required.

3.25 Appendix A

3.25.1 Definition of the ABS GFS Manual (its scope and process for change)

AASB 1049 references the ABS GFS Manual throughout. Appendix A of AASB 1049 defines 'ABS GFS Manual' as:

The Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods* as updated from time to time.

Some interviewees expressed uncertainty about the status of material associated with the ABS GFS Manual. Based on the ABS website, those documents include:

- **Information papers** which serve to inform the public about the official ABS position on statistical issues eg outcomes of user consultation on statistical initiatives, or changes affecting the understanding, interpretation or use of statistics.
- **Discussion papers** which serve to provide materials to provoke public discussion on statistical matters on which ABS has not formed a view, or an official position. Discussion papers are issued for the purpose of seeking public comment and/or input in order to assist the ABS to form an official position on the matters raised. The content of discussion papers does not necessarily represent an official ABS position.
- **Research papers** which serve to release the results of research by ABS officers or other relevant researchers. They may be sourced from conference papers, papers published in journals by ABS officers, or papers prepared by ABS research fellows where it is considered appropriate to release them as ABS publications. The content of research papers does not necessarily represent an official ABS position.
- **ABS Feature Articles** which includes an assortment of feature articles from the Australian Year book and other ABS Publications.
- **Methodology Advisory Committee (MAC) Papers** which comprise papers considered by MAC who provide advice to the ABS on statistical and methodological issues.

In addition, some interviewees noted that the ABS at times issues 'private rulings', which are not made public due to their confidential nature, because they typically relate to the consideration of GFS consequences of alternative future actions the Government might take.

Furthermore, if any of these documents form part of the ABS GFS Manual, some interviewees expressed concern about the manner in which changes to GFS requirements come about, without allowing sufficient transition time. As noted in

section 2.5 above, we understand that ABS staff are aware of the current uncertainty surrounding the status and relationship of their various documents to the ABS GFS Manual. We also understand that, in the future they intend making it clear which ABS material forms part of the ABS GFS Manual.

In addition, we understand the ABS is developing a memorandum of understanding with the States with a view to developing a process of consultation and managing change.

In a letter dated 16 June 2010 from one constituent (see agenda paper 18.1), expressed concern in relation to the transitional approach in AASB 1049.

We think most of the concerns raised in relation to this issue are of a transitional nature and that ABS planned actions will go a long way to mitigating the concerns.

Staff recommendation 3.25.1: The AASB should write to the ABS formally advising it of the concerns expressed by interviewees and encouraging the ABS to clarify the scope of the ABS GFS Manual and establish an agreed process for amending or interpreting the Manual.

3.25.2 Definition of the ABS GFS Manual (which version)

The current definition of the ABS GFS Manual allows for the fact that the Manual might be 'updated from time to time'. Some expressed concern that some updates may occur very close to the time of finalising the financial statements, which does not give preparers sufficient time to consider the updates. Some also noted that the current definition of the ABS GFS Manual is not that clear in stating the cut-off date for considering changes to the principles and rules in the ABS GFS Manual.

Furthermore, the updates may not contain any transitional relief to provide a practical basis for implementation.

Removal of the phrase 'as updated from time to time' would place a discipline on the Board to consider the implications of changes to the ABS GFS Manual on GAAP/GFS harmonisation in the same way that currently changes to GAAP cause the Board to explicitly consider their implications for GAAP/GFS harmonisation. It would also enable the AASB to establish what it regards as appropriate transitional provisions for GAAP/GFS harmonisation consequences of GFS changes. However, we acknowledge that this could involve the Board in a significant amount of work going forward depending on the frequency and magnitude of changes to the ABS GFS Manual

Removal of the phrase would also address concerns in relation to transitional provisions.

Staff note that it may be appropriate to consult with the relevant ABS personnel to explain any proposal to delete the phrase 'updated from time to time' from the definition, particularly since the approach proposed in staff recommendation 3.25.1 may be sufficient to address the issue.

Staff recommendation 3.25.2: Subject to the outcome of issue 3.25.1, the definition of the ABS GFS Manual should be amended to remove the phrase ‘as updated from time to time’ and specify that the relevant ABS GFS Manual is the version as issued at the time the Standard is issued. Consequently, the Board should monitor GFS developments and consider amending AASB 1049 each time the ABS amends GFS.

One subcommittee member has significant reservations about our recommendation – expressing concern about its potential implications for the Board’s work program.

To avoid our suggested definition of the ABS GFS Manual being interpreted narrowly, we suggest that AASB 1049 is amended to include commentary that would require entities to apply the principles underlying the hierarchy in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* when determining the GFS policies to adopt.

In relation to this, another subcommittee member questions whether it is appropriate to allow preparers to refer to ABS material when determining GFS policies to be adopted, expressing uncertainty about whether paragraph 12 of AASB 108¹² really extends to GFS, as it is about accounting literature. However, we think that, by analogy, the principles in AASB 108 could be applied in a GFS context.

3.26 Illustrative Examples

3.26.1 Presentation of discontinued operations (Illustrative Examples A & B)

Some interviewees were unsure of how to apply AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* in the context of AASB 1049. Whilst this issue has not yet been faced by interviewees, they felt that the requirement for financial statements to distinguish between both transactions and other economic flows and discontinued and continuing operations would lead to confusion and ‘cluttering’ of the financial statements. Most interviewees also suggest incorporating into the Illustrative Example an acceptable presentation format of discontinued operations.

The general principle is in paragraph 30 of AASB 5 which requires the presentation and disclosure of information that enables users to evaluate the financial effects of discontinued operations. Paragraph 33(a) of AASB 5 (and paragraph 81(e) of AASB 101) requires an entity to present, as a minimum, the total of the operating result of discontinued operations on the face of the comprehensive income statement.

Staff recommendation 3.26.1: It is not necessary to amend Illustrative Examples A and B for this issue, consistent with the Board’s approach to developing principles-based Standards. It should be left to jurisdictions to decide how to present the financial effects of discontinued operations in accordance with GAAP.

12 Paragraph 12 of AASB 108 states:
“In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.”

3.26.2 Tax-effect accounting by the GGS [Explanatory Note r(ii)]

The following table shows whether the GGS of each jurisdiction has mirrored deferred tax amounts of PNFC and PFC sectors in its financial statements.

Jurisdiction	Does the GGS mirror deferred tax amounts of PNFC and PFC sectors?
ACT	No
CTH	N/A
NSW	Yes
NT	No
QLD	Yes
SA	N/A
TAS	Yes
VIC	No
WA	No

It is apparent that jurisdictions accounted for deferred tax amounts in relation to the GGS differently, despite identical circumstances. All jurisdictions, other than SA, recognise deferred tax amounts at the PNFC/PFC level but only some of those jurisdictions mirror those amounts in the GGS balance sheet. In SA, tax equivalent payments by PNFC and PFC sectors are calculated based on accounting profit and therefore deferred tax amounts do not arise¹³.

Some are concerned that AASB 1049 results in identical circumstances being accounted for in fundamentally different ways – this affects comparability across jurisdictions.

Staff recommendation 3.26.2: Staff tentatively think the question of whether a deferred tax expense of PNFC and PFC sectors gives rise to a revenue of GGS is outside the scope of AASB 1049 – it is more a question for AASB 1004 *Contributions* [and therefore ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*].

To improve comparability and consistency across jurisdictions, and consistent with the way the Commonwealth Government accounts for the mirror of deferred tax amounts recognised by private sector entities, we tentatively think explanatory note r(ii) should be amended to avoid implying that the mirror of deferred tax amounts recognised by and PNFC and PFC sectors could give rise to amounts recognised by the GGS where the tax regime is equivalent to the Commonwealth *Income Tax Assessment Act 1936*. Rather, it should acknowledge that some tax equivalent regimes may not give rise to deferred tax amounts of PNFC and PFC sectors – for example where tax is payable on accounting profit rather than taxable income.

One subcommittee member disagrees with our recommendation, noting that the treatment of deferred tax and the contemplation about the ‘mirror’ deferred tax was agreed as part of the AASB due process in developing AASB 1049 and that explanatory note r(ii) was deliberately expressed the way it is (i.e. the AASB agreed not to be explicit on this point – and decided to state that the matter depends on the nature of the tax equivalents regime).

13 Department of Treasury and Finance, SA, Treasurer’s Instructions 22