

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
23-25 MAY 2007 MEETING,
AGENDA PAPER 3.2**

**Accounting Standard
Exposure Draft**

**AASB 1049
ED XXX
XXX 2007**

Financial Reporting by Governments

Prepared by the
Australian Accounting Standards Board
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marked up for WoG.doc
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Staff note:
Explanation of mark-up convention in this document:
At its March 2007 meeting, the Board reviewed a mark-up from AASB 1049,
reflecting a first draft of the changes that would need to be made to the GGS
Standard (AASB 1049) to turn it into a whole of government Standard.
Those mark-ups have been retained in this document. Subsequent
amendments made to reflect the Board's March decisions and a subsequent
staff review are shaded grey, with the exception of the Basis for Conclusions.
A clean version of the draft ED is provided in Agenda Paper 3.3. Consistent
with the Board's March 2007 decision, a clean version will be issued for
public comment. A marked-up version, highlighting differences from
AASB 1049, will be made available on the AASB website for the
information of constituents.
There are a number of ways we could have presented this document. The
Board has yet to decide whether the ED should address only WoGs (and
thereby propose supplementing AASB 1049) or whether it should address
separate financial reporting by both GGSs and WoGs in an integrated way
(AASB 1049). Staff consider that the
ed alone ED applicable only to WoGs but
the most helpful at this stage of the project.
Board's decision on the appropriate form



Australian Government
**Australian Accounting
Standards Board**

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Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by 17 August 2007. Comments should be addressed to:

The Chairman
Australian Accounting Standard Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

A copy of all non-confidential submissions will be placed on public record on the AASB's website: www.aasb.com.au.

Staff note: if the ED can be issued shortly after the May meeting, a 17 August deadline gives about a 2½ month comment period, in time for a collation of comments to be prepared for consideration at the 5-6 September 2007 meeting.
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Obtaining a Copy of this Accounting Standard Exposure Draft

This ~~Standard-Exposure Draft~~ is available on the AASB website: www.aasb.com.au.

Alternatively, printed copies of this Exposure Draft are available by contacting:

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~~for commercial purposes should be addressed to The Administration
Director, Australian Accounting Standards Board, PO Box 204, Collins
Street West, Melbourne, Victoria 8007, Australian Accounting Standards
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Staff note: Except in the Basis for Conclusions, paragraph numbering from AASB 1049 has been retained, despite deleting and adding some AASB 1049 paragraphs. Paragraph numbering will be adjusted-corrected in the clean version of ~~once further progress has been made in developing the Exposure Draft.~~

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CONSEQUENTIAL AMENDMENTS TO AASB 1049
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Australian Accounting Standard AASB 10XX *Financial Reporting by Governments* is set out in paragraphs 1-62A and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

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PREFACE

Background

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards to be applied by:

- (a) entities required by the *Corporation Act 2001* to prepare financial reports;
- (b) all reporting entities engaged in either for-profit, not-for-profit or public sectors; and
- (c) any other entity that prepares general purpose financial reports.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

Although IFRSs are developed to apply to for-profit entities, the AASB has decided to continue to make transaction-neutral accounting standards as between for-profit, not-for-profit private and not-for-profit public sectors. Accordingly, Australian Accounting Standards (including Australian equivalents to IFRSs) generally require the same accounting treatment for similar transactions occurring in both for-profit and not-for-profit entities, including public sector entities. An Australian equivalent to an IFRS uses the corresponding IFRS as the “foundation” Standard to which the AASB adds material detailing its scope and applicability in the Australian environment. Additions are made, where necessary, to broaden the content of the Australian equivalent to an IFRS to cover domestic, regulatory or other issues.

In addition to making accounting standards that are Australian equivalents to IFRSs, the AASB also continues to make other Australian Accounting Standards that are specific to the not-for-profit or public sectors or that are purely of a domestic nature.

Exposure Drafts

The use of an Exposure Draft is an essential piece of the due process that the AASB follows before making a new or amending an existing Australian Accounting Standard. The Exposure Draft is designed to seek public comment on the AASB’s proposals for a new Australian Accounting Standard or amendments to an existing Australian Accounting Standard.

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Reasons for Issuing this Exposure Draft

The issue of ~~AASB 1049~~ this Exposure Draft is part of the ~~Australian Accounting Standards Board's~~ (AASB's) implementation of a Financial Reporting Council (FRC) broad strategic direction:

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

The AASB ~~decided to~~ is implementing the FRC's broad strategic direction by ~~considering it in the context of three two~~ phases. ~~The first phase~~ Phase 1 relates to financial reporting by the Australian Government and the State and Territory governments and the sectors therein [General Government Sector (GGS), Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector]. ~~The second phase~~ Phase 2 relates to financial reporting by entities within the GGS, comprising financial reporting by government departments, statutory bodies, and other entities within the GGS. ~~The third phase relates to financial reporting by other public sector entities.~~

~~Within~~ As part 1 of phase 1, the AASB decided that developed a separate Standard (AASB 1049 *Financial Reporting of General Government Sectors by Governments*) should be developed that specifies requirements for separate financial reporting by a government of its GGS, as defined in the Australian Bureau of Statistics (ABS) Manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, available on the ABS website ([the ABS GFS Manual](#)). ~~The AASB decided that priority should be given to developing a Standard relating to separate GGS financial reports.~~

~~As part 2 of phase 1, the focus of this Exposure Draft, the AASB decided that a separate Standard should be developed that specifies GAAP/GFS harmonisation requirements for financial reporting by a government of its whole of government, incorporating the GGS, the PNFC sector and the PFC sector.~~

~~This Standard does~~ The proposals in this Exposure Draft do not have broader implications beyond GGS whole of government (incorporating the GGS, the PNFC sector and the PFC sector) financial reporting. The Board will

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consider in due course the extent to which its decisions on GGS and whole of government ~~(incorporating the GGS, the PNFC sector and the PFC sector)~~ financial reporting should be applied ~~in to the remaining aspects of phase 1, comprising whole of government financial reporting, the PNFC sector and the PFC sector, as well as phases 2 and 3, comprising financial reporting by government departments, statutory bodies, and other entities within the GGS~~ local governments, universities, government business enterprises and other public sector entities.

The Board decided that it is not necessary to consider GAAP/GFS harmonisation issues for other public sector entities, including entities within the PNFC sector and PFC sector, local governments and entities that GFS classifies as multi-jurisdictional such as universities.

At its 18 December 2006 meeting, the FRC agreed that, with the completion of phases 1 and 2, the requirements of the public sector strategic direction would be met (FRC Bulletin 2006/9 18 December 2006).

Main Features of this Standard-Exposure Draft

In the interest of providing constituents with a timely opportunity to comment on the principles proposed to be included in a GAAP/GFS harmonised Standard for whole of governments, this Exposure Draft is being issued without Illustrative Example A “Illustration of an Acceptable Format and Content of Financial Statements, Reconciliation Notes, Explanations of Key Technical Terms, Functional Information and Sector Information”. Illustrative Example A will be issued once it is finalised.

This Exposure Draft presents proposals for GAAP/GFS harmonised financial reporting by whole of governments separately from the requirements for financial reporting by GGSs. However, it is the Board’s intention that the Standard to be developed from this Exposure Draft incorporates the requirements for both whole of government financial reporting and GGS financial reporting. Accordingly, the Board intends incorporating the proposals in this Exposure Draft into AASB 1049 and thereby issuing a single integrated Standard.

The Board used AASB 1049 as the basis for developing this Exposure Draft. A marked-up copy of AASB 1049, highlighting the changes made to AASB 1049 to develop this Exposure Draft, is provided on the AASB website for the information of constituents.

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Application Date

~~It is proposed that the This Standard to be developed from this Exposure Draft is applicable to annual reporting periods beginning on or after 1 July 2008, and that Early adoption of this Standard is permitted.~~

Main Requirements

~~This Standard requires~~ Exposure Draft proposes:

- (a) ~~that a government be required to prepare a general purpose financial report for its GGS whole of government, which consolidates all controlled entities on a line-by-line basis, in accordance with the requirements of this the Standard to be developed from this Exposure Draft. The GGS financial report shall not be made available prior to the whole of government financial report being made available. Consistent with the principles in the ABS GFS Manual, the GGS financial report, unlike the whole of government financial report, does not consolidate government controlled entities that are classified by the ABS GFS Manual into the PNFC sector and the PFC sector – it only consolidates entities that are classified within the GGS, as defined in the ABS GFS Manual;~~
- (b) ~~a government to account for the GGS's interests in the government's controlled entities in other sectors by measuring the GGS asset 'investments in other sector entities' at fair value where fair value is reliably measurable and at the government's proportional share of the net assets where fair value is not reliably measurable. In the latter case, net assets are those that are consolidated into the whole of government financial report before elimination of intersector balances. Changes in the carrying amount of the 'investments in other sector entities' are accounted for in a manner consistent with the carrying amount being fair value and therefore subject to the requirements in AASB 139 *Financial Instruments: Recognition and Measurement*;~~
- (c) ~~that the requirements in other Australian Accounting Standards be applied, with the exception of the non-consolidation of controlled entities in the PNFC sector and PFC sector and certain other exceptions unless otherwise specified;~~
- (d) ~~that where Australian Accounting Standards allow for optional treatments, only those treatments aligned with the ABS GFS Manual be applied;~~
- (e) ~~that where GFS information is included in the financial report because it is required by this the Standard to be developed from this Exposure~~

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Draft or provided at the discretion of the government, only the principles and rules in the ABS GFS Manual for determining that information be applied;

- (f) ~~that the GGS~~ financial statements ~~to~~ include on their face information that is required by other Australian Accounting Standards, together with key fiscal aggregates, determined in a manner consistent with the other amounts recognised on the face and, in addition:
- (i) the operating statement ~~to~~ present, as well as the operating result, the comprehensive result (comprising all non-owner movements in equity – in contrast to the requirements in AASB 101 *Presentation of Financial Statements*). Income and expenses ~~shall should be are to be~~ classified between transactions and other economic flows;
 - (ii) the cash flow statement ~~to~~ present cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes separately, determined in a manner consistent with the ABS GFS Manual; and
 - (iii) where specified key fiscal aggregates on the face of the financial statements differ from the corresponding key fiscal aggregates measured under the ABS GFS Manual, the ABS GFS Manual measure ~~to~~ be disclosed in the notes together with a reconciliation of the two measures and an explanation of the differences.

Illustrative Example A includes an example of acceptable ~~GGS~~ financial statements and a reconciliation note format;

- (g) ~~that~~ specified disclosures ~~to~~ be included in the summary of significant accounting policies note and other explanatory notes to the financial statements;
- (h) disclosure of a description of each broad function of the ~~GGS~~ government as specified in the ABS GFS Manual, and the assets and expenses (excluding losses) included in operating result, that are to be reliably attributable to those functions. This information is to be aggregated;
- (ha) disclosure of a description of each sector (the GGS, PNFC sector and PFC sector) as defined in the ABS GFS Manual. The financial statements and GAAP/GFS reconciliation notes for each sector that are consistent with the government's financial statements and reconciliation notes should are also be disclosed. This sector

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information ~~should be~~ is determined before elimination of intersector balances;

- (hb) that where a government chooses to provide information about additional sectors, such as the total non-financial public sector (comprising the GGS and PNFC sector), this ~~should be~~ presented on a comparable basis; and
- (i) the inclusion of the original ~~whole of government~~ budgeted financial statements, where they ~~that~~ were presented to ~~P~~parliament for the ~~government~~, restated if necessary to align with the basis of the financial statements prepared in accordance with ~~this Standard~~ the Standard to be developed from this Exposure Draft. It also ~~requires~~ proposes disclosure of explanations of major variances between amounts in the original ~~GGS whole of government~~ budgeted ~~financial~~ statements and actual amounts; and
- (j) in relation to transition, the first financial report prepared in accordance with this Standard to be prepared in accordance with the principles underlying AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with the exception of:
- (i) the requirement to disclose a reconciliation of previous GAAP to new GAAP; and
 - (ii) the use of the transition date in the whole of government financial report, rather than a transition date when the GGS first applies this Standard.

Comparative period information, prepared as if this Standard had applied, is required to be presented in the first financial report.

As a result of potential amendments to the requirements in Australian Accounting Standards and the ABS GFS Manual or the interpretation of those requirements, differences between GAAP and GFS not contemplated in ~~this Standard~~ the Standard to be developed from this Exposure Draft may eventuate. Unless the Board considers a potential difference and amends ~~this~~ the Standard or another Australian Accounting Standard to avoid the difference, a difference ~~is~~ should be included in the reconciliations and/or explanations of differences ~~required~~ proposed by paragraphs 42(a)(ii)B and 51A(b)(ii) of ~~the Standard~~ this Exposure Draft. As issues emerge in the future, the Board will have regard to the implications for ~~GGS whole of government~~ financial reports in deciding whether to amend ~~this the~~ the Standard to be developed from this Exposure Draft or another Standard to either avoid or confirm the existence of a difference.

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GFS and its Relationship to GAAP GGS Financial Reporting

For GFS financial reporting purposes a government is regarded as comprising three sectors: the GGS, the PNFC sector and the PFC sector. Given its non-market nature and its important role as the vehicle by which a government implements its fiscal policy, it is useful to distinguish the GGS from the other, more market-oriented, government sectors. The GGS consists of all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and redistribute income and wealth by means of taxes and other compulsory transfers. Non-profit institutions are created for the purpose of producing or distributing goods and services but are not permitted to be a source of income, profit or other financial gain for the government. The PNFC sector and PFC sector comprise government controlled entities that produce goods and services for the market and may be a source of profit or other financial gain to the government. They typically transact with outside consumers, frequently at arm's length in contestable markets. ~~The GGS of a government, rather than the PNFC sector or PFC sector, is the focus of this Standard.~~

~~GFS provides statistics for the assessment of particularly focuses on the macro-economic impact of the a government and each of the government's sectors GGS and fiscal policy decisions. Chapter 2 of the ABS GFS Manual identifies a number of core analytical measures for fiscal policy that this Standard requires Exposure Draft proposes to be disclosed in the GGS government's financial report for the whole of government and each sector. They include:~~

- (a) GFS net operating balance, which equals GFS revenue minus GFS expenses. GFS revenue and GFS expenses only arise from transactions, defined as interactions between two units by mutual agreement or actions within a unit that are analytically useful to treat as transactions. GFS distinguishes transactions from other economic flows, defined as changes in the volume or value of an asset or liability that do not result from transactions;
- (b) GFS net lending/(borrowing), which equals the GFS net operating balance minus the net acquisition of GFS non-financial assets. It also equals transactions in GFS financial assets minus transactions in GFS liabilities;

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- (c) GFS net worth, which equals GFS assets minus GFS liabilities (which includes issued shares and other contributed capital of corporations); and
- (d) GFS cash surplus/(deficit), which equals GFS net cash flows from operating activities minus the net cash outflow from acquisitions and disposals of GFS non-financial assets and GFS assets acquired under finance leases and similar arrangements.

Although accrual accounting principles are applied under GFS for a government and each of the government's sectors ~~the GGS~~, some of the definition, recognition, measurement, classification and presentation principles and rules differ from GAAP. This ~~Standard specifies Exposure Draft~~ proposes the manner in which the differences between GAAP and GFS ~~shall show~~ will be treated. In limited cases, the ~~Standard specifies Exposure Draft~~ proposes GAAP that better aligns with GFS. In other cases, it proposes to requires or allows GFS information to be presented in addition to GAAP information, together with reconciliations between the two frameworks and explanations of the differences.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 17 August 2007. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

Staff note: Specific matters for comment will be developed after further progress is made on the project. The following lists some broad issues that staff expect at this stage would warrant specific identification.

The AASB would particularly value comments on:

- (a) The Board's intention to amend AASB 1049 to reflect its decisions arising out of this Exposure Draft and thereby issue a single integrated Standard that specifies requirements for both whole of government financial reports (incorporating the GGS, PNFC sector and PFC sector financial information) and GGS financial reports;

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- (b) ~~The Board's intention to base whole of government general purpose financial reporting requirements on the principles adopted in AASB 1049 for separate GGS financial reporting;~~
- (c) ~~The Treatment of transactions with owners as owners and movements in reserves (paragraph 25). The Board is particularly interested in views on whether the differential treatment of transactions with owners as owners and movements in reserves is appropriate. The Exposure Draft proposes to not allow such amounts to be presented ... on the face of operating statement, and therefore requires them to be presented in a separate statement or in notes;~~
- (d) ~~Sector information (paragraphs 51A-51F). — Given the potentially onerous nature of a requirement to disclose the financial statements and reconciliation notes for the GGS, PNFC sector and PFC sector in the whole of government financial report, the Board is particularly interested in views on whether the proposal in the Exposure Draft would provide the most effective way to meet users' needs for sector information, is it needed in whole of government financial reports. If so, should intersector investments be shown, and is it appropriate that fewer notes than for GGS separate financial report would be required;~~
- (e) ~~Budgetary information (paragraphs 52-58). The Board is particularly interested in views on whether (i) whole of government budgetary information should only be required to be disclosed where whole of government financial statements are presented to parliament; and (ii) sector budgetary information should not be required to be disclosed in the whole of government financial report;~~
- (f) ~~Transitional requirements (paragraph 62A). In particular, the Board is interested in assessments of the costs and benefits of the approach proposed, which is to require the principles in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to apply to the first whole of government financial report prepared in accordance with the proposals in this Exposure Draft; and~~
- (g) whether, overall, the proposals would result in financial reports that would be useful to users; and
- (h) whether the proposals are in the best interest of the Australian economy.

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**COMPARISON WITH
INTERNATIONAL PRONOUNCEMENTS**

**AASB 10XX and International Public Sector
Accounting Standards (IPSASs)**

The International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board (IPSASB).

~~The General Government Sector (GGS) financial report prepared by a government in accordance with this Standard is in addition to the whole of government financial report prepared by the government. The whole of government financial report is prepared in accordance with other Australian Accounting Standards. Those Standards identify the extent to which they differ from the corresponding IPSASs.~~

At the date of issue, this Standard has no corresponding IPSAS relating specifically to ~~whole of government financial reports~~ reporting of GGSs by governments. However, many of the issues addressed in this Standard are addressed in IPSASs. To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards provide a comparison of this Standard with IPSASs. In some significant respects, this Standard amends the requirements of other Australian Accounting Standards for the purposes of ~~GGS~~ whole of government financial reports and thereby differs from the requirements in IPSASs. Differences relate to the ~~specification of the entities to be consolidated, and the consequential accounting for investments in controlled entities in other sectors that are not consolidated, and the presentation of the financial statements, especially the operating statement, and notes. Differences also relate to the requirement of this Standard to disclose disaggregated information in contrast to the requirements in IPSAS 18 *Segment Reporting*.~~

~~At the time of issuing this Standard, the IPSASB has certain projects nearing completion that have particular relevance to this Standard, including its projects on budget reporting and on GGS financial reporting. IPSAS 22 *Disclosure of Financial Information About the General Government Sector* specifies requirements where a government elects to disclose financial information about the GGS in its whole of government financial reports. It differs from AASB 10XXX in ~~many~~ some significant respects. ~~In~~ Of particular note is that IPSAS 22, ~~it~~ requires financial information disclosed about the GGS to be ~~disclosed~~ disclosed in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the government except ~~only~~ only in respect of the consolidation of entities within~~

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the PNFC sector and the PFC sector. It does not accommodate GFS principles to the same extent as AASB ~~X10XX~~. For example, it does not contemplate a comprehensive operating statement classifying items as transactions or other economic flows and presenting GFS key fiscal aggregates on the face of the financial statements. Nor does it require the separate presentation of PNFC sector and PFC sector information, nor a reconciliation to GFS measures of key fiscal aggregates.

IPSAS 24 *Presentation of Budget Information in Financial Statements* identifies disclosures that are to be made by public sector entities that are held publicly accountable for their compliance with, and performance against, approved budgets whether or not the budget and the financial statements are prepared and presented on the same basis (see paragraph IN3 of IPSAS 24). It differs from AASB ~~X10XX~~ requirements relating to budgetary information in some significant respects. Of particular note is that IPSAS 24 prohibits presentation of the budget on the accounting basis if budget basis differs from the accounting basis, and requires disclosure of the final budget and a comparison of the final budget with the original budget.

AASB ~~1049X10XX~~ and International Financial Reporting Standards (IFRSs)

The GGS financial report prepared by a government in accordance with this Standard is in addition to the whole of government financial report prepared by the government. The whole of government financial report is prepared in accordance with other Australian Accounting Standards. Those Standards identify the extent to which they differ from the corresponding International Accounting Standards Board (IASB) standards.

There is no specific standard issued by the IASB dealing with financial reporting of GGSs whole of government financial reports by governments.

Many of the issues addressed in this Standard are addressed in IASB standards. To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards provide a comparison of this Standard with IASB standards. In some significant respects, this Standard amends the requirements of other Australian Accounting Standards for the purposes of GGS whole of government financial reports and thereby differs from the requirements in IASB standards. Significant differences relate to the specification of the entities to be consolidated, and the consequential accounting for investments in controlled entities in other sectors that are not consolidated, and the presentation of the financial statements, especially the operating statement, and notes.

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**ACCOUNTING STANDARD AASB 10XX
FINANCIAL REPORTING BY GOVERNMENTS**

Objective

- 1 The objective of this Standard is to specify requirements for *whole of government financial reports* of the ~~General Government Sector (GGS)~~ of each government. ~~These requirements are~~ in addition to requirements for ~~whole of government financial reports~~ separate financial reports of the General Government Sector (GGS) of each government currently specified in AASB 1049 *Financial Reporting of General Government Sectors by Governments*. In particular, this Standard requires compliance with other Australian Accounting Standards except as specified in this Standard, and disclosure of additional information such as sector (GGS, Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector) information and reconciliations to key fiscal aggregates determined in accordance with the ABS GFS Manual. ~~Whole of government financial reports prepared in accordance with this Standard provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS and its sectors; and information that facilitates assessments of the macro-economic impact of each government's GGS and its sectors.~~

Application

- 2 **This Standard applies to the general purpose financial reports of each government in relation to its GGS.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 2008.**
- 4 **This Standard may be applied to annual reporting periods beginning before 1 July 2008.**
- 5 **The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

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GGS Financial Report to be Prepared

- 6 **A government shall prepare a financial report for its GGS in accordance with the requirements of this Standard.**
- 7 ~~Consistent with the ABS GFS Manual, for the purpose of this Standard, a government is regarded as comprising three sectors: the GGS; the *Public Non Financial Corporations (PNFC) sector*; and the *Public Financial Corporations (PFC) sector*. The focus of this Standard is the GGS of a government.~~
- 8 **~~A government shall not make its GGS financial report available prior to its whole of government financial report being made available.~~**
- 9 ~~A government's whole of government financial report is prepared in addition to the GGS financial report and consolidates all government controlled entities, whether they fall within the GGS or the PNFC sector or the PFC sector.~~

Compliance with Australian Accounting Standards

- 10 **Unless otherwise specified in this Standard, the GGS financial report shall be prepared in a manner consistent accordance with other Australian Accounting Standards.¹**
- 11 With limited significant exceptions, this Standard requires the definition, recognition, measurement, classification, presentation and disclosure requirements specified in other Australian Accounting Standards to be adopted in the GGS financial report. This Standard only requires a different treatment from another Australian Accounting Standard when the requirements of this Standard directly conflict with the requirements of that other Standard. For example:

(a) ~~in conflict with AASB 127 *Consolidated and Separate Financial Statements*, paragraph 19 prohibits the consolidation of controlled entities in other sectors; and~~

¹ It is intended that the 'other Australian Accounting Standards' referred to in paragraph 10 are those that will be amended as a result of the Board's project on the short-term review of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*. Once that project has appropriately dealt with the requirements in AAS 31, it is anticipated that AAS 31 will be withdrawn. The Board is aiming to finalise its short-term review of AAS 31 to coincide with the issue of the Standard to arise from this Exposure Draft.

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(b) in conflict with AASB 101 *Presentation of Financial Statements*, paragraphs 24 and 29 prescribe an operating statement that includes all recognised income and expenses on its face and do not require a separate statement of changes in equity.

Where another Australian Accounting Standard:

(a) ~~explicitly excludes from its scope not-for-profit entities, such as AASB 114 *Segment Reporting*; or~~

(b) ~~explicitly excludes from its scope not-for-profit public sector entities, such as AASB 124 *Related Party Disclosures*; or~~

(c) ~~only applies to certain entities that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act, such as AASB 133 *Earnings per Share*;~~

~~the GGS financial report is not required to adopt the requirements of those Standards.~~

- 12 Paragraph Aus13.4 of AASB 101 does not apply to the GGS financial report. Accordingly, the GGS financial report is not required to disclose that the financial report is a general purpose financial report or a special purpose financial report.
- 13 **In satisfying paragraph 10 of this Standard, where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied.**
- 14 Examples of particular optional treatments in Australian Accounting Standards that paragraph 13 of this Standard has the effect of limiting, include:
- (a) borrowing costs that may be expensed or capitalised under AASB 123 *Borrowing Costs*. Because expensing all borrowing costs is consistent with the ABS GFS Manual's principles and rules, paragraph 13 of this Standard has the effect of requiring all borrowing costs to be expensed;
- (b) assets within the scopes of AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* that may be measured at cost or at fair

Staff note: The IASB has removed the expense option from IAS 23 <i>Borrowing Costs</i> . Whether para 14(a) of the draft ED should be deleted or amended will depend on the outcome of the AASB's deliberations on agenda item 5.

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value. ~~For the purpose of GGS financial reports, t~~ Those assets that are assets under the ABS GFS Manual that are within the scope of those Standards are required to be measured at fair value because the ABS GFS Manual requires those assets to be measured at market value.

However, the fair value options allowed under AASB 116, AASB 138 and AASB 140 are not amended by paragraph 13 of this Standard. If the fair value of an asset cannot be reliably measured in accordance with an Australian Accounting Standard that allows a choice between fair value and cost, then that asset is to be measured at cost. Where historical cost is adopted because fair value cannot be measured reliably, historical cost is not characterised as fair value. Also, for example, the requirement for the fair value of an intangible asset to be determined by reference to an active market under AASB 138 continues to apply;

- (c) certain financial instruments that may be measured at fair value or on another basis under AASB 139 *Financial Instruments: Recognition and Measurement*. ~~For the purpose of GGS financial reports, w~~ Where financial instruments meet the criteria for measurement at fair value under AASB 139, they are required to be measured at fair value where the ABS GFS Manual requires market value as the measurement basis.

Although fair value measurement in the balance sheet may be mandated through paragraph 13 of this Standard, the accounting for changes in fair value in the operating statement is not mandated by paragraph 13. Rather, changes in fair value are classified in the operating statement in accordance with AASB 139. AASB 139 anticipates certain financial assets being classified as either:

- (i) 'fair value through profit or loss', with changes in fair value included in operating result; or
- (ii) 'available-for-sale', with changes in fair value included in the other movements in equity section of the operating statement ~~(as illustrated in Illustrative Example A)~~; and
- (d) actuarial gains and losses relating to defined benefit superannuation plans that may be recognised in full through operating result, recognised in full directly in accumulated results, or partially deferred using a 'corridor approach' under AASB 119 *Employee Benefits*. For the purpose of this Standard, the option to partially defer using a 'corridor approach' is not

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available because it is not acceptable under the ABS GFS Manual. The other two options are available.

However, the effect of paragraph 29 of this Standard is that the full amount is recognised on the face of the ~~GGS~~ operating statement and included in either:

- (i) the calculation of operating result; or
 - (ii) the other movements in equity section of the operating statement (as illustrated in Illustrative Example A);
- (e) investments in jointly controlled entities that may be accounted for using the equity method of accounting or proportionate consolidation under AASB 131 *Interests in Joint Ventures* (as amended by AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*). Because proportionate consolidation is inconsistent with the ABS GFS Manual's principles and rules, paragraph 9 of this Standard has the effect of not allowing proportionate consolidation to be adopted. Although the ABS GFS Manual adopts market prices where they are available, where market prices are not available, investments in jointly controlled entities are measured using the equity method of accounting;
- (f) cash flows from operating activities that may be reported using either the direct method or the indirect method in the cash flow statement under AASB 107 *Cash Flow Statements* (as amended by AASB 2007-4). Because the direct method is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 9 of this Standard has the effect of requiring the direct method to be adopted; and

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (as amended by AASB 2007-4) specifies requirements for the accounting for government grants by for-profit entities. It specifies that non-monetary government grants may be recorded at nominal amount or fair value. The latter treatment is consistent with the ABS GFS Manual. AASB 120 also requires government grants related to assets to be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Neither of these options is consistent with the ABS GFS Manual, which recognises government grants related to assets as revenue. AASB 1004 *Contributions* specifies requirements for the accounting for government grants by governments (and other not-for-profit entities).

Para 14(e)-(f): added as a consequence of the Board's decision to include additional options into AIFRS.

The tail of para 14 is added to acknowledge that options would otherwise be available in AASB 120 for PNFC/PFC sectors, except that this Standard requires PNFC/PFC sector policies to align with WoG policies for the purposes of sector disclosures.

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In accordance with paragraphs 43(b)(i) and 44 of this Standard, information about the PNFC sector and PFC sector is prepared in a manner consistent with the accounting policies adopted in the whole of government financial report. Therefore, the options in AASB 120 are not adopted and instead the principles in AASB 1004 are applied. Accordingly, reconciling differences may not arise in relation to government grants in a whole of government, PNFC sector or PFC sector context.

- 15 Certain Australian Accounting Standards do not specify particular rules for an item or an issue within their scope. An example is AASB 101, which specifies only the minimum line items to be presented on the face of the balance sheet and requires additional line items, headings and subtotals to be presented on the face when such presentation is relevant to an understanding of the entity's financial position. The ABS GFS Manual specifies principles and rules for the presentation of a GGS-balance sheet prepared for GFS purposes. The ABS GFS Manual principles and rules are required to be applied in the presentation of the balance sheet to the extent that they do not conflict with AASB 101.
- 16 **Subject to paragraphs 42(a)(i) and 51A(b)(ii)A of this Standard, where key fiscal aggregates are included in the financial report either because they are required by this Standard or a government elects to provide additional information, they shall be measured in a manner that is consistent with amounts recognised on the face of the financial statements.**
- 17 This Standard requires certain information that is relevant to an assessment of the macro-economic impact of:
- (a) a government's GGS to be included on the face of the financial statements (see paragraphs 27, 32 and 38); and
- (b) a government's sectors to be included in the sector financial statements contained in the sector information note (see paragraph 51A(b)(i)).

This Standard requires the information to be determined in a manner consistent with other amounts recognised on the face of the financial statements. Corresponding amounts, determined in accordance with the ABS GFS Manual, are required to be disclosed in the notes where they differ from the amounts presented on the face of the financial statements (see paragraphs 42(a)(i) and 51A(b)(ii)A).

- 18 A government may elect to disclose key fiscal aggregates or other information in accordance with the ABS GFS Manual that are

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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. Examples of additional disclosures that may be made voluntarily include the classification of *other economic flows* consistent with Table 7.4 of the ABS GFS Manual and additional key fiscal aggregates such as change in *net worth* due to revaluations and change in net worth due to other changes in the volume of assets. Consistent with the requirements in paragraph 16 of this Standard, additional key fiscal aggregates are measured in a manner consistent with recognised amounts. Consistent with paragraphs 42(a) and 51A(b)(ii) of this Standard, where they differ, corresponding key fiscal aggregates measured in accordance with the ABS GFS Manual are disclosed, together with a reconciliation of the two measures of each key fiscal aggregate. 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.

Presentation and Scope of GGS Financial Statements

- 19 ~~A government shall present GGS financial statements in which it consolidates only entities that are within the GGS, using the consolidation procedures specified in AASB 127.~~
- 20 ~~GGS equity investments in government controlled entities that are within the PNFC sector and PFC sector shall be recognised as assets. They shall be measured at:~~
- ~~(a) fair value, where fair value is reliably measurable. Any change in the fair value of the investment shall be accounted for in a manner consistent with AASB 139; or~~
 - ~~(b) where fair value is not reliably measurable, the government's proportional share of the net asset value of the PNFC sector and PFC sector entities. The government's proportional share of the net asset value shall be the net assets that are consolidated into the government's whole of government financial report before elimination of intersector balances. Any change in the carrying amount of the investment from period to period shall be accounted for as if the change in carrying amount is a change in fair value and accounted for in a manner consistent with the requirements in AASB 139.~~
- 21 Income from GGS investments in controlled entities in the PNFC sector and PFC sector is accounted for in accordance with AASB 118

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~~Revenue and AASB 139. Dividends are classified as revenue consistent with AASB 118. A change in the carrying amount of the investment over the reporting period that does not arise from the government acquiring or disposing of an interest or undistributed dividends is classified as a gain or loss. The gain or loss is included in the operating result or other movements in equity, depending on whether the investment is classified in the same manner as 'fair value through profit or loss' investments or in the same manner as 'available for sale' investments consistent with the principles in AASB 139.~~

- 22 ~~For the purposes of determining the net assets of entities within the PNFC sector and PFC sector recognised and measured in accordance with paragraph 20(b):~~
- ~~(a) each PNFC sector and PFC sector entity's accounting policies are adjusted to align with the accounting policies adopted in the whole of government financial report for the same period;~~
 - ~~(b) intersector balances between the GGS and entities within the PNFC sector and PFC sector are not eliminated; and~~
 - ~~(c) individual amounts for each PNFC sector and PFC sector entity are aggregated and presented on a net basis.~~
- 23 ~~Investments in jointly controlled entities and associates shall be measured using the equity method of accounting.~~

Components of a GGS Financial Report

- 24 ~~The GGS financial report shall comprise:~~
- ~~(a) a balance sheet;~~
 - ~~(b) an operating statement;~~
 - ~~(c) a cash flow statement; and~~
 - ~~(d) notes, comprising a summary of significant accounting policies and other explanatory notes.~~

~~A separate statement of changes in equity is not required.~~

- 25 ~~As specified in paragraph 29 of this Standard, the GGS operating statement prescribed in this Standard incorporates into a single statement the information that would otherwise be required by AASB 101 to be presented in two separate statements – the income~~

Staff note: para 25, last two sentences: to prohibit movements in reserves from being presented on the face of the operating statement would be inconsistent with AASB 1049.34, which contemplates movements in reserves being disclosed on the face of the operating statement.

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statement and the statement of changes in equity. Amounts of transactions with owners as owners and movements in reserves are disclosed in the notes or a separate statement rather than on the face of the operating statement. Information about movements in reserves are disclosed in the notes, on the face of the operating statement or in a separate statement.

Balance Sheet

- 26 **The face of the balance sheet and notes thereto shall be presented in a ~~manner consistent~~ accordance with the requirements in AASB 101.**
- 27 **Net worth shall be presented on the face of the balance sheet, measured in a manner consistent with other amounts recognised on the face of the balance sheet.**
- 28 An example of an acceptable balance sheet format that is in accordance with this Standard is provided in Illustrative Example A.²

Operating Statement

- 29 **The operating statement shall include all items of income and expense recognised in a period. The face of the operating statement and notes thereto shall be presented in a ~~manner consistent~~ accordance a manner consistent with the requirements for the income statement and statement of changes in equity in AASB 101.**
- 30 **All amounts relating to an item included in the determination of comprehensive result (total change in net worth before transactions with owners as owners) shall be classified as *transactions* or other economic flows in a manner that is consistent with the principles in the ABS GFS Manual.**
- 31 The following examples illustrate how the approach in paragraph 30 applies to particular items:
- (a) ~~dividends from PNFC sector and PFC sector entities are classified as transactions to the extent that the ABS GFS Manual accounts for them as dividends and otherwise as other economic flows;~~

Staff note: we have reverted to “in a manner consistent with” here because “in accordance with” is inappropriate given that AASB 101 does not prescribe a comprehensive income statement.

² As noted in the Preface, Illustrative Example A will be issued for public comment once it is finalised. This Exposure Draft makes reference to the yet to be finalised illustration in paragraphs 28, 31, 35, 39, 43, 46 and 51.

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- (b) net profit/(loss) from associates potentially comprises two components under GFS classification – dividends from associates and the remainder. Accordingly, dividends are classified as transactions and the remainder is classified as other economic flows. Such dividends are not included in the line item that includes dividends from entities other than associates;
- (c) changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed interest or dividends, are classified as other economic flows, irrespective of whether the instruments are classified as ‘fair value through profit or loss’ or ‘available-for-sale’ ~~and whether or not they are investments in PNFC sector and PFC sector entities;~~
- (d) actuarial gains and losses relating to defined benefit superannuation plans are classified as other economic flows, irrespective of whether they are included in the calculation of operating result or the other movements in equity section of the operating statement;
- (e) changes in the fair value of investment property potentially comprises two components under GFS classification – consumption of capital and price changes. Accordingly, the consumption of capital is classified as transactions and the price changes are classified as other economic flows. Although the consumption of capital may be considered to be similar in nature to depreciation, it is not included in the line item that includes depreciation;
- (f) depreciation of defence weapons platforms is classified as a transaction, by analogy with the GFS classification of depreciation of other plant and equipment;
- (g) doubtful debts are classified as other economic flows, by analogy with the GFS classification of revaluation of other assets; and
- (h) bad debts are classified as transactions to the extent they are mutually agreed, otherwise they are classified as other economic flows.

In some cases the approach in paragraph 30 facilitates the reduction of differences between GAAP and GFS, particularly at the key fiscal aggregate level. Illustrative Example A illustrates the classification between transactions and other economic flows for some of the items listed above and other possible circumstances where items recognised in the operating statement do not have GFS equivalents.

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- 32 **The following shall be presented on the face of the operating statement:**
- (a) **net operating balance;**
 - (b) **total change in net worth before transactions with owners as owners; and**
 - (c) **net lending/(borrowing) and its derivation from net operating balance;**
- measured in a manner consistent with other amounts recognised on the face of the operating statement.**
- 33 Although AASB 101 requires certain income and expenses to be included in the statement of changes in equity rather than the income statement, this Standard requires all recognised income and expenses to be included in a single statement that presents the comprehensive result (total change in net worth before transactions with owners as owners). At least the same level of information required in the income statement and the statement of changes in equity relating to income and expenses recognised for the period is required to be presented on the face of the operating statement or in the notes, consistent with the requirements in AASB 101. For example, ~~in accordance~~ consistent with paragraph 96(d) of AASB 101, an entity presents on the face of the operating statement, for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 34 As noted in paragraph 14(d), actuarial gains and losses relating to defined benefit superannuation plans may be recognised in full either through operating result or directly in other non-owner movements in equity. If the latter option is adopted, ~~consistent in accordance~~ with paragraph 93B of AASB 119, the opening and closing balances of accumulated results and the changes during the period referred to in paragraph 97(b) of AASB 101 are not included on the face of the operating statement.
- 35 An example of an acceptable operating statement format that is in accordance with this Standard is provided in Illustrative Example A.

Cash Flow Statement

- 36 **The face of the cash flow statement and notes thereto shall be presented in a ~~manner consistent~~ accordance with the requirements in AASB 107 *Cash Flow Statements*.**

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- 37 Cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes shall be presented separately, determined in a manner consistent with the ABS GFS Manual, on the face of the cash flow statement.
- 38 The face of the cash flow statement shall also include *cash surplus/(deficit)* and its derivation, measured in a manner consistent with other amounts recognised on the face of the cash flow statement, without the deduction of the value of assets acquired under finance leases and similar arrangements.
- 39 An example of an acceptable cash flow statement format that is in accordance with this Standard is provided in Illustrative Example A.

Notes

Summary of Significant Accounting Policies

- 40 In addition to the disclosures required by other Australian Accounting Standards in the note containing the summary of significant accounting policies, the following disclosures shall be made prominently in that note:
- (a) a statement that the GGS financial report is prepared in accordance with this Standard; and
 - ~~(b) a statement of the purpose for which the GGS financial report is prepared;~~
 - ~~(c) a description of the GGS government; and~~
 - ~~(d) a description of how the GGS financial report differs from the whole of government financial report in terms of the treatment of the government's investments in PNFC sector and PFC sector entities and the presentation of the operating statement;~~
 - ~~(e) where the GGS financial report is presented separately from the whole of government financial report, a cross-reference to the whole of government financial report that has been prepared for the same period and made available at the same time as the GGS financial report; and~~
 - (f) a reference to the ABS GFS Manual as being the basis for GFS information that is included in the financial report.

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- 41 ~~An example of the information to be included in the summary of significant accounting policies in accordance with paragraph 40 is provided in Illustrative Example B.~~

Other Explanatory Notes

- 42 **In addition to the disclosures required to be made in other explanatory notes in accordance with other Australian Accounting Standards, the following disclosures shall be made:**

- (a) **where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates provided pursuant to paragraph 16 of this Standard:**
- (i) **the key fiscal aggregates measured in accordance with the ABS GFS Manual; and**
 - (ii) **a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences.**

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

- (b) **where the key fiscal aggregates measured in accordance with the ABS GFS Manual do not differ from the key fiscal aggregates provided pursuant to paragraph 16, a statement of that fact;**
- (c) ~~a list of entities within the GGS, and any changes to that list that have occurred since the previous reporting date and the reasons for those changes;~~
- (d) ~~a list of significant investments in PNFC sector and PFC sector entities, including:~~
- (i) ~~the name;~~
 - (ii) ~~proportion of ownership interest and, if different, proportion of voting power held; and~~
 - (iii) ~~the measurement basis adopted for the amount recognised in accordance with paragraph 20;~~
- (e) ~~the aggregate amount of dividends and distributions from PNFC sector and PFC sector entities to the GGS and the aggregate amount of the surplus or deficit of the PNFC sector and PFC sector entities for the reporting period;~~

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- (f) **information that corresponds to the information required to be disclosed in the notes by AASB 101, irrespective of the fact that, in relation to the operating statement, AASB 101 prescribes the preparation of two separate statements – an income statement and a statement of changes in equity; and**
- (g) **explanations of key technical terms used in the financial report.**

43 In relation to the requirements in paragraph 42(a), differences in the key fiscal aggregates determined under the ABS GFS Manual and pursuant to paragraph 16 of this Standard arise from differences in definition, recognition, ~~and~~ measurement and certain classification requirements. Each difference gives rise to the need for disclosure of a reconciliation and an explanation of the difference. Examples of such differences include:

- (a) doubtful debts – although the ABS GFS Manual recognises bad debts written off, it does not recognise write-downs of accounts receivable in relation to doubtful debts;
- (b) provisions recognised as liabilities – in the absence of a counterparty recognising a related financial asset, the ABS GFS Manual does not recognise a liability arising from a constructive obligation;
- (c) inventories – under the ABS GFS Manual, inventories are measured at current prices, whereas under AASB 102 *Inventories*, depending on their nature, inventories are measured at the lower of cost and net realisable value or at the lower of cost and current replacement cost; ~~and~~
- (d) investments in ~~jointly controlled entities and~~ associates – under the ABS GFS Manual those assets are measured at current prices where current prices exist whereas under AASB 127 the equity method of accounting applies ~~(see paragraph 23 of this Standard);~~
- (e) minority interest in controlled entities – under the ABS GFS Manual minority interest is classified as a liability and measured at current prices whereas under AASB 127 minority interest is classified as equity and is not remeasured; and
- (f) outgoing dividends – under the ABS GFS Manual, outgoing dividends are classified as an expense whereas under AASB 101 a dividend is treated as a distribution to owners.

Staff note: para 43(d) reference to jointly controlled entities removed to keep this para simple and in light of para 14(e). Also, government grants not referred to here, in light of the tail to para 14.

Staff note: para 43(c) may need to be amended depending on the outcome of the AASB's deliberations on ED 154 *Proposed Amendments to AASB 102 – Inventories Held for Distribution by Not-for-Profit Entities* (see agenda item 10). If the proposals in that ED are adopted, the para could be amended to read "... inventories are measured at the lower of cost and net realisable value except inventories held for distribution, which are measured at cost, adjusted when applicable for any loss of service potential."

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Illustrative Example A illustrates some of these and other possible circumstances where differences arise and the manner in which they are reflected in reconciliation notes.

43A. For the purpose of paragraph 42(a)(i), the ABS GFS Manual key fiscal aggregate that corresponds to the requirement in paragraph 32(b) to present 'total change in net worth before transactions with owners as owners' is 'total change in net worth' (after transactions with owners as owners). The reconciliation required to be disclosed by paragraph 42(a)(ii) in relation to total change in net worth is therefore from 'total change in net worth before transactions with owners as owners' as presented in accordance with paragraph 32(b) to 'total change in net worth' measured in accordance with the ABS GFS Manual.

44 Some differences between GAAP and GFS requirements relate to differences in classification or differences in elimination on consolidation requirements that. They do not cause a difference in measurements of key fiscal aggregates and therefore do not need to be included in the reconciliation notes. However, they do give rise to the need for explanations of the differences to be disclosed in the financial report. Examples of such differences include:

- (a) AASB 132 *Financial Instruments: Presentation* classifies certain prepaid expenses as a non-financial asset that the ABS GFS Manual classifies as a financial asset;
- (b) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* may classify an amount within provisions that the ABS GFS Manual classifies as accounts payable;
- (c) paragraph 31(e) of this Standard notes that consumption of capital of investment property is classified separately from depreciation whereas the ABS GFS Manual classifies it as depreciation; ~~and~~
- (d) AASB 107 classifies cash used to purchase defence weapons platforms that are capitalised as cash flows from investing activities that the ABS GFS Manual classifies as cash flows from operating activities; ~~and~~
- (e) consolidation eliminations – under the ABS GFS Manual, certain transactions between the GGS and entities within the PNFC sector and PFC sector are not eliminated on consolidation whereas under AASB 127 intragroup transactions that are not in substance transactions with external parties are eliminated in full. This has the effect of 'grossing up' both revenue and

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expense by equal amounts and though the key fiscal aggregates remain the same, the differences in revenue and expense should be noted. For example, a GGS may compensate a PNFC entity for a community service obligation, imposed by the GGS, that requires the PNFC sector entity to provide free services to a cohort of private individuals. The compensation provided by the GGS to the PNFC sector entity is not eliminated under the ABS GFS Manual (instead it is 'rerouted' through the household sector of the economy and therefore treated as a payment from the GGS to the household sector, and a payment from the household sector to the PNFC entity).

45 ~~The GGS financial report is not subject to the disclosures required in separate financial statements by paragraphs 40, Aus40.1, 42 and Aus42.1 of AASB 127 relating to investments in subsidiaries, jointly controlled entities and associates. The requirements in those paragraphs are either addressed elsewhere in this Standard or are not significant for GGS financial reporting.~~

45A. In relation to the requirement in paragraph 42(f), in the absence of a separate statement of changes in equity, information about transactions with owners as owners and movements in reserves are disclosed in the notes or in a separate statement. Information about movements in reserves are disclosed in the notes, the operating statement or a separate statement.

46 Key technical terms include:

- (a) transactions;
- (b) other economic flows;
- (c) net operating balance;
- (d) net lending/(borrowing);
- (e) financial assets;
- (f) non-financial assets;
- (g) net worth;
- (h) cash surplus/(deficit);
- (i) operating result;

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- (j) comprehensive result (total change in net worth before transactions with owners as owners);
- (k) total change in net worth; and
- (l) net debt.

An example of the disclosures required by paragraph 42(g) is provided in Illustrative Example A.

- 47 Paragraph 103 of AASB 101 requires additional information to be provided in notes that is not presented on the face of the financial statements but is relevant to an understanding of them. Consistent with this, the components of aggregate numbers presented on the face of the ~~GGS~~ financial statements, including key fiscal aggregates, are disclosed in the notes where relevant.

Disaggregated Functional Information

- 48 In respect of each broad function of the ~~GGS of a government~~ identified in Table 2.6 “Government Purpose Classification: Major Groups” of the ABS GFS Manual, the ~~GGS~~ financial report shall disclose by way of note:**

- (a) a description of that function;**
- (b) the carrying amount of assets recognised in the balance sheet that are reliably attributable to that function; and**
- (c) expenses, excluding losses, included in operating result for the reporting period that are reliably attributable to that function.**

- 49 The information provided by way of note in accordance with paragraph 48 shall be aggregated.**

- 50 Paragraph 48 requires disclosure of information about the recognised assets and expenses (excluding losses) included in operating result of the ~~GGS government~~ that are reliably attributable to the broad functions of the ~~government~~ ~~GGS~~ determined to at least the ABS GFS Manual two-digit level of classification shown in Table 2.6. Disclosure of this information assists users in identifying the resources committed to particular functions of the ~~GGS government~~ 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

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of financial or non-financial performance indicators reported by the ~~GG~~government.

- 51 AASB 114 *Segment Reporting (AASB 8 Operating Segments)*³ does not apply to ~~GG~~whole of government financial reports. The bases used in the ABS GFS Manual for identifying functions of a ~~GG~~government do not necessarily accord with the criteria for identifying segments contained in AASB 114 (~~AASB 8~~). However, preparers of financial reports may find the guidance contained in AASB 114 (~~AASB 8~~) is useful in identifying the expenses (excluding losses) included in operating result and assets that are reliably attributable to each function of the ~~GG~~government. An example of the disclosures required by paragraph 48(b) and (c) in respect of each function of the ~~GG~~government is provided in Illustrative Example A.

Sector Information

51A. In respect of the GGS, PNFC sector and PFC sector as defined in the ABS GFS Manual, the financial report shall disclose by way of note:

(a) a description of each sector;

(b) for each sector:

(i) a balance sheet, operating statement and cash flow statement that are consistent with the government's financial statements prepared in accordance with this Standard;

(ii) where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates determined in a manner consistent with paragraph 16 of this Standard:

A the key fiscal aggregates measured in accordance with the ABS GFS Manual; and

B a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences.

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

³ AASB 8 (February 2007) is operative on or after 1 January 2009, with early adoption allowed. When applicable, AASB 8 supersedes AASB 114.

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(iii) where the key fiscal aggregates measured in accordance with the ABS GFS Manual do not differ from the key fiscal aggregates determined in a manner consistent with paragraph 16, a statement of that fact; and

(c) a reconciliation between the information disclosed for the sectors and the corresponding information in the government's financial statements.

51B. Sector information prepared in accordance with paragraph 51A(b) is determined before elimination of intersector balances. Accordingly, for example, GGS investments in PNFC sector and PFC sector entities are disclosed and measured at an amount consistent with the amount of the PNFC sector and PFC sector entities' net assets consolidated on a line-by-line basis into the whole of government financial report.

51C. In relation to the requirements in paragraph 51A(b)(ii), differences in the key fiscal aggregates determined under the ABS GFS Manual and consistent with paragraph 16 of this Standard arise from differences in definition, recognition, measurement and certain classification requirements. Each difference gives rise to the need for disclosure of a reconciliation and an explanation of the difference. Examples of such differences for the PNFC sector and the PFC sector include those identified in paragraph 43 of this Standard, as well as:

- (a) market value of ownership interest in PNFC sector and PFC sector entities – under the ABS GFS Manual, the market value of ownership interest in PNFC sector and PFC sector entities is deducted in the determination of net worth of those sectors. Accordingly, negative GFS net worth arises if the market value exceeds recognised net assets. Under AASB 127, the market value of ownership interest is not recognised;
- (b) minority interest in PNFC sector and PFC sector entities – under the ABS GFS Manual, minority interest is classified as a liability and remeasured whereas under AASB 127 minority interest is classified as equity and is not remeasured;
- (c) outgoing dividends of PNFC sector and PFC sector entities – under the ABS GFS Manual, a PNFC sector and PFC sector treats an outgoing dividend as an expense, whereas under AASB 101 a dividend is treated as a distribution to owners; and
- (d) deferred tax assets and deferred tax liabilities of PNFC sector and PFC sector entities – in the absence of a counter-party recognising a related liability or asset, the ABS GFS Manual

Staff note: para 51C(b)&(c) can be deleted, to avoid repetition with para 43.

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does not recognise deferred tax assets and deferred tax liabilities that are recognised by PNFC sector and PFC sector entities in accordance with AASB 112 *Income Taxes*.

- 51D. For the purpose of paragraph 51A(b)(ii)A, the ABS GFS Manual key fiscal aggregate that corresponds to the requirement in paragraph 51A(b)(i) to present 'total change in net worth before transactions with owners as owners' is 'total change in net worth' (after transactions with owners as owners). The reconciliation required to be disclosed by paragraph 51A(b)(ii)B in relation to total change in net worth is therefore from 'total change in net worth before transactions with owners as owners' as presented in accordance with paragraph 51A(b)(i) to 'total change in net worth' measured in accordance with the ABS GFS Manual.
- 51E. A government may choose to disclose sectors in addition to the GGS, PNFC sector and PFC sector. For example, a government may disclose information about the total non-financial public sector, comprising the GGS and PNFC sector. Where that is the case, the additional sectors are disclosed on a comparable basis to the information disclosed for the GGS, PNFC sector and PFC sector.
- 51F. The sector financial statements could be presented in a single schedule that includes an adjustments column to facilitate reconciliation to the government financial statements. Alternatively, the sector financial statements may be presented in columns, with or without an adjustments column, on the face of the government financial statements.

Budgetary Information

- 52** ~~Where whole of government budgeted financial statements of the government are presented to parliament, The GGS the financial report shall disclose for the period of the financial report:~~
- (a)** ~~the original budgeted financial statements for the GGS, presented on a basis that is consistent with the basis prescribed for the GGS whole of government financial statements by this Standard; and~~
 - (b)** ~~explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding original GGS-budget amounts.~~
- 53** ~~Comparative budgetary information in respect of the previous period need not be disclosed.~~

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- 54 The original budget is the first budget presented to parliament in respect of the reporting period. Amendments made to the budget by the executive are not reflected in the budgetary information that is required to be disclosed under paragraph 52.
- 55 Any revised budget that is presented to parliament during the reporting period may be disclosed in addition to the original budget.
- 56 For the purpose of this Standard, governments are required to report financial information about their original ~~GGS~~ budgets for the reporting period that are presented to parliament. This facilitates users of financial reports (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of a government's accountability ~~for its GGS~~. Budget information is disclosed on the same basis, which includes in the same format, for the same scope and with the same content, as the accounting basis to facilitate a comparison of actuals against the budget.
- 57 The face of the financial statements includes information about the ~~GGS government~~ determined in accordance with this Standard, being that required by other Australian Accounting Standards, as modified by this Standard. To the extent the first budget presented to parliament is not consistent with the information in the financial statements, the budget presented to parliament is restated for budget disclosure purposes to align with the accounting basis specified in this Standard. As the budget basis to be disclosed is consistent with the ~~GGS~~ accounting basis, budget information at the government level may be presented on the face of the financial statements.
- 58 The explanations of major variances required to be disclosed by paragraph 52(b) are those relevant to an assessment of the discharge of accountability and to an analysis of performance of government ~~functions~~. They include high-level explanations of the causes of major variances rather than merely the nature of the variances.

Transitional Requirements

- 59 ~~In the first GGS financial report prepared in accordance with this Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards shall be applied with the exception of the requirements relating to the explanation of transition to Australian equivalents to IFRSs and reconciliation from previous GAAP. For the purpose of this Standard:~~

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~~(a) Australian equivalents to IFRSs referred to in AASB 1 are those Australian Accounting Standards incorporated by cross-reference into this Standard as amended by this Standard; and~~

~~(b) the date of transition of the GFS is the date of transition used in the whole of government financial report.~~

- 60 The optional relief provided in AASB 1 is not fully available due to the effect of paragraph 13 of this Standard. For example, AASB 1 provides an optional exemption relating to fair value or revaluation as deemed cost of property, plant and equipment, intangible assets and investment property. To the extent the ABS GFS Manual requires fair value, this option in AASB 1 is not available.
- 61 The transitional approach in this Standard also results in comparative period information being presented in the first financial report.
- 62 Paragraph 59 provides relief from the requirements in paragraphs 38 to 46 of AASB 1 relating to explaining transition to Australian equivalents to IFRSs and disclosure of a reconciliation from previous GAAP to Australian equivalents to IFRSs in its first report prepared in accordance with this Standard.
- 62A. The requirements relating to changes in accounting policies in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* apply to the first financial report prepared in accordance with this Standard.

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**APPENDIX A
DEFINED TERMS**

This appendix is an integral part of AASB 10XX.

ABS GFS Manual	The Australian Bureau of Statistics (ABS) publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods</i> as updated from time to time.
cash surplus/(deficit)	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less value of assets acquired under finance leases and similar arrangements. Defined in the ABS GFS Manual (paragraph 2.124).
General Government Sector (GGS)	Institutional sector comprising all <i>government units</i> and <i>non-profit institutions</i> controlled and mainly financed by government. Defined in the ABS GFS Manual (Glossary, p. 256).
government	The Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.
government units	Unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other <i>institutional units</i> within a given area and which: (i) provide goods and services to the community and/or individuals free of charge or at prices that are not economically significant; and (ii) redistribute income and wealth by means of taxes and other compulsory transfers. Defined in the ABS GFS Manual (Glossary, p. 257).
institutional unit	An economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities. Defined in the ABS GFS Manual (Glossary, p. 257).

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key fiscal aggregates	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's <u>GGS and its sectors</u> on the economy. They are: opening net worth, net operating balance (which equals change in net worth due to transactions), 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).
net lending/(borrowing)	The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Based on the definition in the ABS GFS Manual (Glossary, p. 259).
net operating balance	This is calculated as income from transactions minus expenses from transactions. It is equivalent to the change in net worth arising from transactions. Based on the definition in the ABS GFS Manual (Glossary, p. 259).
net worth	Assets less liabilities and shares/contributed capital. For the GGS, net worth is assets less liabilities since shares and contributed capital is zero. It is an economic measure of wealth and reflects the contribution of governments to the wealth of Australia. Defined in the ABS GFS Manual (Glossary, p. 259).
non-profit institution	A legal or social entity that is created for the purpose of producing or distributing goods and services but is not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it. Defined in the ABS GFS Manual (Glossary, p. 260).

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other economic flows	Changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets). Defined in the ABS GFS Manual (Glossary, p. 260).
Public Financial Corporations (PFC) sector	Institutional sector comprising resident government controlled corporations and <i>quasi-corporations</i> mainly engaged in financial intermediation or provision of auxiliary financial services. Based on the definition in the ABS GFS Manual (Glossary, p. 261).
Public Non-Financial Corporations (PNFC) sector	Institutional sector comprising resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services. Based on the definition in the ABS GFS Manual (Glossary, p. 261).
quasi-corporation	An unincorporated enterprise that functions as if it were a corporation, has the same relationship with its owner as a corporation, and keeps a separate set of accounts. Defined in the ABS GFS Manual (Glossary, p. 261).
transactions	Interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transactions. Defined in the ABS GFS Manual (Glossary, p. 263).
whole of government financial report	A financial report prepared by a government that is prepared in accordance with other Australian Accounting Standards, including AASB 127 <i>Consolidated and Separate Financial Statements</i> , and thereby separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the government on a line-by-line basis.

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**BASIS FOR CONCLUSIONS ON ED XXXAASB
1049**

***FINANCIAL REPORTING OF GENERAL
GOVERNMENT SECTORS BY GOVERNMENTS***

This Basis for Conclusions accompanies, but is not part of, AASB 1049.

Staff note:

Many of the proposals made in the context of whole of government GAAP/GFS harmonised financial reporting in this Exposure Draft coincide with the decisions made in the context of separate GGS financial reporting. Accordingly, this draft of a Basis for Conclusions leverages off the Basis for Conclusions accompanying AASB 1049. Rather than repeat the Board's rationale for many of the decisions, this Basis for Conclusions, particularly paragraph BC7, cross-references to the AASB 1049 Basis for Conclusions. Because the Board did not review in detail the March 2007 draft Basis for Conclusions, the following has not been marked-up or shaded grey, even though it differs from the March 2007 version.

Introduction

BC1 The Preface to this Exposure Draft outlines the broad strategic direction issued to the Australian Accounting Standards Board (AASB) by the Financial Reporting Council (FRC) that gave rise to ED XXX *Financial Reporting by Governments*. This Basis for Conclusions summarises the Board's considerations in developing the Exposure Draft. It focuses on the issues that the Board considers to be of greatest significance.

Significant Issues

Specification of Requirements for Whole of Government Financial Reporting

BC2 AAS 31 *Financial Reporting by Governments* was first issued in 1996 and specified requirements for general purpose financial reporting by governments. Since then, AAS 31 has only been subject to a number of limited reviews, the most recent in June 1998.⁴ It is now considered

⁴ Although AAS 31A *Amendments to the Transitional Provisions in AAS 31* was issued in December 1999 and AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29 & AAS 31* was issued in October 2002, they only had the effect of extending the transitional provisions for land under roads.

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timely to undertake a comprehensive review of the requirements in AAS 31. This review is being progressed through two concurrent and interrelated AASB projects:

- (a) the GAAP/GFS Harmonisation project (part 2 of phase 1); and
- (b) the Short-term Review of the Requirements in AASs 27, 29 & 31.

If adopted, the proposals in the Exposure Drafts arising from these two projects will supersede AAS 31.

- BC3 This Exposure Draft proposes that governments be required to prepare general purpose financial reports that adopt Australian Accounting Standards, except when otherwise specified (see paragraph 10 of this Exposure Draft). The Exposure Draft being developed under the Short-term Review of the Requirements in AASs 27, 29 & 31, to be issued shortly, will propose retaining or amending the current AAS 31 requirements by amending, where appropriate, the Australian Accounting Standards that this Exposure Draft proposes be adopted by governments. The Basis for Conclusions accompanying that Exposure Draft will contain the Board's rationale for its proposals for the requirements currently in AAS 31. This Basis for Conclusions provides the Board's rationale for adopting GAAP/GFS harmonisation principles for governments.
- BC4 The Board has concluded that adopting the GAAP/GFS harmonisation principles proposed in this Exposure Draft would help ensure that the multiple needs of users for both GAAP and GFS based information prepared under a harmonised framework at a whole of government level (incorporating sector information) are satisfied.

Adoption of AASB 1049 Principles for Whole of Government Financial Reporting

- BC5 AASB 1049 *Financial Reporting of General Government Sectors by Governments* specifies GAAP/GFS harmonisation principles for GGS financial reporting. It includes a requirement that a government not make its GGS financial report available prior to its whole of government financial report being made available. The Board has become aware that no jurisdiction intends to early adopt AASB 1049 because of this requirement combined with concern that the whole of government accounting basis (currently specified in AAS 31) is different from the GGS accounting basis (specified in AASB 1049).

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- BC6 In addressing this concern, the Board concluded that the requirements for GAAP/GFS harmonised whole of government financial reports, incorporating requirements for information about the GGS, the PNFC sector and the PFC sector, should be based on the principles in AASB 1049. This reflects the relationship between the GGS of a government, the other sectors of a government and the whole of government and is a response to an assessment of user needs. Given the relationship between GGS and whole of government, an alternative approach that would result in different accounting bases for GGS financial reporting and whole of government financial reporting has the potential to confuse some users.
- BC7 The Board's Basis for Conclusions that accompanies AASB 1049 provides the Board's rationale for particular decisions in the GGS context that equally apply in a whole of government (and PNFC sector and PFC sector) context. This includes the rationale for requirements relating to:
- (a) the adoption of GAAP principles and accommodation of GFS principles (see paragraphs BC12-BC16 of AASB 1049, although see paragraph BC15 of this Basis for Conclusions);
 - (b) the limitation of GAAP options (see paragraphs BC17-BC19 of AASB 1049);
 - (c) the adoption of ABS GFS (see paragraphs BC20-BC21 of AASB 1049);
 - (d) the presentation of key fiscal aggregates (see paragraphs BC22-BC25 of AASB 1049);
 - (e) the disclosure of disaggregated information on a functional basis (see paragraph BC33-BC35 of AASB 1049); and
 - (f) the disclosure of budgetary information (see paragraphs BC36-BC40 of AASB 1049, although see also paragraphs BC21-BC24 of this Basis for Conclusions).
- BC8 Some of the issues that were addressed in a GGS context do not arise in a government context. These include:
- (a) the preparation of GGS financial reports on a partial consolidation basis (addressed in paragraphs BC2-BC7 of AASB 1049, although see also paragraphs BC11-BC14 of this Basis for Conclusions);

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- (b) the relationship between GGS financial reports and whole of government financial reports (addressed in paragraphs BC8-BC11 of AASB 1049); and
- (c) the need for certain note disclosures (addressed in paragraphs BC30 and BC31 of AASB 1049). Some of the note disclosures required by AASB 1049 are specific to the GGS and therefore their equivalents for the government are not warranted.

BC9 Some issues addressed in a GGS context are not applicable in a government context because of the consolidation elimination process. However, they are applicable in a sector context and therefore affect sector information disclosed in whole of government financial reports. These issues include accounting for GGS investments in PNFC sector and PFC sector entities and investments in jointly controlled entities and associates (addressed in paragraphs BC26-BC29 of AASB 1049). In addition, GGS investments in PNFC sector and PFC sector entities give rise to certain issues in the context of the disclosure of sector information within whole of government financial reports that are not pertinent to GGS financial reporting. These additional issues are addressed in paragraphs BC19 and BC20 of this Basis for Conclusions.

Incorporation of Requirements into AASB 1049

BC10 The Board decided to develop a separate Exposure Draft for the purpose of exposing its proposals for GAAP/GFS harmonisation requirements for whole of government financial reports, incorporating GGS, PNFC sector and PFC sector information, rather than present the proposals integrated with the requirements in AASB 1049. However, the Board intends that the Standard to be developed from this Exposure Draft will be an amended AASB 1049 which specifies, in an integrated way, the GAAP/GFS harmonised requirements for GGS financial reporting and whole of government financial reporting. The Board concluded that a single integrated Standard is justified on the basis that:

- (a) it imposes a greater discipline on the AASB to ensure that the requirements are expressed in the same way for GGS and whole of government, and only differ where intended;
- (b) it more effectively acknowledges the strong relationship between whole of government financial reports and GGS financial reports. An integrated Standard would be consistent with the fact that, under AASB 1049, GGS financial reports are not permitted to be made available prior to the release of whole of government financial reports; and

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- (c) it is more consistent with a topic-based approach to setting Standards.

Consolidation of Controlled Entities

Consolidation of non-resident entities

BC11 Generally, the controlled entities that are not consolidated within the GGS would be consolidated under both GAAP and GFS in whole of government financial reports, and therefore one of the more controversial aspects dealt with in AASB 1049 does not arise in the context of whole of government. However, a different kind of non-consolidation issue conceivably arises. Under GAAP, irrespective of residency, all controlled entities are consolidated. Under GFS, controlled non-residents are not consolidated. For example, an off-shore subsidiary of a PNFC sector entity or PFC sector entity is not consolidated under GFS because it is not part of the Australian economic territory. Instead GFS records the parent PNFC sector or PFC sector entity as having an equity investment in the non-resident subsidiary and deriving dividend income from it. The non-resident subsidiary is an institutional unit in the economic territory of the other economy that would be part of that other economy's private sector.

BC12 The Board concluded that, consistent with GAAP (see paragraph BC7(a)) all controlled entities should be consolidated on a line-by-line basis in whole of government financial reports. If material, the GFS non-consolidation of non-resident subsidiaries would be shown as a reconciling difference. The Board noted that Australian jurisdictions either do not have non-resident subsidiaries or have immaterial non-resident subsidiaries. Given that the issue is not significant in practice, the Board concluded that it is not necessary for the Standard to explicitly refer to the issue.

Consolidation of PNFC sector and PFC sector entities

BC13 The Board noted that under AASB 1049 the GGS must recognise its investment in PNFC sector and PFC sector entities at fair value where it is reliably measurable, and otherwise at the government's proportional share of the net asset value. The Board considered the consolidation implications of GGS investments in PNFC sector and PFC sector entities being measured at fair value in GGS financial reports. The Board noted that if the whole of government financial report were to consolidate at fair value PNFC sector and PFC sector entities for which fair value is reliably measurable this would result in the recognition of, among other things, internally generated goodwill. The Board concluded that it is not appropriate for a government to recognise internally generated goodwill, noting that internally

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generated goodwill is also not recognised under GFS. Accordingly, the Board concluded that PNFC sector and PFC sector entities should be consolidated at their net assets on a line-by-line basis, determined in a manner consistent with the GAAP/GFS harmonisation principles in AASB 1049.

BC14 The Board noted that no PNFC sector and PFC sector entities in any Australian jurisdiction currently have traded shares and therefore the principle in AASB 1049 would be expected to result in the investments being measured at net assets, which is consistent with GFS in these circumstances. Therefore, the question of consolidating PNFC sector and PFC sector entities at fair value is not expected to arise frequently in practice. Accordingly, the Board concluded that it is not necessary to explicitly address the fair value versus net assets issue in the Standard.

Content of Operating Statement

BC15 The Board concluded that a comprehensive income statement, along the lines of that prescribed in AASB 1049 is conducive to facilitating GAAP/GFS harmonisation in a whole of government context. The Board considered the manner in which transactions with owners as owners should be treated and concluded that, because they are different in nature from other amounts recognised on the face of the operating statement, such transactions should be disclosed in the notes or a separate statement. However, consistent with AASB 1049 and paragraph 97(b) and (c) of AASB 101 *Presentation of Financial Statements* and subject to paragraph 97B of AASB 119 *Employee Benefits*, movements in reserves should be disclosed in notes, on the face of the operating statement or in a separate statement.

Disclosure of Sector Information

PNFC sector and PFC sector information as note disclosure in whole of government financial reports

BC16 The Board concluded that financial statements for the PNFC sector and PFC sector (together with financial statements for the GGS) and reconciliations between GFS and GAAP measures of key fiscal aggregates should be disclosed in the whole of government financial report. The Board concluded that such information, together with related proposed information, is sufficient to satisfy user needs in a general purpose financial reporting context and therefore it is not necessary to produce stand-alone PNFC sector and PFC sector financial reports. To facilitate a presentation format that provides sufficient prominence to the various sectors relative to each other and

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the whole of government, the Board concluded that the sector information could be presented in the form of a table comprising all sectors, whole of government and an adjustments column or presented on the face of the government's financial statements.

BC17 The Board considered whether to make the sector information disclosure requirements less onerous by only requiring disclosure of sector financial statements prepared on a GFS basis. The Board noted that this would in some respects broadly align with the 'through the eyes of management' principles in AASB 8 *Operating Segments*. However, the Board concluded that this approach should not be adopted because:

- (a) sectors are different in nature from operating segments;
- (b) such an approach would not be consistent with the approach to GAAP/GFS harmonisation adopted for the GGS in AASB 1049; and
- (c) there would be a potential for user confusion if, for example, GGS financial reports prepared in accordance with AASB 1049 adopt an accounting basis different from that used for the GGS financial information to be presented in the whole of government financial report.

BC18 The Board noted that a government may choose to present information about additional sectors, such as the total non-financial public sector (comprising the GGS and PNFC sector). The Board concluded that it is not necessary to prescribe the disclosure of additional sectors as the GGS, PNFC sector and PFC sector comprise a comprehensive disaggregation of the whole of government. However, where a government elects to disclose information about additional sectors, this should be made on a comparable basis. This ensures that information contained in the financial report is consistent.

GGs investment in PNFC sector and PFC sector entities

BC19 The Board addressed the question of whether the GGS information disclosed in the whole of government financial report should be consistent with the AASB 1049 information or the whole of government consolidated amounts. It therefore considered whether GGS investments in PNFC sector and PFC sector entities should be disclosed, and how they should be measured (fair value or net assets). The Board noted that if a GGS investment in PNFC sector and PFC sector entities were to be measured at fair value in the whole of government financial report's sector note, there would be a disconnect between that amount and the amount of net assets disclosed for the

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PNFC sector and PFC sector and consolidated into the whole of government financial report (see paragraph BC13 above).

BC20 The Board concluded that GGS investments in PNFC sector and PFC sector entities should be included in the sector information disclosures, and be measured at an amount consistent with the amount of net assets disclosed for the PNFC sector and PFC sector and consolidated into the whole of government financial report. It is therefore conceivable that GGS information disclosed as sector information in the whole of government financial report would differ from the GGS information prepared in accordance with AASB 1049. The Board noted that this is unlikely to arise in practice (see paragraph BC14).

Budgetary Information

BC21 The Board noted that Australian Accounting Standards do not prescribe, and this Exposure Draft does not propose prescribing, the preparation of a budget. The Board also noted that typically governments budget on a GGS basis rather than on a whole of government basis.

BC22 Consistent with the principle in AASB 1049 that budgetary information is to be disclosed where a budget is presented to parliament, the Board concluded that governments should not be required to disclose budgetary information in a whole of government financial report unless a whole of government budget is presented to parliament.

BC23 The Board also noted that, as part of the Uniform Presentation Framework, typically Australian jurisdictions publish GGS budget information together with budget information relating to the PNFC sector (and the Non-Financial Public Sector, comprising the GGS and PNFC sector) but not the PFC sector.

BC24 The Board considered whether sector based budgetary information should be required to be disclosed in the whole of government financial report. The Board concluded that because the PNFC sector and PFC sector are not required by Australian Accounting Standards to prepare stand-alone financial reports, a requirement to disclose budget information for the PNFC sector and PFC sector in whole of government financial reports would be onerous and of limited use to users even if that budget information is presented to parliament. The Board also noted that GGS budgetary information is required to be disclosed in GGS financial reports. Accordingly, the Board concluded that sector based budgetary information should not be required to be disclosed in whole of government financial reports.

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Transitional Requirements

BC25 The Board noted that jurisdictions adopted Australian-equivalents-to-IFRSs for their whole of government financial reports for annual reporting periods ending on 30 June 2006 and AASB 1049 requires the date of transition of the GGS to be the date of transition used in the whole of government financial reports. The Board also noted that all jurisdictions intend deferring adopting AASB 1049 until a whole of government harmonised Standard is in place. Accordingly, the Board concluded that it is not be necessary to provide transitional requirements/guidance in a whole of government GAAP/GFS harmonised Standard and that AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* should apply.

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ILLUSTRATIVE EXAMPLE A

This example accompanies, but is not part of, the Standard ~~AASB XXX~~.

**Illustration of an Acceptable Format and Content
of Financial Statements, Reconciliation Notes,
Explanations of Key Technical Terms, and
~~Disaggregated Functional Information and Sector
Information~~**

This Appendix provides an illustration of an acceptable format for the financial statements of a government's ~~General Government Sector (GGS)~~ that is consistent with the requirements of the Standard and the assumptions made for the purpose of the illustration. It also illustrates an acceptable style and format for reconciliation notes, explanations of key technical terms, ~~functional information and disaggregated sector financial information.~~

The style and format illustrated are not mandatory. Other styles and formats may be equally appropriate so long as they meet the requirements of the Standard.

To assist an understanding of the illustration, particularly in relation to differences between GAAP and GFS, explanatory notes are provided immediately following the illustrative reconciliation notes. They do not form part of the illustrative financial statements or notes.

The illustration does not purport to identify all possible differences between GAAP and GFS, nor to present on the face of the financial statements all the line items as might be required by a different set of assumptions. Additionally, it does not illustrate the disclosure of comparative period information, and notes required by paragraphs 40,⁵ and 42 (except the relevant reconciliation notes and explanations of key technical terms), ~~and 51A(a) and the explanation of differences required by 51A(b)(ii)B.~~ It also does not illustrate the disclosure requirements of budgetary information (paragraphs 52 to 58), nor all the disclosures required by other Australian Accounting Standards.

The numbers used are based on assumptions made for illustrative purposes only.

⁵ ~~Illustrative Example B provides an example of the information to be included in the summary of significant accounting policies in accordance with paragraph 40.~~

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NOTE:

**THE ILLUSTRATION IS YET TO BE DEVELOPED. IT WILL BE
RELEASED FOR PUBLIC COMMENT AS SOON AS POSSIBLE.**

**Staff note: Illustrative Example A from AASB 1049 has been deleted rather
than presented as entirely struck through, to save paper.**

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ILLUSTRATIVE EXAMPLE B

This example accompanies, but is not part of, AASB 1049.

**Illustration of an Extract from the Note Containing
the Summary of Significant Accounting Policies**

The following is an example of an extract from Note 1 of a financial report for a year (2009/10) subsequent to the first year of adoption of the Standard, consistent with the requirements of paragraph 40 of the Standard.

This financial report of the General Government Sector (GGS) of *[name of government]* has been prepared in accordance with AASB 1049 *Financial Reporting of General Government Sectors by Governments*, which requires compliance with all Australian Accounting Standards except those identified below. Its purpose is to provide users with information about the stewardship of the government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of the government's GGS; and information that facilitates assessments of the macro-economic impact of the government's GGS.

The GGS of *[name of government]* is a component of the Whole of Government of *[name of government]*. The GGS is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* (ABS GFS Manual). Under the ABS GFS Manual, the GGS consists of all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and make transfer payments to redistribute income and wealth. Non-profit institutions are created for the purpose of producing or distributing goods and services but are not a source of income, profit or other financial gain for the government.

The Standard under which the GGS financial report is prepared does not require full application of AASB 127 *Consolidated and Separate Financial Statements* and AASB 139 *Financial Instruments: Recognition and Measurement*. Assets, liabilities, income, expenses and cash flows of government-controlled entities that are in the Public Non-Financial Corporations sector and the Public Financial Corporations sector are not separately recognised in the GGS of *[name of government's]* financial statements. Instead, the GGS financial statements recognise an asset, being the controlling equity investment in those entities, and recognise a gain or loss relating to changes in the carrying amount of that asset, measured in

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accordance with AASB 1049. Readers are referred to the Whole of Government general purpose financial report of *[name of government]* for the year ended 30 June 2010 for financial information that separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the *[name of government]*.

The Standard under which the GGS financial report is prepared modifies the manner in which AASB 101 *Presentation of Financial Statements* is applied by combining the statement of changes in equity with the income statement into a comprehensive operating statement.

The ABS GFS Manual also provides the basis upon which Government Finance Statistics (GFS) information that is contained in the financial report is prepared. In particular, notes disclosing key fiscal aggregates of net worth, net operating balance, total change in net worth, net lending/(borrowing) and cash surplus/(deficit) determined using the principles and rules in the ABS GFS Manual are included in the financial report, together with a reconciliation of those key fiscal aggregates to the corresponding key fiscal aggregates recognised in the financial statements.

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**CONSEQUENTIAL AMENDMENTS TO
AASB 1049 FINANCIAL REPORTING OF
GENERAL GOVERNMENT SECTORS BY
GOVERNMENTS**

As noted in the Preface and paragraph BC10, the Board intends issuing an amended AASB 1049 that integrates the requirements for GGS financial reporting and whole of government (incorporating sectors) financial reporting. If this approach is adopted, there will be numerous consequential amendments to AASB 1049 arising from the proposals in this Exposure Draft. These consequential amendments are not provided in this Exposure Draft.

The following identifies the consequential amendments to AASB 1049 that would arise if the Board were to adopt an alternative approach and issue a stand-alone Standard for whole of government financial reporting.

Paragraph 40(d) of AASB 1049 is amended as follows:

40. In addition to the disclosures required by other Australian Accounting Standards in the note containing the summary of significant accounting policies, the following disclosures shall be made prominently in that note:

...

(d) a description of how the GGS financial report differs from the whole of government financial report in terms of the treatment of the government's investments in PNFC sector and PFC sector entities;

...

The second last paragraph of Illustrative Example B of AASB 1049 is deleted.