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DEPARTMENT of  
TREASURY and FINANCE

Ms Ruth Picker  
Acting Chairman  
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Dear Ms Picker

**ADDITIONAL HOTARAC GFS/GAAP HARMONISATION PAPERS**

Please find attached, an additional set of Issues Papers as endorsed by the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) for the assistance of the Board in its project to harmonise generally accepted accounting principles and Government Finance Statistics (GFS). These Papers explore issues that have arisen since the August 2003 Heads of Treasuries submission.

The key issues in these Papers relate to whether the General Government Sector is a separate reporting entity, and the recognition of GFS aggregates in the harmonised financial statements. In addition, the completed "Users and Uses" Paper, as tabled at the September 2003 AASB meeting, is attached.

The HoTARAC Working Group is continuing to consider several issues which have recently arisen. At this stage, it appears unlikely that these new issues will have any significant impact on the work of the AASB's Project Advisory Panel, but may require consideration when the Board is giving drafting instructions for the related standard(s).

Yours sincerely

D W Challen  
**CHAIR**  
**HEADS OF TREASURIES ACCOUNTING**  
**AND REPORTING ADVISORY COMMITTEE**

4 November 2003

RECEIVED

10 NOV 2003

**HOTARAC REPORT**  
**GFS/GAAP CONVERGENCE**  
**JULY TO OCTOBER 2003**

## HoTARAC WORKING GROUP

### GFS/GAAP CONVERGENCE INDEX

#### **A. Report and conclusions**

- Report
- Summary of conclusions

#### **B. Conceptual**

- GFS/GAAP Convergence: Conceptual Issues Paper incorporating:
  - : Public Sector Business Model
  - : Nature of the general government sector
  - : Disclosure of GFS aggregate measures
  - : Users and Uses

#### **C. Technical**

- Pro-forma financial statements
  - AAS 31 – with GFS basis aggregates
  - AAS 31 – with converged aggregates
  - AAS 29 – conventional format
  - AAS 29 – net cost of services format
- Issue 6.2: Inventories
- Issue 4.6: Constructive Obligations
- Tax Effect Accounting (new issue)

# WORKING GROUP ON GAAP/GFS CONVERGENCE

## Report to HOTARAC

### ***Introduction***

This paper provides a report on the further work of the Working Group since HoTARAC's June meeting. HoTARAC endorsed the initial work prepared by this Group at its June meeting. At that time, the Chair of the Working Group indicated that some work remained. The Working Group met in August and September of 2003.

Specifically, the report covers the residual issues identified at June, together with further analysis resulting from the September AASB meeting.

The views expressed in the attached documents are solely those of the Working Group. In no way do the views expressed represent those of their employers or the organisations that they represent.

### ***Recommendations***

- The Working Group recommends endorsement of the attached set of papers for submission by the Chairman to the AASB. The AASB commenced its work on convergence and expects to instruct its Project Advisory Panel in November 2003. Given this timeframe, it is the Working Group's preference that the Chairman use his delegated authority to forward the attached papers to the AASB prior to advising HoTs that he has done so at their next meeting.
- That HoTARAC note that the Working Group may need to re-convene to provide further assistance to the convergence process. There are now only one or two pending issues still being analysed, so the need to re-convene will depend on issues arising from AASB or international processes.

In addition, the Working Group considered a further potential convergence issue, being the treatment of GST in the Cash Flow Statement. This issue is not for the AASB as the GAAP framework already deals with the issue. Consequently, the Working Group recommends that all jurisdictions agree to gross up cash flows for GST amounts in their Cash Flow Statements as this is required by Australian GFS and provided as an allowable option under the relevant UIG Abstract.

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### ***Deliverables***

The Working Group's focus in August and September has been:

- Road-testing the pro-forma statement formats to assess feasibility
- Completed work on residual conceptual and technical issues. A summary of these papers and the conclusions reached is attached for quick reference.
  - The detailed papers are also included.





**HOTARAC Report Attachment**

**HoTARAC WORKING GROUP  
GFS/GAAP CONVERGENCE  
SUMMARY OF CONCLUSIONS, PAGE 2**

<b>Technical</b>	
Pro-forma financial statements	<p>While some options may be preferred by some over others, it is possible to construct financial statements that comply with both frameworks.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> AAS 31 - possible GFS/GAAP converged format</li> <li><input type="checkbox"/> AAS 29 – possible converged GFS/GAAP conventional format.</li> <li><input type="checkbox"/> AAS 29 - possible converged GFS/GAAP net cost of services format.</li> </ul>
Issue 6.2: Inventories	<p>Australian accounting standards currently require inventory to be valued at lower of cost and net realisable value. ED 116 has included public sector specific requirements that require inventory to be valued at the lower of cost and current replacement cost.</p> <p>GFS requires inventory to be valued at current market prices. There is a need for public sector specific provisions allowing current replacement cost.</p>
Issue 4.6: Constructive Obligations	<p>Under accounting a constructive obligation can arise where an event exists that creates a valid expectation in other parties that the entity in question will discharge that liability.</p> <p>GFS does not specifically discuss the term 'constructive obligations', but it does encourage the recording of contingent assets and liabilities as so-called memorandum items in the same manner as note disclosures in accounting. In GFS, liabilities can only be recognised where there is a known counterparty.</p> <p>Differences in the timing of the recognition of liabilities potentially exist, but these would require attention only where the amounts are significant and span across different recording periods.</p> <p>There is no practical harmonisation issue between GFS and GAAP in relation to constructive obligations. However, where a material timing difference does exist the treatment will be to follow GAAP and disclose by way of note the GFS treatment to allow reconciliation between GAAP and GFS</p>
Tax Effect Accounting (new issue)	<p>Under accounting a taxpayer entity recognises that a deferred tax liability or asset arises because of timing differences between tax and standard accounting treatments.</p> <p>GFS does not recognise the economic impact as the recognition of the asset/liability does not meet the definition of a transaction and no symmetry of assets and liabilities exists between institutions. Therefore, the recognition of the tax effects under GFS may, for most jurisdictions, not be recorded.</p> <p>This is an irreconcilable difference between GFS and GAAP. In order to achieve a converged framework jurisdictions will need to follow the GAAP treatment and disclose the GFS treatment by way of note.</p>

# **GFS/GAAP CONVERGENCE—CONCEPTUAL ISSUES**

The Public Sector Business Model, Nature of the General Government Sector and Disclosure of GFS Aggregate measures

## **TABLE OF CONTENTS**

<b>GFS/GAAP CONVERGENCE—CONCEPTUAL ISSUES.....</b>	<b>1</b>
<b>THE PUBLIC SECTOR BUSINESS MODEL, NATURE OF THE GENERAL GOVERNMENT SECTOR AND DISCLOSURE OF GFS AGGREGATE MEASURES .....</b>	<b>1</b>
TABLE OF CONTENTS .....	1
EXECUTIVE SUMMARY .....	2
BACKGROUND.....	3
THE PUBLIC SECTOR—A DIFFERENT BUSINESS MODEL .....	3
GENERAL GOVERNMENT SECTOR REPORTING .....	4
WHERE CAN KEY GFS AGGREGATES BE DISPLAYED IN CONVERGED FINANCIAL REPORTS?.....	7
RECOMMENDATION:.....	9
<b>LIST OF ATTACHMENTS .....</b>	<b>10</b>
THE PUBLIC SECTOR—A DIFFERENT BUSINESS MODEL .....	11
OPTIONS FOR REPORTING GENERAL GOVERNMENT SECTOR .....	13
IS THE GENERAL GOVERNMENT SECTOR A REPORTING ENTITY?.....	14
WHAT IS AN ECONOMIC ENTITY?.....	18
HOW DOES A PARENT ENTITY REPORT? .....	22
WHAT IS A SEGMENT? .....	25
OPTIONS FOR DISCLOSURE OF GFS AGGREGATE MEASURES .....	28
COULD THE GFS MEASURES BE CLASSIFIED AS “PERFORMANCE INDICATORS”? .....	29
WHAT CAN BE DISPLAYED ON THE FACE OF GAAP BASIS PRIMARY FINANCIAL STATEMENTS?.....	32

# **GFS/GAAP CONVERGENCE—CONCEPTUAL ISSUES**

## **THE PUBLIC SECTOR BUSINESS MODEL, NATURE OF THE GENERAL GOVERNMENT SECTOR AND DISCLOSURE OF GFS AGGREGATE MEASURES**

### **EXECUTIVE SUMMARY**

Arising from the AASB's deliberations about Government Finance Statistics (GFS)/Generally Accepted Accounting Principles (GAAP) convergence, there are two key technical issues:

- Whether the General Government Sector (GGS) can prepare its own separate financial reports; and
- Whether the GFS aggregate measures can be displayed on the face of primary financial statements in general purpose financial reports.

Presently the AASB has a general policy of 'one size fits all' accounting standards—that is referred to as 'a single set of sector neutral standards. However, the public sector's business model differs from that of the private sector.

Accounting standards use principles to determine what is included in an entity for financial reporting purposes. One of the primary principles focuses on the ability to control decisions of a related entity and where such control exists, the related entity must be consolidated into its controlling entity's financial reports.

An implication of the first issue above is whether the GGS controls the related entities that are grouped into the other sectors. However, consolidating those other entities would nullify the purpose for preparing GGS financial reports.

The second issue is of concern to accounting standard setters, as the GFS aggregates are not currently part of GAAP. Accounting standards permit additional disclosures on the face of primary financial statements—such as additional lines or sub-totals where they would improve usefulness of the statements, but not normally of the nature of GFS aggregates.

This paper and its attachments explore these issues in greater depth, primarily from the public sector's perspective of generally accepted accounting standards.

#### *Recommendations:*

The Working Group considers that the GGS is a reporting entity and that provision should be made for it to report separately from the PFC and PNFC sectors. This may require some public sector specific provisions in the accounting framework and whole-of-government standards (assuming GGS reporting is prescribed therein).

The Working Group considers that the GFS aggregates must be displayed on the face of the primary sectoral and whole-of-government financial statements. Such display meets user needs and would be an essential feature of a converged framework due to the prominence given these measures in GFS.

## **GFS/GAAP CONVERGENCE—CONCEPTUAL ISSUES**

### **THE PUBLIC SECTOR BUSINESS MODEL, NATURE OF THE GENERAL GOVERNMENT SECTOR AND DISCLOSURE OF GFS AGGREGATE MEASURES**

#### **BACKGROUND**

At its September meeting, the AASB commenced its review of the Heads of Treasuries (HoTs) report on GFS/GAAP Convergence dealing with conceptual and technical issues. To facilitate the review, the AASB's staff developed a detailed paper that contained preliminary staff views. The staff paper raised the following key conceptual issues:

- Whether the GGS is a reporting entity, and
- Whether GFS measures could be reported on the face of the converged financial statements.

After some discussion of each of these issues, the AASB deferred reaching a decision until its October meeting.

These are significant issues as some members of the AASB viewed the HoTs recommendations as departures from GAAP. The HoTs submission recommended the following:

- The GGS should report separately (which implies the GGS is a reporting entity); and
- GFS aggregate measures should be shown on the face of the GAAP statements.

The respective preliminary AASB staff views on these issues were:

- The AASB had previously declared in December 2002 that the GGS was not a separate reporting entity, but if it was considered to be a reporting entity, a general purpose financial report (GPFR) would need to be prepared, including consolidation of all controlled entities including those in the Public Finance Corporations (PFC) and Public Non Finance Corporations (PNFC) sectors.
  - That is, the staff paper does not endorse the existing partial consolidation practice, and would require GGS general purpose financial reporting to be, in essence, a whole of government report.
- That GFS measures, being Net Lending/Borrowing, Net Worth and Underlying Cash, were not GAAP concepts and therefore, should not be reported on the face of the statements.

After reaching agreement on the various issues canvassed in the paper, the AASB intends to convert the revised staff paper into a document that provides directions to the AASB's Project Advisory Panel (PAP). That is, the document would include tentative AASB positions for the PAP.

The HoTARAC Working Group's analysis of the above mentioned issues, together with recommendations are outlined below. Detailed research and analysis is included in the attachments that follow.

#### **THE PUBLIC SECTOR—A DIFFERENT BUSINESS MODEL**

In dealing with these issues, the Working Group considered it appropriate, as a first step, to set out the key differences between the public and corporate sectors. That is, the fundamental differences in the business models between the respective sectors, as a way to address the need for separate GGS reporting and for measures other than the traditional accounting measures of profit/loss, equity and total net cash.

The public sector differs from the private sector in both in its primary objective and performance indicators. Governments respond to a variety of needs, most of which are not addressed by the commercial sector. Traditional GAAP ‘measurements’ are generally not meaningful measures for public sector entities, particularly for GGS activities (eg. what does it mean for a government department to have an operating surplus? Was the entity over funded? Was it more efficient than anticipated? Or did contingencies not eventuate?).

In the private sector, where wealth creation is the focus, the primary financial reports are outcome reports, where reported profits impact directly on share price and capital values. In the public sector, where wealth re-distribution is the focus, the primary financial reports are budgets, as the primary resource allocations flow from these documents. GFS aggregates are important to the public sector because they indicate the impacts of the public sector, through public policies, on the rest of the economy as part of that distribution/re-distribution process.

The reasons for holding assets and incurring liabilities also differ between the two sectors. The commercial sector holds assets for increasing wealth by generating revenue streams, but the public sector holds assets to facilitate the delivery of public policy or re-distributing wealth.

While many business model features are shared between the public and not-for-profit sectors, the public sector is distinguished by its macroeconomic focus. As a consequence of its differing business model the public sector is likely to require industry-specific treatments in a number of accounting standards. This is discussed further in Attachment 1.

## **GENERAL GOVERNMENT SECTOR REPORTING**

### *The nature of the GGS*

In the public sector, budget preparation and reporting represents the decisions about the allocation of resources. However, the AASB is currently focused on ex post reporting, and has not considered budget reporting in its work program. IFAC PSC is exploring budget reporting, but it is too early to ascertain any outcomes. In most (if not all) jurisdictions, the budget sector and the GGS would include the same entities. The budget sector is defined as those entities that are substantially dependent on government funding. The GGS includes all entities whose primary function or activity is government. Consequently, there is a close nexus between the budget sector and GGS.

The existence of a separate GGS sector in GFS is warranted by the fact that the nature of the activities undertaken by the units of the GGS is fundamentally different to those of PNFCs and PFCs. The GGS is concerned about the non-market activities of government, while the PNFR and PFC sectors are concerned about the market activities of government.

There are two possible options for the accounting nature of the GGS—either (i) the GGS is a reporting entity or (ii) the GGS is reported as a segment / sector.

Additional information regarding General Government Sector reporting issues is provided in Attachments 2-1 to 2-4.

#### *(i) GGS as a reporting entity*

An argument can be made for the GGS to be a reporting entity, as there exists a range of users who need access to GGS financial information that cannot obtain this information elsewhere. Determining the GGS to be a reporting entity will eliminate the opportunity for Treasurers and others to ‘cherry-pick’ treatments, which is a possible consequence if the GGS is not considered a

reporting entity and special purpose financial reports<sup>1</sup> (SPFRs) remains the key vehicle for reporting key measures.

However, should the GGS be designated as a reporting entity, the issue of control requires consideration. This is because, if the GGS is determined to be a reporting entity, partial consolidation is not allowed under the existing consolidation accounting standards. If the conventional private sector control tests were applied to the GGS, in most jurisdictions it is likely that there would be little or no difference between the GGS GPFR and the fully consolidated whole of government GPFR. Given that the need for information about the GGS comes from users, if an exception to the consolidations standard is not allowed, it is improbable that the resulting financial statements would meet user needs.

Even though the GGS may be seen as controlling entities in the other sectors in a traditional private sector sense (eg ownership, appointment of board members, residual interest), frequently the GGS's ability to control or influence the operational and strategic decisions of those entities is impaired or restricted. For instance, the Commonwealth Treasurer can give specific instructions to the Reserve Bank about its retention of operating surpluses, but cannot direct its Board to increase interest rates or support the currency. Entities in the other sectors are given significant autonomy and vigorously defend their independence. In some cases, recognisable constraints are political in nature—for example, the Commonwealth's ability to influence Telstra or a State's ability to influence its wholly owned water or electricity providers is subject to real constraints due to both the minority interests and the interests of the citizens in how telephony and other services are delivered. Consequently, in a number of instances, the GGS is constrained from exercising the degree of influence a private sector, controlling owner would normally be able to apply.

**Reporting consequence:** Budgets prepared for the GGS would continue to be SPFRs in the absence of a budget accounting standard. For Outcomes reports (refer to Attachment 4-1 for an example), the GGS could prepare standalone GPFRs that include all entities within that sector.

It is logical to prepare a GPFR for the GGS that only includes the entities within that sector. However, each government as an economic entity would prepare consolidated GPFRs including all sectors. The economic entity's report, in compliance with a harmonised AAS 31, would include schedules by sector.

This is the preferred option of the Working Group.

*(ii) Continue to treat the GGS as a sector (segment)*

If the GGS is not determined to be a reporting entity in its own right, then the only viable alternative is to treat it as a component of the consolidated reporting entity. AAS 31 currently provides for sectoral reporting to be included in GPFRs of governments. However, the existing segment accounting standards specifically exclude application to the public sector. In its initial deliberations of its staff paper, the AASB was inclined to permit disclosure of the GGS as a segment on the face of the financial statements, so long as information about the other sectors was also displayed. A pro forma version of such a display is included as Attachment 4-2.

A possible consequence of treating the GGS as a sector/segment is for jurisdictions to produce two end of year reports that may differ. Firstly, a fully consolidated whole of government report, on a converged basis, that contains separate reporting, as schedules, of the three sectors (GGS, PFC, and PNFC). Secondly, an Outcomes Report for the GGS would be required to provide comparability

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<sup>1</sup> Special purpose financial reports need not fully comply with accounting standards. This allows preparers to adopt more favourable accounting treatments with minimal disclosure and possibility of sanctions.

between the budget documents and end-of-year financial statements. While it is unlikely that a government would diverge from the outcomes reporting standard in developing its Budget, this remains an option where the GGS Outcomes Report is a SPFR.

This is a far less preferable option as it continues to provide opportunities for differences in treatment between budgets, budget outcomes and consolidated financial statements (eg what some term 'cherry-picking'). This option sidesteps the control issue.

It is possible that some Treasurers would want to extract out the GGS to table as an outcomes report in Parliament. [It is unlikely that all Treasurers would be happy to table fully consolidated statements for the whole government for this purpose, as the relevant information is not easily accessed.] Given that these extracts would be special purpose financial reports, it would be possible for Treasurers to pick and choose accounting treatments for effect and present a report inconsistent with the corresponding schedules in the whole of government reports. A disincentive to this would be the requirement (probably by Parliaments) to explain the differences that would arise between the special purpose report and the separate segment schedule contained in the consolidated Whole of Government GPFR. Jurisdictions are also required to list departures from reporting standards. However, the degree and nature of these disclosures varies.

**Reporting consequence:** Budgets prepared for the GGS will be special purpose financial reports; and GGS Outcome reports would be (a) embedded in the GPFR as part of the sector schedules to the whole-of-government consolidated financial statements. An extract of the GGS information could be tabled by the Treasurer in Parliament or separately published as a special purpose budget outcome report.

As stated above, this is not the preferred option of the Working Group as it fails to meet user needs and will not be seen by key stakeholders as delivery of a fully converged framework.

*What government reporting entities are economic entities? Would treating the GGS as a parent entity assist in providing a solution for this issue?*

In a government context the primary economic entity appears to be the Whole of Government. Although separate financial information may be prepared for a parent entity, it appears that the normal convention is to publish this information alongside the fully consolidated information of the economic entity. If the GGS was treated as a parent entity, its financial information could be published alongside the Whole of Government information in a GPFR (example of a pro-forma format included as Attachment 4-3).

Under existing accounting standards parent entities are allowed to account for investments at cost or fair value. This might assist with resolution of the partial consolidation issue. However, there is only limited, explicit guidance on how to account for the relationships between public sector entities. The guidance available relies on commercial accounting practices that don't align with the public sector's business model.

GFS expects that the GGS will value its investments in the other sectors at market value. Changes in the value of these interests will be recognised as other economic flows.

## *Conclusion*

The GGS should be treated as a reporting entity as this is the only solution that meets user needs (for additional information refer to previous paper on Users and User Needs). However, to facilitate the preparation of meaningful GGS reports careful consideration needs to be given as to the nature of control in the public sector. It is apparent that the public sector owns a diverse range of entities and resources, but is constrained in what it can do with them. The extended debate on the potential sale of the Commonwealth's remaining majority interest in Telstra can be seen as a pertinent example of social and political constraints. As a consequence, public sector specific provisions may be needed in the consolidation accounting standard.

As an alternative, segment reporting will not solve the treatment of the GGS in the short term, as the public sector is excluded from existing AGAAP and IFRS sector standards. In the medium to longer term, if the GGS has not been designated as a reporting entity, it could be classed as a segment. There is a need to monitor progress towards public sector segment reporting. Segment reporting focuses on activities rather than control relationships. As a result, it avoids the questions regarding consolidations and control. If this option were pursued, then the issues that need to be addressed include: (a) how the GGS would be shown separately on the face of the primary statements; and (b) how to account for inter-sectoral transactions and balances.

## **WHERE CAN KEY GFS AGGREGATES BE DISPLAYED IN CONVERGED FINANCIAL REPORTS?**

### *Disclosure of GFS aggregate measures in financial reports*

Users have expressed a clear need to have quick and ready access to the GFS aggregates. In fact, in a number of instances, users indicated that the GFS aggregates were the single most useful aspect of governmental financial statements. Attachments 3, 3-1 and 3-2 provide further background on disclosure of the GFS aggregates.

However, simply stated, both the AGAAP and IFRS frameworks provide for supplementary disclosures in the primary statements of GPFRs, such as:

- (1) AASB 1018 permits supplementary disclosures so long as they are not given greater prominence than the required disclosures under the standard.
- (2) AAS 36 (specifically) and AAS 28 (by implication) also permit additional disclosures if they would assist users in understanding the entity's financial information.
- (3) The IAS Framework and IAS 1 also permit additional disclosure where the information presented would assist users in understanding the entity's financial statements.
- (4) AAS 31 specifically permits disclosure of performance indicators "to provide users with adequate information to make assessments of the effectiveness, economy and efficiency of a government". Such disclosures must be relevant, reliable, comparable and understandable.

The conduct of government has discernable effects on the broader economy. As a result, the GFS aggregates are used to measure both these effects and the government's performance in delivering policy. Users have indicated the importance of these aggregates. Consequently, the Working Group believes that these aggregates must be displayed on the face of the primary financial statements, adjacent to the information on which they are based.

Some stakeholders consider that unless the GFS aggregates<sup>2</sup> are displayed on the face of the financial statements, harmonisation cannot be achieved. Any solution that does not display these measures on the face of the primary statements is ignoring the requirements of the GFS framework (which mandates inclusion of these measures in the primary statements). It has also been noted that these measures directly link to the National Accounts and other Australian Bureau of Statistics, International Monetary Fund (IMF) and Organisation for Economic Development (OECD) publications.

### *Options for GFS aggregate measurement*

There are two approaches to presentation of GFS aggregates:

1. Harmonised GFS aggregates calculated from the (harmonised) numbers within the statements, with note disclosure deriving the ABS GFS (“pure” GFS) aggregates; or
2. On an ABS GFS basis, with reconciling items appearing on the face of the statements and note disclosure explaining the measurement differences between the Harmonised GFS and ABS GFS aggregates.

Pro-forma statements for both approaches are provided in Attachments 5-1 and 5-2.

The first approach maintains the flow of information through the statements, and adds no new information. The net borrowing/lending aggregate and other GFS aggregates would be calculated on a harmonised basis in the statements. However, some jurisdictions may wish to continue to focus on ABS GFS aggregates in their Budget documentation and speeches. Two versions of the GFS aggregates will then exist which may lead to confusion.

To avoid this risk of confusion, the second approach determines ABS GFS aggregates on the face of the statements. Only one set of aggregates is calculated, with the note disclosure focusing on the remaining measurement differences between the two frameworks. The second approach maintains the consistency of the time series of the aggregate information. It will allow jurisdictions to produce one set of financial statements that are consistent with both GAAP and pure GFS but at some sacrifice of the integrity of the harmonisation principle.

The Working Group considers the following options as less desirable, and they are:

- A separate schedule may be marginally acceptable, so long as the financial statements could be displayed in any order. [Note, this is the approach taken by the New Zealand standard setter for service performance reporting] However, this would physically separate the aggregates from the information to which they relate, thereby increasing the work required for user analysis.
- Disclosing the GFS analytical measures in the notes to the financial statements will not meet user needs because they have indicated both that a single set of financial reports are essential to eliminate confusion and that the GFS aggregates are one of the most frequently used parts of the financial statements. Failure to display GFS aggregates on the face of the primary statements is likely to be interpreted by the ABAS and others that harmonisation has not been achieved.

### *Conclusion*

Both the Australian and international accounting frameworks provide for supplementary disclosure on the face of financial statements where such information would assist users. It is apparent that, in most cases, such supplementary disclosure has to do with presentation.

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<sup>2</sup> Net borrowing/lending [Statement of Financial Performance], net worth [Statement of Financial Position] and underlying cash balance [Cash Flow Statement].

However, as stated earlier, there is no prohibition of other supplementary disclosure so long as it is not given greater prominence than the standard GAAP measures.

The New Zealand approach would provide a precedent form a comparable standard setter for requiring specific performance related, supplementary disclosures from public sector entities. If this concept was applied to convergence in Australia, public sector entities might prepare the standard suite of GAAP statements along with a 'Statement of Fiscal Impact', which would be published alongside the conventional converged statements.

## **RECOMMENDATION:**

These two issues have been discussed for some time, as they were recognised as major GAAP convergence challenges. A number of the previous Working Group papers represented initial steps towards exploration and resolution (eg specifically the papers on Concepts, Consolidations and Budgeting). After discussion of the background and various options, the HoTARAC Working Group recommends that:

- The GGS be determined to be a reporting entity. The Working Group recommends that the AASB consider the following possibilities for resolution of this issue:
  - (a) Are the private sector definitions of control appropriate for the public sector in the context of the GGS?
  - (b) Whether it is appropriate for the convergence standards to establish principles-based boundaries for the GGS (and thereby exempt it from the broadening impacts of the consolidation standard) and mandate specific public sector rules about how to measure and disclose investments in entities that are included in the other sectors of the government (eg net assets)?
  - (c) How should the GGS financial report be presented? That is as:
    - (i) separate financial statements; or
    - (ii) a column in a harmonised report (eg parent entity)?
  - (d) Treat the GGS as a sector/segment *only* if the AASB cannot reach agreement on the reporting entity option (this is the least preferable option).
  
- The key GFS aggregates (net borrowing/lending, net worth and (cash) surplus/deficit) must be displayed on the face of primary whole-of-government and sectoral financial statements.

If the GGS were to be treated as a sector/segment, disclosure of the GFS aggregates would be at the bottom of the GGS schedule in the financial report. However, although perceived by some as more GAAP compliant, this would suffer the same disadvantages and inadequacies as the sector/segment classification of the GGS.

## LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Topic</u>	<u>Page</u>
1	<b>THE PUBLIC SECTOR—A DIFFERENT BUSINESS MODEL</b>	11
2	<b>OPTIONS FOR REPORTING GENERAL GOVERNMENT SECTOR</b>	13
	2-1. Is the General Government Sector a reporting entity?	14
	2-2. What is an economic entity?	18
	2-3. How does a parent entity report?	22
	2-4. What is a segment?	25
3	<b>OPTIONS FOR DISCLOSURE OF GGS AGGREGATE MEASURES</b>	28
	3-1. Are the GFS measures ‘performance indicators’?	29
	3-2. What can be displayed on the face of statements?	32
4	<b>PRO-FORMA FINANCIAL STATEMENTS</b>	
	4-1. Reporting of GGS as a separate entity	35
	4-2. Reporting of GGS as a sector (on face of financial statement)	44
	4-3. Reporting of GGS as a Parent Entity	53
5	<b>OPTIONS FOR REPORTING GFS AGGREGATE MEASURES</b>	
	5-1. Option 1: Reporting of Harmonised GFS Aggregates	62
	5-2. Option 2: Reporting of ABS GFS Aggregates	72

## THE PUBLIC SECTOR—A DIFFERENT BUSINESS MODEL

The conceptual framework underpinning the activities of the public sector differs from that applied by the private/commercial sector. This should be reflected in the accounting framework applied to those sectors.

### *Entities in the private/commercial sector:*

- The primary objective is generating and enhancing wealth (value) for stakeholders (eg profit, earnings per share, return on assets, etc).
- Broad strategic decisions are made by boards, which are elected/appointed representatives of stakeholders. Senior management is appointed by the board. Senior management then appoint their subordinates. Ownership interests may overlap with management or may be externally held.
- As a consequence, accounting standards focus on providing a true and fair view of financial performance, cash flows, and financial position with the stated purpose of assisting financial statement users with resource allocation decisions (eg investment, financing and dividend decisions). The primary GAAP measures have specific relevance in this context:
  - Net operating result is a measure of the success of the entity's operating strategies during the reporting period. The reporting entity controls expenses, but generating revenues requires influencing others to purchase the goods/services sold by the entity. Consequently, the net operating result is a meaningful indication of entity performance.
  - Net assets reflects the net economic benefits controlled by the entity. As such it is a measure of the way in which the entity is managing its assets and liabilities, and, on a period-to-period basis, is a measure of whether or not the entity is accumulating economic resources.
  - Net change in cash holdings is a measure of the change in liquidity of the entity.
- Commercial entities acquire and hold assets for the purposes of generating revenue streams.

### *Entities in the public sector:*

- The primary objective is re-distributing wealth through policy delivery<sup>3</sup>. The greater the wealth generated by the commercial sector, the more wealth governments have to re-distribute. Governments collect taxes to fund the delivery of products and services required by:
  - a) the Constitution (eg Defence and law and order);
  - b) longstanding inter-government arrangements (eg housing and transport); and
  - c) party policy arrangements (eg Job Network, changes to the Pharmaceutical Benefits Scheme).
- Governments generally operate in areas:
  - (1) where there is no market or has been market failure (eg property terrorism insurance or medical indemnity coverage);
  - (2) the private sector couldn't/wouldn't operate (eg salinity remediation, border control and quarantine inspections); and
  - (3) in partnership with the private sector (eg toll roads, hospitals).

Given that most of government's activities are not commercial in nature, accounting standards need to be applied and/or modified in a way that recognises public sector requirements and user needs.

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<sup>3</sup> The Commonwealth's 2003-04 Budget Paper Number 1 indicates that the Australian Government's priorities for this Budget were: reducing personal income tax, strong defence, enhancing Australian security, investing in education, sustaining first rate health services, tough on drugs, promoting participation to address disadvantage, developing industry and innovation, support for rural and regional Australia, energy reform for the future, and reforming international taxation (refer page 1-1).

- Citizens hold governments accountable for impacts that go far beyond financial results, such as interest rates, unemployment statistics, major business failures, etc. Effectively wherever there is a perceived need, which is not likely to be met by a commercial provider, citizens will expect government to fill that need.
- The Budget is the key document for the allocation of scarce resources. It is what parliament relies on in approving expenditures of funds. Expenditure without parliamentary funding approval (eg without an appropriation) would be a breach of the Constitution.
- Broad strategic decisions are made by governments, which are elected/appointed representatives of citizens. Their broad resource allocation decisions are subject to approval by Parliaments, which are also elected representatives of citizens. Governments appoint senior management of the entities they control. Those senior managers appoint their subordinates. The government has ownership interests over other entities, but is not owned (other than by the electorate, which is—at best—indirect).
- As a consequence, the application of accounting standards formulated on private/commercial sector principles doesn't assist with resource allocation decisions (eg appropriations). The primary GAAP measures have the following meanings in this context:
  - Net operating result (eg 'profit/loss'), including both re-measurements and other, is an indication of whether the government estimated its financial needs correctly in formulating its taxing and expenditure policies. However, governments and government agencies do not exist to deliver a profit and are not evaluated on that basis. It does not measure the joint impact of public policy and of the government on other sectors of the economy. GFS net borrowing/lending, however, would measure the impacts of public policy and government on other sectors, whilst providing a comparable time series stretching back over decades.
  - Net assets provides information about governments as for the private sector. However, governments tend to hold a wider range of assets that are difficult to measure financially such as national parks, infrastructure, and other cultural/heritage assets. Government is often restricted in what it can do with these assets and spends significant resources maintaining them. Given the difficulties in measuring both these assets and some of government's obligations, net assets probably should not be used as a primary indicator of government performance. GFS net worth is probably subject to the same deficiencies for the same reasons.
 

The concept of equity as the residual is meaningless for government and agencies as it doesn't issue shares and doesn't focus on dividend decisions or financing decisions. Instead, these decisions are only made in the context of policy setting. Net assets/equity is not a focus of government performance.
  - Net change in cash holdings again only provides information about government's ability to manage its cash inflows and outflows, while underlying cash provides information about whether the government is a net borrower or investor of cash during the period.
- The public sector does not hold assets to generate revenues. Public sector assets are held to facilitate the delivery of agreed outputs and outcomes, ie the delivery of public policy.

### *Conclusion*

The business models, objectives and purposes of the public sector differ from those adopted by the private sector. These differences extend to relationships between related entities (eg the relevance of the commercial notion of control) and governance arrangements. As a consequence, accounting standards applying to the public sector cannot be totally sector neutral, but will need to specifically consider the impact of proposed accounting treatments in a public sector context.

**OPTIONS FOR REPORTING GENERAL GOVERNMENT SECTOR**

There are three generally recognised options for treatment of this sector.

**Option 1: Treat the GGS as a reporting entity.** As a consequence, it would prepare GPFRs in compliance with all accounting standards.

Pro	Con
<ul style="list-style-type: none"> <li>o Meets user information needs, therefore GPFR publication supported by parts of SAC 1</li> <li>o Provides the Treasurer with single, direct Budget and Outcomes reports to table in Parliament</li> <li>o GGS reports can be audited as GPFRs</li> <li>o</li> </ul>	<ul style="list-style-type: none"> <li>o As a separate reporting entity, GAAP has been interpreted as requiring the GGS to fully consolidate all controlled entities, including those in the PFC and PNFC sectors.</li> <li>o Some perceive that the GGS is a parent entity, which would blur sectoral boundaries in GGS reports (if this is true, then the GGS and the consolidated entity may be substantially identical)</li> </ul>

**Option 2: Treat the GGS as a segment of the public sector.** Any financial reports for the sector alone would be special purpose financial reports.

Pro	Con
<ul style="list-style-type: none"> <li>o Consistent with GAAP</li> <li>o May provides flexibility to display GFS measures on GGS statement face</li> <li>o More closely aligns with role of general government sector</li> </ul>	<ul style="list-style-type: none"> <li>o Doesn't satisfy user needs</li> <li>o Segment standard doesn't apply to government</li> <li>o Limits the directness of the Treasurer's reporting to Parliament (must either table consolidated information where GGS info is buried or use an extract)</li> <li>o Separate GGS reports are only special purpose financial reports</li> </ul>

**Option 3: GGS is neither a reporting entity nor a segment.** Any financial reports for the sector alone would be special purpose financial reports.

Pro	Con
<ul style="list-style-type: none"> <li>o Consistent with GAAP</li> <li>o Provides flexibility to display GFS measures on GGS statement face</li> </ul>	<ul style="list-style-type: none"> <li>o Doesn't satisfy user needs</li> <li>o May leave opportunity for special purpose cherry picking</li> <li>o Limits the directness of the Treasurer's reporting to Parliament (must either table consolidated information where GGS info is buried or use an extract)</li> <li>o Separate GGS reports are only special purpose financial reports</li> </ul>

## IS THE GENERAL GOVERNMENT SECTOR A REPORTING ENTITY?

### What is the General Government Sector (GGS)?

The GGS is created by the SNA/GFS framework as one of sectors of each national economy. [Sectors are used to group entities with like purposes together for the purpose of analysis and reporting.] The general government sector is described as follows:

“The general government sector consists mainly of central, state and local government units together with social security funds imposed and controlled by those units. In addition, it includes non-profit institutions (NPIs) engaged in non-market production that are controlled and mainly financed by government units or social security funds.”<sup>4</sup>

“The general government sector, which consists of entities that fulfill the functions of government as their primary activity.”<sup>5</sup> “The general government sector consists of all government units and all non-market NPIs that are controlled and mainly financed by government units.”<sup>6</sup>

In Australia, each jurisdiction monitors and the ABS determines which entities are included in the general government sector. ABS provides some additional guidance:

“...Included in the sector are government-controlled unincorporated enterprises that engage in market production but do not qualify as quasi-corporations because their operations are too closely integrated with the operations of other government units and are not the subject of a separate full set of accounts.”<sup>7</sup>

### What is meant by a reporting entity?

Australian accounting standards include guidance on which entities are considered to be reporting entities. Reporting entities are required to prepare GPFRs that comply with all Australian accounting standards. It is logical to start with the definition of an entity:

“entity” means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives.”<sup>8</sup>

However, while this is the technical definition of an entity, other paragraphs in this Statement expand the definition to focus on user needs and accountability. For example:

“It should therefore be noted that the concept of the reporting entity adopted by this Statement is not dependent on the sector ... within which the entity operates, the purpose for which the entity was created ... or the manner in which the entity is constituted - legal or other. It is a concept which is tied to the objective of general purpose financial reporting and ... is a concept which requires all entities with users dependent on general purpose financial reports for information to prepare such reports.”<sup>9</sup>

“A number of alternative concepts of the reporting entity are implicit in existing legislation and regulations which specify the entities which should prepare general purpose financial reports. These concepts include the legal entity concept, which has been employed in legislation in the private sector, and a broad concept based on accountability of elected representatives and appointed officials, which has been employed in the public

<sup>4</sup> *System of National Accounts 1983* paragraph 4.9.

<sup>5</sup> *GFS Manual 2001* paragraph 2.9.

<sup>6</sup> *GFS Manual 2001* paragraph 2.28.

<sup>7</sup> Australian Bureau of Statistics Publication 5514.0 *Australian System of Government Finance Statistics: Concepts, Sources and Methods* paragraphs 2.33 to 2.38.

<sup>8</sup> SAC 1 Definition of a Reporting Entity paragraph 6. Also, in AAS 24 Consolidated Financial Reports paragraph 18.

<sup>9</sup> SAC1 Definition of the Reporting Entity paragraph 13.

sector. ... In the public sector the accent on accountability has seen widespread application of the fund concept of reporting, which implies a concern with reporting the results of individual funds. In other cases, the concept based on accountability of elected representatives and appointed officials has led to entities which have such representatives and/or officials preparing general purpose financial reports.”<sup>10</sup>

“The concepts referred to in paragraph 10 do not give adequate consideration to user needs in identifying the reporting entity. In the public sector it is possible that users exist in respect of entities other than the fund or the electoral entity, for example, in respect of individual statutory authorities, departments and governments. If accounting concepts, developed within a framework which identifies users' information needs as primary, are to satisfy the objective of general purpose financial reporting, those concepts must be related to users' information needs.”<sup>11</sup>

“This Statement adopts a concept of the reporting entity which is tied to the information needs of users and the nature of general purpose financial reports. The concept requires that individual reporting entities be identified by reference to the existence of users who are dependent on general purpose financial reports for information for making and evaluating resource allocation decisions. This means that a class of entity defined under another concept, such as the legal or fund concepts (for example, proprietary companies or special and general purpose funds), may include some entities which should be identified as reporting entities, by virtue of the existence of users dependent on general purpose financial reports prepared by the entity, and other entities which should not be so identified.”<sup>12</sup>

Given the symmetry between the budget sector and the GGS, it can be argued that the GGS is an administrative arrangement, and thus it meets the SAC 1 definition of an entity. In addition, users require financial information about the GGS as the basis for resource allocation decisions. This was evidenced in the HoTs' Users and Uses paper previously forwarded to the AASB, which identified a wide range of users and uses of GGS based budget and budget outcome reports.

In certain circumstances, SAC 1 also provides for a reporting entity to be a collection of entities:

“...while in some instances a reporting entity will comprise an individual entity, in other instances a reporting entity will comprise a group of entities, some of which individually may be reporting entities. One of the entities within the group will control the other entities so that they operate together to achieve objectives consistent with those of the controlling entity. The group, which may be termed an economic entity, will be a reporting entity where there exist users dependent on general purpose financial reports for making and evaluating resource allocation decisions regarding the collective operation of the group of entities. Whether one entity has the capacity to control other entities, and therefore whether an economic entity exists, will depend on an evaluation of the circumstances of the particular entities. In determining whether control exists, the factors to be considered include the following: extent and implications of financial dependence, capacity to appoint or remove managements or governing bodies, and power to direct operations.”<sup>13</sup>

From the description above, it appears that a collection of entities may not be a legal entity, but would have common objectives and would normally have an entity that controls the activities of the other entities. This controlling entity is often referred to as the ‘parent entity’.

### *Consolidation methods currently in use*

The consolidation method adopted by jurisdictions indicates the perceived relationships between the sectors and the consolidated entity. There are three different consolidation models currently used by Australian jurisdictions, which can be described as follows:

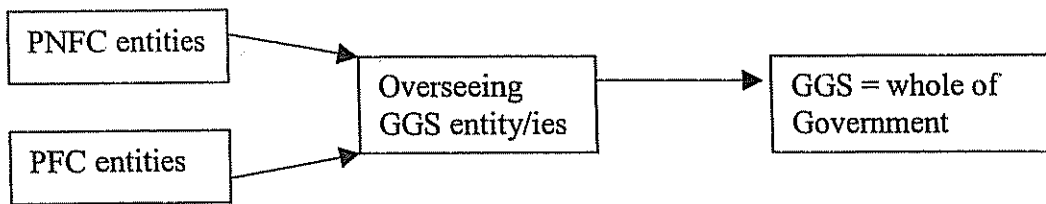
<sup>10</sup> SAC1 Definition of the Reporting Entity paragraph 10.

<sup>11</sup> SAC1 Definition of the Reporting Entity paragraph 11.

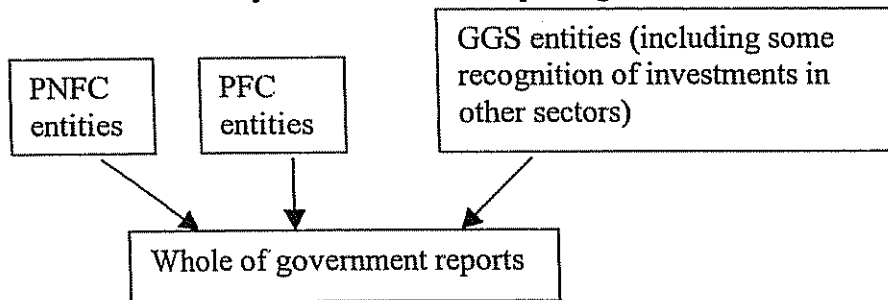
<sup>12</sup> SAC1 Definition of the Reporting Entity paragraph 12.

<sup>13</sup> SAC1 Definition of the Reporting Entity paragraph 17.

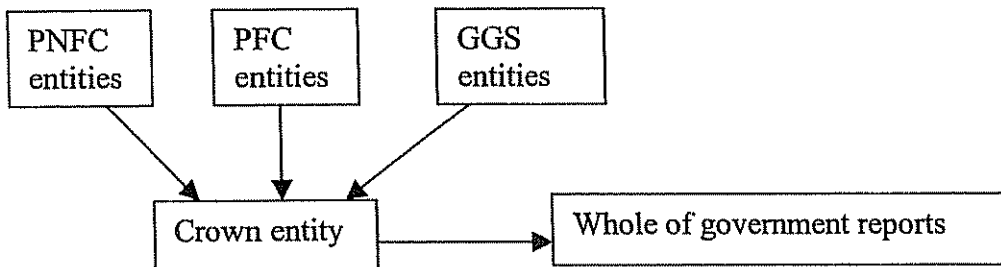
- Use of general government sector as parent entity (eg the holder/overseer of the government’s interest in controlled entities in other sectors): used by WA for GFS basis reports



- No parent entity (eg the general government sector does not have control of the government’s controlled entities in other sectors): used by ACT, NSW, SA, TAS, VIC and Commonwealth for both sectors and by WA for AAS 31 reporting



- Use of crown entity as parent entity (noting that the GGS in this case would be the GGS entities and the crown entity): used by QLD



Canadian guidance

The Canadian Institute of Chartered Accountants adopts an accountability basis for defining a reporting entity:

**“The government reporting entity should comprise the organisations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, or local government council, and are owned or controlled by government.”<sup>14</sup>**

“Many organisations are financially dependent on or regulated by government, but their responsibility to the government may be limited only to the way they use government funding or compliance with government regulations. Unless such organisations are also

<sup>14</sup> “Public Sector Accounting Recommendations—Concepts and Principles”, CICA public sector accounting handbook, the Canadian Institute of Chartered Accountants, April 2000: paragraph 1300.07 [bold for black letter policy].

accountable for the overall administration of their financial affairs and resources to the government, they would not be included in the government's reporting entity.”<sup>15</sup>

The June 2003 Public Sector Accounting Board *Bulletin* indicates that the Board had approved final revisions to the definition of the government reporting entity. The revised definition focuses on control and doesn't exclude GBEs.

### *Conclusion*

The GGS is a grouping of related entities that exist to serve a particular purpose—that is, providing the functions of government. There are users, both in Parliaments and externally, that require information about the financial impacts and activities of government. Consequently, the GGS should be treated as a reporting entity.

Existing consolidation methods used by jurisdictions reflect the differences in structural arrangements between jurisdictions.

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<sup>15</sup> “Public Sector Accounting Recommendations—Concepts and Principles”, CICA public sector accounting handbook, the Canadian Institute of Chartered Accountants, April 2000: paragraph 1300.10 [normal font for guidance].

## WHAT IS AN ECONOMIC ENTITY?

Australian accounting standards include guidance on economic entities, which generally comprises a collection of legal and/or other entities. As the definition of an entity is integral to many accounting principles, references to the definition of an economic entity are plentiful.

**"economic entity"** means a group of entities comprising a controlling entity and one or more controlled entities operating together to achieve objectives consistent with those of the controlling entity."<sup>16</sup>

**"outside equity interest"** means the equity in the economic entity other than that which can be attributed to the ownership group of the parent entity"<sup>17</sup>

"...the concept of the reporting entity is extended from the legal entity or other single entity to recognise the existence of an economic entity stemming from interrelationships between entities. The objective underlying the preparation of financial reports for this economic entity is to provide relevant and reliable financial information about the related entities as a single reporting entity to reflect that these entities operate as a single economic unit. For a number of entities to be able to operate together as a single economic unit, they need to be under common direction, thereby providing consistency in the objectives being pursued. This occurs when entities are related by being under the common control of one entity. Hence, in this Standard it is contended that it is control rather than ownership that provides the criterion which is fundamental to identification of the group of related entities for which the presentation of consolidated financial reports is required. The preparation of consolidated financial reports for this economic entity is consistent with Statement of Accounting Concepts SAC 2 "Objective of General Purpose Financial Reporting", which states that general purpose financial reports shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources."<sup>18</sup>

"In this Standard, consistent with the objective of reporting for related entities so as to reflect that they operate as a single economic entity, the criterion of control has been used to determine a parent entity/subsidiary relationship and for identifying an economic entity for which consolidated financial reports may be prepared. Under this approach, the economic entity is defined as the group of entities comprising the parent entity and each of the entities which it controls. The consolidated financial reports for the economic entity would reflect the performance of that group and the resources under the control of the parent entity irrespective of whether an ownership interest is held. This approach is considered to provide the most meaningful consolidated financial reports in that it enables a number of individual but related entities to be identified as a single entity for financial reporting purposes in a manner which is consistent with the substance of the economic entity operating as a single economic unit."<sup>19</sup>

"The notion of accounting for the substance of transactions is identified in numerous Australian Accounting Standards. For example, Australian Accounting Standard AAS 24 "Consolidated Financial Reports" requires an *economic entity*, comprising the *parent entity* and each of the entities that it controls, to prepare consolidated financial reports. Adoption of the criterion of control ensures that all the resources under the control of the parent entity are reflected in the consolidated financial report, irrespective of whether an

<sup>16</sup> SAC 1 Definition of the Reporting Entity paragraph 6, AAS 1 Statement of Financial Performance paragraph 8.1. Also in AAS 2 Inventories paragraph 13.1, AAS 3 Income Taxes paragraph 15.1, AAS 4 Depreciation paragraph 14.1, AAS 5 Materiality paragraph 5.1, AAS 6 Accounting Policies paragraph 9.1, AAS 8 Events Arising After Reporting Date paragraph 7.1, AAS 10 Recoverable Amount of Non-Current Assets paragraph 9.1, AAS 11 Construction Contracts paragraph 13.1, AAS 14 Accounting for Investments in Associates paragraph 9.1, AAS 15 Revenue paragraph 15.1, AAS 17 Leases paragraph 20.1, AAS 18 Accounting for Goodwill paragraph 14.1, AAS 19 Interests in Joint Ventures paragraph 12.1, AAS 21 Acquisitions of Assets paragraph 12.1, AAS 22 Related Party Disclosures paragraph 13, AAS 23 Set Off and Extinguishment of Debt paragraph 11.1, AAS 24 Consolidated Financial Reports paragraph 18, AAS 26 Financial Reporting of General Insurance Activities paragraph 14.1, AAS 28 Statement of Cash Flows paragraph 14.1, AAS 29 Financial Reporting by Government Departments paragraph 17.1, AAS 32 Specific Disclosures by Financial Institutions paragraph 10.1, AAS 33 Presentation and Disclosure of Financial Instruments paragraph 7.1, AAS 34 Borrowing Costs paragraph 11.1, AAS 35 Self-Generating and Regenerating Assets paragraph 10.1, AAS 36 Statement of Financial Position paragraph 9.1, AAS 37 Financial Report Presentation and Disclosure paragraph 7.1, AAS 38 Revaluation of Non-Current Assets paragraph 11.1.

<sup>17</sup> AAS 1 Statement of Financial Performance paragraph 8.1.

<sup>18</sup> AAS 24 paragraph 15.

<sup>19</sup> AAS 24 paragraph 32.

ownership interest is held. This approach enables a number of individual but related entities to be identified as a single entity, so as to reflect the substance of the economic entity as a single economic unit.”<sup>20</sup>

“Adoption of the criterion of control for defining an economic entity has significant implications in respect of the parent entity/ subsidiary relationships identified in accordance with this Standard and the legal form of the entities involved. Adoption of the criterion of control will enable a complete economic entity to be reflected in a consolidated financial report even though, for example, some of the subsidiaries may be in the form of partnerships or trusts.”<sup>21</sup>

“The concept of control as the basis for identifying an economic entity has important implications. In the public sector, the entities making up the budget sector (that is, those entities which are heavily reliant on the budget for resources) may individually be identified as reporting entities. Because they are controlled by a government, those entities together with that government and the other entities that the government controls would, as an economic entity, meet the definition of a reporting entity. In preparing a general purpose financial report for this reporting entity, that is, for the government as a whole, it may be desirable to report detailed information regarding the operation of particular segments of the government as a whole, for example, the budget sector. This Statement does not, however, require the preparation of a separate general purpose financial report relating to the group of entities comprising the budget sector because, without their controlling entity (the government as a whole), they do not form an economic entity.”<sup>22</sup>

“Because an economic entity, as defined in this Statement, comprises only the controlling entity and controlled entities, those entities which are significantly influenced, but not controlled, by a member of the economic entity do not form part of the economic entity. (Entities which are significantly influenced are termed associated entities.) This means that in preparing the general purpose financial report for the economic entity, additional information about an investment in an associated entity may be reported, possibly in a supplementary form, but it would not be reported on the basis of the associated entity forming part of the economic entity.”<sup>23</sup>

“The focus on user needs as the basis for determining the existence of a reporting entity implies that the fact that an economic entity (for example, a corporate group or a government) may be a reporting entity does not affect whether the controlling entity or any of the controlled entities are reporting entities in their own right.”<sup>24</sup>

“Accordingly, while in some instances a reporting entity will comprise an individual entity, in other instances a reporting entity will comprise a group of entities, some of which individually may be reporting entities. One of the entities within the group will control the other entities so that they operate together to achieve objectives consistent with those of the controlling entity. The group, which may be termed an economic entity, will be a reporting entity where there exist users dependent on general purpose financial reports for making and evaluating resource allocation decisions regarding the collective operation of the group of entities. Whether one entity has the capacity to control other entities, and therefore whether an economic entity exists, will depend on an evaluation of the circumstances of the particular entities. In determining whether control exists, the factors to be considered include the following: extent and implications of financial dependence, capacity to appoint or remove managements or governing bodies, and power to direct operations.”<sup>25</sup>

“There may be circumstances where an economic entity is not a reporting entity as defined in this Standard. This might occur, for instance, where the economic entity is within another economic entity which is a reporting entity. Where an economic entity is not a reporting entity, the preparation of consolidated financial reports for that entity is not required by this Standard.”<sup>26</sup>

“This Standard requires the presentation of consolidated financial reports for each economic entity which can be identified as a reporting entity. The economic entity would comprise the parent entity and each of the entities under its control and in the public sector could include, for instance, government agencies, authorities, companies, partnerships and trusts. Where a general purpose financial report involves the combination of the financial reports of a number of entities, this Standard requires that the general purpose financial report

<sup>20</sup> AAS 6 Accounting Policies paragraph 4.1.12.

<sup>21</sup> AAS 24 Consolidated Financial Reports paragraph 6.

<sup>22</sup> SAC1 Definition of the Reporting Entity paragraph 29.

<sup>23</sup> SAC1 Definition of the Reporting Entity paragraph 31.

<sup>24</sup> SAC1 Definition of the Reporting Entity paragraph 32.

<sup>25</sup> SAC1 Definition of the Reporting Entity paragraph 17.

<sup>26</sup> AAS 24 paragraph 8.

comprise a consolidated financial report prepared in accordance with the consolidation techniques set out herein...<sup>27</sup>

“There will exist some entities which will not be regarded as reporting entities, but which form part of an economic entity which is a reporting entity. This would be the case, for example, where a company is a wholly-owned subsidiary of another entity in the economic entity, and the size and other economic characteristics of the company are such that there do not exist users dependent on general purpose financial reports as a source of information for making and evaluating resource allocation decisions about the wholly-owned company. Instead, users are interested in information about the collective operation of the company and the other entities comprising the economic entity. Similarly, a segment of an economic entity is unlikely to be regarded as a reporting entity because information about a segment is usually directed at improving the knowledge of users of the general purpose financial reports for the whole reporting entity, rather than catering for the needs of those users interested only in information about that segment.”<sup>28</sup>

“In determining the existence of an economic entity in the public sector the controlling entity's ability to deploy the resources under its control and whether there are restrictions on the allocation of funds between activities under its authority need to be considered. In addition, the ability of the entities to operate together in pursuing the objectives of the controlling entity is a central characteristic of an economic entity. If the operation of these entities as one is precluded, for example through the existence of separate administrations, it is clear that the entities do not constitute a single economic entity. A minister may have responsibility for more than one function. Those functions may be encompassed in a single portfolio or administered through a number of portfolios. The specification of separate objectives for each function will usually be an indication of the existence of separate economic entities, regardless of whether the functions are combined in the one portfolio or administered separately through more than one portfolio. Similarly, the financial reports of individual local governments would not be aggregated for the purpose of preparing financial reports which consolidate all local governments in each State or Territory because the combination of such local government bodies would fail to satisfy the definition of an economic entity.”<sup>29</sup>

“Directors of the reporting entity comprise, in relation to the financial report of an entity, the directors of the entity, and, in relation to the consolidated financial report of an economic entity, the directors of the economic entity. In normal circumstances, the directors of the economic entity comprise the directors of the entity which is the parent entity in the economic entity. Normally, the directors of entities controlled by the parent entity in the economic entity are not directors, as defined in this Standard, of the economic entity.”<sup>30</sup>

“This Standard does not attempt to identify all economic entities in the public sector which should prepare general purpose financial reports. Instead, it seeks to describe the factors which should be considered in determining whether an economic entity exists and whether that economic entity constitutes a reporting entity. In addition, the Standard identifies the accounting techniques which should be employed when, in the preparation of general purpose financial reports, the financial reports of a number of separate entities are to be combined. This approach avoids the prescriptive designation of artificial reporting entities and the resulting preparation of meaningless consolidated financial reports.”<sup>31</sup>

“In the public sector, reporting entities may include ministerial portfolios, ministerial departments, statutory authorities or other entities. In some cases the reporting entity may be an economic entity, that is, it may comprise a parent entity and a number of controlled entities, and in other cases the reporting entity may be the parent entity or the controlled entity itself. For instance, whether or not a ministerial portfolio would be a reporting entity depends on whether the minister is able to deploy resources across all entities included in that portfolio and there exists users dependent on general purpose financial reports for information about the deployment and management of resources dedicated to that portfolio.”<sup>32</sup>

## Conclusion

SAC 1 indicates that an economic entity must exist for a single function or purpose and have the capacity to redeploy resources without restriction. It is apparent that the entities within the GGS exist to deliver the functions of government. Full consolidation of the PFC and PNFC entities into

<sup>27</sup> AAS 24 paragraph 7.

<sup>28</sup> SAC 1 paragraph 27.

<sup>29</sup> AAS 24 paragraph 38.

<sup>30</sup> AAS 22 Related Party Disclosures paragraph 27.

<sup>31</sup> AAS 24 paragraph 35.

<sup>32</sup> AAS 24 paragraph 36.

GGS reports is counterproductive to the reasons for producing GGS reports. Also, the focus of the entities in the PFC and PNFC sectors is more commercially oriented.

Again, the Working Party recommends that a solution to the nature of the GGS must consider the existing variations in structure as well as the public sector business model.

## HOW DOES A PARENT ENTITY REPORT?

Corporations Act 2001 section 295 requires preparation of primary financial statements for the (parent) entity and, if required by accounting standards, consolidated financial statements. Consequently, it is common for complex entities to have a double column format for financial reports—the more prominent being the consolidated and the adjacent being the ‘parent entity’, with comparatives for both alongside. [Note: A series of illustrative pro-forma statements are included as Attachment 4.]

The parent entity’s financial statements may only include those items that the parent directly controls.

“When a parent entity prepares a financial report which it purports to be a general purpose financial report for an economic entity which is not a reporting entity, it shall apply this Standard as if the economic entity is a reporting entity”<sup>33</sup>

“...For example, the operating statement, statement of financial position and statement of cash flows may be presented in columnar form disclosing results for the *economic entity*, the *parent entity* and its *subsidiaries*. Similarly, the notes in the financial report may be presented by disaggregating the economic entity into individual entities or other components which may be relevant to users of the financial report.”<sup>34</sup>

“Normally, the general purpose financial report of the government reporting entity will be prepared by consolidating the individual financial reports of all entities comprising the government economic entity in accordance with Australian Accounting Standard AAS 24 “Consolidated Financial Reports”. Where all the entities within the government reporting entity prepare financial reports, consolidation of those reports will ensure that the government’s financial statements will include all of its assets, liabilities, revenues and expenses. Where financial reports are not prepared by all government-controlled entities, other means will need to be employed to ensure that the financial statements of the government economic entity include all of its assets, liabilities, revenues and expenses. For example, where a financial report is not prepared for the government as a parent entity, information about the assets, liabilities, revenues and expenses of the parent entity could be collected from the government departments administering those items and then included in the “consolidation worksheet” for the government reporting entity.”<sup>35</sup>

“In relation to the preparation of a consolidated financial report of an *economic entity*, comparative information is not required for the first reporting period after an entity becomes a *parent entity*.”<sup>36</sup>

Transactions between a parent entity and its controlled entities have been the subject of a number of accounting pronouncements. For example, the following extract from UIG Abstract 28 provides a summary:

“Accounting Standards AASB 1024 “Consolidated Accounts”, paragraph 10, and AAS 24 “Consolidated Financial Reports”, paragraph 39, require a parent entity to prepare and present consolidated financial reports for the economic entity in which it is the parent entity. AASB 1024 and AAS 24 define a parent entity as “an entity which controls another entity”, a subsidiary as “an entity which is controlled by a parent entity”, and control as “the capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity”. Accounting Standards AASB 1001 and AAS 6 “Accounting Policies”, paragraphs 4.1.8 to 4.1.14, explain that transactions and other events are accounted for in accordance with their substance and economic effect, and not merely their legal form.”<sup>37</sup>

<sup>33</sup> AAS 24 paragraph 4.

<sup>34</sup> AAS 29 Financial Reporting by Government Departments paragraph 5.2.2.

<sup>35</sup> AAS 31 Financial Reporting by Governments paragraph 8.2.1.

<sup>36</sup> AAS 37 Financial Report Presentation and Disclosures paragraph 6.1.2.

<sup>37</sup> UIG Abstract 28 Consolidation - Special Purpose Entities paragraph 16.

Accounting standards also address how to deal with gaining or losing control over an entity in financial reports.

“Accounting Standards AASB 1024 “Consolidated Accounts” and AAS 24 “Consolidated Financial Reports” require that where a parent entity loses control of a subsidiary, the former subsidiary is excluded from the consolidated financial statements from the date that the loss of control occurred and a revenue or expense is recognised in the reporting period in which the loss of control occurs to reflect the gain or loss to the economic entity as a result of the parent entity’s loss of control. In addition, the Standards require reinstatement in the consolidated financial statements of the opening balances of retained profits (surplus) or accumulated losses (deficiency) and post-acquisition movements in reserves of the former subsidiary. The results of the former subsidiary for the part of the reporting period during which it was a subsidiary of the parent entity also need to be recognised.”<sup>38</sup>

### *Public sector specific guidance*

The nature of the government’s interests in entities it controls is to be reflected in the reports of any parent entity as well as those of the individual reporting entities that are controlled. This expectation is the focus of UIG Abstract 38, which specifically addresses accounting for ownership type transfers in the public sector, for example:

“The classification of a transfer to a wholly-owned public sector entity from the government or another entity controlled by the same government must be determined by reference to the rights of the government in respect of the transfer held directly by the government or indirectly through any of its controlled entities. Accordingly, for a transfer to a public sector entity to satisfy part (b) of the definition of contributions by owners in Accounting Standards AASB 1004 and AAS 15 “Revenue”, a right to sell, transfer or redeem the financial interest in the net assets of the transferee must be held directly or indirectly by the government.”<sup>39</sup>

UIG 38 is predicated on the idea that government is the owner/controller of public sector entities. However, application of UIG 38 in a public sector context is complicated as this Abstract seems to apply commercial concepts to the public sector, assuming that relationships between entities in the public sector are supported by some evidence or notion of capital. Unfortunately, most executive governments do not perceive their controlled entities in this light and consequently provide instructions that are not easily compatible with UIG 38.

The format of financial statements can vary, with at least the economic entity information displayed. However, an entity could choose to also display the parent entity’s information. See for example:

“The individual entities that comprise the government department reporting entity may also be separate reporting entities in their own right. This may be because of factors such as particular accountability obligations which attach to them, regional interests in their activities, their commercial objectives or their general economic significance. This Standard does not preclude the preparation of separate general purpose financial reports in respect of the individual entities included in a government department’s general purpose financial report. In addition, this Standard does not preclude alternative forms of presentation of the financial report. For example, the operating statement, statement of financial position and statement of cash flows may be presented in columnar form disclosing results for the *economic entity*, the *parent entity* and its *subsidiaries*. Similarly, the notes in the financial report may be presented by disaggregating the *economic entity* into individual entities or other components which may be relevant to users of the financial report.”<sup>40</sup>

“This Standard does not preclude a government from preparing other financial reports to disclose the resources which are being administered by government departments on its behalf. Also, it does not preclude a

<sup>38</sup> UIG Abstract 45 Subsidiary becomes a Joint Venture Entity or an Associate paragraph 7.

<sup>39</sup> UIG Abstract 38 Contributions by Owners Made to Wholly-Owned Public Sector Entities paragraph 8.

<sup>40</sup> AAS 29 Financial Reporting by Government Departments paragraph 5.2.2.

government from preparing other financial reports to disclose the resources controlled by the government as a *parent entity*.<sup>41</sup>

Accounting standards recognize that different jurisdictions have adopted different reporting models and that financial reports may vary depending on the nature of those models.

“Whether the transactions or other events of a government department are in the nature of contributions by owners or distributions to owners depends on the model of financial management adopted by the controlling government. Under the model of financial management that has generally been adopted for government departments in Australian jurisdictions to date, transactions or other events in the nature of contributions by owners or distributions to owners do not normally occur. However, some governments have adopted, or are contemplating the adoption of, different models of financial management for government departments. One such model is often referred to as the “owner / purchaser” model. Adoption of the “owner / purchaser” model may involve the establishment of a formal equity base for the government department, and the government department may be required to pay dividends to the government. Under this approach, transactions or other events in the nature of contributions by owners and distributions to owners may occur and will be required to be recognised by government departments.”<sup>42</sup>

### *Canadian guidance*

The CICA accounting model provides the following relevant comments in the context of its guidance on consolidation:

**“Government financial statements should consolidate the financial statements of organisations comprising the government reporting entity, except for government business enterprises.**

A government business enterprise is an organization that has all of the following characteristics:

- (a) it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
- (b) it has been delegated the financial and operational authority to carry on a business;
- (c) it sells goods and services to individuals and organisations outside of the government reporting entity as its principal activity; and
- (d) it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.”<sup>43</sup>

### *Conclusion*

If Ministers and other parliamentary representatives are considered to be within the boundaries of the GGS, then the GGS may fill a role similar to that of a parent entity in the commercial sector. If the GGS were treated as a parent entity that the government’s financial statements might take the form of at least two columns per reporting year, namely whole-of-government (full consolidated) and parent entity (GGS) (refer to Attachment 4-2 for an example). Display of an additional ‘other sectors’ column alongside the consolidated and GGS columns is modelled in Attachment 4-3. This is not a desirable solution as it means that ordinary financial statements will have, up to six columns (if all columns are displayed for both the current period and comparative period) and ignores the relative importance of the GGS (given that it is the core business of government).

<sup>41</sup> AAS 31 Financial Reporting by Governments paragraph 8.1.2.

<sup>42</sup> AAS 29 Financial Reporting by Government Departments paragraph 11.2.4.

<sup>43</sup> “Public Sector Accounting Recommendations—Concepts and Principles”, CICA public sector accounting handbook, the Canadian Institute of Chartered Accountants, April 2000: paragraphs 1300.20 to 1300.21 [bold indicates policy while plain text is guidance].

## WHAT IS A SEGMENT?

Current Australian standards on segments don't apply to not-for-profits.

**"This Standard does not apply to *general purpose financial reports of not-for-profit entities*."**<sup>44</sup>

However, it is useful to form an understanding of the current standard to see what might be possible if a similar segment accounting standard did apply. The standard requires specific disclosure for two types of segment business and geographic—more detailed disclosure for the primary segment and lesser for the secondary segment. The primary segment represents the dominant source of risks and returns. As a geographic split is unlikely to be the primary basis for government reporting, the definition of a business segment is:

**"... means a distinguishable component of an *entity* and that component is engaged in providing an individual product or service or a group of related products or services and is subject to risks and returns that are different from those of other distinguishable components of the *entity*. Factors to be considered in determining whether products and services are related include:**

- (a) the nature of the products or services;**
- (b) the nature of the production processes;**
- (c) the type or class of customer for the products or services;**
- (d) the methods used to distribute the products or provide the services; and**
- (e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities..."**<sup>45</sup>

The disclosures for the primary segment include: revenue, operating result, assets, liabilities, capital acquisitions, depreciation/amortisation, other non-cash expenses, and information about interests in associates where those entities form part of the segment.

*Is there any specific guidance for the public sector?*

These disclosures are similar to the requirements under AAS 31 for sectoral basis reporting. For example:

**"The general purpose financial report must disclose, in respect of each broad sector of activity of the government:**

- (a) a brief description of the nature of the activity undertaken in that sector, and the basis for the determination of that sector;**
- (b) assets and liabilities which are reliably attributable to that sector, classified according to their nature or type and into current and non-current categories; and**
- (c) revenues and expenses which are reliably attributable to that sector, classified according to their nature or type.**

**The information about assets, liabilities, revenues and expenses must be disclosed without eliminating the effects of transactions between sectors, but by eliminating the effects of transactions between entities within each sector."**<sup>46</sup>

The GFS sectoral basis has been suggested in the AAS 31 guidance as an appropriate basis of disaggregation:

**"Judgement will need to be applied in identifying the broad sectors of a government's activities. Consideration should be given to the likely users of the general purpose financial report of the government, the extent of the dissimilarity in the activities undertaken by the government and the qualitative characteristics that financial information must possess. One basis for identifying the broad sectors about which disaggregated information should be disclosed is the Government Finance Statistics (GFS) Standard adopted by the Australian Bureau of Statistics. This basis of disaggregation has been adopted in the illustrative general purpose financial report in**

<sup>44</sup> AASB 1005 Segment Reporting paragraph 1.2.

<sup>45</sup> AASB 1005 paragraph 8.1.

<sup>46</sup> AAS 31 Financial Reporting by Governments paragraph 15.12.

the Appendix to this Standard. It results in the disclosure of information about "general government", "public trading enterprises" and "government-controlled financial institutions". In addition, this Standard does not prohibit further disaggregated financial information being presented in the general purpose financial report of a government. For example, information about the assets, liabilities, revenues and expenses of a government's programs, determined on the basis of the Government Purpose Classification (GPC) of the Australian Bureau of Statistics, may also be useful to users of the government's general purpose financial reports. Although this Standard encourages the disclosure of disaggregated information using the GFS and/or GPC bases, it does not require the adoption of those bases. This is because GFS and GPC classifications have been developed for specific purposes which may not always be compatible with the objective of general purpose financial reporting."<sup>47</sup>

### *International standards*

IAS 14 applies to enterprises whose equity or debt securities are traded publicly [paragraph 3], but other entities preparing financial reports that comply with IASB standards are encouraged to voluntarily disclose by segment [paragraph 4]. Segment disclosure is only required for the consolidated information of a complex entity, not for both parent and consolidated where jointly published [paragraph 6].

IAS 14 paragraph 9 defines a business segment as "a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products and services are related include:

- (a) the nature of the products or services;
- (b) the nature of the production processes;
- (c) the type or class of customer for the products or services;
- (d) the methods used to distribute the products or provide the services; and
- (e) if applicable, the nature of the regulatory environment..."

The same paragraph also provides a definition of a geographical segment.

Thus, IAS 14 takes a risk/return approach to grouping products and services into business segments. Similar disclosures are required to those in AGAAP.

IPSAS 18 applies the principles from IAS 14 to the public sector. Again, segment information is only required for the consolidated statements where the economic entity and parent entity reports are presented together [paragraph 6].

In this context, segment is defined as "a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources" [paragraph 9]. Paragraph 17 provides definitions for service and geographic segments, which resemble each other. For instance, "a 'service segment' refers to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity".

However IPSAS 18 paragraph 24 may result in a need for more than sectoral based segment reporting:

"As noted above, in most cases the segments for which information is reported internally to the governing body and the most senior management of the entity for the purpose of evaluating ... past performance and for

<sup>47</sup> AAS 31 Financial Reporting by Governments paragraph 15.12.2.

making decisions about the future allocation of resources, will reflect those identified in budget documentation and will also be adopted for external reporting purposes.... However, in some cases an entity's internal reporting to the governing body and the senior manager may be structured to aggregate and report on a basis...related to budget-dependent activities from those of trading activities, or which distinguishes budget-dependent entities from GBEs. Reporting segment information in the financial statements on the basis of only these segments is unlikely to meet the objectives specified for this Standard. This is because these segments are unlikely to provide information that is relevant to users about, for example, the performance of the entity in achieving its major operating objectives.”

AASB's ED 119 specifically excludes application to not-for-profit entities, but would apply to commercial entities controlled by governments.

### *Conclusion*

The GGS, being a disparate collection of activities fulfilling the functions of government, does not appear to satisfy the definition of a business segment and also would not meet a geographical segment definition.<sup>48</sup> IPSAS 18 indicates that additional disaggregated disclosure beyond disclosure on the basis of budget-funding (eg the GGS) and other sectors is necessary to fulfil the objectives of segment reporting.

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<sup>48</sup> Under AAS 31 paragraph 15.12.2 governments are already required to provide GFS sectoral basis information as schedules to the fully consolidated statements.

## OPTIONS FOR DISCLOSURE OF GFS AGGREGATE MEASURES

GFS provides a series of key measures that are used by Treasurers and other users as performance indicators. There are 3 options for presentation of these measures:

**Option 1: Publish GFS key measures at the bottom of primary converged basis financial statements.** This is the option preferred by surveyed users and the HoTARAC Working Group.

Pro	Con
<ul style="list-style-type: none"> <li>o Complies with GFS model statements</li> <li>o Meets user needs for information</li> </ul>	<ul style="list-style-type: none"> <li>o May be contrary to AGAAP</li> </ul>

**Option 2: Publish GFS key measures in a separate schedule to the financial statements.**

Pro	Con
<ul style="list-style-type: none"> <li>o Complies with AGAAP</li> </ul>	<ul style="list-style-type: none"> <li>o Doesn't comply with GFS model statements</li> <li>o Depending on the location of the schedule, information may be less accessible to users</li> <li>o Separates measures from related information</li> </ul>

**Option 3: Publish GFS key measures as part of the sector schedules appended to fully consolidated financial statements.**

Pro	Con
<ul style="list-style-type: none"> <li>o Complies with GFS model statements</li> <li>o Meets user needs for information</li> </ul>	<ul style="list-style-type: none"> <li>o Subordinates the information about government performance</li> </ul>

**Option 4: Publish GFS key measures in the notes to the financial statements.**

Pro	Con
<ul style="list-style-type: none"> <li>o Complies with AGAAP</li> </ul>	<ul style="list-style-type: none"> <li>o Doesn't comply with GFS model statements</li> <li>o Depending on the location of the schedule, information may be less accessible to users</li> <li>o Separates measures from related information</li> </ul>

## COULD THE GFS MEASURES BE CLASSIFIED AS “PERFORMANCE INDICATORS”?

AAS 31 provides for performance indicators to be published as part of a GPFR.

“Where performance indicators are included in the *general purpose financial report*, these must satisfy the concepts of *relevance* and *reliability*, and be presented in a manner which satisfies the concepts of *comparability* and *understandability*.”<sup>49</sup>

“Information such as key performance indicators, which is not normally included in general purpose financial reports, may need to be disclosed to provide users with adequate information to make assessments of the effectiveness, economy and efficiency of a *government*. Accordingly, while this Standard does not require governments to report performance indicators, governments are encouraged to include them in their general purpose financial reports where the information will assist users in assessing a government’s performance in meeting its objectives.”<sup>50</sup>

### *What is a performance indicator?*

As with a number of other concepts (eg owner/purchaser), this standard doesn’t provide any definition of what might be a performance indicator. However, an indication of the meaning of performance indicators is given in the grey letter, which refers to key performance indicators as a specific example of performance indicators. Key performance indicators now has a generally understood meaning, which generally equates with the following:

“Key Performance Indicator(s) are key measures of performance for the organisation or business unit within an organisation. They are indicators of the critical success factors for the organisation.”<sup>51</sup>

Where no definition is provided for a term used in an accounting standard, interpretation must consider the meaning that would be understood from the words themselves. One source of information would be the definitions of the two words making up the phrase:

Performance: “1b) the execution or fulfilment (of a duty etc)...3 a person’s achievement under test conditions...5a) the capabilities of a machine...6 the return on investment, esp. in stocks and shares, etc.”<sup>52</sup>

Indicator: “1 a person or thing that indicates esp. performance, change, etc...”<sup>53</sup>

Taken together, the dictionary definition of ‘performance indicator’ is “a thing that indicates achievement”. In a Commonwealth context performance indicators have been defined as “qualitative and quantitative measures of an output that provide a guide on performance where direct causal links are not obvious and changes in performance are difficult to measure directly”.<sup>54</sup>

In its ED 125 “Financial Reporting by Local Governments” the AASB provides additional information about the disclosure of performance indicators. Any disclosed performance indicators are to be both relevant and reliable and the presentation must be both comparable and understandable.<sup>55</sup>

<sup>49</sup> AAS 31 paragraph 16.1.

<sup>50</sup> AAS 31 paragraph 16.1.1.

<sup>51</sup> Management Advisory Board, “Beyond Bean Counting”, Commonwealth of Australia, Barton ACT 1997: page 118.

<sup>52</sup> Australian Oxford Dictionary

<sup>53</sup> Australian Oxford Dictionary

<sup>54</sup> Management Advisory Board “Beyond Bean Counting” Commonwealth of Australia 1997, page 119.

<sup>55</sup> ED 125 *Financial Reporting by Local Governments* paragraph 16 and grey letter following.

*Are GFS aggregates 'performance measures'?*

Australian GFS distinguishes between aggregates (basically sums relating to a class of flows or stocks) and analytical balances (economic constructs obtaining by differencing aggregates, useful in financial analysis).<sup>56</sup> The *GFS Manual* identifies a number of key analytic balances including:

- Net/gross operating balance
- Net lending/borrowing<sup>57</sup>; and
- Cash surplus/deficit.

The Manual also identifies a series of 'other balances', which are not all commonly published by Australian jurisdictions.<sup>58</sup> The use of these is described as follows:

"The net operating balance is a summary measure of the ongoing sustainability of government operations. It is comparable to the national accounting concept of saving plus net capital transfers receivable. It...excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. The component of the change in net worth that is due to transactions can be attributed directly to government policies since governments have control over their transactions. The same cannot be said for the other components of the total change in net worth, as governments do not directly control them."<sup>59</sup> "When the NOB is positive, it indicates that surplus funds have been generated from current operations and are available to finance capital acquisitions. When the NOB is negative, it indicates that a shortfall has been incurred on current operations and that it has been necessary to liquidate assets, incur liabilities or increase equity in order to finance the operations."<sup>60</sup>

"Net lending (+)/borrowing (-) is a summary measure indicating the extent to which government is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors. It may therefore be viewed as an indicator of the financial impact of government activity on the rest of the economy..."<sup>61</sup> When net lending (+)/borrowing (-) is positive it indicates that, on a net basis, the subject unit or sector had to purchase financial assets and/or pay liabilities in order to defray surplus funds. When...is negative it indicates that, on a net basis, the subject unit or sector had to liquidate financial assets, incur liabilities and/or increase equity in order to finance current operations and capital acquisition."<sup>62</sup>

"...net worth, defined as total assets less total liabilities. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities."<sup>63</sup> "Net worth may be positive or negative. For public corporations, for example, net worth will be negative if the market value of the corporation's shares exceeds the value of its net assets...and positive only if the market value of the shares is less than the net assets. For this reason, net assets may be used in preference to net worth in some presentations involving public non-financial and financial corporations. It should be noted that, for general government, net assets and net worth are identical. Change in net worth is a measure of the extent to which the current period's operations, revaluations and other volume changes have added to or subtracted from net worth during the accounting period. It therefore includes the assessed changes in market value of assets, liabilities and shareholders' funds during the accounting period, which is measured by change in net worth due to revaluations."<sup>64</sup>

Cash surplus/deficit is described as "net cash inflow from government operations minus the cash outflow from the net acquisition of non-financial assets".<sup>65</sup>

<sup>56</sup> ABS 5514.0 *Australian System of Government Finance Statistics: Concepts, Sources and Methods* paragraphs 2.88 and 2.89.

<sup>57</sup> Australian jurisdictions tend to refer to this measure as 'fiscal balance'.

<sup>58</sup> *GFS Manual 2001* Box 4.1.

<sup>59</sup> *GFS Manual 2001* paragraph 4.16.

<sup>60</sup> ABS publication 5514.0 paragraph 2.107.

<sup>61</sup> *GFS Manual 2001* paragraph 4.17.

<sup>62</sup> ABS publication 5514.0 paragraph 2.109.

<sup>63</sup> *GFS Manual 2001* paragraph 4.52.

<sup>64</sup> ABS publication 5514.0 paragraph 2.109.

<sup>65</sup> *GFS Manual 2001* Box 4.1.

*Conclusion*

Under existing accounting standards, the GFS aggregates may not be accepted as performance indicators. However, some would argue that they are measures of government's economic performance. In any event, classification of the GFS aggregates as performance indicators is not likely to result in their being published on the face of the primary financial statements under existing accounting standards. As users have indicated a need for prominent and ready access to the aggregates, this would not be an acceptable solution.

## WHAT CAN BE DISPLAYED ON THE FACE OF GAAP BASIS PRIMARY FINANCIAL STATEMENTS?

To avoid misleading presentation of information, accounting standards tend to be prescriptive about what can be disclosed on the face of the primary financial statements.

### *Existing Australian standards*

#### Statement of financial performance--

AASB 1018 paragraph 4.1 requires specific items to be disclosed in the Statement of Financial Performance. Paragraph 4.2 of the same standard permits disclosures that are required by other standards (but were not set out in paragraph 4.1) or “when necessary for an understanding of the entity's financial performance” so long as the supplementary disclosures permitted by 4.2 is not given greater prominence than the required disclosures of 4.1. The guidance that follows indicates that any additional disaggregation should be presented in the notes to the financial statements (paragraph 4.3.1). Paragraph 4.3.3 provides that the breakdown of revenues, expenses and sub-totals presented on the face of the statement might differ between industry or types of entity (the breakdown of public sector entity revenue in AAS 29 are specifically mentioned).

The paragraphs that have been cited as prohibiting the inclusion of the GFS measures on the face of the Statement of Financial Performance are:

**“The financial report must not contain a statement that purports to be a *statement of financial performance* where that statement is not in accordance with a Standard.”<sup>66</sup>**

**“The *statement of financial performance* is prepared in accordance with the requirements of this Standard unless this Standard is overridden by another Standard. In addition to disclosures required by a Standard, the entity may disclose additional information about financial performance. Such additional information is usually presented in the notes in the financial report. Paragraph 4.5 prohibits any additional disclosures from purporting to be a *statement of financial performance*.”<sup>67</sup>**

**“Disclosure in the notes in the financial report of a reconciliation between a line item in the *statement of financial performance* and a line item in a *statement of financial performance* prepared under another jurisdiction's GAAP does not constitute an alternative *statement of financial performance*.”<sup>68</sup>**

However, it is noted that the GFS measures do not purport to be a Statement of Financial Performance and, if mandated by AAS 29 and 31, would be required by another Standard. The third paragraph of guidance supports disclosure of the additional GFS information in the notes, but this is likely to be unacceptable to users.

#### Statement of Financial Position—

AAS 36 Statement of Financial Position paragraph 7 sets out mandatory disclosures on the face of the financial statement. When considering whether additional measures could be disclosed the following guidance is provided:

**“Line items, sub-headings and sub-totals in addition to those required by paragraphs 7.1, 7.3 and 7.4 must be separately disclosed on the face of the statement of financial position when required by a Standard, or when necessary for an understanding of the entity's financial position.”<sup>69</sup>**

<sup>66</sup> AASB 1018 Statement of Financial Performance paragraph 4.5.

<sup>67</sup> AASB 1018 paragraph 4.5.1.

<sup>68</sup> AASB paragraph 4.5.2.

<sup>69</sup> AAS 36 Statement of Financial Position paragraph 7.5.

“Additional items are disclosed on the face of the statement of financial position where separate disclosure is necessary for users to understand the entity’s financial position. For example, it is appropriate to disclose property, plant and equipment that are infrastructure assets as a separate line item on the face of the statement of financial position when they are material to the entity’s financial position.”<sup>70</sup>

As a consequence of the above, if GFS net worth were seen as providing necessary “disclosure for users to understand the entity’s financial position”, then it would be appropriate to include such information on the face of the statement.

#### Statement of Cash Flows—

The standard for this Statement is slightly older, having been issued by the Public Sector Accounting Standards Board in 1997. In the purpose section, guidance is provided that indicates:

“The information provided in a statement of cash flows together with other information in the financial report may assist users in assessing the ability of an *entity* to:

- (a) generate *cash flows*
- (b) meet its financial commitments as they fall due, including the servicing of borrowings and the payment of dividends
- (c) fund changes in the scope and/or nature of its activities
- (d) obtain external finance.<sup>71</sup>

“Laws and other government requirements may limit the capacity of public sector entities to change the nature or scope of their activities or obtain external finance. Nevertheless, information about the nature and amount of cash flows may be useful to decisions about *cash* requirements and how they are satisfied. While some not-for-profit entities may neither pay dividends nor be required to service borrowed funds, information about their cash flows is relevant in identifying the applications of the cash outflows and the sources of cash inflows.”<sup>72</sup>

Paragraphs 4 and 12 of AAS 28 provide specific guidance about what must be included, but this standard does not prohibit other disclosures where relevant and not misleading.

#### *International Standards—*

The IASB Framework focuses on a number of characteristics embodied by quality financial statements.

“To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.”<sup>73</sup>

“The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavour to predict the ability of the enterprise to take advantage of opportunities and its ability to react to adverse situations. The same information plays a confirmatory role in respect of past predictions about, for example, the way in which the enterprise would be structured or the outcome of planned operations.”<sup>74</sup>

“Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the enterprise to meet its commitments as they fall due. To have predictive value, information need not be in the form of an explicit forecast. The ability to make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expense are separately disclosed.”<sup>75</sup>

<sup>70</sup> AAS 36 Statement of Financial Position paragraph 7.5.1.

<sup>71</sup> AAS 28 Statement of Cash Flows paragraph 3.1.1.

<sup>72</sup> AAS 28 paragraph 3.1.2.

<sup>73</sup> IASB Framework paragraph 26.

<sup>74</sup> IASB Framework paragraph 27.

<sup>75</sup> IASB Framework paragraph 28.

“Distinguishing between items of income and expense and combining them in different ways also permits several measures of enterprise performance to be displayed. These have differing degrees of inclusiveness. For example, the income statement could display gross margin, profit from ordinary activities before taxation, profit from ordinary activities after taxation and net profit.”<sup>76</sup>

“Non-profit, government and other public sector enterprises seeking to apply this Standard may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves. Such enterprises may also present additional components of the financial statements.”<sup>77</sup>

“Many enterprises present, outside the financial statements, additional statements such as environmental reports and value added statements, particularly in industries where environmental factors are significant and when employees are considered to be an important user group. Enterprises are encouraged to present such additional statements if management believes they will assist users in making economic decisions.”<sup>78</sup>

### *The New Zealand approach*

The Exposure draft of NZ IAS 1 specifically encourages public benefit entities to prepare an additional statement, which is called a “statement of service performance”.<sup>79</sup> The information disclosed in this statement is in the nature of information about outputs and outcomes on a budget to actuals basis.<sup>80</sup>

### *Conclusion*

It is clear that users want converged financial statements that include key GFS aggregates. As a consequence, it can be deduced that, particularly if the relevant accounting standard (eg the standard dealing with GGS reporting) required disclosure of the aggregates, both existing domestic and international standards would support such disclosure.

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<sup>76</sup> IASB Framework paragraph 26.

<sup>77</sup> IFRS 1 paragraph 4.

<sup>78</sup> IFRS 1 paragraph 9.

<sup>79</sup> ED NZ IAS 1 paragraph 96.4.

<sup>80</sup> ED NZ IAS 1 paragraph 96.5 to 96.11.

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

### Entity

#### Statement of Financial Performance

For the period ending 30 June 2XXX

		2XXX	2XXY
	Notes	\$m	\$m
<b>Revenues before re-measurements</b>		X	X
Taxation	2	X	X
Non-taxation	3	X	X
<b>Total revenues before re-measurements</b>		<u>X</u>	<u>X</u>
<b>Expenses before re-measurements</b>			
Employee Expenses		X	X
Goods and Services	4	X	X
Subsidies, benefits and grants	5	X	X
Interest expense		X	X
Nominal superannuation interest expense		X	X
<b>Total expenses before re-measurements</b>		<u>X</u>	<u>X</u>
Extraordinary items before re-measurements	7	X	X
<b>Net operating result before re-measurements</b>	27	<u>X</u>	<u>X</u>
<b>Re-measurements</b>			
Net foreign exchange gains/(losses)		X	X
Net exchange gain/(loss) on translation of financial report of self sustaining foreign operations		X	X
Proceeds from sale of assets		X	X
Value of assets sold		(X)	(X)
Net credit/(debit) to asset revaluation reserve		X	X
Superannuation		X	X
Other non-owner related equity movements	8	X	X
Share of net result from associates and joint ventures accounted for using the equity method	9	X	X
Gain/(loss) on re-measurement extraordinary items	7	X	X
<b>Total re-measurements</b>		<u>X</u>	<u>X</u>
<b>Net result after re-measurements</b>		X	X
Net result attributable to outside equity interests	6	X	X
<b>Net result attributable to the parent entity</b>		<u>X</u>	<u>X</u>
Transactions with owners	26	X	X

#### KEY FISCAL AGGREGATES

Net operating result before re-measurements	X	X
Less Acquisitions less disposals of non-financial assets	X	X
Less Depreciation	X	X
Plus Change in inventories	X	X
Plus Other transactions in non-financial assets	X	X
<b>Total net acquisition of non-financial assets</b>	<u>X</u>	<u>X</u>
Net borrowing / lending	X	X

Note – For the purpose of this pro-forma statement, Key Fiscal Aggregates are presented on a harmonised GFS basis

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

## Entity

## Pro-forma Statement of Financial Position

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and deposits	12	X	X
Receivables		X	X
Accrued revenue / Advances paid	13	X	X
Investments	14	X	X
Other financial assets		X	X
<b>Total financial assets</b>		<u>X</u>	<u>X</u>
<b>Non-financial assets</b>			
Inventories		X	X
Property, Plant and Equipment		X	X
Intangibles		X	X
Other non-financial assets		X	X
<b>Total non-financial assets</b>		<u>X</u>	<u>X</u>
<b>Total Assets</b>		<u>X</u>	<u>X</u>
<b>LIABILITIES</b>			
	15		
<b>Payables</b>	16	X	X
<b>Interest bearing liabilities</b>	17	X	X
<b>Provisions</b>	18	X	X
<b>Total liabilities</b>		<u>X</u>	<u>X</u>
<b>Net Assets</b>	28	<u>X</u>	<u>X</u>
<b>Equity</b>			
<b>Parent entity interest</b>			
Accumulated results		X	X
Reserves		X	X
<b>Total parent entity interest</b>		<u>X</u>	<u>X</u>
Outside equity interests		X	X
<b>Total entity</b>		<u>X</u>	<u>X</u>
Current liabilities		X	X
Non-current liabilities		X	X
<b>Total liabilities by maturity</b>		<u>X</u>	<u>X</u>
Current assets		X	X
Non-current assets		X	X
<b>Total assets by maturity</b>		<u>X</u>	<u>X</u>

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

## Entity

## Pro-forma Statement of Cash Flows, page 1

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Operating activities</b>			
<b>Cash received</b>			
Taxes		X	X
Sales of goods and services		X	X
Interest		X	X
Dividends		X	X
Goods and services tax refunds		X	X
Other		X	X
<b>Total cash received</b>		<b>X</b>	<b>X</b>
<b>Cash payments</b>			
Payments for goods and services		X	X
Grants and subsidies		X	X
Interest		X	X
Personal benefits		X	X
Salaries, wages and other entitlements		X	X
GST payments to taxation authority		X	X
Other payments for operating activities		X	X
<b>Total payments</b>		<b>X</b>	<b>X</b>
<b>Net cash flows from/(to) operating activities</b>		<b>X</b>	<b>X</b>
<b>Investing activities</b>			
<b>Cash received</b>			
Sales of non-financial assets	19	X	X
Sales of financial assets (non-policy)	20	X	X
Other investing receipts	21	X	X
<b>Total cash received</b>		<b>X</b>	<b>X</b>
<b>Cash payments</b>			
Purchases of non-financial assets	22	X	X
Purchases of financial assets (non-policy)	23	X	X
Other investing payments	24	X	X
<b>Total cash used</b>		<b>X</b>	<b>X</b>
<b>Net cash flows from/(to) investing activities</b>		<b>X</b>	<b>X</b>
<b>Net cash Flows from Operating and Investing Activities</b>		<b>X</b>	<b>X</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>		<b>X</b>	<b>X</b>
<b>Net cash flows before Financing Activities</b>		<b>X</b>	<b>X</b>

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

Entity

Pro-forma Statement of Cash Flows, page 2

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Financing activities</b>	25		
<b>Cash received</b>		X	X
Advances received		X	X
Borrowing		X	X
Deposits received		X	X
Other financing		X	X
<b>Total cash received</b>		<u>X</u>	<u>X</u>
<b>Cash paid</b>		X	X
Advances received		X	X
Borrowing		X	X
Deposits received		X	X
Other financing		X	X
<b>Total cash used</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from/(to) financing activities</b>		<u>X</u>	<u>X</u>
<b>Total cash flows</b>		<u>X</u>	<u>X</u>

**KEY FISCAL AGGREGATES**

Net cash from operating activities and investments in non-financial assets	X	X
Finance leases and similar arrangements	<u>X</u>	<u>X</u>
<b>GFS Cash Surplus/(deficit)</b>	<u>X</u>	<u>X</u>

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

## Entity

## Pro-Forma Notes Forming Part of the Financial Statements

	20XX	20XY
	\$m	\$m
<b>Note 1 – Accounting Policies</b>		
<b>Note 2 – Revenues from taxation</b>		
Income Tax	X	X
Indirect Tax	X	X
Fringe benefits tax	X	X
Other taxes	X	X
<b>Total taxation revenues</b>	<u>X</u>	<u>X</u>
<b>Note 3 – Non-taxation revenues</b>		
Charges for goods and services	X	X
Current grants and subsidies	X	X
Capital grants	X	X
Interest and dividends	X	X
Other sources of non-taxation revenue	X	X
<b>Total Non-taxation revenues</b>	<u>X</u>	<u>X</u>
<b>Note 4 - Goods and Services</b>		
Employees	X	X
Suppliers	X	X
Depreciation and Amortisation	X	X
Other goods and services expenses	X	X
<b>Total goods and services</b>	<u>X</u>	<u>X</u>
<b>Note 5 - Subsidies, benefits and grants</b>		
Subsidies	X	X
Personal benefits	X	X
Grants	X	X
<b>Total subsidies, benefits and grants</b>	<u>X</u>	<u>X</u>
<b>Note 6 - Net result attributable to outside equity interests</b>		
Interest in opening accumulated results as at 1 July 2XXX	X	X
Interest in operating result and abnormal items after income tax	X	X
Interest in amounts transferred (to)/from reserves	X	X
Interest in dividends provided for or paid	X	X
Interest in other movements in accumulated results	X	X
Interest in closing accumulated results	X	X
<b>Interest in opening reserves as at 1 July 2XXX</b>	<u>X</u>	<u>X</u>
Interest in foreign currency translation gain/(loss)		
Interest in amounts transferred (to)/from accumulated results	X	X
Interest in other movements in reserves	X	X
<b>Interest in closing reserves</b>	<u>X</u>	<u>X</u>
<b>Interest in capital</b>	<u>X</u>	<u>X</u>
<b>Total outside equity interests</b>	<u>X</u>	<u>X</u>

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

## Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 2

	20XX \$m	20XY \$m
<b>Note 7 – Gain/(loss) on extraordinary items</b>		
Details of each extra ordinary item	X	X
<b>Note 8 – Other non-owner related equity movements</b>		
Details of other non-owner related equity movements	X	X
<b>Note 9 - Share of net result from associates and joint ventures accounted for using the equity method</b>		
Information disclosed to permit the calculation of the change in market value of the investment(s) after payment of dividends.	X	X
<b>Note 10 – Reconciliation of Net Borrowing/Lending to transactions in financial assets and liabilities</b>		
Net Borrowing/Lending	X	X
Net acquisition of financial assets		
Domestic	X	X
Foreign	X	X
Net incurrence of liabilities		
Domestic	X	X
Foreign	X	X
<b>Total transactions in financial liabilities</b>	<u>X</u>	<u>X</u>
<b>Note 11 – Reconciliation of changes in equity</b>		
Opening balance as at 1 July 2xxw	X	X
Adjustments to opening balance (detailed below)	X	X
Net operating result after re-measurements	X	X
Dividends provided for or paid	X	X
Transfers to/(from)/between reserves	X	X
Changes in accounting policies	X	X
Capital payments made/(repayments received)	X	X
Other movements (detail if material)	X	X
Balance as at 30 June 2xxx	X	X
Less Outside Equity Interests (refer Note 7)	X	X
<b>Total equity attributable to the entity</b>	<u>X</u>	<u>X</u>
<b>Note 12 - Cash and Deposits</b>		
Cash at Bank and on hand	X	X
Cash on deposit	X	X
<b>Total Cash and Deposits</b>	<u>X</u>	<u>X</u>
<b>Note 13 - Accrued Revenue / Advances Paid</b>		
Accrued taxation revenue	X	X
Accrued interest revenue	X	X
Other accrued revenue	X	X
Other advances paid	X	X
<b>Total Accrued Revenue / Advances Paid</b>	<u>X</u>	<u>X</u>

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

## Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 3

	20XX \$m	20XY \$m
<b>Note 14 - Investments</b>		
<b>Shares</b>		
Shares in international financial institutions	X	X
Shares in companies	X	X
Other	X	X
<b>Total Shares</b>	<u>X</u>	<u>X</u>
Gold holdings		
Deposits	X	X
Government securities	X	X
Debentures	X	X
International money fund	X	X
Financial Instruments (by type)	X	X
Investments - accounted for using equity method	X	X
Other	X	X
<b>Total Investments</b>	<u>X</u>	<u>X</u>
<b>Note 15 - Liabilities</b>		
<i>(Disclose detailed split of liabilities by domestic and foreign)</i>		
<b>Domestic:</b>		
Payables	X	X
Interest Bearing Liabilities	X	X
Provisions	X	X
<b>Total Domestic Liabilities</b>	<u>X</u>	<u>X</u>
<b>Foreign:</b>		
Payables	X	X
Interest Bearing Liabilities	X	X
Provisions	X	X
<b>Total Foreign Liabilities</b>	<u>X</u>	<u>X</u>
<b>Total Liabilities</b>	<u>X</u>	<u>X</u>
<b>Note 16 - Payables</b>		
Suppliers	X	X
Personal Benefits	X	X
Subsidies	X	X
Grants	X	X
Other payables	X	X
<b>Total Payables</b>	<u>X</u>	<u>X</u>
<b>Note 17 - Interest Bearing Liabilities</b>		
Overdraft	X	X
Deposits	X	X
Government Securities	X	X
Loans	X	X
Leases	X	X
Other interest bearing liabilities	X	X
<b>Total Interest Bearing Liabilities</b>	<u>X</u>	<u>X</u>

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

## Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 4

	20XX \$m	20XY \$m
<b>Note 18 - Provisions</b>		
Provision for taxation refund	X	X
Employees	X	X
Australian currency on issue	X	X
Other provisions	X	X
<b>Total Provisions</b>	<u>X</u>	<u>X</u>
<b>Note 19 - Sales of non-financial assets</b>		
Property plant and equipment	X	X
Valuables	X	X
Non-produced assets	X	X
<b>Total sales of non-financial assets</b>	<u>X</u>	<u>X</u>
<b>Note 20 - Sales of non-policy financial assets</b>		
Details by type of financial asset	X	X
<b>Note 21 - Other investing receipts</b>		
Details by type of transaction	X	X
<b>Note 22 - Purchases of non-financial assets</b>		
Property plant and equipment	X	X
Valuables	X	X
Non-produced assets	X	X
<b>Total sales of non-financial assets</b>	<u>X</u>	<u>X</u>
<b>Note 23 - Purchases of financial assets</b>		
Details by type of financial asset	X	X
<b>Note 24 - Other investing payments</b>		
Details by type of transaction	X	X
<b>Note 25 - Financing activities</b>		
Provide a split between domestic and foreign by type of transaction	X	X
<b>Note 26 - Transactions with owners</b>		
provide details of the transactions with owners	X	X

## REPORTING OF THE GGS AS A SEPARATE REPORTING ENTITY

## Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 5

	20XX \$m	20XY \$m
<b>Note 27 - Calculation of GFS Net Borrowing/Lending</b>		
Net operating result before re-measurements	X	X
Measurement differences between GFS and GAAP ( <i>separate lines where material</i> )	X	X
GFS net operating balance	<u>X</u>	<u>X</u>
Purchases of non-financial assets		
Less Disposals of non-financial assets	X	X
Less Depreciation	X	X
Plus Change in inventories	X	X
Plus Other changes in non-financial assets	X	X
Total net acquisition of non-financial assets	<u>X</u>	<u>X</u>
<b>GFS Net Borrowing/Lending</b>	<u>X</u>	<u>X</u>
<b>Note 28 - Reconciliation of net assets to GFS net worth</b>		
Net assets ( <i>per statement of financial position</i> )	X	X
Differences in treatment between GFS and GAAP ( <i>separate lines where material</i> )	X	X
<b>GFS Net Worth</b>	<u>X</u>	<u>X</u>
<b>Note 29 - GFS Cash surplus/(deficit)</b>		
Net cash flow (to)/from operating activities	X	X
Net cash flow (to)/from investments in non-financial assets	X	X
Finance leases and similar arrangements	X	X
<b>GFS cash surplus/(deficit)</b>	<u>X</u>	<u>X</u>

NOTE: The above notes do not include a number of specific disclosures required by other accounting standards (eg financial instruments, asset details by class, etc) as the primary purpose of these pro-forma notes was to illustrate what might appear on the face of the financial statements and what could be included in the note disclosures.

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

## Entity

## Statement of Financial Performance

For the period ending 30 June 2XXX

	Notes	2XXX			2XXY
		Consolidated	GGS	Other Sectors	Consolidated
		\$m	\$m	\$m	\$m
<b>Revenues before re-measurements</b>		X	X	X	X
Taxation	2	X	X	X	X
Non-taxation	3	X	X	X	X
<b>Total revenues before re-measurements</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Expenses before re-measurements</b>					
Employee Expenses		X	X	X	X
Goods and Services	4	X	X	X	X
Subsidies, benefits and grants	5	X	X	X	X
Interest expense		X	X	X	X
Nominal superannuation interest expense		X	X	X	X
<b>Total expenses before re-measurements</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
Extraordinary items before re-measurements	7	X	X	X	X
<b>Net operating result before re-measurements</b>	27	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Re-measurements</b>					
Net foreign exchange gains/(losses)		X	X	X	X
Net exchange gain/(loss) on translation of financial report of self sustaining foreign operations		X	X	X	X
Proceeds from sale of assets		X	X	X	X
Value of assets sold		(X)	(X)	(X)	(X)
Net credit/(debit) to asset revaluation reserve		X	X	X	X
Superannuation		X	X	X	X
Other non-owner related equity movements	8	X	X	X	X
Share of net result from associates and joint ventures accounted for using the equity method	9	X	X	X	X
Gain/(loss) on re-measurement extraordinary items	7	X	X	X	X
<b>Total re-measurements</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Net result after re-measurements</b>		X	X	X	X
Net result attributable to outside equity interests	6	X	X	X	X
<b>Net result attributable to the parent entity</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
Transactions with owners	26	X	X	X	X
<b>KEY FISCAL AGGREGATES</b>					
Net operating result before re-measurements		X	X	X	X
Less Acquisitions less disposals of non-financial assets		X	X	X	X
Less Depreciation		X	X	X	X
Plus Change in inventories		X	X	X	X
Plus Other movements in non-financial assets		X	X	X	X
<b>Total net acquisition of non-financial assets</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
Net borrowing / lending		X	X	X	X

Note – For the purpose of this pro-forma statement, Key Fiscal Aggregates are presented on a harmonised GFS basis

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

Entity

Pro-forma Statement of Financial Position

For the period ending 30 June 2XXX

	Notes	2XXX			2XXY
		Consolidated \$m	GGS \$m	Other Sectors \$m	Consolidated \$m
<b>ASSETS</b>					
<b>Financial Assets</b>					
Cash and deposits	12	X	X	X	X
Receivables		X	X	X	X
Accrued revenue / Advances paid	13	X	X	X	X
Investments	14	X	X	X	X
Other financial assets		X	X	X	X
<b>Total financial assets</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Non-financial assets</b>					
Inventories		X	X	X	X
Property, Plant and Equipment		X	X	X	X
Intangibles		X	X	X	X
Other non-financial assets		X	X	X	X
<b>Total non-financial assets</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total Assets</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>LIABILITIES</b>					
	15				
Payables	16	X	X	X	X
Interest bearing liabilities	17	X	X	X	X
Provisions	18	X	X	X	X
<b>Total liabilities</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net Assets</b>	28	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Equity</b>					
<b>Parent entity interest</b>					
Accumulated results		X	X	X	X
Reserves		X	X	X	X
<b>Total parent entity interest</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Outside equity interests		X	X	X	X
<b>Total entity</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Current liabilities		X	X	X	X
Non-current liabilities		X	X	X	X
<b>Total liabilities by maturity</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Current assets		X	X	X	X
Non-current assets		X	X	X	X
<b>Total assets by maturity</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

Entity

Pro-forma Statement of Cash Flows

For the period ending 30 June 2XXX

	Notes	2XXX				2XXY
		Consolidated \$m	GGS \$m	Other Sectors \$m		Consolidated \$m
<b>Operating activities</b>						
<b>Cash received</b>						
Taxes		X	X	X		X
Sales of goods and services		X	X	X		X
Interest		X	X	X		X
Dividends		X	X	X		X
Goods and services tax refunds		X	X	X		X
Other		X	X	X		X
<b>Total cash received</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b>Cash payments</b>						
Payments for goods and services		X	X	X		X
Grants and subsidies		X	X	X		X
Interest		X	X	X		X
Personal benefits		X	X	X		X
Salaries, wages and other entitlements		X	X	X		X
GST payments to taxation authority		X	X	X		X
Other payments for operating activities		X	X	X		X
<b>Total payments</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b>Net cash flows from/(to) operating activities</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b>Investing activities</b>						
<b>Cash received</b>						
Sales of non-financial assets	19	X	X	X		X
Sales of financial assets (non-policy)	20	X	X	X		X
Other investing receipts	21	X	X	X		X
<b>Total cash received</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b>Cash payments</b>						
Purchases of non-financial assets	22	X	X	X		X
Purchases of financial assets (non-policy)	23	X	X	X		X
Other investing payments	24	X	X	X		X
<b>Total cash used</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b>Net cash flows from/(to) investing activities</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b>Net cash Flows from Operating and Investing Activities</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b>Net cash flows before Financing Activities</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

Entity

Pro-forma Statement of Cash Flows

For the period ending 30 June 2XXX

	Notes	2XXX			2XXY
		Consolidated \$m	GGS \$m	Other Sectors \$m	
<b>Financing activities</b>	25				
<b>Cash received</b>		X	X	X	X
Advances received		X	X	X	X
Borrowing		X	X	X	X
Deposits received		X	X	X	X
Other financing		X	X	X	X
<b>Total cash received</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Cash paid</b>		X	X	X	X
Advances received		X	X	X	X
Borrowing		X	X	X	X
Deposits received		X	X	X	X
Other financing		X	X	X	X
<b>Total cash used</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net cash flows from/(to) financing activities</b>		<b>x</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total cash flows</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>KEY FISCAL AGGREGATES</b>					
Net cash (to)/from operating activities		X	X	X	X
Net cash (to)/from investments in non-financial assets		X	X	X	X
Finance leases and similar arrangements		X	X	X	X
<b>GFS Surplus/(deficit)</b>	29	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 1

	2XXX			2XXY
	Consolidated \$m	GGS \$m	Other Sectors \$m	Consolidated \$m
<b>Note 1 – Accounting Policies</b>				
<b>Note 2 – Revenues from taxation</b>				
Income Tax	X	X	X	X
Indirect Tax	X	X	X	X
Fringe benefits tax	X	X	X	X
Other taxes	X	X	X	X
<b>Total taxation revenues</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 3 – Non-taxation revenues</b>				
Charges for goods and services	X	X	X	X
Current grants and subsidies	X	X	X	X
Capital grants	X	X	X	X
Interest and dividends	X	X	X	X
Other sources of non-taxation revenue	X	X	X	X
<b>Total Non-taxation revenues</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 4 - Goods and Services</b>				
Employees	X	X	X	X
Suppliers	X	X	X	X
Depreciation and Amortisation	X	X	X	X
Other goods and services expenses	X	X	X	X
<b>Total goods and services</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 5 - Subsidies, benefits and grants</b>				
Subsidies	X	X	X	X
Personal benefits	X	X	X	X
Grants	X	X	X	X
<b>Total subsidies, benefits and grants</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 6 - Net result attributable to outside equity interests</b>				
Interest in opening accumulated results as at 1 July 2xxx	X		X	X
Interest in operating result and abnormal items after income tax	X		X	X
Interest in amounts transferred (to)/from reserves	X		X	X
Interest in dividends provided for or paid	X		X	X
Interest in other movements in accumulated results	X		X	X
Interest in closing accumulated results	X		X	X
<b>Interest in opening reserves as at 1 July 2xxx</b>	<b>X</b>		<b>X</b>	<b>X</b>
Interest in foreign currency translation gain/(loss)				
Interest in amounts transferred (to)/from accumulated results	X		X	X
Interest in other movements in reserves	X		X	X
<b>Interest in closing reserves</b>	<b>X</b>		<b>X</b>	<b>X</b>
<b>Interest in capital</b>	<b>X</b>		<b>X</b>	<b>X</b>
<b>Total outside equity interests</b>	<b>X</b>		<b>X</b>	<b>X</b>
<b>Note 7 - Gain/(loss) on extraordinary items</b>				
Details of each extraordinary item	X	X	X	X

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 2

	2XXX			2XXY
	Consolidated	GGS	Other Sectors	Consolidated
	\$m	\$m	\$m	\$m
<b>Note 8 - Other non-owner related equity movements</b>				
Details of other non-owner related equity movements	X	X	X	X
<b>Note 9 - Share of net result from associates and joint ventures accounted for using the equity method</b>				
Information disclosed to permit the calculation of the change in market value of the investment(s) after payment of dividends.	X	X	X	X
<b>Note 10 – Reconciliation of Net Borrowing/Lending to transactions in financial assets and liabilities</b>				
Net Borrowing/Lending	X		X	X
Net acquisition of financial assets				
Domestic	X		X	X
Foreign	X		X	X
Net incurrence of liabilities				
Domestic	X		X	X
Foreign	X		X	X
<b>Total transactions in financial liabilities</b>	<b>X</b>		<b>X</b>	<b>X</b>
<b>Note 11 – Reconciliation of changes in equity</b>				
Opening balance as at 1 July 2xxw	X		X	X
Adjustments to opening balance (detailed below)	X		X	X
Net operating result after re-measurements	X		X	X
Dividends provided for or paid	X		X	X
Transfers to/(from)/between reserves	X		X	X
Changes in accounting policies	X		X	X
Capital payments made/(repayments received)	X		X	X
Other movements (detail if material)	X		X	X
Balance as at 30 June 2xxx	X		X	X
Less Outside Equity Interests (refer Note 7)	X		X	X
<b>Total equity attributable to the entity</b>	<b>X</b>		<b>X</b>	<b>X</b>
<b>Note 12—Cash and Deposits</b>				
Cash at Bank and on hand	X		X	X
Cash on deposit	X		X	X
<b>Total cash and deposits</b>	<b>X</b>		<b>X</b>	<b>X</b>
<b>Note 13—Accrued Revenue / Advances Paid</b>				
Accrued taxation revenue	X		X	X
Accrued interest revenue	X		X	X
Other accrued revenue	X		X	X
Other advances paid	X		X	X
<b>Total accrued revenue / advances paid</b>	<b>X</b>		<b>X</b>	<b>X</b>

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 3

	2XXX			2XXY
	Consolidated \$m	GGS \$m	Other Sectors \$m	Consolidated \$m
<b>Note 14—Investments</b>				
<b>Shares</b>				
Shares in International financial institutions	X		X	X
Shares in companies	X		X	X
Other	X		X	X
<b>Total Shares</b>	<b>X</b>		<b>X</b>	<b>X</b>
<b>Gold holdings</b>				
Deposits	X		X	X
Government securities	X		X	X
Debentures	X		X	X
International money fund	X		X	X
Financial Instruments (by type)	X		X	X
Investments - accounted for using equity method	X		X	X
Other	X	X	X	X
<b>Total Investments</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 15—Liabilities</b>				
<i>(Disclose detailed split of liabilities by domestic and foreign)</i>				
<b>Domestic:</b>				
Payables	X	X	X	X
Interest Bearing Liabilities	X	X	X	X
Provisions	X	X	X	X
<b>Total Domestic Liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Foreign:</b>				
Payables	X	X	X	X
Interest Bearing Liabilities	X	X	X	X
Provisions	X	X	X	X
<b>Total Foreign Liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total Liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 16—Payables</b>				
Suppliers	X	X	X	X
Personal Benefits	X	X	X	X
Subsidies	X	X	X	X
Grants	X	X	X	X
Other payables	X	X	X	X
<b>Total Payables</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 17—Interest Bearing Liabilities</b>				
Overdraft	X	X	X	X
Deposits	X	X	X	X
Government Securities	X	X	X	X
Loans	X	X	X	X
Leases	X	X	X	X
Other interest bearing liabilities	X	X	X	X
<b>Total Interest Bearing Liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 4

	2XXX			2XXY
	Consolidated \$m	GGS \$m	Other Sectors \$m	
<b>Note 18—Provisions</b>				
Provision for taxation refund	X	X	X	X
Employees	X	X	X	X
Australian currency on issue	X	X		X
Other provisions	X	X	X	X
<b>Total Provisions</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 19—Sales of non-financial assets</b>				
Property plant and equipment	X	X	X	X
Valuables	X	X	X	X
Non-produced assets	X	X	X	X
<b>Total sales of non-financial assets</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 20—Sales of financial assets</b>				
Details by type of financial asset	X	X	X	X
<b>Note 21—Other investing receipts</b>				
Details by type of transaction	X	X	X	X
<b>Note 22—Purchases of non-financial assets</b>				
Property plant and equipment	X	X	X	X
Valuables	X	X	X	X
Non-produced assets	X	X	X	X
<b>Total purchases of non-financial assets</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 23—Purchases of non-policy financial assets</b>				
Details by type of financial asset	X	X	X	X
<b>Note 24—Other investing payments</b>				
Details by type of transaction	X	X	X	X
<b>Note 25—Financing activities</b>				
Provide a split between domestic and foreign by type of transaction	X	X	X	X
<b>Note 26—Transactions with owners</b>				
provide details of the transactions with owners	X	X	X	X

## REPORTING OF GGS AS A SECTOR (ON FACE OF STATEMENTS)

Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 5

	2XXX			2XXY
	Consolidated \$m	GGS \$m	Other Sectors \$m	Consolidated \$m
<b>Note 27 - Calculation of GFS Net Borrowing/Lending</b>				
Net operating result before re-measurements	X	X	X	X
Measurement differences between GFS and GAAP ( <i>separate lines where material</i> )	X	X	X	X
GFS net operating balance	X	X	X	X
Purchases of non-financial assets	X	X	X	X
Less Disposals of non-financial assets	X	X	X	X
Less Depreciation	X	X	X	X
Plus Change in inventories	X	X	X	X
Plus Other changes in non-financial assets	X	X	X	X
Total net acquisition of non-financial assets	X	X	X	X
<b>GFS Net Borrowing/Lending</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 28 - Reconciliation of net assets to GFS net worth</b>				
Net assets ( <i>per statement of financial position</i> )	X	X	X	X
Differences in treatment between GFS and GAAP ( <i>separate lines where material</i> )	X	X	X	X
<b>GFS Net Worth</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 29 - GFS Cash surplus/(deficit)</b>				
Net cash flow (to)/from operating activities	X	X	X	X
Net cash flow (to)/from investments in non-financial assets	X	X	X	X
Finance leases and similar arrangements	X	X	X	X
<b>GFS cash surplus/(deficit)</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

NOTE: The above notes do not include a number of specific disclosures required by other accounting standards (eg financial instruments, asset details by class, etc) as the primary purpose of these pro-forma notes was to illustrate what might appear on the face of the financial statements and what could be included in the note disclosures.

## REPORTING OF GGS AS A PARENT ENTITY

## Entity

## Statement of Financial Performance

For the period ending 30 June 2XXX

	Notes	Consolidated		GGS	
		2XXX \$m	2XXY \$m	2XXX \$m	2XXY \$m
<b>Revenues before re-measurements</b>		X	X	X	X
Taxation	2	X	X	X	X
Non-taxation	3	X	X	X	X
<b>Total revenues before re-measurements</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Expenses before re-measurements</b>					
Employee Expenses		X	X	X	X
Goods and Services	4	X	X	X	X
Subsidies, benefits and grants	5	X	X	X	X
Interest expense		X	X	X	X
Nominal superannuation interest expense		X	X	X	X
<b>Total expenses before re-measurements</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
Extraordinary items before re-measurements	7	X	X	X	X
<b>Net operating result before re-measurements</b>	27	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Re-measurements</b>					
Net foreign exchange gains/(losses)		X	X	X	X
Net exchange gain/(loss) on translation of financial report of self sustaining foreign operations		X	X	X	X
Proceeds from sale of assets		X	X	X	X
Value of assets sold		(X)	(X)	(X)	(X)
Net credit/(debit) to asset revaluation reserve		X	X	X	X
Superannuation		X	X	X	X
Other non-owner related equity movements	8	X	X	X	X
Share of net result from associates and joint ventures accounted for using the equity method	9	X	X	X	X
Gain/(loss) on re-measurement extraordinary items	7	X	X	X	X
<b>Total re-measurements</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Net result after re-measurements</b>		X	X	X	X
Net result attributable to outside equity interests	6	X	X	X	X
<b>Net result attributable to the parent entity</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
Transactions with owners	26	X	X	X	X

## KEY FISCAL AGGREGATES

Net operating result before re-measurements	X	X	X	X
Less Acquisitions less disposals of non-financial assets	X	X	X	X
Less Depreciation	X	X	X	X
Plus Change in inventories	X	X	X	X
Plus Other transactions in non-financial assets	X	X	X	X
<b>Total net acquisition of non-financial assets</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
Net borrowing / lending	X	X	X	X

Note – For the purpose of this pro-forma statement, Key Fiscal Aggregates are presented on a harmonised GFS basis

## REPORTING OF GGS AS A PARENT ENTITY

## Entity

## Pro-forma Statement of Financial Position

For the period ending 30 June 2XXX

	Notes	Consolidated		GGS	
		2XXX \$m	2XXY \$m	2XXX \$m	2XXY \$m
<b>ASSETS</b>					
<b>Financial Assets</b>					
Cash and deposits	12	X	X	X	X
Receivables		X	X	X	X
Accrued revenue / Advances paid	13	X	X	X	X
Investments	14	X	X	X	X
Other financial assets		X	X	X	X
<b>Total financial assets</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Non-financial assets</b>					
Inventories		X	X	X	X
Property, Plant and Equipment		X	X	X	X
Intangibles		X	X	X	X
Other non-financial assets		X	X	X	X
<b>Total non-financial assets</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Total Assets</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>LIABILITIES</b>					
	15				
<b>Payables</b>	16	X	X	X	X
<b>Interest bearing liabilities</b>	17	X	X	X	X
<b>Provisions</b>	18	X	X	X	X
<b>Total liabilities</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Net Assets</b>	28	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Equity</b>					
<b>Parent entity interest</b>					
Accumulated results		X	X	X	X
Reserves		X	X	X	X
<b>Total parent entity interest</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
Outside equity interests		X	X	X	X
<b>Total entity</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Current liabilities</b>					
<b>Non-current liabilities</b>					
<b>Total liabilities by maturity</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Current assets</b>					
<b>Non-current assets</b>					
<b>Total assets by maturity</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

**REPORTING OF GGS AS A PARENT ENTITY**

Entity

Pro-forma Statement of Cash Flows

For the period ending 30 June 2XXX

	Notes	Consolidated		GGS	
		2XXX \$m	2XXY \$m	2XXX \$m	2XXY \$m
<b>Operating activities</b>					
<b>Cash received</b>					
Taxes		X	X	X	X
Sales of goods and services		X	X	X	X
Interest		X	X	X	X
Dividends		X	X	X	X
Goods and services tax refunds		X	X	X	X
Other		X	X	X	X
<b>Total cash received</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Cash payments</b>					
Payments for goods and services		X	X	X	X
Grants and subsidies		X	X	X	X
Interest		X	X	X	X
Personal benefits		X	X	X	X
Salaries, wages and other entitlements		X	X	X	X
GST payments to taxation authority		X	X	X	X
Other payments for operating activities		X	X	X	X
<b>Total payments</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net cash flows from/(to) operating activities</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Investing activities</b>					
<b>Cash received</b>					
Sales of non-financial assets	19	X	X	X	X
Sales of financial assets (non-policy)	20	X	X	X	X
Other investing receipts	21	X	X	X	X
<b>Total cash received</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Cash payments</b>					
Purchases of non-financial assets	22	X	X	X	X
Purchases of financial assets (non-policy)	23	X	X	X	X
Other investing payments	24	X	X	X	X
<b>Total cash used</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net cash flows from/(to) investing activities</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net cash Flows from Operating and Investing Activities</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net cash flows before Financing Activities</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## REPORTING OF GGS AS A PARENT ENTITY

## Entity

## Pro-forma Statement of Cash Flows, page 2

For the period ending 30 June 2XXX

	Notes	Consolidated		GGS	
		2XXX \$m	2XXY \$m	2XXX \$m	2XXY \$m
<b>Financing activities</b>	25				
<b>Cash received</b>		X	X	X	X
Advances received		X	X	X	X
Borrowing		X	X	X	X
Deposits received		X	X	X	X
Other financing		X	X	X	X
<b>Total cash received</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Cash paid</b>		X	X	X	X
Advances received		X	X	X	X
Borrowing		X	X	X	X
Deposits received		X	X	X	X
Other financing		X	X	X	X
<b>Total cash used</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Net cash flows from/(to) financing activities</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Total cash flows</b>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

## KEY FISCAL AGGREGATES

Net cash from operating activities	X	X	X	X
Net cash (to)/from investments in non-financial assets	X	X	X	X
Finance leases and similar arrangements	X	X	X	X
<b>GFS Cash surplus/(deficit)</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

## REPORTING OF GGS AS A PARENT ENTITY

## Entity

## Pro-Forma Notes Forming Part of the Financial Statements

Consolidated		GGS	
2XXX	2XXY	2XXX	2XXY
\$m	\$m	\$m	\$m

## Note 1 – Accounting Policies

## Note 2 – Revenues from taxation

Income Tax	X	X	X	X
Indirect Tax	X	X	X	X
Fringe benefits tax	X	X	X	X
Other taxes	X	X	X	X
<b>Total taxation revenues</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Note 3 – Non-taxation revenues

Charges for goods and services	X	X	X	X
Current grants and subsidies	X	X	X	X
Capital grants	X	X	X	X
Interest and dividends	X	X	X	X
Other sources of non-taxation revenue	X	X	X	X
<b>Total Non-taxation revenues</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Note 4 - Goods and Services

Employees	X	X	X	X
Suppliers	X	X	X	X
Depreciation and Amortisation	X	X	X	X
Other goods and services expenses	X	X	X	X
<b>Total goods and services</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Note 5 - Subsidies, benefits and grants

Subsidies	X	X	X	X
Personal benefits	X	X	X	X
Grants	X	X	X	X
<b>Total subsidies, benefits and grants</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Note 6 - Net result attributable to outside equity interests

Interest in opening accumulated results as at 1 July 2xxx	X	X	X	X
Interest in operating result and abnormal items after income tax	X	X	X	X
Interest in amounts transferred (to)/from reserves	X	X	X	X
Interest in dividends provided for or paid	X	X	X	X
Interest in other movements in accumulated results	X	X	X	X
Interest in closing accumulated results	X	X	X	X
<b>Interest in opening reserves as at 1 July 2xxx</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Interest in foreign currency translation gain/(loss)				
Interest in amounts transferred (to)/from accumulated results	X	X	X	X
Interest in other movements in reserves	X	X	X	X
<b>Interest in closing reserves</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Interest in capital</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total outside equity interests</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Note 7 - Gain/(loss) on extraordinary items

Details of each extraordinary item	X	X	X	X
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## REPORTING OF GGS AS A PARENT ENTITY

## Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 2

	Consolidated		GGS	
	2XXX	2XXY	2XXX	2XXY
	\$m	\$m	\$m	\$m
<b>Note 8 - Other non-owner related equity movements</b>				
Details of other non-owner related equity movements	X	X	X	X
<b>Note 9 - Share of net result from associates and joint ventures accounted for using the equity method</b>				
Information disclosed to permit the calculation of the change in market value of the investment(s) after payment of dividends	X	X	X	X
<b>Note 10 – Reconciliation of Fiscal Balance to transactions in financial assets and liabilities</b>				
Net fiscal balance	X	X	X	X
Net acquisition of financial assets				
Domestic	X	X	X	X
Foreign	X	X	X	X
Net incurrence of liabilities				
Domestic	X	X	X	X
Foreign	X	X	X	X
<b>Total transactions in financial liabilities</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Note 11 – Reconciliation of changes in equity</b>				
Opening balance as at 1 July 2xxw	X	X	X	X
Adjustments to opening balance (detailed below)	X	X	X	X
Net operating result after re-measurements	X	X	X	X
Dividends provided for or paid	X	X	X	X
Transfers to/(from)/between reserves	X	X	X	X
Changes in accounting policies	X	X	X	X
Capital payments made/(repayments received)	X	X	X	X
Other movements (detail if material)	X	X	X	X
Balance as at 30 June 2xxx	X	X	X	X
Less Outside Equity Interests (refer Note 7)	X	X	X	X
<b>Total equity attributable to the entity</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Note 12 - Cash and Deposits</b>				
Cash at Bank and on hand	X	X	X	X
Cash on deposit	X	X	X	X
<b>Total Cash and Deposits</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Note 13 - Accrued Revenue / Advances Paid</b>				
Accrued taxation revenue	X	X	X	X
Accrued interest revenue	X	X	X	X
Other accrued revenue	X	X	X	X
Other advances paid	X	X	X	X
<b>Total Accrued Revenue / Advances Paid</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

## REPORTING OF GGS AS A PARENT ENTITY

## Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 3

	Consolidated		GGS	
	2XXX \$m	2XXY \$m	2XXX \$m	2XXY \$m
<b>Note 14: Investments</b>				
<b>Shares</b>				
Shares in international financial institutions	X	X	X	X
Shares in companies	X	X	X	X
Other	X	X	X	X
<b>Total Shares</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Gold holdings</b>				
Deposits	X	X	X	X
Government securities	X	X	X	X
Debentures	X	X	X	X
International money fund	X	X	X	X
Financial Instruments (by type)	X	X	X	X
Investments - accounted for using equity method	X	X	X	X
Investments in other sectors (eg controlled entities)			X <sup>81</sup>	X
Other	X	X	X	X
<b>Total Investments</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 15: Liabilities</b>				
<i>(Disclose detailed split of liabilities by domestic and foreign)</i>				
<b>Domestic:</b>				
Payables	X	X	X	X
Interest Bearing Liabilities	X	X	X	X
Provisions	X	X	X	X
<b>Total Domestic Liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Foreign:</b>				
Payables	X	X	X	X
Interest Bearing Liabilities	X	X	X	X
Provisions	X	X	X	X
<b>Total Foreign Liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total Liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 16 - Payables</b>				
Suppliers	X	X	X	X
Personal Benefits	X	X	X	X
Subsidies	X	X	X	X
Grants	X	X	X	X
Other payables	X	X	X	X
<b>Total Payables</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Note 17 - Interest Bearing Liabilities</b>				
Overdraft	X	X	X	X
Deposits	X	X	X	X
Government Securities	X	X	X	X
Loans	X	X	X	X
Leases	X	X	X	X
Other interest bearing liabilities	X	X	X	X
<b>Total Interest Bearing Liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

<sup>81</sup> GGS information should include the value of investments in other sectors

**REPORTING OF GGS AS A PARENT ENTITY**

Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 4

	Consolidated		GGS	
	2XXX	2XXY	2XXX	2XXY
	\$m	\$m	\$m	\$m
<b>Note 18 - Provisions</b>				
Provision for taxation refund	X	X	X	X
Employees	X	X	X	X
Australian currency on issue	X	X	X	X
Other provisions	X	X	X	X
<b>Total Provisions</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Note 19 - Sales of non-financial assets</b>				
Property plant and equipment	X	X	X	X
Valuables	X	X	X	X
Non-produced assets	X	X	X	X
<b>Total sales of non-financial assets</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Note 20 - Sales of non-policy financial assets</b>				
Details by type of financial asset				
<b>Note 21 - Other investing receipts</b>				
Details by type of transaction				
<b>Note 22 - Purchases of non-financial assets</b>				
Property plant and equipment	X	X	X	X
Valuables	X	X	X	X
Non-produced assets	X	X	X	X
<b>Total purchases of non-financial assets</b>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<b>Note 23 - Purchases of financial assets</b>				
Details by type of financial asset				
<b>Note 24 - Other investing payments</b>				
Details by type of transaction				
<b>Note 25 - Financing activities</b>				
Provide a split between domestic and foreign by type of transaction				
<b>Note 26 - Transactions with owners</b>				
provide details of the transactions with owners				

## REPORTING OF GGS AS A PARENT ENTITY

## Entity

Pro-Forma Notes Forming Part of the Financial Statements, page 5

	Consolidated		GGS	
	2XXX	2XXY	2XXX	2XXY
	\$m	\$m	\$m	\$m
<b>Note 27 - Calculation of GFS Net Borrowing/Lending</b>				
Net operating result before re-measurements	X	X	X	X
Measurement differences between GFS and GAAP <i>(separate lines where material)</i>	X	X	X	X
GFS net operating balance	X	X	X	X
Purchases of non-financial assets	X	X	X	X
Less Disposals of non-financial assets	X	X	X	X
Less Depreciation	X	X	X	X
Plus Change in inventories	X	X	X	X
Plus Other changes in non-financial assets	X	X	X	X
Total net acquisition of non-financial assets	X	X	X	X
<b>GFS Net Borrowing/Lending</b>	X	X	X	X
<b>Note 28 - Reconciliation of net assets to GFS net worth</b>				
Net assets <i>(per statement of financial position)</i>	X	X	X	X
Differences in treatment between GFS and GAAP <i>(separate lines where material)</i>	X	X	X	X
<b>GFS Net Worth</b>	X	X	X	X
<b>Note 29 - GFS Cash surplus/(deficit)</b>				
Net cash flow (to)/from operating activities	X	X	X	X
Net cash flow (to)/from investments in non-financial assets	X	X	X	X
Finance leases and similar arrangements	X	X	X	X
<b>GFS cash surplus/(deficit)</b>	X	X	X	X

NOTE: The above notes do not include a number of specific disclosures as required by other accounting standards (eg financial instruments, asset details by class, etc).

## OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES

Entity

Statement of Financial Performance

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Revenues before re-measurements</b>			
Taxation	2	X	X
Non-taxation	3	X	X
<b>Total revenues before re-measurements</b>		<u>X</u>	<u>X</u>
<b>Expenses before re-measurements</b>			
Employee Expenses		X	X
Goods and Services	4	X	X
Subsidies, benefits and grants	5	X	X
Interest expense		X	X
Nominal superannuation interest		X	X
<b>Total expenses before re-measurements</b>		<u>X</u>	<u>X</u>
Extraordinary items before re-measurements	7	X	X
<b>Net operating result before re-measurements</b>	27	<u>X</u>	<u>X</u>
<b>Re-measurements</b>			
Net foreign exchange gains/(losses)		X	X
Net exchange gain/(loss) on translation of financial report of self sustaining foreign operations		X	X
Proceeds from sale of assets		X	X
Value of assets sold		(X)	(X)
Net credit/(debit) to asset revaluation reserve		X	X
Superannuation		X	X
Other non-owner related equity movements	8	X	X
Share of net result from associates and joint ventures accounted for using the equity method	9	X	X
Gain/(loss) on re-measurement extraordinary items	7	X	X
<b>Total re-measurements</b>		<u>X</u>	<u>X</u>
Net result after re-measurements		X	X
Net result attributable to outside equity interests	6	X	X
<b>Net result attributable to the parent entity</b>		<u>X</u>	<u>X</u>
Transactions with owners	26	X	X
<b>KEY FISCAL AGGREGATES</b>			
Net operating result before re-measurements		X	X
Less Acquisitions less disposals of non-financial assets		X	X
Less Depreciation		X	X
Plus Change in inventories		X	X
Plus Other transactions in non-financial assets		X	X
<b>Total net acquisition of non-financial assets</b>		<u>X</u>	<u>X</u>
Net borrowing / lending	27	X	X

## OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES

Entity

Pro-forma Statement of Financial Position

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>ASSETS</b>			
<b>Current Assets</b>			
<b>Current Financial Assets</b>			
Cash and deposits	12	X	X
Receivables		X	X
Accrued revenue / Advances paid	13	X	X
Investments	14	X	X
Other financial assets		X	X
<b>Total current financial assets</b>		<b>X</b>	<b>X</b>
<b>Current Non-financial assets</b>			
Inventories		X	X
Property, Plant and Equipment		X	X
Intangibles		X	X
Other non-financial assets		X	X
<b>Total current non-financial assets</b>		<b>X</b>	<b>X</b>
<b>Total Current Assets</b>		<b>X</b>	<b>X</b>
<b>Non-Current Assets</b>			
<b>Non-Current Financial Assets</b>			
Cash and deposits	12	X	X
Receivables		X	X
Accrued revenue / Advances paid	13	X	X
Investments	14	X	X
Other financial assets		X	X
<b>Total non-current financial assets</b>		<b>X</b>	<b>X</b>
<b>Non-Current Non-financial assets</b>			
Inventories		X	X
Property, Plant and Equipment		X	X
Intangibles		X	X
Other non-financial assets		X	X
<b>Total non-current non-financial assets</b>		<b>X</b>	<b>X</b>
<b>Total Non-Current Assets</b>		<b>X</b>	<b>X</b>
<b>Total Assets</b>		<b>X</b>	<b>X</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	16	X	X
Interest bearing liabilities	17	X	X
Provisions	18	X	X
<b>Total Current liabilities</b>		<b>X</b>	<b>X</b>

## OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES

## Entity

Pro-forma Statement of Financial Position, page 2

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Non-Current Liabilities</b>			
Payables	16	X	X
Interest bearing liabilities	17	X	X
Provisions	18	X	X
<b>Total Non-Current liabilities</b>		<u>X</u>	<u>X</u>
<b>Total liabilities</b>		<u>X</u>	<u>X</u>
<b>Net Assets</b>	28	<u>X</u>	<u>X</u>
<b>Equity</b>			
<b>Parent entity interest</b>			
Accumulated results		X	X
Reserves		X	X
<b>Total parent entity interest</b>		<u>X</u>	<u>X</u>
Outside equity interests		X	X
<b>Total entity</b>		<u>X</u>	<u>X</u>

## OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES

Entity

Pro-forma Statement of Cash Flows

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Operating activities</b>			
<b>Cash received</b>			
Taxes		X	X
Sales of goods and services		X	X
Interest		X	X
Dividends		X	X
Goods and services tax refunds		X	X
Other		X	X
<b>Total cash received</b>		<u>X</u>	<u>X</u>
<b>Cash payments</b>			
Payments for goods and services		X	X
Grants and subsidies		X	X
Interest		X	X
Personal benefits		X	X
Salaries, wages and other entitlements		X	X
GST payments to taxation authority		X	X
Other payments for operating activities		X	X
<b>Total payments</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from/(to) operating activities</b>		<u>X</u>	<u>X</u>
<b>Investing activities</b>			
<b>Cash received</b>			
Sales of non-financial assets	19	X	X
Sales of financial assets (non-policy)	20	X	X
Other	21	X	X
<b>Total cash received</b>		<u>X</u>	<u>X</u>
<b>Cash payments</b>			
Purchases of non-financial assets	22	X	X
Purchases of financial assets (non-policy)	23	X	X
Other	24	X	X
<b>Total cash used</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from/(to) investing activities</b>		<u>X</u>	<u>X</u>
<b>Net cash Flows from Operating and Investing Activities</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from investments in financial assets for policy purposes</b>		<u>X</u>	<u>X</u>
<b>Net cash flows before Financing Activities</b>		<u>X</u>	<u>X</u>

## OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES

Entity

Pro-forma Statement of Cash Flows, page 2

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Financing activities</b>	25		
<b>Cash received</b>		X	X
Advances received		X	X
Borrowing		X	X
Deposits received		X	X
Other financing		X	X
<b>Total cash received</b>		<u>X</u>	<u>X</u>
<b>Cash paid</b>		X	X
Advances received		X	X
Borrowing		X	X
Deposits received		X	X
Other financing		X	X
<b>Total cash used</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from/(to) financing activities</b>		<u>X</u>	<u>X</u>
<b>Total cash flows</b>		<u>X</u>	<u>X</u>

### KEY FISCAL AGGREGATES

Net cash (to)/from operating activities		X	X
Net cash (to)/from investments in non-financial assets		X	X
Finance leases and similar arrangements		X	X
<b>Cash surplus/(deficit)</b>	29	<u>X</u>	<u>X</u>

## OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES

### Entity

#### Pro-Forma Notes Forming Part of the Financial Statements

	2XXX	2XXY
	\$m	\$m
<b>Note 1 – Accounting Policies</b>		
<b>Note 2 – Revenues from taxation</b>		
Income Tax	X	X
Indirect Tax	X	X
Fringe benefits tax	X	X
Other taxes	X	X
<b>Total taxation revenues</b>	<b>X</b>	<b>X</b>
<b>Note 3 – Non-taxation revenues</b>		
Charges for goods and services	X	X
Current grants and subsidies	X	X
Capital grants	X	X
Interest and dividends	X	X
Other sources of non-taxation revenue	X	X
<b>Total Non-taxation revenues</b>	<b>X</b>	<b>X</b>
<b>Note 4 - Goods and Services</b>		
Employees	X	X
Suppliers	X	X
Depreciation and Amortisation	X	X
Other goods and services expenses	X	X
<b>Total goods and services</b>	<b>X</b>	<b>X</b>
<b>Note 5 - Subsidies, benefits and grants</b>		
Subsidies	X	X
Personal benefits	X	X
Grants	X	X
<b>Total subsidies, benefits and grants</b>	<b>X</b>	<b>X</b>
<b>Note 6 - Net result attributable to outside equity interests</b>		
Interest in opening accumulated results as at 1 July 2xyy	X	X
Interest in operating result and abnormal items after income tax	X	X
Interest in amounts transferred (to)/from reserves	X	X
Interest in dividends provided for or paid	X	X
Interest in other movements in accumulated results	X	X
Interest in closing accumulated results	X	X
<b>Interest in opening reserves as at 1 July 2xyy</b>	<b>X</b>	<b>X</b>
Interest in foreign currency translation gain/(loss)		
Interest in amounts transferred (to)/from accumulated results	X	X
Interest in other movements in reserves	X	X
<b>Interest in closing reserves</b>	<b>X</b>	<b>X</b>
<b>Interest in capital</b>	<b>X</b>	<b>X</b>
<b>Total outside equity interests</b>	<b>X</b>	<b>X</b>
<b>Note 7 - Gain/(loss) on extraordinary items</b>		
Details of each extraordinary item	X	X

**OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES****Note 8 - Other non-owner related equity movements**

Details of other non-owner related equity movements	X	X
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**Note 9 - Share of net result from associates and joint ventures accounted for using the equity method**

Information disclosed to permit the calculation of the change in market value of the investment(s) after payment of dividends.	X	X
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**Note 10 – Reconciliation of Net Borrowing/Lending to transactions in financial assets and liabilities**

Net fiscal balance	X	X
Net acquisition of financial assets		
Domestic	X	X
Foreign	X	X
Net incurrence of liabilities		
Domestic	X	X
Foreign	X	X
<b>Total transactions in financial liabilities</b>	<b>X</b>	<b>X</b>

**Note 11 – Reconciliation of changes in equity**

Opening balance as at 1 July 2xxw	X	X
Adjustments to opening balance (detailed below)	X	X
Net operating result after re-measurements	X	X
Dividends provided for or paid	X	X
Transfers to/(from)/between reserves	X	X
Changes in accounting policies	X	X
Capital payments made/(repayments received)	X	X
Other movements (detail if material)	X	X
Balance as at 30 June 2xxx	X	X
Less Outside Equity Interests (refer Note 7)	X	X
<b>Total equity attributable to the entity</b>	<b>X</b>	<b>X</b>

**Note 12 - Cash and Deposits**

Cash at Bank and on hand	X	X
Cash on deposit	X	X
<b>Total Cash and Deposits</b>	<b>X</b>	<b>X</b>

**Note 13 - Accrued Revenue / Advances Paid**

Accrued taxation revenue	X	X
Accrued interest revenue	X	X
Other accrued revenue	X	X
Other advances paid	X	X
<b>Total Accrued Revenue / Advances Paid</b>	<b>X</b>	<b>X</b>

## OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES

### Note 14 - Investments

#### Shares

Shares in international financial institutions	X	X
Shares in companies	X	X
Other	X	X
<b>Total Shares</b>	<u>X</u>	<u>X</u>
Gold holdings		
Deposits	X	X
Government securities	X	X
Debentures	X	X
International money fund	X	X
Financial Instruments (by type)	X	X
Investments - accounted for using equity method	X	X
Other	X	X
<b>Total Investments</b>	<u>X</u>	<u>X</u>

### Note 15 - Liabilities

(Disclose detailed split of liabilities by domestic and foreign)

#### Domestic:

Payables	X	X
Interest Bearing Liabilities	X	X
Provisions	X	X
<b>Total Domestic Liabilities</b>	<u>X</u>	<u>X</u>

#### Foreign:

Payables	X	X
Interest Bearing Liabilities	X	X
Provisions	X	X
<b>Total Foreign Liabilities</b>	<u>X</u>	<u>X</u>
<b>Total Liabilities</b>	<u>X</u>	<u>X</u>

### Note 16 - Payables

Suppliers	X	X
Personal Benefits	X	X
Subsidies	X	X
Grants	X	X
Other payables	X	X
<b>Total Payables</b>	<u>X</u>	<u>X</u>

### Note 17 - Interest Bearing Liabilities

Overdraft	X	X
Deposits	X	X
Government Securities	X	X
Loans	X	X
Leases	X	X
Other interest bearing liabilities	X	X
<b>Total Interest Bearing Liabilities</b>	<u>X</u>	<u>X</u>

### Note 18 - Provisions

Provision for taxation refund	X	X
Employees	X	X
Australian currency on issue	X	X
Other provisions	X	X
<b>Total Provisions</b>	<u>X</u>	<u>X</u>

## OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES

### Note 19 - Sales of non-financial assets

Property plant and equipment	X	X
Valuables	X	X
Non-produced assets	X	X
	<u>X</u>	<u>X</u>

### Note 20 - Sales of non-policy financial assets

Details by type of transaction	X	X
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### Note 21 - Other asset sales

Details by type of transaction	X	X
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### Note 22 - Purchases of non-financial assets

Property plant and equipment	X	X
Valuables	X	X
Non-produced assets	X	X
	<u>X</u>	<u>X</u>

### Note 23 - Purchases of non-policy financial assets

Details by type of financial asset	X	X
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### Note 24 - Other investing cash payments

Details by type of transaction	X	X
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### Note 25 - Financing activities

Provide a split between domestic and foreign by type of transaction	X	X
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### Note 26 - Transactions with owners

provide details of the transactions with owners	X	X
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### Note 27 - Calculation of GFS Net Borrowing/Lending

Net operating result before re-measurements	X	X
Measurement differences between GFS and GAAP ( <i>separate lines where material</i> )	X	X
GFS net operating balance	<u>X</u>	<u>X</u>

### Purchases of non-financial assets

Less Disposals of non-financial assets	X	X
Less Depreciation	X	X
Plus Change in inventories	X	X
Plus Other changes in non-financial assets	X	X
Total net acquisition of non-financial assets	X	X

### GFS Net Borrowing/Lending

	<u>X</u>	<u>X</u>
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### Note 28 - Reconciliation of net assets to GFS net worth

Net assets ( <i>per statement of financial position</i> )	X	X
Differences in treatment between GFS and GAAP ( <i>separate lines where material</i> )	X	X
GFS Net Worth	<u>X</u>	<u>X</u>

### Note 29 - GFS Cash surplus/(deficit)

Net cash flow (to)/from operating activities	X	X
Net cash flow (to)/from investments in non-financial assets	X	X
Finance leases and similar arrangements	X	X
GFS cash surplus/(deficit)	<u>X</u>	<u>X</u>

**OPTION 1: REPORTING OF HARMONISED GFS AGGREGATES**

NOTE: The above notes do not include a number of specific disclosures required by other accounting standards (eg financial instruments, asset details by class, etc) as the primary purpose of these pro-forma notes was to illustrate what might appear on the face of the financial statements and what could be included in the note disclosures.

## OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES

### Entity

#### Statement of Financial Performance

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Revenues before re-measurements</b>			
Taxation	2	X	X
Non-taxation	3	X	X
<b>Total revenues before re-measurements</b>		<u>X</u>	<u>X</u>
<b>Expenses before re-measurements</b>			
Employee Expenses		X	X
Goods and Services	4	X	X
Subsidies, benefits and grants	5	X	X
Interest expense		X	X
Nominal superannuation interest		X	X
<b>Total expenses before re-measurements</b>		<u>X</u>	<u>X</u>
Extraordinary items before re-measurements	7	X	X
<b>Net operating result before re-measurements</b>	27	<u>X</u>	<u>X</u>
<b>Re-measurements</b>			
Net foreign exchange gains/(losses)		X	X
Net exchange gain/(loss) on translation of financial report of self sustaining foreign operations		X	X
Proceeds from sale of assets		X	X
Value of assets sold		(X)	(X)
Net credit/(debit) to asset revaluation reserve		X	X
Superannuation		X	X
Other non-owner related equity movements	8	X	X
Share of net result from associates and joint ventures accounted for using the equity method	9	X	X
Gain/(loss) on re-measurement extraordinary items	7	X	X
<b>Total re-measurements</b>		<u>X</u>	<u>X</u>
Net result after re-measurements		X	X
Net result attributable to outside equity interests	6	X	X
<b>Net result attributable to the parent entity</b>		<u>X</u>	<u>X</u>
Transactions with owners	26	X	X

#### KEY FISCAL AGGREGATES

Net operating result before re-measurements		X	X
Measurement differences between GAAP and GFS	27	X	X
<b>GFS Net operating balance</b>		<u>X</u>	<u>X</u>
Less Acquisitions less disposals of non-financial assets		X	X
Less Depreciation		X	X
Plus Change in inventories		X	X
Plus Other transactions in non-financial assets		X	X
<b>Total net acquisition of non-financial assets</b>		<u>X</u>	<u>X</u>
<b>GFS Net borrowing / lending</b>		<u>X</u>	<u>X</u>

**OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES**

Entity

Pro-forma Statement of Financial Position

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>ASSETS</b>			
<b>Current Assets</b>			
<b>Current Financial Assets</b>			
Cash and deposits	12	X	X
Receivables		X	X
Accrued revenue / Advances paid	13	X	X
Investments	14	X	X
Other financial assets		X	X
<b>Total current financial assets</b>		<u>X</u>	<u>X</u>
<b>Current Non-financial assets</b>			
Inventories		X	X
Property, Plant and Equipment		X	X
Intangibles		X	X
Other non-financial assets		X	X
<b>Total current non-financial assets</b>		<u>X</u>	<u>X</u>
<b>Total Current Assets</b>		<u>X</u>	<u>X</u>
<b>Non-Current Assets</b>			
<b>Non-Current Financial Assets</b>			
Cash and deposits	12	X	X
Receivables		X	X
Accrued revenue / Advances paid	13	X	X
Investments	14	X	X
Other financial assets		X	X
<b>Total non-current financial assets</b>		<u>X</u>	<u>X</u>
<b>Non-Current Non-financial assets</b>			
Inventories		X	X
Property, Plant and Equipment		X	X
Intangibles		X	X
Other non-financial assets		X	X
<b>Total non-current non-financial assets</b>		<u>X</u>	<u>X</u>
<b>Total Non-Current Assets</b>		<u>X</u>	<u>X</u>
<b>Total Assets</b>		<u>X</u>	<u>X</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	16	X	X
Interest bearing liabilities	17	X	X
Provisions	18	X	X
<b>Total Current liabilities</b>		<u>X</u>	<u>X</u>

**OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES**

Entity

Pro-forma Statement of Financial Position, page 2

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Non-Current Liabilities</b>			
Payables	16	X	X
Interest bearing liabilities	17	X	X
Provisions	18	X	X
<b>Total Non-Current liabilities</b>		<u>X</u>	<u>X</u>
<b>Total liabilities</b>		<u>X</u>	<u>X</u>
<b>Net Assets</b>	28	<u>X</u>	<u>X</u>
<b>Equity</b>			
<b>Parent entity interest</b>			
Accumulated results		X	X
Reserves		X	X
<b>Total parent entity interest</b>		<u>X</u>	<u>X</u>
Outside equity interests		X	X
<b>Total entity</b>		<u>X</u>	<u>X</u>

**KEY FISCAL AGGREGATES**

Net Assets	X	X
Measurement differences between GAAP and GFS	X	X
GFS Net Worth	X	X

**OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES**

Entity

Pro-forma Statement of Cash Flows

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Operating activities</b>			
<b>Cash received</b>			
Taxes		X	X
Sales of goods and services		X	X
Interest		X	X
Dividends		X	X
Goods and services tax refunds		X	X
Other		X	X
<b>Total cash received</b>		<u>X</u>	<u>X</u>
<b>Cash payments</b>			
Payments for goods and services		X	X
Grants and subsidies		X	X
Interest		X	X
Personal benefits		X	X
Salaries, wages and other entitlements		X	X
GST payments to taxation authority		X	X
Other payments for operating activities		X	X
<b>Total payments</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from/(to) operating activities</b>		<u>X</u>	<u>X</u>
<b>Investing activities</b>			
<b>Cash received</b>			
Sales of non-financial assets	19	X	X
Sales of financial assets (non-policy)	20	X	X
Other	21	X	X
<b>Total cash received</b>		<u>X</u>	<u>X</u>
<b>Cash payments</b>			
Purchases of non-financial assets	22	X	X
Purchases of financial assets (non-policy)	23	X	X
Other	24	X	X
<b>Total cash used</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from/(to) investing activities</b>		<u>X</u>	<u>X</u>
<b>Net cash Flows from Operating and Investing Activities</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from investments in financial assets for policy purposes</b>		<u>X</u>	<u>X</u>
<b>Net cash flows before Financing Activities</b>		<u>X</u>	<u>X</u>

**OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES**

Entity

Pro-forma Statement of Cash Flows, page 2

For the period ending 30 June 2XXX

	Notes	2XXX \$m	2XXY \$m
<b>Financing activities</b>	25		
<b>Cash received</b>		X	X
Advances received		X	X
Borrowing		X	X
Deposits received		X	X
Other financing		X	X
<b>Total cash received</b>		<u>X</u>	<u>X</u>
<b>Cash paid</b>		X	X
Advances received		X	X
Borrowing		X	X
Deposits received		X	X
Other financing		X	X
<b>Total cash used</b>		<u>X</u>	<u>X</u>
<b>Net cash flows from/(to) financing activities</b>		<u>X</u>	<u>X</u>
<b>Total cash flows</b>		<u>X</u>	<u>X</u>

**KEY FISCAL AGGREGATES**

Net cash (to)/from operating activities		X	X
Net cash (to)/from investments in non-financial assets		X	X
Classification differences between GAAP and GFS	29	X	X
Finance leases and similar arrangements		X	X
<b>GFS Cash surplus/(deficit)</b>		<u>X</u>	<u>X</u>

## OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES

### Entity

#### Pro-Forma Notes Forming Part of the Financial Statements

	2XXX	2XXY
	\$m	\$m
<b>Note 1 – Accounting Policies</b>		
<b>Note 2 – Revenues from taxation</b>		
Income Tax	X	X
Indirect Tax	X	X
Fringe benefits tax	X	X
Other taxes	X	X
<b>Total taxation revenues</b>	<u>X</u>	<u>X</u>
<b>Note 3 – Non-taxation revenues</b>		
Charges for goods and services	X	X
Current grants and subsidies	X	X
Capital grants	X	X
Interest and dividends	X	X
Other sources of non-taxation revenue	X	X
<b>Total Non-taxation revenues</b>	<u>X</u>	<u>X</u>
<b>Note 4 - Goods and Services</b>		
Employees	X	X
Suppliers	X	X
Depreciation and Amortisation	X	X
Other goods and services expenses	X	X
<b>Total goods and services</b>	<u>X</u>	<u>X</u>
<b>Note 5 - Subsidies, benefits and grants</b>		
Subsidies	X	X
Personal benefits	X	X
Grants	X	X
<b>Total subsidies, benefits and grants</b>	<u>X</u>	<u>X</u>
<b>Note 6 - Net result attributable to outside equity interests</b>		
Interest in opening accumulated results as at 1 July 2xxy	X	X
Interest in operating result and abnormal items after income tax	X	X
Interest in amounts transferred (to)/from reserves	X	X
Interest in dividends provided for or paid	X	X
Interest in other movements in accumulated results	X	X
Interest in closing accumulated results	X	X
<b>Interest in opening reserves as at 1 July 2xxy</b>	<u>X</u>	<u>X</u>
Interest in foreign currency translation gain/(loss)	X	X
Interest in amounts transferred (to)/from accumulated results	X	X
Interest in other movements in reserves	X	X
<b>Interest in closing reserves</b>	<u>X</u>	<u>X</u>
<b>Interest in capital</b>	<u>X</u>	<u>X</u>
<b>Total outside equity interests</b>	<u>X</u>	<u>X</u>
<b>Note 7 - Gain/(loss) on extraordinary items</b>		
Details of each extraordinary item	X	X

**OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES****Note 8 - Other non-owner related equity movements**

Details of other non-owner related equity movements	X	X
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**Note 9 - Share of net result from associates and joint ventures accounted for using the equity method**

Information disclosed to permit the calculation of the change in market value of the investment(s) after payment of dividends.	X	X
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**Note 10 – Reconciliation of Net Borrowing/Lending to transactions in financial assets and liabilities**

Net fiscal balance	X	X
Net acquisition of financial assets		
Domestic	X	X
Foreign	X	X
Net incurrence of liabilities		
Domestic	X	X
Foreign	X	X
<b>Total transactions in financial liabilities</b>	<b>X</b>	<b>X</b>

**Note 11 – Reconciliation of changes in equity**

Opening balance as at 1 July 2xxw	X	X
Adjustments to opening balance (detailed below)	X	X
Net operating result after re-measurements	X	X
Dividends provided for or paid	X	X
Transfers to/(from)/between reserves	X	X
Changes in accounting policies	X	X
Capital payments made/(repayments received)	X	X
Other movements (detail if material)	X	X
Balance as at 30 June 2xxx	X	X
Less Outside Equity Interests (refer Note 7)	X	X
<b>Total equity attributable to the entity</b>	<b>X</b>	<b>X</b>

**Note 12 - Cash and Deposits**

Cash at Bank and on hand	X	X
Cash on deposit	X	X
<b>Total Cash and Deposits</b>	<b>X</b>	<b>X</b>

**Note 13 - Accrued Revenue / Advances Paid**

Accrued taxation revenue	X	X
Accrued interest revenue	X	X
Other accrued revenue	X	X
Other advances paid	X	X
<b>Total Accrued Revenue / Advances Paid</b>	<b>X</b>	<b>X</b>

## OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES

### Note 14 - Investments

#### Shares

Shares in international financial institutions	X	X
Shares in companies	X	X
Other	X	X
<b>Total Shares</b>	<u>X</u>	<u>X</u>
Gold holdings		
Deposits	X	X
Government securities	X	X
Debentures	X	X
International money fund	X	X
Financial Instruments (by type)	X	X
Investments - accounted for using equity method	X	X
Other	X	X
<b>Total Investments</b>	<u>X</u>	<u>X</u>

### Note 15 - Liabilities

(Disclose detailed split of liabilities by domestic and foreign)

#### Domestic:

Payables	X	X
Interest Bearing Liabilities	X	X
Provisions	X	X
<b>Total Domestic Liabilities</b>	<u>X</u>	<u>X</u>

#### Foreign:

Payables	X	X
Interest Bearing Liabilities	X	X
Provisions	X	X
<b>Total Foreign Liabilities</b>	<u>X</u>	<u>X</u>
<b>Total Liabilities</b>	<u>X</u>	<u>X</u>

### Note 16 - Payables

Suppliers	X	X
Personal Benefits	X	X
Subsidies	X	X
Grants	X	X
Other payables	X	X
<b>Total Payables</b>	<u>X</u>	<u>X</u>

### Note 17 - Interest Bearing Liabilities

Overdraft	X	X
Deposits	X	X
Government Securities	X	X
Loans	X	X
Leases	X	X
Other interest bearing liabilities	X	X
<b>Total Interest Bearing Liabilities</b>	<u>X</u>	<u>X</u>

### Note 18 - Provisions

Provision for taxation refund	X	X
Employees	X	X
Australian currency on issue	X	X
Other provisions	X	X
<b>Total Provisions</b>	<u>X</u>	<u>X</u>

**OPTION 2: REPORTING OF PURE ABS GFS AGGREGATES**

<b>Note 19 - Sales of non-financial assets</b>		
Property plant and equipment	X	X
Valuables	X	X
Non-produced assets	X	X
	<u>X</u>	<u>X</u>
 <b>Note 20 - Sales of non-policy financial assets</b>		
Details by type of transaction	X	X
 <b>Note 21 - Other asset sales</b>		
Details by type of transaction	X	X
 <b>Note 22 - Purchases of non-financial assets</b>		
Property plant and equipment	X	X
Valuables	X	X
Non-produced assets	X	X
	<u>X</u>	<u>X</u>
 <b>Note 23 - Purchases of non-policy financial assets</b>		
Details by type of financial asset	X	X
 <b>Note 24 - Other investing cash payments</b>		
Details by type of transaction	X	X
 <b>Note 25 - Financing activities</b>		
Provide a split between domestic and foreign by type of transaction	X	X
 <b>Note 26 - Transactions with owners</b>		
provide details of the transactions with owners	X	X
 <b>Note 27 - Measurement differences between GAAP and GFS</b>		
Measurement differences between GFS and GAAP ( <i>separate lines where material</i> )	X	X
<b>Total measurement differences</b>	<u>X</u>	<u>X</u>
 <b>Note 28 - Reconciliation of net assets to GFS net worth</b>		
Net assets ( <i>per statement of financial position</i> )	X	X
Differences in treatment between GFS and GAAP ( <i>separate lines where material</i> )	X	X
<b>GFS Net Worth</b>	<u>X</u>	<u>X</u>
 <b>Note 29 - Classification differences between GAAP and GFS</b>		
Classification differences ( <i>separate lines where material</i> )	X	X
Net cash flow (to)/from investments in non-financial assets	X	X
Finance leases and similar arrangements	X	X
<b>GFS cash surplus/(deficit)</b>	<u>X</u>	<u>X</u>

NOTE: The above notes do not include a number of specific disclosures required by other accounting standards (eg financial instruments, asset details by class, etc) as the primary purpose of these pro-forma notes was to illustrate what might appear on the face of the financial statements and what could be included in the note disclosures.

## Issue 6.2: INVENTORIES

### *Summary of differences*

**Accounting** – under current Australian accounting standards inventory is measured at the lower of cost and net realisable value.

International accounting standards for the public sector, if adopted, would require most inventory to be measured at lower of cost and current replacement cost. All other sectors would be required to measure inventory at lower of cost and net realisable value.

**GFS** – Inventories are to be valued at current market prices.

### *Accounting treatment*

#### Australian GAAP

AAS 2 requires that inventory be measured at the lower of cost and net realisable value on an item-by-item basis.<sup>1</sup> Any write-down of inventory to net realisable value and any other loss of inventories must be recognised as an expense.<sup>1</sup> Any reversals of any write down must be recognised as a reduction of the expense relating to inventories in the period in which the reversal occurs<sup>2</sup>.

#### International Standards

IAS 2 is similar to AAS 2 in its measurement of inventory and treatment of expensing write downs and reversal of write downs. IAS 2 states that inventory must be measured at lower of cost and net realisable value<sup>4</sup>. Write-downs of inventory to net realisable value and any other loss of inventories must be recognised as an expense.<sup>3</sup> Any reversals of any write down must be recognised as a reduction of the expense relating to inventories in the period in which the reversal occurs.<sup>4</sup>

IPSAS 12 states that inventories should be measured at the lower of cost and net realizable value.<sup>5</sup> There is an exception in IPSAS 12 where inventories will be measured at lower of cost and current replacement cost where they are held for:

- (a) Distribution at no charge or for a nominal charge; or
- (b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.<sup>6</sup>

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<sup>1</sup> AAS2 *Inventories* – paragraph 5.1

<sup>1</sup> AAS2 *Inventories* – paragraph 9.2

<sup>2</sup> AAS2 *Inventories* – paragraph 9.3

<sup>4</sup> IAS 2 *Inventories* – paragraph 6

<sup>3</sup> IAS 2 *Inventories* – paragraph 9.2

<sup>4</sup> IAS 2 *Inventories* – paragraph 31

<sup>5</sup> IPSAS 12 *Inventories* – paragraph 11

The AASB has released ED 116 for comment on its proposed adoption of IAS 2 and relevant parts of IPSAS 12. The ED is the first to show what the new standards will look like when the additions have been made for the not-for-profit sector.

### Definition of Inventory

Jurisdictions will need to ensure that the inventory that will be disclosed on the balance sheet meets with the definition of the adopted standard.

Whilst the current AAS 2 and IAS 2 standards have a similar definition of inventory that satisfies the “held for sale” and “consumed in the production process” tests, the IPSAS 12 definition has been inserted to capture public sector inventory. The IPSAS 12 definition of inventory is as follows:

Inventory – means assets:

- (a) In the form of materials or supplies to be consumed in the production process;
- (b) In the form of materials or supplies to be consumed or distributed in the rendering of services;
- (c) Held for sale or distribution in the ordinary course of operations; or
- (d) In the process of production for sale or distribution<sup>7</sup>

This may have implications for the public sector in that a broader definition of inventory, including strategic stockpiles of various reserves, such as energy reserves (for example oil) for use in emergency or other situations (for example, natural disasters or other civil disasters) has been proposed for the public sector. These stockpiles are recognised as inventories for the purposes of the proposed standard and treated accordingly.<sup>8</sup>

Jurisdictions will need to be aware of that this is a broader definition than the current Australian GAAP.

### *GFS Treatment*

GFS requires inventories to be valued at their current market prices rather than their acquisition prices.<sup>9</sup> However, in practice GFS states that the value of inventories frequently are estimated by adjusting book value or acquisition values of inventories with aid of price indexes<sup>10</sup>. Any adjustment to the value of inventory would flow through the Statement of Other Economic Flows.

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<sup>6</sup> IPSAS 12 *Inventories* – paragraph 12

<sup>7</sup> IPSAS 12 *Inventories* – paragraph 6

<sup>8</sup> ED 116 *Request for comment on IAS 2 and IPSAS 12 Inventories* – AASB 102 paragraph NFP 6

<sup>9</sup> GFS Manual – paragraph 4.38

<sup>10</sup> GFS Manual – paragraph 7.58

### *Standard setters' future work program*

The AASB has released a draft ED116 Request for comment on IAS 2 and IPSAS 12 Inventories as part of the international harmonisation project.

ED116 includes a specific public sector requirement to measure certain inventory at lower of cost and current replacement cost. This may cause a convergence issue where the inventory valuation at cost is lower than current replacement. The Working Group recommends that the public sector provision allow inventories to be valued at current replacement cost.

With the release of the proposed AASB 102 (included in ED 116) the definition of current replacement cost versus current market prices needs to be similar to achieve convergence. AASB 102 defines current replacement cost, as the cost the entity would incur to acquire the asset on the reporting dated<sup>11</sup>. This compared with the GFS definition of current market prices as the value at the amounts for which goods, assets, service are in fact exchanged or could be exchanged for cash<sup>12</sup>. Given that GFS uses entry prices in the valuation of inventory these definitions are conceptually identical.

### *Steps to harmonisation*

If the proposals in ED 116 are adopted in Australia, accounting standards would require public sector entities to value inventories at lower of cost and current replacement cost for inventory held for distribution at no or nominal charge. In order to achieve full convergence inventories can only be valued at current replacement cost.

The standard that has been released for comment in ED 116 does not give the option to choose either cost or current replacement cost. The standard requires inventory to be measured at the lower of cost and current replacement cost. If jurisdictions value inventories at current replacement cost for convergence with GFS this is would only conform with the requirement of the accounting standard where current replacement cost is lower than cost.

The valuation difference between GAAP and GFS is likely to be non-material. Where this is the case, to achieve convergence, GFS will adopt the GAAP treatment. However, if the difference is found to be material then GAAP treatment will apply with an additional note disclosing the current market prices.

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<sup>11</sup> ED 116 *Request for comment on IAS 2 and IPSAS 12 Inventories* – AASB 102 paragraph NFP3

<sup>12</sup> GFS Manual – paragraph 3.73

## *Conclusion*

The preferred convergence option in the short term would be to include in the public sector provisions an allowance to value inventories current replacement cost.

In the longer term, the adoption in Australia of a comprehensive operating statement (as a result of international accounting standards) would assist with resolution of harmonisation issues related to inventory write downs and reversal of write downs. That is, the revaluations will be disclosed in the operating statement as re-measurements.

## Issue 4.6: CONSTRUCTIVE OBLIGATIONS

### *Summary of differences*

**Accounting** – a constructive obligation can arise where an event exists that creates a valid expectation in other parties that the entity in question will discharge the constructive obligation. The constructive obligation may meet the criteria for recognition of a liability.

**GFS** – The term 'constructive obligations' is not specifically discussed in GFS, but it does encourage the recording of contingent assets and liabilities as so-called memorandum items in the same manner as note disclosures in accounting. Where a constructive obligation meets the accounting criteria for a liability, it may not necessarily do so under GFS as the latter's liabilities are actual liabilities to another party or parties.

### *Accounting treatment*

#### Australian GAAP

Constructive obligations are created, inferred, or construed from the facts in a particular situation rather than by contract or agreement with another entity or imposed by government.<sup>1</sup> In the absence of a clear legal responsibility, the existence of a present obligation is a matter for determination from the evidence available<sup>2</sup>.

Under Australian GAAP a liability is defined as the future sacrifices of economic benefits that an entity is presently obliged to make to other entities as a result of past transactions or other past events.<sup>3</sup> Even though a constructive obligation may be a present obligation, it must be determined whether it meets all the elements of the definition of a liability, including the sacrifice of future economic benefits. If a constructive obligation meets the definition of a liability then the recognition criteria is applied to the liability, which are reliable measurement and probability. The criteria that must be satisfied to identify and recognise a liability are the same regardless of whether the present obligation was derived from a constructive obligation or a legal obligation.

Whilst there must be a counterparty for a liability to exist, the existence of that liability is not dependent on the counterparty recognising an asset that arises from that obligation. For example, the requirement for an entity to clean up a pollution spill may be a liability (either legal or constructive) even though the obligation is owed to the community at large.

If it is not probable that a future sacrifice of economic benefits will occur or the liability cannot be reliably measured and the information is relevant to users of financial reports it would be necessary to disclose the information by way of note in the financial reports.<sup>4</sup>

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<sup>1</sup> SAC4 – paragraph 56

<sup>2</sup> SAC 4 – paragraph 58

<sup>3</sup> SAC 4 – paragraph 48

<sup>4</sup> SAC 4 – paragraph 70 and 71

## International GAAP

The IASB Framework, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* all have a very similar definition, recognition and disclosure principles to Australian GAAP regarding liabilities, including constructive obligations.

## *GFS Treatment*

GFS does not specifically discuss the term 'constructive obligations', however, it does state that it may be desirable to record so-called 'memorandum items' which are related to a balance sheet but which are not included in it.<sup>5</sup> Examples of where memorandum items are specifically indicated include:

- information about differences between the nominal value of debt and its current market value<sup>6</sup>;
- total amount of debt in arrears by liability classification<sup>7</sup>;
- the net present value of social security benefits earned by existing laws, but payable in future calculated using similar methods to employer funded retirement schemes;<sup>8</sup>
- contingent contracts, assets and liabilities;<sup>9</sup>
- international reserves and foreign currency liquidity information;<sup>10</sup> and
- current market value of un-capitalised defence weapons platforms<sup>11</sup>.

In each of the above specific instances, the GFS Manual indicates that the additional information in the memorandum disclosure would be useful for some analytic purposes. In several cases, memorandum disclosure provides additional information where the reported values differ from either nominal or market values. Some memorandum disclosures would assist in assessing liquidity and financial viability such as the reserves and debt in arrears information.

The GFS Manual also acknowledges that not all contingent assets and liabilities are easily quantifiable in terms of the net value of economic benefits expected to be received and paid. Although precise recommendations cannot be specified for contingencies, a description of the nature of the various contingencies should be provided together with some indication of their possible value.<sup>12</sup> GFS treats contingent liabilities that cannot be recognised on the balance sheet due to their uncertain nature in a similar way to accounting, that is, disclosure by way of a note to the financial report.

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<sup>5</sup> GFS Manual 2001 paragraph 7.141

<sup>6</sup> GFS Manual 2001 paragraph 7.142

<sup>7</sup> GFS Manual 2001 paragraph 7.144

<sup>8</sup> GFS Manual 2001 paragraph 7.145

<sup>9</sup> GFS Manual 2001 paragraph 7.146

<sup>10</sup> GFS Manual 2001 paragraph 7.150

<sup>11</sup> GFS Manual 2001 paragraph 7.152

<sup>12</sup> GFS Manual 2001 paragraph 7.148

GFS liabilities recognised on the balance sheet are described as obligations to provide economic value to another institutional unit.<sup>13</sup> Moreover, these liabilities only include actual liabilities to another party or parties and not all sums set aside in business accounting as provisions would necessarily qualify as liabilities in GFS at the time such provisions are raised<sup>14</sup>. Technically, potential differences in the timing of the recognition of liabilities can therefore arise, but these would require attention only where the amounts are significant and span over different recording periods.

### *Standard setters' future work program*

The IASB Framework will replace SAC 4 when international accounting standards are adopted in Australia. However, the conceptual definition of a liability and the recognition of the liability under AASB 1044 are fundamentally similar to IAS 37 and IPSAS 19.

Whilst the IASB is currently revising IAS 37, none of the changes being proposed are likely to affect convergence on this issue.

### *Steps to harmonisation*

Based on the above information there does not appear to be a convergence issue with regard to the treatment of constructive obligations. Both GFS and GAAP will disclose the details by way of note (memorandum item). When the liability criteria under GAAP are met and it can be reliably measured, a liability will be recognised and recorded. A similar situation exists under GFS. However, under GFS this may occur after GAAP has recognised and recorded the liability.

### *Conclusion*

Differences in the timing of the recognition of liabilities potentially exist, but these would require attention only where the amounts are significant and span across different recording periods.

Where there is no timing difference in the recognition of liabilities, there is no practical harmonisation issue between GFS and GAAP in relation to constructive obligations. However, where a material timing difference does exist, the treatment will be to follow GAAP and disclose by way of note the GFS treatment to allow reconciliation between GAAP and GFS.

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<sup>13</sup> GFS Manual 2001 paragraph 7.14

<sup>14</sup> GFS Manual 2001 paragraph 7.17



## Issue: Accounting for Future Income Tax Benefit / Deferred Tax Liability

### *Summary of differences*

**Accounting** – A taxpayer entity recognises that a deferred tax liability or asset may arise because of the timing differences between tax and standard accounting treatments if it is probable that the entity will be able to utilise this benefit or be required to meet its obligation in the future. When government owned entities are subject to the national tax equivalent regime, a liability or asset will be recognised in the entity's statement of financial position. However, there may not be a corresponding asset or liability for the parent government because the SAC 4 recognition criteria may not be satisfied.

**GFS** – provides general principles for the recognition of assets and liabilities that could be applied to deferred/future effects, noting that these particular items would not be classified as transactions. The GFS framework also requires symmetry, that is, when an asset is recognised there must be a corresponding liability. Therefore, the recognition of the tax effects under GFS may, for most jurisdictions, not be recorded.

### *Accounting treatment*

#### Australian GAAP

Under Australian GAAP, AAS 3 *Income Taxes* was re-issued in 1999, only applies to entities that have elected to early adopt Other entities must continue to use the 1989 version of the AAS 3 *Accounting for Income Tax*. This paper makes references to the new version.

AAS 3 outlines the recognition criteria for tax liabilities and assets by tax paying entities.

“A deferred tax liability must be recognised for all assessable temporary differences that reflect the future tax consequences of transactions and other events that are recognised in the statement of financial position.”<sup>1</sup> A Government owned business enterprise, that pays tax equivalent amounts, must use the criteria in AAS 3 to determine if it has a deferred tax liability.

Deferred tax assets must be recognised in the statement of financial position to the extent, and only the extent, that it is probable that future taxable amounts within the entity will be available against which the deductible temporary differences can be utilised.<sup>2</sup> AAS 3 requires it to be reviewed as at each reporting date.<sup>3</sup>

The tax receiving entity may not recognise the corresponding asset or liability if it does not meet the recognition criteria outlined in SAC 4. The asset should only be recognised when it is probable that the future economic benefits embodied in the asset will eventuate and can be reliably measured.<sup>4</sup> Similarly the parent entity must be satisfied before recognising a liability

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<sup>1</sup> AAS3 *Income Taxes* paragraph 4.2.

<sup>2</sup> AAS 3 *Income Taxes* paragraph 4.3

<sup>3</sup> AAS 3 *Income Taxes* paragraph 7.1

<sup>4</sup> SAC 4 paragraph 38

that it is probable that future economic benefits will be sacrificed and the liability can be reliably measured.<sup>5</sup>

### International GAAP

IAS 12 *Income Taxes* outlines the recognition criteria for tax liabilities and assets by tax paying entities.

The IAS Framework defines deferred tax liabilities as “the amounts of income taxes payable in future periods in respect of temporary differences.”<sup>6</sup>

Deferred tax assets are defined as “amounts of income taxes recoverable in future periods in respect of:

- a) deductible temporary differences;
- b) the carry forward of unused tax losses; and
- c) the carry forward of unused tax credits.”<sup>7</sup>

The IAS Framework defines an asset as a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow.<sup>8</sup> A liability is recognised when it is probable that an outflow of economic benefits will result from the settlement of a present obligation.<sup>9</sup>

The tax paying entity recognises an asset or liability according to the standard while the tax receiving entity must decide whether the recognition criteria outlined in the framework has been met before it records the corresponding liability or asset. The probability of future economic benefits flowing to or from the tax receiving entity and whether the asset or liability can be reliably measured must be determined.<sup>10</sup>

### *GFS Treatment*

A transaction under GFS is defined as an interaction between two units by mutual agreement or an action that is analytically useful to treat as a transaction.<sup>11</sup> If it is clear that there has been no interaction or mutual agreement between the tax paying entity and the parent entity GFS would not record the activity as a transaction.

GFS defines assets as instruments or entities, over which ownership rights are enforced by institutional units and from which economic benefits may be derived by holding them, or using them, over a period of time.<sup>12</sup>

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<sup>5</sup> SAC 4 paragraph 65

<sup>6</sup> IAS 12 *Income Taxes* paragraph 5.

<sup>7</sup> IAS 12 *Income Taxes* paragraph 5.

<sup>8</sup> IAS *Framework for the Preparation and Presentation of Financial Statements* paragraph 49

<sup>9</sup> IAS *Framework for the Preparation and Presentation of Financial Statements* paragraph 91

<sup>10</sup> IAS *Framework for the Preparation and Presentation of Financial Statements* paragraph 83

<sup>11</sup> GFS Manual paragraph 3.5

<sup>12</sup> GFS Manual paragraph 7.4.

Liabilities are defined as obligations to provide economic value to another economic unit.<sup>13</sup>  
Liabilities are the counterparts of financial assets held by the claimant economic units.<sup>14</sup>

The above criteria are used in the recognition of assets and liabilities. Neither the deferred tax liability nor the deferred asset would be recognised in the tax paying entity's financial statements because no obligation exists at the reporting date. The tax receiving entity must be satisfied that the underlying economic activity has occurred and the above criteria are met before recognising the corresponding liability or asset.

The question of control of the asset is the same as in GAAP; however there is no probability test under GFS.

### *Standard setters' future work program*

AAS 3 is expected to be replaced by an Australian equivalent of IAS 12 from 1 January 2005. IAS 12 is currently being reviewed by the IASB as part of its improvements project.

### *Steps to harmonisation*

Symmetry may be resolved by the reporting of assets and liabilities by extending the scope of AAS 3 to payments and receipts under notional income tax regimes. However, this would not resolve the differences in respect to the recognition of deferred tax benefits and provision for deferred tax liabilities.

This is a sector issue versus whole of government disclosure. That is the Public Finance Corporations sector or the Public Non-Finance Corporations sector will contain an asset or liability that is not matched in the General Government sector. When whole of government financial statements are prepared the amounts are eliminated on consolidation. This is an issue for phase 3 of the AASB convergence project.

### *Conclusion*

There is an irreconcilable difference between GFS and GAAP frameworks as GAAP recognises the economic impact of the differing treatment between the tax and accounting frameworks, whereas, GFS does not recognise the economic impact as the recognition of the asset/liability does not meet the definition of a transaction and no symmetry of assets and liabilities exists between institutions.

In order to achieve a converged framework jurisdictions will need to follow the GAAP treatment and disclose the GFS treatment by way of note.

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<sup>13</sup> GFS Manual paragraph 4.56

<sup>14</sup> GFS Manual paragraph 7.14

