

GAAP/GFS Harmonisation for Whole of Governments and PNFC/PFC Sectors

1 Introduction

AASB 1049 *Financial Reporting of General Government Sectors by Government*, which focuses on GGS financial reporting, is the result of Part 1 of Phase 1 of the AASB's GAAP/GFS Harmonisation Project. Whole of governments and PNFC/PFC sectors of the Australian Government and State and Territory Governments are the outstanding parts of Phase 1. ABS, HOTARAC and the FRC have indicated that they regard GAAP/GFS harmonisation for whole of governments and PNFC/PFC sectors as a high priority.

Given that GGS is a sector of the whole of government, there would be benefit in aligning whole of government reporting with GGS reporting. Similarly, there would be benefit in aligning PNFC sector and PFC sector reporting with GGS reporting. For example, alignment would reduce the potential for confusion of users.

Consistent with the outcome of FRC discussions (8 December 2006) and views expressed by the HOTARAC GFS/GAAP Harmonisation Working Group (which met on 12 December 2006), requirements for harmonised whole of government financial reports, which should include information about PNFC/PFC sectors, should be based on the principles in AASB 1049. Many believe that note disclosure of information about the PNFC/PFC sectors within a whole of government report is sufficient to satisfy the needs of users in relation to PNFC/PFC sectors and therefore separate PNFC sector and PFC sector financial reports are not warranted. PNFC/PFC sectors differ from the GGS because the GGS is the focus of governments' budgets and therefore it is of greatest interest to users. Accordingly, presentation of separate GGS financial reports is warranted.

Staff view 1:

The broad principles in AASB 1049 should be applied to whole of government financial reports, which should include PNFC sector and PFC sector information. It is not necessary to prescribe requirements for the preparation of separate PNFC sector and PFC sector financial reports.

2 Whole of Government

2.1 Amend AASB 1049 or Create a New Standard?

- (a) Arguments for amending AASB 1049 by expanding its scope:
- 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. AASs 27, 29 and 31 have demonstrated the problems of issuing separate standards that ostensibly have the same requirements for different types of entities.
 - Strengthens the relationship between whole of government reports and GGS reports. A single Standard would be consistent with the fact that, under AASB 1049, GGS reports are not permitted to be made available prior to the release of whole of government reports.
 - More consistent with a topic-based approach to setting Standards.
- (b) Arguments for creating a new Standard:
- AASB 1049 was only recently issued and should be allowed to be implemented and settle down before it is subject to review and potential substantive amendment. (Although staff do not expect AASB 1049 to be implemented before the mandatory operative date of 1 July 2008 and we expect it to be implemented

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

at the same time as a whole of government GAAP/GFS harmonised Standard is implemented, we understand that at least one jurisdiction (Queensland) is undertaking a comprehensive 'field test' of AASB 1049).

- Acknowledges that GGS reports may be presented separately from whole of government reports. A separate Standard would be consistent with a government possibly preparing a whole of government report prior to making GGS reports available. (However, staff understand that it is unlikely that any jurisdictions will publish harmonised whole of government reports before harmonised GGS reports).
- Avoids the implication that an illustrative example for the whole of government should be included in the Standard just because a GGS illustrative example is provided in AASB 1049. Avoiding the need to develop an illustrative example will facilitate a more timely completion of requirements for whole of government GAAP/GFS harmonised financial reporting (see section 4 below). Furthermore, incorporating whole of government and PNFC/PFC sector requirements into AASB 1049 would be more time consuming than addressing them in a separate Standard.

Staff view 2:

Staff would prefer requirements for whole of government and GGS reporting to be expressed in a single Standard. However, in view of the likely deadlines involved (see section 6 below), for pragmatic reasons, staff suggest that a separate whole of government Standard is developed.

2.2 Technical Issues

(a) Consolidation of controlled entities

Broadly, the controlled entities that are not consolidated within the GGS would be consolidated under both GAAP and GFS in whole of government financial statements, and therefore one of the more controversial aspects (partial consolidation) 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 an entity within the PNFC sector or PFC sector is not consolidated under GFS because it is not part of the Australian economic territory. Instead GFS records the parent entity within the PNFC/PFC sector 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.

The unanimous view of the HOTARAC Working Group is that Australian jurisdictions either do not have, or have immaterial, non-resident subsidiaries and that the issue will either not arise or will remain immaterial in the future.

Staff view 3:

All controlled entities should be consolidated in whole of government general purpose financial reports. If material, the GFS non-consolidation of non-resident subsidiaries should be shown as a reconciling difference. Given that the issue is not significant in practice, it is not necessary for the Standard to explicitly refer to the issue.

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

(b) Measurement of the net assets of entities within the PNFC/PFC sector consolidated into the whole of government financial statements

Under AASB 1049 the GGS must recognise its investment in an entity within the PNFC/PFC sector at fair value where it is reliably measurable, otherwise at the government's proportional share of the net asset value. A question arises as to whether, for consistency with GGS financial reporting under AASB 1049, to consolidate entities within the PNFC/PFC sector for which fair value is reliably measurable into the whole of government at fair value. This would result in the recognition of, among other things, internally generated goodwill.

Because Telstra is no longer regarded as being controlled by the Australian Government, the unanimous view of the HOTARAC Working Group is that no entities within the PNFC/PFC sector in any jurisdiction have traded shares and therefore the principle in AASB 1049 would result in the investments being measured at net assets, which is consistent with GFS. Therefore, they argue that the question of consolidating entities within the PNFC/PFC sector at fair value does not arise.

Staff observe that the principle in AASB 1049 does not limit reliable measurement of fair value to traded shares. However, in practice it would be expected that fair value is only obtainable where there are traded shares.

Where fair value cannot be reliably determined, consistent with the staff view in section 1 above, net assets of the PNFC/PFC sector should be determined in a manner consistent with the GAAP/GFS harmonisation principles in AASB 1049.

Staff view 4:

Although it is conceivable that AASB 1049 would require a GGS investment in an entity within the PNFC/PFC sector to be recognised at fair value, it is not appropriate for whole of government to recognise internally generated goodwill. Accordingly, entities within the PNFC/PFC sector 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 (see also the staff view in section 3(a) below).

Staff expect that in practice the amount recognised under AASB 1049 would also be net assets. Accordingly, it is not necessary to explicitly address the fair value versus net assets issue in the Standard.

(c) Other potential convergence differences

Many of the convergence differences contemplated in AASB 1049 for the GGS, such as doubtful debts, and those that have been subsequently identified, such as financial guarantee contracts (whereby GAAP recognises a financial liability but GFS recognises revenue), may also arise in a whole of government context.

Other convergence differences contemplated in AASB 1049 for the GGS do not exist in a whole of government context due to the process of elimination on consolidation. For example, dividends from an entity within the PNFC/PFC sector that give rise to a convergence difference in a GGS context are eliminated on consolidation in a whole of government context.

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

As far as staff are aware, the only convergence difference that conceivably arises for the whole of government but not for the GGS relates to where there is a minority interest in any entity within the whole of government. GFS classifies minority interest as a liability and measures it at current value whereas GAAP classifies it as equity and does not remeasure it. The HOTARAC Working Group accepted that this would give rise to a convergence difference that should be included in the reconciliation note.

Staff view 5:

Consistent with AASB 1049 principles, whole of government financial statements should be prepared using GAAP (definition, recognition, measurement, classification and presentation). Reconciliations to GFS should be required to be disclosed. In addition to the convergence differences mentioned in AASB 1049 that are applicable in a whole of government context, the convergence difference relating to minority interest should be explicitly referred to in the Standard.

(d) Presentation of financial statements

AASB 1049 requires certain GFS key fiscal aggregates (net worth, net operating balance, total change in net worth, net lending/borrowing, and cash surplus/deficit) to be presented on the face of the GGS financial statements. Both the HOTARAC Working Group and the ABS have expressed a view that the information is also relevant from a whole of government perspective. Furthermore, whole of government information that corresponds to the information for GGS is appealing in terms of symmetry.

Staff view 6:

Whole of government financial statements should be subject to the same presentation requirements imposed for GGS financial statements.

Given the nature of the GGS, it was not necessary for AASB 1049 to contemplate transactions with owners as owners, and therefore the requirement to incorporate the statement of changes in equity into a comprehensive income statement was simplified. In a whole of government (and PNFC/PFC sector) context, transactions with owners as owners can occur. The question arises as to how transactions with owners as owners (and movements in reserves) should be required to be presented: in a separate statement, on the face of the comprehensive operating statement or in the notes.

Staff view 7:

Information about transactions with owners as owners and movements in reserves should be required to be disclosed in notes, on the basis that this is one option in paragraph 97 of AASB 101 *Presentation of Financial Statements*, which requires the information to be presented either on the face of the statement of changes in equity or in the notes.

(e) Notes: Summary of significant accounting policies and other explanatory notes

Some of the note disclosures required by AASB 1049 are peculiar to the GGS and therefore would not be warranted for the whole of government. The Table in Appendix A to this paper provides a list of specific disclosure requirements from AASB 1049 and a comment on each requirement's relevance in a whole of government context.

In relation to the need for any whole of government disclosures that are additional to the GGS-type of disclosures, it is relevant to note that the current disclosure requirements in

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

AAS 31 *Financial Reporting by Governments* are being reviewed as part of the short-term review of the requirements in AASs 27, 29 and 31. Item 3.3(n) of the AASB Public Sector Policy Paper (as at 24 October 2006 – to be updated) contemplates in the longer-term, if necessary, the development of a separate ‘other disclosures’ Exposure Draft applicable to not-for-profit public sector entities.

Staff view 8:

In relation to the applicability of GGS-type disclosures in a whole of government context, see Appendix A to this paper.

In relation to additional whole of government disclosures, staff are not aware of any additional disclosures that would be warranted at this stage.

(f) *Notes: Sector information*

Staff note that since AASB 1049 was issued, the IPSASB has issued IPSAS 22 *Disclosure of Financial Information About the General Government Sector*. It specifies requirements for a government that prepares and presents consolidated financial statements under the accrual basis of accounting that elects to disclose financial information about the GGS. IPSAS 22 does not embrace GFS as the basis for the GGS information to the same extent as GFS is embraced by AASB 1049.

Currently under AAS 31, the level of disaggregated information commonly produced at a whole of government level is to sectors (GGS, PNFC sector and PFC sector). Consistent with this, the GAAP/GFS harmonised whole of government financial report could include sector information. This could take the form of sector financial statements and GAAP/GFS reconciliation notes for the GGS, PNFC sector and PFC sector. The HOTARAC Working Group view is that the whole of government financial report should not be required to include notes relating to the sectors equivalent to the AASB 1049 notes other than the reconciliation notes.

Other sectors could be identified, including the ‘total non-financial public sector’ (comprising the GGS and PNFC sector). Such a sector is identified in the Uniform Presentation Framework (UPF), which is the Framework adopted by all jurisdictions as a basis for presenting budgets, estimates and outcomes on a comparable basis. The ‘non-financial public sector’ is also identified in paragraph 2.99 of the ABS GFS Manual. The HOTARAC Working Group view is that it is not necessary for a harmonised GAAP/GFS whole of government Standard to contemplate sectors beyond the GGS, PNFC sector and PFC sector.

Staff view 9:

Whole of governments should be required to disclose sector information. The sectors should be those defined under GFS (GGS, PNFC sector and PFC sector). Additional sectors, such as the ‘total non-financial public sector’ should not be prescribed. Where jurisdictions choose to disclose additional sectors, they should be required to disclose them on a comparable basis.

The sector information should comprise ‘harmonised’ financial statements and reconciliation notes. The sector financial statements could be presented in a single table and include an elimination column to facilitate reconciliation to the whole of government financial statements.

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

An issue that arises is the relationship between the information that would be disclosed in the whole of government financial report for the GGS as sector information and the information disclosed in the GGS financial report in accordance with AASB 1049. Should the GGS information disclosed in the whole of government report be consistent with the AASB 1049 information or the consolidated amounts? For example, how should GGS investments in entities with the PNFC/PFC sector be treated? If they are disclosed, how should they be measured (fair value or net assets)? If a GGS investment in an entity within the PNFC/PFC sector were to be measured at fair value in the whole of government notes, there would be a disconnect between that amount and the amount of net assets consolidated into the whole of government (see also section 2.2(b) above). If GGS information disclosed as sector information in the whole of government report were to differ from the GGS information prepared in accordance with AASB 1049, there is the potential to confuse users and undermine the credibility of the financial information provided.

Staff view 10:

GGS investments in entities within the PNFC/PFC sector should be disclosed in the sector information, and measured at an amount consistent with the amount consolidated into the whole of government. It is therefore conceivable, although staff expect unlikely, that GGS information disclosed as sector information in the whole of government report will differ from the GGS information prepared in accordance with AASB 1049.

(g) Notes: Segment-like information

AASB 1049 requires disclosure of a disaggregation of GGS expenses (excluding losses) included in operating result and assets. The disaggregation is required to be based on GFS's 'Government Purpose Classification: Major Groups'. A question arises as to whether whole of government financial reports should be required to include disclosure of segment-like information, as distinct from sector information (which is addressed in section 2.2(f) above).

Staff view 11:

Segment-like information disclosure requirements should not be prescribed in the whole of government harmonised Standard.

Instead, any requirements for whole of government disclosure of disaggregated information to a level lower than sectors should be addressed in a separate project that has regard to GAAP/GFS harmonisation issues. At its December 2006 meeting, the Board agreed to undertake further work as part of a longer-term review of segment-like reporting by not-for-profit entities in the public and private sectors. The Board decided that it will not use IPSAS 18 *Segment Reporting* as the basis for developing an Exposure Draft for such a project. In the meantime the Board will proceed with its short-term project in respect of segment-like disclosures in the context of the review of AASs 27, 29 & 31. Staff acknowledge that the longer-term review is unlikely to be finalised for some time.

(h) Budgetary information

Typically governments budget on a GGS basis rather than on a whole of government basis. WA publishes budget estimates for the total public sector. Agenda paper 3.3 contemplates a view that budgetary information is only pertinent to a GGS, even if estimates are published for the whole of government or other sectors.

It is relevant to note that AASB 1049 only requires disclosure of budgetary information where a budget is presented to Parliament. It does not require a budget to be prepared.

Staff view 12:

Whole of government should only be required to disclose budgetary information where a whole of government budget is presented to Parliament.

Staff note that since AASB 1049 was issued, the IPSASB has issued IPSAS 24 *Presentation of Budget Information in Financial Statements*. The requirements in IPSAS 24 differ from the requirements in AASB 1049, including in relation to the status of original relative to final budgets, the basis of accounting to be adopted for the budget and the location of explanations of material variances. Consistent with the AASB's policy relating to the IPSASB, staff expect that the AASB will evaluate IPSAS 24 and its suitability in an Australian context in due course.

(i) Transitional requirements

Jurisdictions have already adopted Australian-equivalents-to-IFRSs for their whole of government financial reports. AASB 1049 requires the date of transition of the GGS to be the date of transition used in the whole of government financial reports. Staff understand that all jurisdictions will defer adopting AASB 1049 until a whole of government harmonised Standard is in place. It should not be necessary to provide transitional requirements/guidance in a whole of government GAAP/GFS harmonised Standard and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* would apply.

Staff view 13:

Specific transitional requirements to move whole of government reporting to GAAP/GFS harmonised reporting should not be necessary.

3 Sector Information

(a) PNFC/PFC sector separate financial reports or notes in whole of government financial reports?

As noted in sections 1 and 2.2(f) above, the HOTARAC Working Group view is that a full set of notes equivalent to that required for the GGS by AASB 1049 is not warranted for the PNFC/PFC sector. Therefore, it is sufficient for PNFC/PFC sector financial statements and reconciliation notes to be disclosed in the whole of government report (see section 2.2(f) above).

For consistency, the principles (definition, recognition, measurement, classification, presentation and limited disclosures) in AASB 1049 should be adopted. The information could be disclosed in the form of full financial statements in columns (GGS, PNFC sector and PFC sector), and the reconciliation notes.

Staff view 14:

The information equivalent to the requirements for GGS financial statements and reconciliation notes in AASB 1049 should be required for the PNFC sector and the PFC sector as notes in the whole of government financial report (see staff view 9 under section 2.2(f) above).

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

(b) PNFC/PFC sector convergence differences

As far as staff are aware, the GAAP/GFS convergence differences that arise in PNFC/PFC sector that do not arise in the GGS context are:

- negative GFS net worth that arises from the possibility that the market value of PNFC/PFC sector exceed their recognised net assets. However, as noted in section 2.2(b) above, this is not expected to be an issue in practice because jurisdictions do not have material entities within the PNFC/PFC sector with shares that are traded;
- minority interests in entities within the PNFC/PFC sector. GFS classifies them as liabilities and remeasures them (other economic flows) whereas GAAP classifies them as equity and does not remeasure them;
- GFS treats a dividend of an entity within the PNFC/PFC sector as an expense, whereas GAAP treats it as a distribution to owners; and
- GFS does not recognise the deferred tax assets and deferred tax liabilities that are recognised under GAAP by an entity within the PNFC/PFC sector that is subject to an income tax equivalent regime.

None of these issues are relevant to whole of government because they are eliminated on consolidation.

HOTs/HOTARAC submissions made to the AASB in November and December 2003 expressed the view that GAAP treatment should be followed for each of the above convergence differences, with note disclosure of GFS treatments.

Staff view 15:

Any convergence differences between GAAP and GFS that remain in relation to the PNFC sector and PFC sector, including those that do not arise in a GGS or whole of government context, should be included in the reconciliations between GAAP and GFS. In addition to the convergence differences mentioned in AASB 1049 that are applicable in a PNFC/PFC sector context, the convergence differences identified in the dot points above should be explicitly referred to in the Standard.

(c) PNFC/PFC sector budgetary information

As part of the UPF, typically jurisdictions publish GGS budget information together with budget information relating to the PNFC sector but not the PFC sector. WA publishes budget information relating to all three sectors (and the total public sector – see section 2.2(h) above). Some argue that the information relating to PNFC/PFC sector should not be characterised as ‘budgets’. As noted in section 2.2(h) above, agenda paper 3.3 contemplates a view that budgetary information is only pertinent to a GGS, even if estimates are published for the whole of government or other sectors.

Staff view 16:

Staff believe that the estimates published under the UPF for the PNFC sector and the PFC sector are in the nature of budgets and therefore should be subject to requirements equivalent to the requirements in AASB 1049 for GGSs to disclose budgetary information.

Consistent with the staff view under section 2.2(h) above, budget information for the PNFC sector or the PFC sector should only be required to be disclosed where a budget relating to a sector is presented to Parliament.

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

The requirements for disclosure of budgetary information for sectors should be specified in the whole of government standard.

(d) Transitional requirements

A question arises as to whether separate transitional provisions are warranted for the preparation of PNFC/PFC sector information over and above the requirement for retrospectivity in AASB 108. Because the information is sector information, consistent with the staff view in section 2.2(f) above, the sector information should be prepared in a manner consistent with the whole of government information. Consequently, the sector information would be prepared using a common date of transition to Australian-equivalents-to-IFRSs and making common choices allowed under AASB 1.

Staff view 17:

Separate transitional provisions are not warranted for the preparation of PNFC/PFC sector information over and above the requirement for retrospectivity in AASB 108.

In relation to the GGS, AASB 1049 requires the date of transition to Australian-equivalents-to-IFRSs to be aligned with the whole of government's date of transition. Nevertheless, it is conceivable, although staff expect unlikely, that decisions made in relation to whole of government under AASB 1 (which were made in the context of AAS 31) may differ from decisions that will be made in relation to the GGS when AASB 1049 is first adopted. This would result in GGS information presented as sector information in the whole of government report differing from GGS information prepared under AASB 1049. The question arises as to whether whole of governments should be allowed to use the transitional relief provided in AASB 1 a second time to facilitate alignment of their policies with the AASB 1049 GGS policies.

Staff view 18:

Consistent with staff view 13 in section 2.2(i) above, specific transitional requirements to move whole of government reporting to GAAP/GFS harmonised reporting should not be necessary.

4 Illustrative Examples

The inclusion of whole of government (and PNFC/PFC sector) illustrative examples would assist in the implementation of any Standard that may be developed. Furthermore, the process of working through an illustrative example provides the Board with greater assurance that issues have been covered as well as providing a focus that enhances the quality of consultation. However, the development of a dedicated illustrative example for whole of government and PNFC/PFC sector would place a significant demand on resources (both staff and Board time) and therefore would be expected to delay the timely completion of the project. Staff expect that Illustrative Example A in AASB 1049 will be particularly useful in a GGS context, and may also be useful in a whole of government and PNFC/PFC sector context.

Staff view 19:

Ideally, the Standard would include Illustrative Examples. However, in the interest of producing a timely Standard, staff reluctantly suggest that no work is undertaken on developing examples. This decision should be reconsidered after the Standard has been adopted for the first time.

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

5 Level of Consultation

The high level of consultation throughout the development of AASB 1049 provided significant benefits for its development. Adopting a similar level of consultation for whole of government issues may delay the timely development of a Standard. It is expected that the most controversial issues pertinent to GAAP/GFS harmonisation were limited to and/or resolved in the GGS context. Staff expect that the Board will receive a submission from HOTARAC, based on the work of the HOTARAC Working Group, early in the project.

Staff view 20:

Staff favour as high a level of consultation that is feasible, bearing in mind the time constraints. To facilitate a timely development of the Standard, staff reluctantly suggest that no formal consultation be undertaken until after the Exposure Draft has been released. However, staff suggest that all relevant Board agenda papers are made available publicly shortly after they are provided to the Board (that is, the week or two before a Board meeting), amended only to remove confidential material. Furthermore, staff suggest that, as soon as the Board is happy with a draft Exposure Draft, key constituent groups such as HOTs/HOTARAC and ACAG are provided with an opportunity to review it prior to it being issued publicly for comment.

6 Timeline

The FRC has suggested that a completion date of October 2007 would allow the consistent preparation of financial statements for all sectors of government in the 2008-09 Budget and Outcome reporting. This view is supported by HOTs and HOTARAC. The FRC urged the AASB to adopt a revised timetable in order to meet this deadline.

On the assumption that the staff views expressed above are accepted, and taking into account other staff commitments, staff believe that the following extremely ambitious timetable for finalising a Standard is necessary if the October 2007 date is to be achieved. Staff are particularly concerned about the short comment period allowed for the Exposure Draft.

Action	Date
AASB consider this issues paper	14-15 February 2007
AASB sub-committee consider draft Exposure Draft	April 2007
AASB consider draft Exposure Draft	23-25 May 2007
AASB finalise Exposure Draft (out of session)	June 2007
Issue Exposure Draft for 1 month comment period	13 June 2007
AASB consider comments on Exposure Draft	1-2 August 2007
AASB consider draft Standard	5-6 September 2007
Finalise Standard	3-4 October 2007

7 Implications for Other Entities

AASB 1049 disallows any accounting policy choices that are available in other Australian Accounting Standards if they are not consistent with GFS. If, consistent with the staff views above, this principle were to apply to whole of government and PNFC/PFC sector, all material government controlled entities would have to comply, at least for the purpose of consolidation. Thus, unless the GAAP/GFS harmonised requirements are pushed down to all controlled entities, there would be a need for entities within the GGS and PNFC/PFC sector to voluntarily adopt the same choices or to keep two sets of records.

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

Phase 2 of the GAAP/GFS Harmonisation Project contemplates the AASB addressing harmonisation issues for entities within the GGS of the Australian Government and State/Territory Governments. This is consistent with the FRC decision (8 December 2006) that the AASB should undertake such work.

As noted in the Preface of AASB 1049, the AASB originally contemplated a Phase 3 of the GAAP/GFS Harmonisation Project, which would address harmonisation issues for other public sector entities, including local governments, government business enterprises and multi-jurisdiction entities (such as universities). At its 8 December 2006 meeting, the FRC agreed that completion of Phases 1 and 2 would meet the requirements of the public sector strategic direction.

Staff view 21:

The broad principles in AASB 1049 should not be pushed down to entities within the GGS as part of Phase 1 of the GAAP/GFS Harmonisation Project. Entities within the GGS should be addressed in due course as Phase 2.

The broad principles in AASB 1049 should not be pushed down to entities within the PNFC/PFC sector and across to other public sector entities.

It is conceivable that separate reports for entities within the PNFC/PFC sector will differ from the PNFC/PFC sector information published in the whole of government financial report as a result of differences arising from the application of AASB 1. Some argue that entities within the PNFC/PFC sector should be allowed to use the transitional relief provided in AASB 1 a second time to facilitate alignment of their policies with the whole of government.

Staff view 22:

Consistent with the FRC decision that entities within the PNFC/PFC sector are outside the scope of the GAAP/GFS Harmonisation Project, it should be accepted that the separate financial reports of entities within the PNFC/PFC sector may differ from the PNFC/PFC sector information included in whole of government financial reports. This may arise from a range of issues, only one of which relates to the transition to Australian-equivalents-to-IFRSs.

8 Consequential amendments to AASB 1049

Currently paragraph 40(d) of AASB 1049 implies that the presentation of the GGS operating statement differs from the whole of government operating statement. This was true while AAS 31 continued to apply. However, if the GGS operating statement format is adopted for whole of government, the presentations will not differ.

Staff view 23:

If the staff views presented above are adopted, staff believe that AASB 1049 should be amended to remove the implication that the presentations of the operating statements of GGS and whole of government differ. This would result in amendments to paragraph 40(d), and consequently Appendix B which illustrates (in part) the requirements of paragraph 40(d), of AASB 1049.

**DRAFT FOR CONSIDERATION BY THE AASB AT ITS
14-15 FEBRUARY 2007 MEETING, AGENDA PAPER 3.2**

APPENDIX A – How AASB 1049 Disclosures would Appear in the Whole of Government Standard

AASB 1049 general disclosure requirements	Relevant to WoG?	Comments
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	yes	Delete reference to 'GGS'
(b) a statement of the purpose for which the GGS financial report is prepared	yes	Delete reference to 'GGS'
(c) a description of the GGS	yes	Change 'GGS' to 'government'
(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	no	
(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	no	
(f) a reference to the ABS GFS Manual as being the basis for GFS information that is included in the financial report.	yes	
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;	yes	Delete reference to 'GGS'
(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;	yes	
(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;	no	See the note immediately below.
(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;	no	The AASB has proposed in ED 151 <i>Australian Additions to, and Deletions from, IFRSs</i> to delete Aus42.1 of AASB 127, which requires disclosure of a list of significant subsidiaries where separate financial reports for a parent is not required.
(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;	no	
(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	yes	
(g) explanations of key technical terms used in the financial report.	yes	