

## Extract of AASB ACTION ALERT Related to GAAP/GFS

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*The 25th meeting of the AASB, held on 7-8 August 2002*

### **Review of AAS 31 “Financial Reporting by Governments” and AAS 29 “Financial Reporting by Government Departments”**

Representatives from the Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC) made presentations to the Board dealing with submissions from HOTARAC on:

- distinguishing reciprocal from non-reciprocal transfers in the public sector; and
- consolidated financial reports and accounting for contributions by owners.

The Board discussed the issues raised in the HOTARAC presentations and decided that:

- in view of possible changes resulting from adopting International Accounting Standards in Australia and their underlying conceptual framework, it would not be appropriate to amend the definitions of reciprocal and non-reciprocal transfers in current Australian Standards and Statements of Accounting Concepts. The Board decided to expand commentary in the revised slimmed-down public sector Standards (replacing AAS 27 “Financial Reporting by Local Government”, AAS 29 and AAS 31) to help clarify the circumstances under which reciprocal transfers can exist in the public sector. The commentary should take into account existing requirements and commentary in AAS 15 “Revenue” and draw out the underlying features that are necessary to support the existence of a reciprocal transfer; and
- AASB staff prepare an issues paper for consideration by the Board that addresses the implications of including commentary in the slimmed-down Standard replacing AAS 31 that would effectively acknowledge that the General Government Sector (as defined in Government Finance Statistics) or the Budget Sector of a Government may be a reporting entity that would prepare general purpose financial reports (GPFRs). The commentary would argue that such reports (by analogy with parent entity financial reporting in the private sector) would not consolidate all controlled entities (that is those in the Public

Non-Financial Corporations Sector and the Public Financial Corporations Sector) and, therefore, indicate that AAS 24 “Consolidated Financial Reports” is not applicable. The paper will also address the question of inter-sector investments in the disaggregated disclosure note currently required by AAS 31.

The Board also discussed the content of paragraphs that should not be retained (because they are adequately dealt with in other Standards or no longer necessary) and those that should be retained in a slimmed-down Standard replacing AAS 31. Consistent with its earlier decisions on AAS 27 and AAS 29, the Board decided that the content to be retained should focus on the following major issues:

- prescription that governments are reporting entities that are required to prepare GPFRs in accordance with accounting Standards;
- specification that the requirements of legislation and other authority are to apply in addition to but not instead of requirements in the Standards;
- requirements and commentary on preparing a GPFR as a consolidated report for the whole of government;
- commentary on factors that indicate “control” by governments for purposes of preparing consolidated financial reports;
- requirement for GPFRs to contain financial statements and notes to statements;
- requirement to disclose disaggregated information for each broad sector of government;
- requirement and commentary on the qualitative characteristics of disclosures of performance indicators; and
- relief from recognition of land under roads.

The Board also noted that current requirements on Governments would be amended as a result of its decision to withdraw:

- relief under AAS 31, paragraph 15.9 from the requirement in AAS 24 for the separate disclosure of the capital, retained profits

(surplus) or accumulated losses (deficit), and reserves comprising the outside equity interest in the statement of financial position;

- relief under AAS 31, paragraph 15.10 from the requirement in AAS 28 "Statement of Cash Flows" for separate disclosure of details about unused loan and credit facilities; and
- the requirements under AAS 31, paragraph 15.11 for the statement of cash flows to disclose separately the net cash flows of government-controlled financial institutions, and for details of the cash flows of such institutions to be disclosed in a note.