

**Accounting Standard**

**AASB 2007-9**

December 2007

**Amendments to Australian  
Accounting Standards  
arising from the Review of  
AASs 27, 29 and 31**

**[AASB 3, AASB 5, AASB 8,  
AASB 101, AASB 114, AASB 116,  
AASB 127 & AASB 137]**



**Australian Government**

**Australian Accounting  
Standards Board**

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## CONTENTS

PREFACE

**ACCOUNTING STANDARD**  
**AASB 2007-9 AMENDMENTS TO AUSTRALIAN ACCOUNTING**  
**STANDARDS ARISING FROM THE REVIEW OF AASs 27, 29 AND 31**

|                        | <i>Paragraphs</i> |
|------------------------|-------------------|
| Objective              | 1                 |
| Application            | 2 – 7             |
| Amendments to AASB 3   | 8 – 10            |
| Amendments to AASB 5   | 11                |
| Amendment to AASB 8    | 12                |
| Amendments to AASB 101 | 13 – 14           |
| Amendments to AASB 114 | 15                |
| Amendments to AASB 116 | 16 – 17           |
| Amendments to AASB 127 | 18 – 19           |
| Amendments to AASB 137 | 20                |
| <br>                   |                   |
| BASIS FOR CONCLUSIONS  | <i>Page 28</i>    |

Australian Accounting Standard AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31* is set out in paragraphs 1 – 20. All the paragraphs have equal authority.

## **PREFACE**

### **Standards Amended by AASB 2007-9**

This Standard makes amendments to the following Australian Accounting Standards:

- (a) AASB 3 *Business Combinations*;
- (b) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (c) AASB 8 *Operating Segments*;
- (d) AASB 101 *Presentation of Financial Statements*;
- (e) AASB 114 *Segment Reporting*;
- (f) AASB 116 *Property, Plant and Equipment*;
- (g) AASB 127 *Consolidated and Separate Financial Statements*; and
- (h) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

### **Reasons for Issuing this Standard**

#### **Background**

AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* were first issued in 1991, 1993 and 1996 respectively. While AASs 27, 29 and 31 had been subject to a number of limited reviews since then, the requirements in these Standards needed a comprehensive review because:

- (a) there had been significant developments in Australian financial reporting, in particular adopting International Financial Reporting Standards (IFRSs) within Australian Accounting Standards, for reporting periods beginning on or after 1 January 2005. As a result of these developments, uncertainties emerged as to the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements;

- (b) local governments, government departments and governments were subject to requirements that differed from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. An objective of the Board is to put in place transaction-neutral Standards that will treat like transactions and events consistently;
- (c) the Board had made significant progress in its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) so far as it relates to the General Government Sector (GGS) and the whole of government of the federal, state and territory governments. It was therefore particularly timely to review the requirements in AAS 31;
- (d) they did not reflect contemporary accounting thought; and
- (e) they did not reflect the current style of writing standards, which is to specify principles rather than rules, and requirements rather than encouragements.

The Board intends to continue with its policy of developing a common accounting standards framework for both for-profit and not-for-profit entities whilst acknowledging differences in some areas. The Board is committed to having a platform of topic-based transaction-neutral Standards that will apply to the public sector.

### **Review of AASs 27, 29 and 31**

The Board initiated a project for reviewing the requirements in AASs 27, 29 and 31, divided into two phases comprising a short-term and a longer-term review.

The primary focus in the short-term review has been on relocating, where necessary, the requirements in AASs 27, 29 and 31, substantively unamended (with some exceptions), into topic-based Standards.

In the longer term the focus will be on improving the requirements for each topic-based issue where necessary. The longer-term review will be carried out in stages as outlined in the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.

## **AASB 2007-9 in the Context of the Review of AASs 27, 29 and 31**

The Board outlined its short-term proposals in Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*, which was issued in June 2007.

The Board decided to relocate certain relevant requirements from AASs 27, 29 and 31, substantively unamended, into existing topic-based Standards. In particular, this Standard addresses:

- (a) the notion of reporting entity as it applies to local governments, governments and government departments;
- (b) restructures of local governments;
- (c) infrastructure, cultural, community and heritage assets;
- (d) control in the public sector; and
- (e) obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent.

This Standard also makes consequential amendments, arising from the short-term review of the requirements in AASs 27, 29 and 31, to AASB 5, AASB 8, AASB 101 and AASB 114.

## **Main Features of this Standard**

### **Application Date**

This Standard is applicable to annual reporting periods beginning on or after 1 July 2008. Early adoption is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 July 2008, provided there is early adoption for the same annual reporting period of the following pronouncements being issued at about the same time, as applicable:

- (a) AASB 1004 *Contributions*;
- (b) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
- (c) AASB 1050 *Administered Items*;
- (d) AASB 1051 *Land Under Roads*;

- (e) AASB 1052 *Disaggregated Disclosures*; and
- (f) AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

## **Main Requirements**

### **AASB 3 *Business Combinations***

The amendments to AASB 3 extend the definition of reporting entity to explicitly encompass local governments, governments and most, if not all, government departments.

The amendments also incorporate the requirements from AAS 27 relating to restructures of local governments.

### **AASB 5 *Non-current Assets Held for Sale and Discontinued Operations***

The amendments to AASB 5 are consequential amendments to reflect:

- (a) the inclusion of requirements for the restructure of administrative arrangements in AASB 1004 rather than AAS 29;
- (b) the introduction of AASB 1050; and
- (c) the fact that requirements relating to restructures of local governments that are business combinations are now contained in AASB 3 rather than AAS 27.

### **AASB 8 *Operating Segments***

The amendment to AASB 8 clarifies that for-profit government departments are outside the scope of AASB 8.

### **AASB 101 *Presentation of Financial Statements***

The amendments to AASB 101 are consequential amendments dealing with circumstances where compliance with Australian Accounting Standards by for-profit government departments will not lead to compliance with IFRSs.

### **AASB 114 *Segment Reporting***

The amendments to AASB 114 clarify that for-profit government departments are outside the scope of AASB 114, reflect the fact that AASs 27, 29 and 31 have been superseded, and acknowledge the disaggregated reporting requirements in AASB 1052 and AASB 1049.

### ***AASB 116 Property, Plant and Equipment***

The amendments to AASB 116:

- (a) specify (in the 'Definitions' section) that examples of property, plant and equipment held by not-for-profit public sector entities and for-profit government departments include, but are not limited to, infrastructure, cultural, community and heritage assets; and
- (b) note in Australian Guidance (that accompanies the Standard) that:
  - (i) heritage and cultural assets acquired at no cost, or for a nominal cost, are required to be initially recognised at fair value as at the date of acquisition; and that, depending on circumstances, it may not be possible to reliably measure the fair value as at the date of acquisition of a heritage or cultural asset;
  - (ii) for those heritage and cultural assets that satisfy the reliable measurement criterion for initial recognition purposes, paragraph 29 of AASB 116 permits, but does not require, revaluation, although AASB 1049 requires, subject to reliable measurement, revaluations by whole of governments and GGSs; and
  - (iii) heritage and cultural assets may not have limited useful lives (for example, when appropriate curatorial and preservation policies are adopted), and therefore may not be subject to depreciation, irrespective of the measurement basis. However, they would be subject to impairment testing when there is an indication of impairment.

### ***AASB 127 Consolidated and Separate Financial Statements***

The amendments to AASB 127 incorporate existing guidance from AAS 31 on the concept of control in the public sector. For example they:

- (a) note that control of another entity by a government may be indicated if the other entity is accountable to Parliament, or to the Executive, or to a particular Minister; or if the government has the residual financial interest in the net assets of the other entity. The amendments discuss factors that help in assessing whether these indicators of control exist;
- (b) identify situations where a government does not control another entity. For example, they note that under existing legislative arrangements, State and Territory governments do not control local governments; and

- (c) clarify that the existence of control for the purpose of AASB 127 does not require that a government has responsibility over the day-to-day operations of an entity or the manner in which professional functions are performed by the entity.

***AASB 137 Provisions, Contingent Liabilities and Contingent Assets***

The amendments to AASB 137 address obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent of local governments, government departments and governments by relocating the pertinent content of paragraphs 12.1.2 and 12.1.3 of AAS 31, substantively unamended, into AASB 137 as Aus paragraphs.



## **ACCOUNTING STANDARD AASB 2007-9**

The Australian Accounting Standards Board makes Accounting Standard AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31* under section 334 of the *Corporations Act 2001*.

Dated 13 December 2007

D.G. Boymal  
Chair – AASB

## **ACCOUNTING STANDARD AASB 2007-9**

### ***AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM THE REVIEW OF AASs 27, 29 AND 31***

#### **Objective**

1. The objective of this Standard is to make amendments to:
  - (a) AASB 3 *Business Combinations*;
  - (b) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
  - (c) AASB 8 *Operating Segments*;
  - (d) AASB 101 *Presentation of Financial Statements*;
  - (e) AASB 114 *Segment Reporting*;
  - (f) AASB 116 *Property, Plant and Equipment*;
  - (g) AASB 127 *Consolidated and Separate Financial Statements*;  
and
  - (h) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;

as a consequence of the AASB's short-term review of the requirements in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*.

## Application

2. In respect of AASB 3, AASB 5, AASB 114, AASB 116, AASB 127 and AASB 137, this Standard applies to:
  - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
  - (b) general purpose financial statements of each other reporting entity; and
  - (c) financial statements that are, or are held out to be, general purpose financial statements.
3. In respect of AASB 8, this Standard applies to:
  - (a) each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act* and that is a reporting entity;
  - (b) general purpose financial statements of each other for-profit reporting entity; and
  - (c) financial statements of a for-profit entity that are, or are held out to be, general purpose financial statements;

in respect of:

  - (d) the separate or individual financial statements of an entity:
    - (i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
    - (ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
  - (e) the consolidated financial statements of a group with a parent:
    - (i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an

over-the-counter market, including local and regional markets); or

- (ii) that files, or is in the process of filing, its consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

4. In respect of AASB 101, this Standard applies to:
  - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
  - (b) general purpose financial statements of each reporting entity; and
  - (c) financial statements that are, or are held out to be, general purpose financial statements.
5. This Standard applies to annual reporting periods beginning on or after 1 July 2008.
6. This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but beginning before 1 July 2008, provided there is early adoption for the same annual reporting period of the following pronouncements being issued at about the same time, as applicable:
  - (a) *AASB 1004 Contributions*;
  - (b) *AASB 1049 Whole of Government and General Government Sector Financial Reporting*;
  - (c) *AASB 1050 Administered Items*;
  - (d) *AASB 1051 Land Under Roads*;
  - (e) *AASB 1052 Disaggregated Disclosures*; and
  - (f) *AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*.
7. By virtue of AASB 1049, this Standard also applies to the General Government Sector (GGS) of a government.

## Amendments to AASB 3

8. The following text is added immediately following the definition of 'reporting entity' in Appendix A of AASB 3, as follows:

### **Clarification of the definition of reporting entity in the context of the Australian public sector**

In respect of public sector entities, *local governments*, *governments* and most, if not all, *government departments* are reporting entities.

9. The following definitions are added in Appendix A of AASB 3:

|                              |   |
|------------------------------|---|
| <b>government</b>            | The Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia. |
| <b>government department</b> | A government controlled entity, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it.                       |
| <b>local government</b>      | An entity comprising all entities controlled by a governing body elected or appointed pursuant to a Local Government Act or similar legislation.  |

10. Paragraphs Aus3.1 and Aus77.1 to Aus77.7 of AASB 3 are added as follows:

Aus3.1 Restructures of administrative arrangements, as defined in Appendix A of AASB 1004 *Contributions*, are outside the scope of this Standard. AASB 1004 specifies requirements for restructures of administrative arrangements.

## **Restructures of Local Governments**

**Aus77.1** Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement, the transferee local government shall recognise assets and liabilities and any gain or loss.

**Aus77.2** Assets transferred to a local government from another local government at no cost, or for nominal

**consideration, by virtue of legislation, ministerial directive or other externally imposed requirement shall be recognised initially either at the amounts at which the assets were recognised by the transferor local government as at the date of the transfer, or at their fair values.**

Aus77.3 A restructure of local governments involves the transfer of assets and liabilities of a local government to another local government, at no cost or for nominal consideration, by virtue of legislation, ministerial directive or other externally imposed requirement. This gives rise to assets and liabilities and a gain or loss of the transferee local government. A restructure of local governments may take the form of a new local government being constituted and other local governments being abolished as a result of a State government's policy to effectively amalgamate a number of local governments.

Aus77.4 A restructure of local governments involves a change in the resources controlled by the local governments involved in the restructure. The transferor local government will decrease its assets by the carrying amount of the assets transferred. The transferred assets will usually be recognised by the transferee at their carrying amounts in the books of the transferor at the time of the transfer. Such amounts provide a practical basis for recognising the transfer of assets, particularly when many assets are involved, as is usually the case in a restructure of local governments. However, the recognition of transferred assets at fair value is permitted by this Standard.

Aus77.5 The restructures of local governments referred to in paragraphs Aus77.3 and Aus77.4 do not involve transfers between the local government and its ownership group but give rise to a gain or loss that is recognised in the operating statement.

**Aus77.6 Assets and liabilities transferred during the reporting period and recognised in accordance with paragraph Aus77.1 shall be disclosed separately, by class, by way of note or otherwise, and the transferor local government shall be identified.**

Aus77.7 The disclosures required by paragraph Aus77.6 will assist users to identify the assets and liabilities recognised as a

result of a restructure separately from other assets and liabilities and to identify the transferor local government.

## **Amendments to AASB 5**

11. Paragraphs Aus2.1 to Aus2.4 of AASB 5 are amended to read as follows:

**Aus2.1 The requirements in this Standard do not apply to:**

- (a) the restructuring of administrative arrangements; and**
- (b) the restructuring of administered activities of government departments.**

Aus2.2 AASB 1004 *Contributions* includes requirements for the disclosure of assets, liabilities and items of equity resulting from the restructuring of administrative arrangements.

Aus2.3 An administered activity of a government department does not give rise to income and expenses of the department reporting the administered activity (see AASB 1050 *Administered Items*) and therefore, from the point of view of the department, the discontinuance of an administered activity does not give rise to a discontinued operation. However, if a government were to discontinue an activity that one of its departments had disclosed as an administered activity, from the point of view of that government the discontinuance may constitute a discontinued operation.

Aus2.4 Although AASB 3 *Business Combinations* contains requirements relating to the restructuring of local governments, these requirements only apply to the local government receiving assets or liabilities as a result of the restructuring. This Standard applies to the local government transferring assets and liabilities where the restructuring results in a discontinued operation of the transferor local government.

## **Amendment to AASB 8**

12. Paragraph Aus2.1 of AASB 8 is amended to read as follows:

Aus2.1 This Standard applies to:

...

- (b) general purpose financial statements of each other for-profit reporting entity other than for-profit government departments; and
- (c) financial statements of a for-profit entity other than for-profit government departments that are, or are held out to be, general purpose financial statements;

...

## **Amendments to AASB 101**

13. Paragraph Aus14.2 of AASB 101, as applicable to annual reporting periods beginning on or after 1 January 2008 but before 1 January 2009, is amended to read as follows:

Aus14.2 Compliance with *Australian equivalents to IFRSs* by for-profit entities will not necessarily lead to compliance with IFRSs. This circumstance arises when the entity is a for-profit government department to which particular Standards apply, such as AASB 1004 *Contributions*, and to which Aus paragraphs in various other Australian Accounting Standards apply. Those requirements override the requirements in an Australian equivalent to IFRSs that would otherwise apply.

14. Paragraph Aus16.2 of AASB 101, as applicable to annual reporting periods beginning on or after 1 January 2009, is amended to read as follows:

Aus16.2 Compliance with Australian Accounting Standards by for-profit entities will not necessarily lead to compliance with IFRSs. This circumstance arises when the entity is a for-profit government department to which particular Standards apply, such as AASB 1004 *Contributions*, and to which Aus paragraphs in various other Australian Accounting Standards apply, and the entity applies a requirement that is inconsistent with an IFRS requirement.

## Amendments to AASB 114

15. Paragraphs Aus1.2 and Aus1.3 of AASB 114 are amended to read as follows:
- Aus1.2 This Standard does not apply to general purpose financial statements of *not-for-profit entities* and for-profit government departments.
- Aus1.3 This Standard does not apply to not-for-profit entities (including local governments, government departments and governments) and for-profit government departments. AASB 1052 *Disaggregated Disclosures* includes requirements relating to the disclosure of disaggregated information by local governments and government departments. AASB 1049 *Whole of Government and General Government Sector Financial Reporting* includes requirements relating to the disclosure of functional and sector information by whole of governments. AASB 1049 also includes requirements relating to the disclosure of functional information by General Government Sectors.

## Amendments to AASB 116

16. Paragraph Aus6.2 of AASB 116 is added as follows:
- Aus6.2 Examples of property, plant and equipment held by not-for-profit public sector entities and for-profit government departments include, but are not limited to, infrastructure, cultural, community and heritage assets.
17. The following Australian Implementation Guidance, accompanying AASB 116, is added:

### AUSTRALIAN IMPLEMENTATION GUIDANCE

*This guidance accompanies, but is not part of, AASB 116. This guidance is pertinent to not-for-profit public sector entities and for-profit government departments that hold heritage or cultural assets.*

- G1. In accordance with paragraphs 7(b), 15 and Aus15.1 of AASB 116, only those heritage and cultural assets that can be reliably measured are recognised. It depends on the circumstances as to whether the reliable measurement recognition criterion can be satisfied in relation to a particular heritage or cultural asset. Heritage and cultural assets acquired

at no cost, or for a nominal cost, are required to be initially recognised at fair value as at the date of acquisition. Depending on circumstances, it may not be possible to reliably measure the fair value as at the date of acquisition of a heritage or cultural asset.

- G2. Of those heritage and cultural assets that satisfy the reliable measurement criterion for initial recognition purposes, paragraph 29 of AASB 116 permits, but does not require, revaluation. However, under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, GGSs and whole of governments are required to adopt those optional treatments in Australian Accounting Standards that are aligned with the principles or rules in the Australian Bureau of Statistics Government Finance Statistics (GFS) Manual. Consequently, those entities would be required to adopt a revaluation model for heritage and cultural assets recognised under AASB 116 where the reliable measurement recognition criterion is satisfied.
- G3. Furthermore, given the nature of many heritage and cultural assets that meet the recognition criteria, those assets may not have limited useful lives (for example, when the entity adopts appropriate curatorial and preservation policies), and therefore may not be subject to depreciation. However, they would be subject to impairment testing when there is an indication of impairment.
- G4. The curatorial and preservation policies referred to in paragraph G3 above would typically be those developed and monitored by qualified personnel and include the following:
- (a) a clearly stated objective about the holding and preservation of items;
  - (b) a well-developed plan to achieve the objective, including demonstration of how the policy will be implemented, based on advice by appropriately qualified experts;
  - (c) monitoring procedures; and
  - (d) periodic reviews.

In addition, there would be evidence that the policies have been adopted by the governing body of the entity.

## Amendments to AASB 127

18. Paragraph Aus1.8 of AASB 127 is added, to read as follows:

Aus1.8 As defined in AASB 3 *Business Combinations*, reporting entities include local governments, governments and most, if not all, government departments.

19. Paragraphs Aus13.1 to Aus13.5 of AASB 127 are deleted and replaced with paragraphs Aus13.1 to Aus13.10 (with relevant headings), to read as follows:

### Factors Indicating Control in the Public Sector

Aus13.1 This Standard does not attempt to identify all groups in the public sector that should prepare financial statements. Instead, it describes the factors that are considered in determining whether one entity has the power to govern the financial and operating policies of another entity, whether a group exists and whether that group constitutes a reporting entity. In addition, the Standard identifies the accounting techniques that are employed when the financial statements 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 statements.

Aus13.2 In the public sector, a parent/subsidiary relationship could be established in the manner outlined in paragraph 13 or, as is more frequently the case, control of another entity by the government may be indicated by the following two factors:

- (a) the other entity is accountable to Parliament, or to the Executive, or to a particular Minister; and
- (b) the government has the residual financial interest in the net assets of the other entity.

### Accountability of the Other Entity to Parliament, or to the Executive, or to a particular Minister

Aus13.3 The existence of one, or a combination of a number of the following circumstances, indicate that an entity is

accountable to Parliament, or to the Executive, or to a particular Minister:

- (a) the existence of a Ministerial or other government power that enables the government to give directions to the governing body of that entity so that the entity acts as an agent of the government to achieve government policy objectives;
- (b) Ministerial approval is required for operating budgets;
- (c) the government has the ability to veto operating and capital budgets of that entity;
- (d) the government has broad discretion, under existing legislation, to appoint or remove a majority of members of the governing body of that entity. This would include for example, the power of the Minister or a central authority to appoint and remove members of the board of management. The governing body of an entity cannot maintain financial and operating policies that do not have the support of a government if the government has the power under existing legislation to appoint or remove a majority of members of the governing body of the entity. In these circumstances, the government has the power to govern the financial and operating policies so as to meet its own objectives. For control to exist through the power to appoint or remove a majority of members of the governing body of another entity, a government must have broad discretion over their appointment and removal. For example, if the power to appoint or remove a majority of members of the governing body requires an amendment to the current legislation or the creation of new legislation, then the government's power is not presently exercisable and control does not exist. Also, where the power of the government to remove members of the governing body of another entity only arises under certain restricted circumstances (for example, for reasons relating to a lack of probity), the government would not have the power to govern the financial and operating policies of the entity by virtue of that power (although it may have the

power in respect of the financial and operating policies through some other means);

- (e) the entity is required to submit to Parliament reports on operations that include audited financial statements; such requirements arising either under the general reporting requirements of legislation concerned with financial reporting and/or audit of public sector entities or under that entity's enabling legislation; or
- (f) the mandate of the entity is established, or limited, by its enabling legislation. The definition of control requires only that the government's power to govern the financial and operating policies of another entity is sufficient to enable the government to obtain benefits from the entity's activities. Enabling legislation relating to the other entity which establishes the broad financial and operating policies of the entity is sufficient to ensure control by the government. However, the impact of enabling legislation also needs to be evaluated in the light of other prevailing circumstances. For example, a marketing board whose mandate is created, and limited, by legislation is not controlled by a government if the legislation unequivocally assigns power to govern financial and operating policies to other entities such as relevant commodity producers, and the government does not have the power to appoint or remove a majority of members of the governing body.

#### **Residual Financial Interest in the Net Assets of the Other Entity by the Government**

Aus13.4 The existence of the following circumstances indicates whether the government has a residual financial interest in the net assets of the other entity:

- (a) the government is exposed to the residual liabilities of the entity; or
- (b) the government has the right to receive the residual net assets of the entity if that entity is dissolved.

### **General Implications of the Concept of Control in the Public Sector**

- Aus13.5 In the public sector, reporting entities may include Ministerial portfolios, Ministerial departments, statutory authorities or other entities. In some cases the reporting entity may comprise a parent and a number of controlled entities, and in other cases the reporting entity may be the parent or the controlled entity itself.
- Aus13.6 A government will usually control the statutory authorities or corporations that it has established, because the legislation will normally address the financial and operating policies necessary to enable the entity to work with the government in achieving its objectives.
- Aus13.7 In determining the existence of a group in the public sector, consideration should be given to 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. In addition, the ability of the entities to operate for the benefit of the controlling entity is a central characteristic of a group. If an entity is precluded from operating for the benefit of the controlling entity, for example, through the existence of separate administrations, it is clear that the entity would not be included in the group. 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 statements of individual local governments would not be aggregated for the purpose of preparing financial statements in each State or Territory because the combination of such local government bodies would fail to satisfy the definition of a group.
- Aus13.8 For a government to control an entity, it must have the power to require an entity's assets to be deployed towards achieving government objectives. This may mean, but need not require, that the government can do, or require the entity to do, one or more of the following with the controlled entity's assets:

- (a) exchange them;
- (b) use them to provide goods and services consistent with the government's objectives;
- (c) charge for their use;
- (d) use them to settle liabilities; or
- (e) hold them.

Aus13.9 Accordingly, a government does not control another entity where:

- (a) it cannot dominate the financial and operating policies of the entity that are necessary to enable the entity to operate towards achieving government objectives, notwithstanding that both entities have similar objectives. For example, a government and a charitable entity funded by that government may share common objectives with respect to care of the homeless. However, the charitable entity is not controlled by the government when its governing body maintains discretion as to how its resources are to be deployed and whether it will accept resources from the government;
- (b) it cannot benefit from the resources or residual resources of the entity, notwithstanding that it may have the power to govern the entity's financial and operating policies. For example, where a government acts as a trustee for a trust and its relationship with the trust does not extend beyond the normal responsibilities of a trustee, the government does not control the trust as it cannot deploy the resources or residual resources of the trust for its own benefit;
- (c) it influences, rather than governs, the financial and operating policies required to enable the entity to operate towards achieving the government's objectives. The wide ranging powers of governments mean that they can influence the financial and operating policies of many entities, particularly those which are financially dependent on government funding. However, where the governing bodies of those entities maintain

discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be deployed, they are not controlled by the government. For example, this will normally be the case with religious organisations that provide aged-care services. While these organisations may receive government grants for capital construction and operating costs, and the government providing the grant may require them to comply with certain service standards and restrictions on user fees, they will not usually be controlled by the government because their governing body will maintain the ultimate discretion about whether assets are deployed to those services. Furthermore, while private schools, private hospitals, individual local governments and universities may be financially dependent, to a greater or lesser degree, on governments or agencies thereof, they would not be considered to be controlled by those governments or agencies for the purposes of this Standard. Therefore, this Standard does not require that the financial statements of such entities be consolidated with the financial statements of a government or government agency;

- (d) it merely has the power to regulate the behaviour of the entity by use of its legislative powers. The power of government to establish the regulatory environment within which entities operate and to impose conditions or sanctions on their operations does not of itself constitute control of the assets deployed by those entities. For example, governments regulate the operations of entities operating in the gaming industry, but those entities are not controlled by government unless the assets or residual assets of those entities can be deployed for the benefit of government; or
- (e) its ability to redeploy the assets of another entity for its own benefit is not presently exercisable. For example, under existing legislative arrangements, State and Territory governments do not control local governments because:
  - (i) they cannot sell the assets of a local government and redeploy the proceeds from

the sale towards the State or Territory budget;  
and

- (ii) the governing body of the local government, whether an elected council or administrators appointed by a government, is bound to deploy its assets for the benefit of the local community (and not the State or Territory government).

### **Control versus Day-to-Day Management by Government**

Aus13.10 The existence of control for the purpose of this Standard does not require that the government has responsibility over the day-to-day operations of an entity, or the manner in which professional functions are performed by the entity. For example, the legislation governing the establishment and operation of an independent statutory office (such as that of the Auditor-General) sets out the broad parameters within which the office is required to operate, and enables the office to operate in a manner consistent with the objectives set by Parliament for the operation of government. Similarly, notwithstanding the operational independence of the judiciary from the Parliament, the legislative framework within which the judiciary operates is established in a manner consistent with the objectives set by Parliament for the administration of justice. In addition, the government retains the right to the residual assets of statutory offices and judicial entities. Notwithstanding the absence of responsibility for the day-to-day operations of such entities, or the manner in which professional functions are performed in those entities, their assets, liabilities, revenues and expenses are included in the financial statements of the relevant government.

### **Amendments to AASB 137**

20. Paragraphs Aus26.1 to Aus26.2 of AASB 137 are added as follows:

#### **Recognition of Liabilities Arising from Local Government and Government Existing Public Policies, Budget Policies, Election Promises or Statements of Intent**

Aus26.1 This paragraph and paragraph Aus26.2 relate to the recognition by a local government, government

department or government of a liability arising from a local government or government existing public policy, budget policy, election promise or statement of intent. The intention to make payments to other parties, whether advised in the form of a local government or government budget policy, election promise or statement of intent, does not of itself create a present obligation which is binding. A liability would be recognised only when the entity is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits. For example, a government does not have a present obligation to sacrifice future economic benefits for social welfare payments that might arise in future reporting periods. A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period. Similarly, a government does not have a present obligation to sacrifice future economic benefits under multi-year public policy agreements until the grantee meets conditions such as grant eligibility criteria, or has provided the services or facilities required under the grant agreement. In such cases, only amounts outstanding in relation to current or previous periods satisfy the definition of liabilities.

Aus26.2 Some such transactions or events may give rise to legal, social, political or economic consequences which leave little, if any, discretion to avoid a sacrifice of future economic benefits. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster, where a government has a clear and formal policy to provide financial aid to victims of such disasters. In this circumstance, the government has little discretion to avoid the sacrifice of future economic benefits. However, the liability is recognised only when the amount of financial aid to be provided can be measured reliably.

## **BASIS FOR CONCLUSIONS**

*This Basis for Conclusions accompanies, but is not part of, AASB 2007-9.*

### **Introduction**

BC1 This Basis for Conclusions summarises the Board's considerations in developing this Standard in the context of the Board's short-term review of the requirements in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*.

### **Background**

BC2 The Board considered it timely to review the requirements in AASs 27, 29 and 31, in particular to:

- (a) review the extent to which local governments, government departments and governments should continue to be subject to requirements that differ from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. The Board concluded that, differences should be removed, where appropriate and timely, to improve the overall quality of financial reporting;
- (b) bring requirements applicable to local governments, government departments and governments up-to-date with contemporary accounting thought;
- (c) consider the implications of the outcomes of its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS), in particular on the requirements in AAS 31;
- (d) decide whether the encouragements in AASs 27, 29 and 31 should be made mandatory or removed; and
- (e) remove uncertainty in the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements.

BC3 The Board considered the following alternative mechanisms for implementing the approach of updating and improving the requirements for local governments, government departments and governments:

- (a) review the requirements in AASs 27, 29 and 31 and where appropriate:
  - (i) amend other Australian Accounting Standards to pick up any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards and have them apply to local governments, government departments and governments; or
  - (ii) create public sector specific topic-based Standards; and consequently withdraw AASs 27, 29 and 31; or
- (b) review AASs 27, 29 and 31 and re-issue them in light of the latest Australian Accounting Standards, retaining/amending where necessary any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards.

BC4 The Board chose alternative (a) given the improvements in the quality of financial reporting by local governments, government departments and governments since AASs 27, 29 and 31 were first issued.

BC5 Where the Board identified that the material in AASs 27, 29 and 31 could be improved within time and resource constraints, improvements have been made. Much of the material in AASs 27, 29 and 31 has been retained substantively unamended. Improvements will be progressed in due course in line with the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.

BC6 The first stage of the short-term review of the requirements in AASs 27, 29 and 31 was the preparation of a paragraph-by-paragraph analysis of each of AASs 27, 29 and 31, listing each paragraph of each Standard alongside corresponding Standards or other pronouncements that would apply to local governments, government departments or governments in the absence of AASs 27, 29 and 31. The Board's conclusions and rationale for the treatment of each paragraph in the context of the review were also provided in the analysis. The Board's primary focus was on dealing with the requirements from the three Standards in such a way as to not leave a vacuum.

BC7 Each paragraph from AASs 27, 29 and 31 was classified as being:

- (a) no longer needed or adequately dealt with in other Standards;
- (b) more appropriately dealt with in other Standards; or

- (c) not adequately and/or appropriately dealt with in other Standards and therefore should be retained or improved and incorporated into other Standards.

The paragraph-by-paragraph analyses considered by the AASB in developing the Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* that gave rise to this Standard are available on the AASB website. They support, but do not form part of, this Basis for Conclusions.

- BC8 In reviewing the paragraphs, the Board noted that some material in AASs 27, 29 and 31 would, under the current style of writing Standards, be located in a separate Basis for Conclusions. Given the short-term nature of the review of AASs 27, 29 and 31, the Board concluded that explanations of technical issues that both originated in and are being relocated from AASs 27, 29 and 31 should, when appropriate, be located in the body of the Standard to which the relevant requirements are being relocated.
- BC9 The Board decided not to retain the illustrative general purpose financial reports provided in AASs 27, 29 and 31, because their purpose, which was to provide an educational tool in the initial stages of accrual reporting by local governments, government departments and governments, is no longer needed.
- BC10 The remainder of this Basis for Conclusions focuses on the key amendments made by this Standard.

## **AASB 3 *Business Combinations***

### **Local Governments, Government Departments and Governments as Reporting Entities**

- BC11 With the adoption of IFRSs in Australia in 2005, a definition of reporting entity was included in AASB 3 *Business Combinations* based on the definition provided in IFRS 3 *Business Combinations*. As part of the short-term review of AASs 27, 29 and 31, the Board decided to complement the definition in AASB 3 by adding Australian material that explicitly states that local governments, governments and most, if not all, government departments are reporting entities. This approach retains the relevant aspects of AASs 27, 29 and 31 without leaving a vacuum. Definitions of local government, government and government department have also been added to AASB 3 to avoid leaving a vacuum.

BC12 A cross-reference has been provided in AASB 3 to AASB 1004 *Contributions* which details the requirements of restructures of administrative arrangements. This is because combinations of commonly-controlled entities are scoped out of AASB 3.

BC13 Requirements relating to restructures of local governments have been included in AASB 3 from AAS 27 substantively unamended. The Board decided to incorporate the requirements into AASB 3 rather than AASB 1004 because restructures of local governments are in the nature of business combinations. This approach was taken by the Board as a short-term measure, pending a more thorough review of the application of the business combinations Standard to not-for-profit entities, following the development of more detailed criteria for determining the circumstances in which not-for-profit requirements should be included in IFRSs.

## ***AASB 116 Property, Plant and Equipment***

### **Infrastructure, Cultural, Community and Heritage Assets**

BC14 The Board decided to amend AASB 116 to include a new Aus paragraph confirming that infrastructure, cultural, community and heritage assets are examples of property, plant and equipment held by not-for-profit public sector entities and for-profit government departments, as this was not explicitly stated elsewhere in Australian Accounting Standards.

BC15 In making this decision the Board concluded that the new Aus paragraph should apply, to all not-for-profit public sector entities and for-profit government departments and not be limited to local governments, government departments and governments. In principle, the new paragraph could apply to all entities. However, the Board has adopted the policy that Standards for Australian for-profit entities (other than for-profit government departments) should not differ from IFRSs, other than additional disclosures that address domestic, regulatory or other issues.

BC16 In addition, the Board decided to provide Australian Guidance with AASB 116 addressing reliable measurement, revaluations and depreciation of heritage and cultural assets. The Board concluded that in the short term there is a need for such guidance. The focus has been on heritage and cultural assets because they, with the exception of condition-based depreciation of infrastructure assets (which is outside the scope of the short-term review of the requirements in AASs 27, 29 and 31), are the type of assets about which constituents expressed the most concern. This new material is a short-term measure

until such time as the AASB undertakes the longer-term project outlined in the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.

BC17 The Board concluded that its decision to provide such Australian Guidance will not amend the principles in AASB 116. In particular, the Board concluded that the Australian Guidance does not imply that an entity's asset maintenance program or measurement basis justifies non-depreciation. The Australian Guidance notes that, depending on the nature of the heritage or cultural asset, it may have a useful life that is not limited, for example, where there are appropriate curatorial and preservation policies, and therefore would not be depreciated.

## ***AASB 127 Consolidated and Separate Financial Statements***

### **Control in the Public Sector**

BC18 AASs 27 and 29 both contained requirements relating to control in the public sector. The Board concluded that paragraphs relating to control in AASs 27 and 29 are adequately dealt with in AASB 127 *Consolidated and Separate Financial Statements* and therefore do not need to be imported into AASB 127.

BC19 The Board decided to retain the current guidance on control from AAS 31 in principle (amended to avoid duplication) and integrate it as Aus paragraphs into AASB 127. In relation to the duplication between the requirements in AAS 31 and AASB 127, the Board decided to replace the AASB 127 paragraphs with the AAS 31 paragraphs whilst retaining any aspects of the requirements currently in AASB 127 that are relevant. The Board concluded that this action is necessary as a short-term measure until such time as the AASB undertakes the longer-term project on control in the public sector as outlined in the AASB's Public Sector Policy Paper. The amended section of AASB 127 on control in the public sector applies to all entities previously reporting under AASs 27, 29 and 31.

BC20 The Board noted the view that the requirements in AAS 31 relating to control in the public sector differ from AASB 127 in the way control is explained as a prerequisite to the consolidation process, but also noted that the replaced Aus paragraphs in AASB 127 could similarly have been regarded as different from the main text of AASB 127. For example, paragraph 13 of AASB 127 focuses on the parent and what it controls, whereas the requirements imported from AAS 31 (and the Aus paragraphs retained in AASB 127) focus on groups (because typically in the public sector the parent is not explicitly identified, and

the focus tends to be on ‘government’, ‘parliament’ and ‘ministers’). The longer-term project on control in the public sector will address this matter.

- BC21 In the meantime, the Board concluded that the manner in which the requirements relating to control are expressed in AAS 31 should be retained. The Board noted that whole of government financial statements continue to be prepared on a full consolidation basis in accordance with AASB 127 (see AASB 1049 *Whole of Government and General Government Sector Financial Reporting*).
- BC22 The Board decided to retain the example from paragraph 9.1.7(e) of AAS 31 (see Aus13.9(e) of AASB 127 as amended by this Standard), which states that State/Territory governments do not control local governments. The Board concluded that local governments should not be treated as being controlled by another government or agency thereof for the purposes of the short-term review of AASs 27, 29 and 31. This was based on the fact that paragraph Aus13.4 of AASB 127 as amended to July 2007 (reflected in paragraph Aus13.9(c) of AASB 127, as amended by this Standard), expressed the view that local governments are not controlled entities.
- BC23 Having made this decision, the Board noted that application of paragraph Aus13.4 of AASB 127, as amended to July 2007, may not result in compliance with IAS 27 *Consolidated and Separate Financial Statements*. Accordingly, the Board decided to amend the ‘Compliance with IAS 27’ statement in the Comparison with International Pronouncements section of AASB 127 to acknowledge that compliance with paragraph Aus13.9(c) and (e) of AASB 127 may not result in compliance with IAS 27. The issue of whether local governments are commonly controlled entities has not been fully analysed by the Board at this time, but will be as part of the longer-term project on control in the public sector. In due course, the Board intends amending AASB 127 to reflect the position that the question of control of local governments depends on the particular facts and circumstances as the position may be different in different States/Territories and may change over time.
- BC24 In relocating the requirements from AAS 31, the Board decided it is not necessary to carry forward the reference in paragraph 8.2.4 of AAS 31 to adjustments for dissimilar accounting policies except where a standard specifically allows such non-adjustment in the consolidation process. This is because the requirements to align accounting policies are clear in AASB 127. This approach avoids the inappropriate interpretation that adjustments are not required when preparing consolidated financial statements.

## ***AASB 137 Provisions, Contingent Liabilities and Contingent Assets***

### **Obligations Arising from Local Government and Government Existing Public Policies, Budget Policies, Election Promises and Statements of Intent**

BC25 The Board decided to address obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent of local governments, government departments and governments by relocating the pertinent content of paragraphs 12.1.2 and 12.1.3 of AAS 31, substantively unamended, into AASB 137 as Aus paragraphs. The Board acknowledged that this is inconsistent with the approach in New Zealand. However, the Board noted that New Zealand does not have the transition from AASs 27, 29 and 31 issues that the AASB is facing.

BC26 The Board noted that the inclusion of those Aus paragraphs is not intended to achieve a different result, in terms of the recognition of liabilities, from the practice followed by local governments, government departments and governments under Australian Accounting Standards at the date of introduction of the amendments to AASB 137. These obligations raise issues for financial reporting that require further research.

BC27 The Board concluded that this action is appropriate as a short-term measure until such time as the AASB undertakes the longer-term project on obligations arising from local government and government existing public policies, budget policies, election promises and statements of intent, as outlined in the AASB's Public Sector Policy Paper.

### **Non-current Assets Held for Sale and Discontinued Operations, Presentation of Financial Statements and Segment Reporting**

BC28 The Board also decided to make consequential amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 8 *Operating Segments*, AASB 101 *Presentation of Financial Statements* and AASB 114 *Segment Reporting* to reflect, primarily, the changed location of certain requirements as a result of the review of AASs 27, 29 and 31. In relation to paragraph Aus2.1 of AASB 5, the Board notes that the treatment of restructures of administrative arrangements and the restructuring of administered

activities of government departments will be reviewed as part of the Board's longer-term review of public sector issues. In addition, to avoid the potential overlap of the requirements in AASB 1052 and AASB 8/AASB 114, the Board decided to clarify that for-profit government departments are within the scope of AASB 1052. Therefore, AASB 8 and AASB 114 do not apply to for-profit government departments.