

GAAP/GFS Harmonisation – Entities within the GGS

Sweep issues arising from the February 2011 pre-ballot draft

The following sweep issues were identified as a result of comments made by project sub-committee, RDR sub-committee or other Board members following their review of early drafts of ED XXX. Staff have used judgement in identifying and articulating the issues. Generally, where Board members expressed strong opposing views on an issue, we've included it in the following table. As noted in agenda paper 7.1, some other issues were raised – but we think these have been dealt with to the satisfaction of those members raising them.

Sweep Issue	Extract from Board minutes	Staff comment
<i>relating to Proposed requirements</i>		
<p>1. Should entities be required to present GFS classifications (eg transactions/other economic flows) in the notes and prohibited from presenting them on the face?</p> <p>One project sub-committee member is concerned that, if an entity decided to put all the proposed disclosures on the face of the statements, this would result in a complicated set of line items and, because of the need for comparatives, too many (four) columns of data (five if budgets are included).</p> <p>The project sub-committee member is of the view that most of the GAAP/GFS material is not necessary and risks detracting from users understanding the statements. If material is restricted to the notes, then users interested can go looking for it.</p>	<p>April 2010 agenda item 15: “(b) ... require the primary financial statements to continue to be prepared on a basis consistent with AASB 101 Presentation of Financial Statements, and not require GFS-based classifications to be presented on the face of the financial statements. This is on the basis that users’ needs for on-the-face GFS information is not evident and, given the flexibility in AASB 101, it would not be appropriate for the AASB to limit GAAP in that way. Instead, the ED should propose to require note disclosure of information (in addition to the requirements of AASB 1050 Administered Items) that combines controlled/departmental items and administered items, presented using GAAP/GFS harmonised classification principles (including the distinction between transactions and other economic flows and the disclosure of the net operating balance). ...” (emphasis added)</p>	<p>We have interpreted the Board’s April 2010 decision as directing us to draft the ED in a way that would require an entity that does not disclose GFS classification information on the face of the financial statements, to present that information in a note (see paragraph 13 of the draft ED).</p> <p>We did not interpret the Board’s decision as intending to prohibit GFS classification information on the face. We do not think it would be appropriate to impose such a restriction as GAAP is currently quite flexible in how it allows financial statements to be presented (see paragraph BC28 of the draft ED).</p> <p>To address the project sub-committee member’s concern we have included a targeted specific matter for comment – see specific matter for comment (a)(iv) in the Preface of the draft ED.</p>
<p>2. Is the volume of information in the GAAP/GFS harmonisation note (if an entity elects to include the GFS classification information in the note rather than on the face)</p>	<p>April 2010 agenda item 15: “(b) ...the ED should propose to require note disclosure of information ... that combines controlled/departmental items and administered items, presented using GAAP/GFS harmonised classification principles (including the</p>	<p>We agree that this comment from the Board member has merit if it is considered only from a GAAP perspective. However, from a GAAP/GFS harmonisation perspective, it is useful to know to which category line items belong, particularly where some</p>

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<p>too voluminous? Should it be reduced by requiring only disclosure of categories (eg transactions/other economic flows) rather than line items within categories?</p> <p>One Board member has expressed the view that if the information is put on the face of the financial statements then the level of detail is necessary, however it is questionable whether adding such a voluminous restatement of information in another form in the notes would be helpful. If the Standard is to allow disclosure of the information in the notes, then substantially fewer line items should be acceptable.</p>	<p>distinction between transactions and other economic flows and the disclosure of the net operating balance). This note disclosure would provide a bridge between the general purpose financial statements of an entity within the GGS and the GGS/whole of government, and assist users in assessing the contribution of an individual entity within the GGS to the GGS/whole of government ...”</p>	<p>GAAP items that do not arise in a GFS context arise. As noted in the April 2010 minutes:</p> <p>This note disclosure would provide a bridge between the general purpose financial statements of an entity within the GGS and the GGS/whole of government, and assist users in assessing the contribution of an individual entity within the GGS to the GGS/whole of government</p>
<p>3. Should AASB 1050 remain applicable to government departments?</p> <p>There is significant overlap between the proposals in the ED and the requirements in AASB 1050.</p> <p>The Board's work program includes the multi-phased project 'Control in the Not-for-Profit Public and Private Sectors', which is expected in due course to include a fundamental review of the requirements in AASB 1050.</p> <p>Whilst the timing of that project remains uncertain, as it is linked to the IFRS 10 review, one Board member has expressed concern about the impact on constituents in the not-for-profit public sector of issuing an ED, and hopefully ultimately a standard later this year, dealing with</p>	<p>April 2010 agenda item 15:</p> <p>“(b) ... the ED should propose to require note disclosure of information (in addition to the requirements of AASB 1050 Administered Items) that combines controlled/departmental items and administered items, presented using GAAP/GFS harmonised classification principles (including the distinction between transactions and other economic flows and the disclosure of the net operating balance)...” (emphasis added)</p>	<p>Paragraph BC29 of the draft ED says:</p> <p>“The Board decided that the requirements of AASB 1050 should remain in place until such time as the project on control within the public and not-for-profit private sectors has been completed and the implications for AASB 1050 have been reviewed. The Board noted that although AASB 1050 only applies to government departments, it contains requirements that are additional to the requirements in this Standard, including requiring a government department to disclose, in relation to transfers that are not controlled by government departments, the details of the broad categories of recipients and the amounts transferred to those recipients.” (emphasis added)</p> <p>We think this adequately explains the Board’s approach. However, we acknowledge that the project on control is a major project that will take some time to complete (see agenda item J5 of the joint AASB/FRSB March 2011 meeting) – in particular the ‘control of assets’ aspects of the project.</p> <p>On balance, we think that the approach the Board has agreed to should be followed. In addition to communicating with constituents through the Basis for Conclusions, the</p>

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<p>entities in the GGS sector, with considerable duplication remaining in AASB 1050. The Board member thinks that, ideally, the Board should progress a review of AASB 1050, having regard to the implications arising from IFRS 10, and incorporate whatever amendments are deemed appropriate into this ED, which are held out as, to quote from the Preface: " ... proposals that aim to substantively improve general purpose financial reporting of not-for-profit entities within the GGS."</p> <p>The implications of this approach should be discussed by the Board at the very least in terms of how best to convey this situation to our constituents.</p>		<p>communications plan included in the draft revised Control in NFP Sector project plan in agenda item J5 of this (March 2011) meeting, provides a suitable basis for further explaining the Board's approach to constituents.</p> <p>[Note: agenda paper 7.4 is a copy of a paper provided to the GAAP/GFS Harmonisation project sub-committee to facilitate its consideration of the staff approach to dealing with the interaction between AASB 1050 and ED XXX – it is provided as background information for all Board members.]</p>
<p>4. Should budgetary reporting of administered items, in addition to controlled items, be required?</p> <p>At least one Board member has questioned whether there should be a requirement to also compare budget and actual administered items. Currently, the ED is drafted to only require the comparison in relation to controlled items.</p>	<p>July 2010 agenda item 14: “(c) ... the ED should propose requiring not-for-profit entities within the GGS to provide a comparison of the original budget (where presented to parliament) with either the primary financial statements or the information about controlled items that would be included in the note ... depending on which comparison would be most useful for users. ... ” (emphasis added)</p>	<p>We have drafted the ED to be consistent with the Board decision. However, we can see merit in expanding the requirement to include administered items (consistent with the rationale in paragraph BC41), given that the requirement would only apply if an entity has presented budgeted administered financial statements to parliament.</p> <p>Accordingly, we think the requirement should be expanded to include administered items.</p> <p>We suggest the following revised drafting, picking up some more general simplified drafting suggested by another Board member:</p> <p>22 Where a one or more of the following budgeted:</p> <ul style="list-style-type: none"> (a) statements of financial position; (b) statements of comprehensive income; (c) statements of changes in equity; <u>and</u> (d) statements of cash flows;

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		<p>is or are presented to parliament, the financial statements shall disclose for the reporting period:</p> <p>(e) that original budgeted financial statement or those original budgeted financial statements that were presented to parliament, presented and classified on a basis that is consistent with the presentation and classification of information included in either:</p> <p>(i) the primary financial statement and information about administered items or statements; or, where different,</p> <p>(ii) the information about corresponding controlled and administered items in the GAAP/GFS harmonisation information disclosed in accordance with paragraphs 13 and 14 of this Standard,</p> <p>whichever is judged to be the more useful for users; and</p> <p>(f) explanations of major variances between the actual amounts presented in relation to (e)(i) or (ii) and corresponding original budget amounts.</p> <p>Consequential changes to the other related paragraphs, including the Preface and Basis for Conclusions will be made if the Board agrees in principle with the above.</p>
<i>relating to Basis for Conclusions</i>		
<p>5. How much history of this project should be included in the Basis for Conclusions?</p> <p>One Board member has suggested this question be discussed before the ED is finalised.</p>	<p>April 2010, item 15: “The Board also decided: (a) that the Basis for Conclusions to accompany the ED should be fulsome by providing an historical perspective to the Board’s decisions; ...”</p>	<p>We think the current draft, which now includes paragraph BC3, provides an adequate level of detail about the history of the project.</p>
<i>relating to Process issues</i>		
<p>6. What process should be followed once (if) the ED has been issued – Roundtables?</p>		<p>Given the nature of this project, and the high level of interest in it, evidenced by responses to the first ED (ED 174) on the topic, we suggest the Board schedule two Roundtables during the comment period – one in Canberra and one in Melbourne, perhaps in mid July 2011.</p>