

Exposure Draft

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Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31

Prepared by the
Australian Accounting Standards Board



Australian Government

**Australian Accounting
Standards Board**

Commenting on this Exposure Draft

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New, revised or amended Australian Accounting Standards are proposed in this Exposure Draft. All the proposed paragraphs in the Standards have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in the related Standards are in *italics* the first time they appear in the related Standards. The Standards are to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Reasons for Issuing this Exposure Draft

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, with the aim of improving the quality of financial reporting by the public sector entities to which they apply. Since then, AASs 27, 29 and 31 have been subject to a number of limited reviews, the most recent in June 1996 for AAS 27 and June 1998 for AASs 29 and 31.¹

It is now considered timely to review the requirements in AASs 27, 29 and 31. AASs 27, 29 and 31 are based on the Australian Accounting Standards that were current at the date of their issue. Since the three public sector Standards were first issued, the Australian Accounting Standards Board (AASB) has issued Australian Accounting Standards that are based on International Financial Reporting Standards (IFRSs) for reporting periods beginning on or after 1 January 2005, as subsequently amended.

The aim of the AASB in issuing Australian equivalents to IFRSs is to put in place transaction-neutral standards for the Australian economy, wherever possible, that will treat like transactions and events consistently across all sectors, unless there is sound reason to be different in particular circumstances.

In relatively recent times there has also been a change to a more principles-based style of Australian Accounting Standards. The AASB has had regard to its principles-based approach to standard setting as part of its short-term review of AASs 27, 29 and 31. The principles in any Standard relate to and are interpreted in conjunction with other Standards and the *Framework for the Preparation and Presentation of Financial Statements*.

The AASB 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 AASB is committed to having a platform of topic-based transaction neutral Standards that will apply to the public sector.

An outline of the approach the AASB plans to adopt in the short term and in the longer term for developing, revising or amending Australian Accounting Standards that are applicable to local governments, government departments and/or governments, and potentially other entities, is outlined in its Policy Paper *Australian Accounting Standards and Public Sector Entities* (available on the AASB website: www.aasb.com.au). As outlined in the Policy Paper, the comprehensive review of requirements for not-for-profit public sector entities will be carried out in stages.

In the short term (the focus of this Exposure Draft) the primary focus is on relocating the requirements, substantively unamended (with some exceptions), into topic-based transaction neutral Standards. In the longer term the focus is on improving the requirements for each topic-based issue where necessary.

Main Features of this Exposure Draft

A consequence of the approach of relocating material from AASs 27, 29 and 31 to topic-based Standards is that paragraphs that could now be regarded as forming part of a basis for

¹ Although AAS 27A *Amendments to the Transitional Provisions in AAS 27*, AAS 29A *Amendments to the Transitional Provisions in AAS 29* and AAS 31A *Amendments to the Transitional Provisions in AAS 31* were issued in December 1999 and AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A* was issued in October 2002, they only had the effect of extending the transitional provisions for land under roads. In addition, AASB 2006-3 *Amendments to Australian Accounting Standards* was issued in October 2006 to further extend the transitional provisions for land under roads for 12 months. Exposure Draft ED 125 *Financial Reporting by Local Governments*, which was issued in October 2003, proposed a comprehensive review of AAS 27. However, this Exposure Draft contains proposals that replace, and in some cases differ from, the proposals in ED 125. A fundamental difference between this Exposure Draft and ED 125 is that this Exposure Draft proposes relocating a significant part of AAS 27 into other topic-based Standards and consequently withdrawing AAS 27 and not replacing it with a specific local government Standard.

conclusions for a Standard are being relocated within the body of the topic-based Standards. This is consistent with the AASB's decision to not restructure AASs 27, 29 and 31 during the course of the short-term review to separate out paragraphs which could now be regarded as forming part of a basis for conclusions rather than the body of the Standard.

In the main, the proposals in this Exposure Draft relate to entities that currently apply AASs 27, 29 or 31. However, some of the proposals have a wider application. For example, the proposals relating to restructures of administrative arrangements would potentially affect all government controlled not-for-profit entities even if they are not government departments. In addition, the Australian Guidance proposed in relation to heritage assets would apply to all not-for-profit public sector entities. Furthermore, the scope exclusion proposed for AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* would apply beyond local governments, government departments and governments.

Proposed New Topic-based Standards

The AASB proposes to create three new topic-based Standards, where requirements currently in AASs 27, 29 and 31 are not covered adequately and/or cannot be appropriately relocated in existing topic-based Standards. The new Standards would apply to local governments, government departments and/or governments. The Standards are:

(a) AASB 10XX *Administered Items*

This Standard would present, substantively unamended, the current requirements on administered items from AAS 29 into a topic-based Standard applicable only to government departments.

(b) AASB 10XY *Land Under Roads – Transitional Requirements*

This Standard would retain the current transitional relief for land under roads controlled by local governments, government departments and governments. The new Standard would also address the transition of land under roads into AASB 116 *Property, Plant and Equipment*, to apply once the current transitional relief lapses.

(c) AASB 10XZ *Disaggregated Disclosures*

This Standard would present, substantively unamended:

- (i) the current requirements from AAS 27 on disclosing classifications of assets, income and expenses according to function or activity, applicable only to local governments; and
- (ii) the current requirements from AAS 29 on disclosing service costs and achievements by activity, applicable only to government departments.

The Standard would not specify disaggregated information disclosure requirements for all governments, as such requirements would be contained in the Standard to be developed from Exposure Draft ED 155 *Financial Reporting by Whole of Governments* as part of the AASB's GAAP/GFS Harmonisation project.

Proposed Amendments to Existing Standards

Some of the requirements in AASs 27, 29 and 31 can be appropriately relocated to five existing topic-based Standards. This Exposure Draft proposes to amend/revise these Standards to include the requirements. These Standards are:

(a) AASB 3 *Business Combinations*

This Standard would be amended to clarify the definition of reporting entity, to retain the effect of AASs 27, 29 and 31, by explicitly stating that local governments,

governments and most, if not all, government departments are reporting entities. It would also be amended to include the definitions of local government and government departments. The Standard to be developed from ED 155 would contain the definition of government.

(b) AASB 116 *Property, Plant and Equipment*

This Standard would be amended to include a new Aus paragraph relating to infrastructure, cultural, community and heritage assets. The AASB intends that the amendment apply beyond local governments, government departments and governments to all not-for-profit public sector entities. In addition, the AASB proposes issuing Australian Guidance to accompany AASB 116 that addresses reliable measurement, revaluations and depreciation of heritage assets. It is not intended that the new Aus paragraph or Australian Guidance change the underlying principles in AASB 116.

(c) AASB 127 *Consolidated and Separate Financial Statements*

This Standard would be amended to incorporate most of the current guidance from Section 9 ‘Control of Entities’ of AAS 31 (substantively unamended) as Aus paragraphs. In relation to the duplication between the requirements in Section 9 of AAS 31 and paragraphs Aus13.1-Aus13.5 of AASB 127 *Consolidated and Separate Financial Statements*, the AASB proposes replacing the AASB 127 paragraphs with the AAS 31 paragraphs and retaining any aspects of the requirements currently in AASB 127 that are still relevant.

(d) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

This Standard would be amended to explicitly exclude from its scope obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent. The Standard would also be amended to include an Aus paragraph that makes clear that the scope exclusion is not intended to achieve a different result, in terms of the recognition of liabilities, from the practice followed by not-for-profit public-sector entities at the date of introduction of the amendments.

(e) AASB 1004 *Contributions*

This Standard would be revised to incorporate, in a separate section, the material relating to contributions from AASs 27, 29 and 31, substantively unamended (with limited exceptions). The following table summarises the AASB’s proposals for AASB 1004 *Contributions* and provides a summary of the proposed amendments.

Table 1: The AASB’s proposed treatment of requirements relating to contributions

Topic area	Currently addressed by:	Treatment in this Exposure Draft
Compliance with parliamentary appropriations and other externally imposed requirements by government departments	Paragraphs 12.6 and 12.6.2-12.6.4 of AAS 29.	Retained substantively unamended.
Contributions, other than contributions by owners, by local governments, government departments or governments	Paragraphs 59-70, 92-93 of AAS 27; paragraphs 10.5.9, 10.5.10, 10.10-10.11, 10.12.1-10.12.5, 10.12.7, 12.4 and 12.4.1 of AAS 29; and Section 14 of AAS 31.	Retained substantively unamended, expressed in a generic form.
Contributions by owners	Paragraphs 11.1-11.2.4 of AAS 29.	Retained substantively unamended, expressed in a generic form.
Contributions of services	Paragraphs 10.12, 10.12.6, 10.12.8 and 10.12.9 of AAS 29.	Retained substantively unamended. The requirements are extended beyond government departments to local governments and governments and therefore expressed in a generic form.
Disclosure policies for tax revenue	Paragraph 15.2.1 of AAS 31.	Retained substantively unamended, expressed in a generic form.
Government department disclosures relating to revenue	Paragraphs 12.2(b)-12(c) of AAS 29. Paragraph 12.2(d) of AAS 29.	Retained substantively unamended. Retained. In line with the proposal to extend the requirements about contributions of services beyond government departments, the requirement relating to revenue disclosures is proposed to be extended to also include local governments and governments. Also, amended to refer to goods and services ‘recognised’, to be consistent with the proposed requirement that not all contributions received are required to be recognised.
Liabilities assumed by other entities	Paragraphs 8.2, 8.2.1 and 8.2.3-8.2.5 of AAS 29.	Retained substantively unamended.
Parliamentary appropriations	Paragraphs 10.5, 10.5.1, 10.5.4-10.5.7 and 10.5.17 of AAS 29.	Retained substantively unamended.
Restructures of administrative arrangements	Paragraphs 7.4, 7.4.2 and 10.6-10.9.3 of AAS 29.	Replaced with new paragraphs, including a definition of the term ‘restructures of administrative arrangements’, and specifying that restructures of administrative arrangements are in the nature of transactions with owners, to be accounted for on a net basis. This is a substantive change from the current requirements in AAS 29 as the choice of treating the transaction as a revenue/expense item would no longer be available. The effects of the new requirements are proposed to be limited to government controlled not-for-profit entities and for-profit government departments.

Requirements/Guidance Adequately Addressed in other Standards

The AASB believes that requirements and/or guidance on many issues in AASs 27, 29 and 31 can be effectively replaced by the requirements on particular issues in existing topic-based Standards. The following table summarises the AASB’s proposals for requirements/guidance currently addressed in AASs 27, 29 and/or 31 that the AASB considers are adequately addressed in other Standards.

The material in the table below indicates the AASB’s proposals for issues covered in AASs 27, 29 and 31 by issue or topic. The supporting AASs 27, 29 and 31 paragraph-by-paragraph analyses, which do not form part of this Exposure Draft, provided on the AASB website, address the same material separately for each of AASs 27, 29 and 31. The last

column of this table indicates whether the other Standards would change the requirements for the issue in question.

Table 2: Requirements/guidance currently addressed in AASs 27, 29 and/or 31 that the AASB considers are adequately addressed in other Standards

Issue	Paragraphs in AASs 27, 29 and 31	Australian Standards that provide corresponding requirements	Would the requirements for this issue change?
Agreements equally proportionately unperformed	Paragraphs 51-55 of AAS 27; paragraphs 9.1-9.2.3 of AAS 29; and paragraphs 17.1-17.2.1 of AAS 31.	AASB 101 <i>Presentation of Financial Statements</i> , AASB 117 <i>Leases</i> and AASB 137 are adequate.	No, but the encouragement to disclose the nature of assets and liabilities arising from agreements equally proportionately unperformed in paragraph 9.2.3 of AAS 29 would not exist.
Classification according to nature or type	Paragraphs 76-77 and 80-84 of AAS 27; paragraphs 12.1, 12.2.1-12.2.7 of AAS 29; and paragraphs 15.1, 15.1.1 and 15.4-15.4.2 of AAS 31.	AASB 101.	Yes. AASB 101 contemplates balance sheets presented on a liquidity basis. It also provides detailed requirements for, as a minimum, line items to be presented on the face of the financial statements, and associated note disclosures.
Comparative information	Paragraphs 104 and 105 of AAS 27; paragraphs 16.1-16.2.1 of AAS 29; and paragraphs 19.1-19.2.1 of AAS 31.	AASB 101.	Yes. AASB 101 specifically refers to circumstances under which narrative and descriptive information is to be disclosed. It also specifies disclosures relating to reclassification of comparative amounts, and acknowledges practicability issues.
Compliance with Standards or other Authority	Paragraphs 13-16 of AAS 27; section 4 of AAS 29; and sections 6 and 7 of AAS 31.	AASB 101.	No.
Consolidated financial statements, the concept of control and the scope of the reporting entity	Paragraphs 4-7 and 17-20 of AAS 27; paragraphs 5.2-5.3.3 of AAS 29; and paragraphs 8.1-9.1.2 of AAS 31.	AASB 127.	No.
Criteria for recognition of assets, measurement and re-measurement of assets, depreciation of non-current assets and impairment of assets	Paragraphs 33-48 of AAS 27; paragraphs 7.1-7.4.4 and 7.4.8-7.6.1 of AAS 29; and paragraphs 11.1-11.4.2 of AAS 31.	Various Standards relating to particular types of assets, including AASB 102 <i>Inventories</i> , AASB 116, AASB 136 <i>Impairment of Assets</i> , AASB 138 <i>Intangible Assets</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> and AASB 140 <i>Investment Property</i> .	No.
Criteria for recognition of liabilities	Paragraphs 49 and 50 of AAS 27; paragraphs 8.1-8.1.3, 12.9.7 and 12.9.10 of AAS 29; and paragraphs 12.1, 12.1.1 and 15.5-15.5.3 of AAS 31.	Various Standards relating to particular types of liabilities, including AASB 137 and AASB 139.	No.
Criteria for recognition of revenues and expenses	Paragraphs 56-58 of AAS 27; paragraphs 10.1-10.4.2 of AAS 29; and paragraphs 13.1-13.2.1 of AAS 31.	Various Standards relating to particular types of income and expenses including AASB 118 <i>Revenue</i> , AASB 1004, AASB 119 <i>Employee Benefits</i> , AASB 123 <i>Borrowing Costs</i> and AASB 137.	No. The AASB concluded that general recognition concepts need not be mandated for local governments, government departments or governments on the basis that they are not mandated generally for other types of entities.

Issue	Paragraphs in AASs 27, 29 and 31	Australian Standards that provide corresponding requirements	Would the requirements for this issue change?
Disclosure of capital expenditure commitments	Paragraph 94 of AAS 27 and paragraph 15.6 of AAS 31.	AASB 101.	No, except for local governments. AASB 101 is less onerous than AAS 27, as AAS 27 requires information for an additional time-band: longer than 1 year and not longer than 2 years.
Disclosure of the recognition policy for tax revenues	Paragraph 15.2 of AAS 31.	AASB 101.	No.
Government department disclosures relating to revenue (and equity)	Paragraph 12.2(a) of AAS 29. Paragraph 12.2(e) of AAS 29. Paragraph 12.2(f) of AAS 29.	AASB 118. Restructuring of administrative arrangements in proposed revised AASB 1004. Paragraph 97(c) of AASB 101.	No. Proposed revised AASB 1004 would require disclosure of assets and liabilities transferred as a consequence of a restructure of administrative arrangements by class. No.
Liabilities assumed by the government or other entity	Paragraph 8.2.2 of AAS 29.	Interpretation 1038 <i>Contributions by Owners Made to Wholly-Owned Public Sector Entities</i> .	No.
Materiality	Paragraphs 10 and 11 of AAS 27; paragraph 1.2.1 of AAS 29; and paragraphs 5.1 and 5.1.1 of AAS 31.	AASB 1031 <i>Materiality</i> .	No.
Measurement of previously acquired assets	Paragraph 11.2.4 of AAS 31.	This issue would be subject to the general principles for correction of errors in AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .	No.
Nature of financial statements to be prepared	Paragraphs 21-25 and 27-32 of AAS 27; paragraphs 6.1-6.3.10 and 12.5-12.5.2 of AAS 29; and paragraphs 10.1-10.1.4, 15.1, 15.1.1, 15.3-15.4.2, and 15.7-15.11.1 of AAS 31.	AASB 101 and AASB 107 <i>Cash Flow Statements</i> .	No.
Net cost of services format of the income statement	Paragraphs 6.3, 6.3.5 and 6.3.10 of AAS 29.	There is sufficient flexibility in AASB 101 and support in AASB 107 to permit government departments and other entities, where appropriate, to adopt the net cost of services format for the income statement.	No.
Reporting on compliance	Paragraphs 95-97 of AAS 27.	AASB 101 and AASB 137.	No.
Restricted assets	Paragraphs 90 and 91 of AAS 27 and paragraphs 12.3 and 12.3.1 of AAS 29.	AASB 1031, AASB 107, AASB 116 and AASB 138.	No.
Restructures of local governments	Paragraphs 71-75 of AAS 27.	The general requirements in AASB 3 <i>Business Combinations</i> or AASB 1004, as applicable, by a transferee and AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> or other relevant Standards for a transferor.	Yes, substantially. See paragraphs BC64-BC66 of this Exposure Draft.

Requirements/Guidance that would no Longer be Addressed in Standards

In some situations the AASB proposes that requirements and/or guidance that are currently addressed in AASs 27, 29 and 31 should no longer be addressed in Standards in the short term. The following table summarises the more substantive issues for which this is the case. The last column summarises the AASB's longer-term plans for each issue.

Table 3: The AASB's decisions relating to requirements/guidance that would no longer be addressed in Standards

Issue	Current Coverage	AASB Conclusions	Longer-term Plans
Budget reporting	Paragraph 26 of AAS 27.	The paragraph is not mandatory and therefore can be withdrawn without leaving a vacuum.	A separate project on budget reporting is planned in due course, in light of the requirements in AASB 1049 <i>Financial Reporting of General Government Sectors by Governments</i> .
Cash flows from government-controlled financial institutions	Paragraphs 15.11 and 15.11.1 of AAS 31.	These paragraphs do not provide relevant information for users.	No action is necessary.
Frequency, timeliness and availability of general purpose financial reports	Paragraphs 100-103 of AAS 27; paragraphs 13.1-13.1.2 of AAS 29; and paragraph 18.1 of AAS 31.	It is not necessary to explicitly address these issues in a Standard because the requirements are more appropriately covered by legislation in each jurisdiction.	No action is necessary.
Performance indicators	Paragraphs 98 and 99 of AAS 27; paragraphs 12.10 and 12.10.1 of AAS 29; and section 16 of AAS 31.	Performance indicators are not mandated in AASs 27, 29 and 31. The guidance provided is at a conceptual level and can be withdrawn without leaving a significant vacuum.	The Board plans to consider issues relating to performance indicators in a separate project in due course.

Consequential Amendments to other Standards

Paragraph Aus14.2 of AASB 101 would be amended to remove the reference to AAS 29 relating to non-compliance with Australian equivalents to IFRSs by an entity that is a for-profit public sector entity to which AAS 29 applies and replace it with a specific reference to for-profit government departments.

Paragraphs Aus2.1-Aus2.4 of AASB 5 would be amended to remove the reference to AAS 29 relating to restructures of administrative arrangements and replace it with a reference to AASB 1004. AASB 5 would also be amended to remove the reference to AAS 27 relating to restructures of local governments and replace it with a reference to AASB 3.

Paragraph Aus1.3 of AASB 114 *Segment Reporting* would be amended to remove the references to AAS 27, AAS 29 and AAS 31 and replace them with a reference to AASB 10XZ *Disaggregated Disclosures* and the Standard to be developed from ED 155. Notwithstanding this amendment, paragraph Aus1.2 of AASB 114 would remain and both AASB 114 and AASB 8 *Operating Segments* would continue to apply only to for-profit entities.

All references to AASs 27, 29 and 31 in other Standards would be removed, including where necessary, updating 'Comparison with International Pronouncements' statements.

In addition to Standards, the AASB notes that paragraphs 2, 19, 20, 24, 37 and 39 of Interpretation 1038 refer to AAS 29. Rather than propose amendments to Interpretation 1038 in this Exposure Draft, such amendments will be considered once final decisions on the amendments to the Standards are made.

Transitional Requirements

The proposals in this Exposure Draft change current treatments in some respects. Transitional requirements are not proposed in this Exposure Draft, except in relation to land under roads. The requirements relating to changes in accounting policies in AASB 108 would apply on adoption of the proposed new, revised or amended Standards.

Consequential Impact on AASs 27, 29 and 31

If all the above proposals are adopted, AASs 27, 29 and 31 could be withdrawn without leaving a vacuum.

Application date

It is proposed that the new, revised and amended Standards to be developed from this Exposure Draft are applicable to annual reporting periods beginning on or after 1 July 2008, and early adoption is permitted, provided there is early adoption for all the new, revised and amended Standards arising from this Exposure Draft for the same annual reporting period.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 3 September 2007. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues. The AASB regards supportive and critical comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following issues in light of the objective of this Exposure Draft to establish a platform of topic-based transaction neutral Standards in the short term that in due course will be reviewed with a view to improving the requirements in the longer term:

1. Proposed New Standards

(a) AASB 10XX *Administered Items*:

- (i) the proposal to continue to limit the requirements relating to administered items to government departments, given the short-term nature of the current review of AASs 27, 29 and 31, rather than extending them to apply to other entities that receive parliamentary appropriations.
- (ii) the proposal to require disclosure of items that a government department collects or distributes on behalf of another entity that are neither controlled nor administered items (see paragraph 13 of proposed AASB 10XX).
- (iii) in relation to government department transfers that are not controlled by the government department, the proposal to require disclosure of the broad categories of recipients and the amounts transferred to those recipients by government departments (see paragraph 20 of proposed AASB 10XX).

- (iv) the Board intends reviewing the requirements relating to administered items of not-for-profit entities in due course. Please indicate the priority you believe such a review should be given.
- (b) **AASB 10XY Land Under Roads – Transitional Requirements:** the proposed requirements for land under roads.
- (c) **AASB 10XZ Disaggregated Disclosures:**
 - (i) the proposal to express the requirements in AASs 27 and 29 on disaggregated disclosures separately for local governments and government departments rather than being merged into a single set of generic requirements.
 - (ii) the proposal that assets deployed and liabilities incurred in relation to each major activity undertaken by a government department should be required, rather than merely encouraged, to be disclosed (see paragraph 15 of AASB 10XZ). The AASB is particularly interested in the costs/benefits of requiring such information.
 - (iii) the Board intends reviewing the requirements relating to disaggregated disclosures by not-for-profit entities in due course. Please indicate the priority you believe such a review should be given.

2. Proposed Amendments to Existing Standards

- (a) **AASB 3 Business Combinations:** the proposal to amend the definition of reporting entity in AASB 3 to explicitly state that local governments, governments and most, if not all, government departments are reporting entities.
- (b) **AASB 116 Property, Plant and Equipment:**
 - (i) the proposal to include a statement in AASB 116 that ‘Examples of property, plant and equipment held by not-for-profit public sector entities include but are not limited to infrastructure, cultural, community and heritage assets’.
 - (ii) the proposal to provide Australian Guidance with AASB 116 relating to depreciation and fair valuation of heritage assets.
- (c) **AASB 127 Consolidated and Separate Financial Statements:**
 - (i) the proposal to replace Aus paragraphs in AASB 127 with the AAS 31 paragraphs relating to control whilst retaining any aspects of the requirements currently in AASB 127 that remain relevant.
 - (ii) the AASB intends reviewing the requirements relating to control in the public sector in due course. Please indicate the priority you believe such a review should be given.
- (d) **AASB 137 Provisions, Contingent Liabilities and Contingent Assets:**
 - (i) the proposal to explicitly scope out of AASB 137, in respect of not-for-profit public sector entities, obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent, and to effectively grandfather current practice in relation to those obligations until further research is undertaken. The Board is particularly interested in comments on whether the scope out is too broad or too narrow.
 - (ii) the AASB intends reviewing the requirements relating to obligations arising from local government and government existing public policies, budget

policies, election promises or statements of intent in due course. Please indicate the priority you believe such a review should be given.

(e) AASB 1004 Contributions:

- (i) the proposal to retain paragraphs 10.5, 10.5.1, 10.5.6, 10.5.7, 10.5.10 and 10.5.17 of AAS 29 on parliamentary appropriations to government departments and whether the material in this section is still needed given government departments' experience with accrual accounting principles and the nature of current arrangements between governments and government departments for parliamentary appropriations (see paragraphs 27 to 33 of the proposed revised AASB 1004).
- (ii) the proposal to retain paragraphs 8.2, 8.2.1 and 8.2.3-8.2.5 of AAS 29, relating to liabilities assumed by other entities, including the proposal to retain the symmetrical accounting approach adopted in AAS 29 instead of amending the requirements to be consistent with AASB 139 for derecognition of liabilities (see paragraphs 34 to 38 of the proposed revised AASB 1004).
- (iii) the proposal to retain paragraphs 10.12, 10.12.6, 10.12.8 and 10.12.9 of AAS 29, relating to contributions of services and the appropriateness of applying the requirements beyond government departments to both local governments and governments (see paragraphs 39 to 42 of the proposed revised AASB 1004).
- (iv) the proposal to retain paragraphs 63 and 70 of AAS 27, paragraphs 11.1-11.2.4 of AAS 29 and 14.1.12 and 14.1.13 of AAS 31, relating to contributions by owners, and relocate them into a separate new section of AASB 1004 under 'Contributions by Owners and Distributions to Owners of Local Governments, Government Departments and Governments' (see paragraphs 43 to 49 of the proposed revised AASB 1004).
- (v) in relation to a restructure of administrative arrangements (see paragraphs 50-55 of the proposed revised AASB 1004), the proposals to:
 - A define restructures of administrative arrangements and to specify that they are in the nature of transactions with owners to be recognised on a net basis. The AASB notes that the definition affects a broader range of entities than government departments, and includes all government controlled not-for-profit entities. The AASB is particularly interested in comments on whether the proposals are suitable for all government controlled not-for-profit entities. The AASB is also interested in whether it is necessary to explicitly refer to for-profit government departments in the context of restructures of administrative arrangements (and therefore also refer to them in paragraph Aus14.2 of AASB 101).
 - B require a transferee to disclose, where practicable, the expenses and income attributable to transferred activities for the reporting period, showing separately those expenses and income recognised by the transferor during the reporting period.
 - C not specify a measurement basis for assets and liabilities transferred as a consequence of a restructure of administrative arrangements. The AASB is particularly interested in whether there are any anticipated adverse implications of the proposed non-specification of a measurement basis.
- (vi) the proposal to incorporate the requirements from paragraphs 12.2(b)-(d) of AAS 29 relating to government department disclosure requirements, into AASB 1004 with:

- A the requirement from paragraph 12.2(d) of AAS 29 relating to disclosure of the fair value of goods and services received free of charge (or for nominal consideration) and recognised, being extended to both local governments and governments (see paragraph 58 of the proposed amendments to AASB 1004).
 - B the requirements from paragraphs 12.2(b) and (c) of AAS 29 limited to government departments (see paragraph 59 of the proposed amendments to AASB 1004).
- (vii) the proposal to place the requirements to be retained from AASs 27, 29 and 31 at the end of AASB 1004 rather than integrating them with the current AASB 1004 requirements. The AASB notes that the integration approach would be more likely to raise the controversial revenue recognition issues for all not-for-profit entities that the AASB intends to deal with in the longer term. The AASB is particularly interested in whether, with the more general requirements already in AASB 1004, the inclusion of the AASs 27, 29 and 31 requirements would create implementation problems, including problems for entities that are not local governments, government departments or governments. For example, does the inclusion of specific requirements for contributions of services in the new section of AASB 1004, vis-a-vis the absence of such specific requirements in the old section of AASB 1004, create implementation issues for not-for-profit private sector entities?
- (viii) the Board intends reviewing the requirements relating to contributions in due course. Please indicate the priority you believe such a review should be given.

3. Requirements/Guidance Adequately Addressed in other Standards

- (a) **Cash flows from government-controlled financial institutions:** the proposal to not retain the requirement from paragraph 15.11 of AAS 31 relating to cash flows from government controlled financial institutions. The AASB is particularly interested in views on whether this proposal would lead to a loss of useful information.
- (b) **Restricted assets:** the proposal to not retain material from paragraphs 90 and 91 of AAS 27 and paragraphs 12.3 and 12.3.1 of AAS 29 relating to disclosures about restricted assets, given that other Standards cover the matters addressed for different types of assets.
- (c) **Restructures of local governments:** the proposal to effectively replace the current requirements for restructures of local governments with the general principles expressed in AASB 3 or AASB 1004, as applicable, for a transferee and AASB 5 or other relevant Standards for a transferor.

4. Requirements/Guidance that would no longer be Addressed in Standards

- (a) **Net cost of services format of the income statement:** the proposal to not retain the explicit guidance on the validity of the net cost of services format of the operating statement currently provided in AAS 29.
- (b) **Performance indicators:**
 - (i) the proposal to not retain guidance on performance indicators.

- (ii) the Board intends reviewing the requirements relating to performance indicators in due course. Please indicate the priority you believe such a review should be given.

5. General Issues

- (a) **Encouragements in Standards:** the proposal to remove each encouragement currently specified in AAS 29, unless there is justification for making it explicitly mandatory, on the basis that an encouragement in a Standard can be interpreted by constituents as an indicator of 'best practice' and that in practice encouragements might be treated by some as if they are requirements.
- (b) **Definition of government departments:** the proposal that, where applicable, the scope of the Exposure Draft should include government departments, as currently defined in AAS 29. The AASB is particularly interested in whether that definition is considered appropriate and whether the definition has implications for financial reporting by agencies that are not formally designated as government departments.
- (c) **Regulatory or other issues:** are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- (d) **Best interests of the Australian economy:** are the proposals in the best interests of the Australian economy?

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

As a short-term review of the requirements in AASs 27, 29 and 31, this Exposure Draft primarily proposes relocating those requirements into topic-based Standards without undertaking a fundamental review of the requirements. Accordingly, the project has not involved a comparison of the proposals with International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board or International Financial Reporting Standards issued by the International Accounting Standards Board.

This project has involved a comparison of the requirements in AASs 27, 29 and 31 with the requirements in other existing Australian Accounting Standards, resulting in various proposals to replace the requirements in AASs 27, 29 and 31 with the requirements in those other Standards. Those other Standards contain a comparison of their requirements with international pronouncements.

The longer-term review of the requirements applicable to public sector entities will involve consideration of international pronouncements.

EXPLANATIONS OF THE WAY THAT THE PROPOSALS ARE PRESENTED IN THIS EXPOSURE DRAFT

The presentation of the proposed text for new, revised or amended Standards varies depending on the extent of the proposed changes:

- (a) a marked-up copy of the text of the paragraph(s) originally from AASs 27, 29 and 31, or in other Standards, is presented for:
- AASB 10XX *Administered Items*;
 - AASB 10XZ *Disaggregated Disclosures*;
 - AASB 3 *Business Combinations*;
 - AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
 - AASB 101 *Presentation of Financial Statements*; and
 - AASB 114 *Segment Reporting*; and
- (b) a clean copy of the proposed text for new Standards or revisions or amendments to existing Standards is presented for:
- AASB 10XY *Land Under Roads – Transitional Requirements*;
 - AASB 116 *Property, Plant and Equipment*;
 - AASB 127 *Consolidated and Separate Financial Statements*;
 - AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
 - AASB 1004 *Contributions*.

More detail is provided for each Standard in the body of the Exposure Draft.

PROPOSED NEW STANDARDS

AASB 10XX

ADMINISTERED ITEMS

AASB 10XX *Administered Items* contains the text from AAS 29 *Financial Reporting by Government Departments* relating to reporting of administered items by government departments. A marked-up copy of the text of the paragraphs originally from AAS 29 is presented in paragraphs 6 to 23.

Objective

- 1 The objective of this Standard is to specify requirements for government departments relating to administered items. Disclosures made in accordance with this Standard provide users with information relevant to assessing the performance of the government department, including accountability for resources entrusted to it.

Application

- 2 This Standard applies to general purpose financial reports of government departments.
- 3 This Standard applies to annual reporting periods beginning on or after 1 July 2008.
- 4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2008, provided there is early adoption for the same annual reporting period of any amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.
- 5 When applicable, this Standard supersedes paragraphs 5.2.5, 6.3.11, 6.3.12, 12.9-12.9.6 as well as paragraphs 10.4.2 and 10.5.9-10.5.16 (to the extent that these paragraphs refer to administered items) of AAS 29 *Financial Reporting by Government Departments* as issued in June 1998.

Disclosure of Administered Income, Expenses, Assets and Liabilities

- 6 ~~The following must be~~ A government department shall disclose the following in its general purpose financial report of a government department in relation to activities administered by the government department:
 - (a) administered ~~revenue~~incomes, showing separately:
 - (i) each major class of ~~revenue~~income; and
 - (ii) in respect of each major class of ~~revenue~~income, the amounts reliably attributable to each of the government department's activities and the amounts not attributable to activities;
 - (b) administered expenses, showing separately:
 - (i) each major class of expense; and
 - (ii) in respect of each major class of expense, the amounts reliably attributable to each of the government department's activities and the amounts not attributable to activities;

- (c) **administered assets, showing separately each major class of asset; and**
- (d) **administered liabilities, showing separately each major class of liability.**

[Source for paragraph 6: Based on paragraph 12.9 of AAS 29]

7 AASB 10XZ Disaggregated Disclosures specifies requirements for the disclosure of income and expenses attributable to a government department’s activities. The principles in that Standard are applied in disclosing administered income and expenses reliably attributable to activities in accordance with paragraphs 6(a)(ii) and 6(b)(ii) of this Standard.

[Source for paragraph 7: New paragraph]

8 A government department’s ~~operating income~~ operating income statement only recognises ~~revenues~~ income and expenses of the government department. Similarly, a government department’s ~~statement of financial position~~ balance sheet only recognises assets ~~which that~~ the government department controls and liabilities ~~which that~~ involve a future sacrifice of the government department’s assets.

[Source for paragraph 8: Based on paragraph 12.9.1 of AAS 29]

9 ~~The operating statement, statement of financial position and statement of cash flows included in the general purpose financial report of a government department disclose information about resources controlled by that government department. Items recognised in the statement of financial position balance sheet will include the assets and liabilities of the trusts that the government department controls and can deploy to meet its objectives from whose activities the government department obtains benefits. Information about resources which the government department collects or distributes on behalf of another entity, and resources that the government department has legal custody over but does not control, may be relevant for performance evaluation purposes and can be included as supplementary disclosures in the general purpose financial report. However, such resources should not be recognised in the government department’s operating statement, statement of financial position or statement of cash flows.~~

[Source for paragraph 9: Based on paragraph 5.2.5 of AAS 29]

10 ~~However, t~~The responsibilities of a government department may encompass the levying or collection of taxes, fines and fees, the provision of goods and services at a charge to recipients, and the transfer of funds to eligible beneficiaries. These activities may give rise to revenues ~~income~~ and expenses which that are not attributable to the government department. This occurs, for example, where the government department is unable to use for its own purposes the proceeds of user charges, taxes, fines and fees it collects without further authorisation, or where the transfer of funds to eligible beneficiaries does not involve a reduction in the assets recognised in the government department’s ~~statement of financial position~~ balance sheet. In addition, the government department may manage government assets in the capacity of an agent and may incur liabilities ~~which that~~, for example, while involving a future disbursement from the Consolidated Revenue Fund or other Fund will not involve a sacrifice of the assets that the government department controls as at the reporting date. These administered ~~revenues~~ income, expenses, assets and liabilities are not recognised in the government department’s ~~operating income~~ statement or ~~statement of financial position~~ balance sheet.

[Source for paragraph 10: Based on paragraph 12.9.2 of AAS 29]

11 A government department’s ability to control all, or a portion of, the proceeds of the user charges, fines and fees it levies may be subject to complex arrangements. Consistent with those arrangements, where a government department does not control any of the proceeds of the user charges, fines and fees ~~which that~~ it levies, it does not recognise any of the proceeds of those user charges, fines and fees as ~~revenues~~ income. Similarly,

where, as a result of automatic appropriations or other authority, a government department controls some but not all of the proceeds of user charges, fines and fees, the department recognises as revenuesincome only those amounts ~~which that~~ it controls.

[Source for paragraph 11: Based on paragraph 10.4.2 of AAS 29]

- 12 ~~Items such as taxes, fines, fees and other amounts which the government department collects but does not control are not recognised as assets or revenues in the financial report of the government department. If taxes, fines, fees and other these amounts that are not controlled by a government department were to be recognised as assets or revenues~~income by the collecting government department, users could incorrectly assume that these amounts were available for the government department's use. Nevertheless, this Standard requires information about such taxes and other collections to be disclosed elsewhere in the general purpose financial report of the government department responsible for their collection. This is because such information may be relevant for performance assessments, including assessments of accountability. Even though a government department does not control such items, the effective and efficient administration of these items is an important role of the government department.

[Source for paragraph 12: Based on paragraph 6.3.11 of AAS 29]

- 13 The tax revenues, user charges, fines and fees administered by a government department and the amount of funds transferred to eligible beneficiaries are an important indicator of the government department's performance in achieving its objectives. Therefore, ~~this Standard~~paragraph 6 requires disclosure of revenuesincome and expenses administered by a government department ~~which that~~ are not recognised in the government department's operatingincome statement. Disclosure of this information by major class and by activity ~~will facilitate~~s an assessment of activity costs and cost recoveries, and is therefore relevant to parliamentary decision making and enhances the discharge of accountability obligations. Even though a government department does not control such items, the effective and efficient administration of these items is an important role of the government department. ~~Information about resources~~ Items that the government department collects or distributes on behalf of another entity, and resources that the government department has legal custody over that are neither controlled nor but does not control but are in the nature of administered items, may be relevant for performance evaluation purposes and are included as disclosures in the financial report. are included as other disclosures in the financial report. However, sSuch resources ~~should are not be~~ recognised in the government department's operatingincome statement, statement of financial positionbalance sheet or statement of cash flowsstatement.

[Source for paragraph 13: Based on paragraphs 12.9.3, last sentence of 6.3.11 and last two sentences of 5.2.5 of AAS 29]

Taxes

- 14 It is unlikely that taxes, for example, income tax ~~and sales tax~~, will qualify as revenuesincome of the agency responsible for their collection, for example, the Australian Taxation Office, or the central agency responsible for management of the Consolidated Revenue Fund, Trust Fund or other Fund, for example, Treasury. This is because the agency responsible for collecting taxes does not normally control the future economic benefits embodied in tax collections. Similarly, Treasury may be responsible for bank accounts into which tax collections are deposited, but until parliament has 'appropriated funds' for Treasury use or authorised the Treasury to make payments, the Treasury will not control those tax revenues. ~~Accordingly, user charges, fines and fees which are levied or collected but not controlled by a government department will not be revenues of that government department.~~

[Source for paragraph 14: Based on paragraph 10.5.9 of AAS 29]

- 15 However, ~~p~~Parliamentary appropriations made to enable the tax collection agency to perform its services are ~~revenues~~income of that agency. This is because the agency has the authority to deploy the appropriated funds for the achievement of its objectives and, consequently, controls the assets arising from the appropriation.

[Source for paragraph 15: Based on first two sentences of paragraph 10.5.10 of AAS 29]

Transfer Payments

- 16 ~~Similarly, a~~A government department does not recognise as ~~revenues~~income and expenses ~~those amounts which that~~ the government department is responsible for transferring to eligible beneficiaries, consistent with legislation or other authority, but ~~which that~~ the government department does not control. If these amounts were recognised as ~~revenues~~income on receipt by the government department and as expenses on payment by the government department, users could incorrectly assume that the government department controlled these amounts. Nevertheless, this Standard requires such amounts to be disclosed ~~elsewhere in the general purpose~~ financial report because that information may be relevant to ~~performance assessments for understanding the government department's financial performance, including assessments of accountability.~~ Even though a government department does not control such items, their effective and efficient administration is an important role of the government department. ~~The manner in which administered transactions are to be disclosed is discussed in paragraphs 12.9 to 12.9.6.~~

[Source for paragraph 16: Based on paragraph 6.3.12 of AAS 29]

- 17 Consistent with a government department's objectives and with legislation or other authority, amounts appropriated to government departments may include amounts to be transferred to third parties or recoupment of such amounts previously transferred by the government department. Such transfers may encompass payments for unemployment benefits, family allowances, age and invalid pensions, disaster relief, and grants and subsidies made to other governments or to other government or private sector entities.

[Source for paragraph 17: Paragraph 10.5.11 of AAS 29]

- 18 Whether a government department recognises the amounts appropriated for transfer during the reporting period as ~~revenues~~income, and the amounts transferred during that reporting period as expenses, depends on whether the government department controls the assets to be transferred, and whether the amounts subsequently transferred constitute a reduction in the net assets of the government department.

[Source for paragraph 18: Based on paragraph 10.5.12 of AAS 29]

- 19 Where amounts are transferred to eligible beneficiaries and the identity of the beneficiaries and the amounts to be transferred to them are determined by reference to legislation or other authority, it is unlikely that the government department controls the funds to be transferred. The government department is merely the agent responsible for the administration of the transfer process. As such, the government department does not benefit from the assets held for transfer, nor does it have the capacity to deny or regulate the access of eligible beneficiaries to the assets. Accordingly, the government department does not recognise assets and ~~revenues~~income in respect of amounts appropriated for transfer, nor expenses in respect of the amounts subsequently transferred.

[Source for paragraph 19: Based on paragraph 10.5.13 of AAS 29]

- 20 Although transfers not controlled by a government department do not qualify for recognition in the financial ~~statements~~report, information about their nature and amount is relevant for ~~the assessment of the~~ understanding the government department's financial performance. Therefore, details of the broad categories of recipients and the

amounts transferred to those recipients ~~are~~ should be disclosed in the government department's ~~general purpose~~ financial report.

[Source for paragraph 20: Based on paragraph 10.5.15 of AAS 29]

- 21 In some cases it may not be clear whether the government department controls amounts to be transferred to eligible beneficiaries. For example, amounts may be appropriated to a government department for subsequent transfer, but the government department can exercise significant discretion in determining the amount or timing of payment, the identity of beneficiaries and the conditions under which the payments are to be made. In such cases, preparers and auditors use their judgement in deciding whether the government department controls the amounts to be transferred.

[Source for paragraph 21: Paragraph 10.5.16 of AAS 29]

Accounting Basis

- 22 To facilitate the assessment of the costs incurred and the cost recoveries generated as a result of the government department's activities, administered ~~revenues~~ income, expenses, assets and liabilities are reported on the same basis adopted for the recognition of the elements of the financial report. ~~That is, they are accounted for using the accrual basis of accounting and by adopting the accounting standards required to be adopted by this Standard.~~ In some jurisdictions, this may mean that the basis adopted by a government department for reporting administered items may differ from the basis adopted by the government itself.

[Source for paragraph 22: Based on paragraph 12.9.6 of AAS 29]

Display of information about administered items

- 23 The manner in which administered transactions are displayed in the financial report of a government department will depend on the administrative arrangements adopted by the controlling government, and may therefore vary from jurisdiction to jurisdiction. For example, in some jurisdictions it may be appropriate for administered transactions to be displayed as a separate schedule to the operating income statement and/or the statement of financial position balance sheet, in accordance with the illustrative financial report set out in the Appendix to this Standard. In other jurisdictions, a government department's accountability for administered transactions may mean that it is appropriate for administered transactions to be displayed with, but clearly distinguishable from, the government department's operating income statement and/or statement of financial position balance sheet.

[Source for paragraph 23: Based on paragraph 12.9.5 of AAS 29]

AASB 10XY

LAND UNDER ROADS – TRANSITIONAL REQUIREMENTS

AASB 10XY *Land Under Roads – Transitional Requirements* contains requirements relating to reporting of land under roads by local governments, government departments and governments. A clean copy of the proposed text for the new Standard is presented below.

Objective

- 1 The objective of this Standard is to specify the reporting requirements for financial reporting of *land under roads* by local governments, government departments and governments and facilitate the transition of accounting for land under roads into AASB 116 *Property, Plant and Equipment* once the transitional relief for the recognition of land under roads lapses.

Application

- 2 This Standard applies to general purpose financial reports of local governments, government departments and governments.
- 3 This Standard applies to annual reporting periods beginning on or after 1 July 2008.
- 4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2008, provided there is early adoption for the same annual reporting period of any amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.
- 5 When applicable, this Standard supersedes:
 - (a) AAS 27A *Amendments to the Transitional Provisions in AAS 27* issued in December 1999;
 - (b) AAS 29A *Amendments to the Transitional Provisions in AAS 29* issued in December 1999;
 - (c) AAS 31A *Amendments to the Transitional Provisions in AAS 31* issued in December 1999; and
 - (d) AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A* issued in October 2002, as amended by AASB 2006-3 *Amendments to Accounting Standards* issued in October 2006.

Land Under Roads Transitional Requirements

- 6 An entity may elect until the end of the first reporting period ending on or after 31 December 2007 not to recognise land under roads as assets.
- 7 The purpose of the transitional provision for land under roads in paragraph 6 is to provide an adequate period within which interested parties can address concerns about the reliable measurement of land under roads. Once the transitional provisions in paragraph 6 lapse, the general principles in AASB 116 will apply.
- 8 Where an entity elects not to recognise land under roads in accordance with paragraph 6, it shall disclose that policy in the summary of accounting policies.
- 9 Where an entity:

- (a) elects not to recognise land under roads in accordance with paragraph 6 and then subsequently recognises that asset; or
- (b) derecognises land under roads in order to adopt the transitional provision in paragraph 6;

the corresponding adjustment shall be made against accumulated surplus (deficiency). Where paragraph 9(a) is applied, if subsequently the recognised amounts of land under roads are revised during the transitional period to reflect a reassessment of the factors used to determine those recognised amounts, the net amount of the resultant adjustments shall be made against accumulated surplus (deficiency) in the reporting periods in which the recognised amounts are revised.

- 10 The nature and net amount of each adjustment made in accordance with paragraph 9 during the reporting period shall be disclosed in a note in the financial report.

[Source for paragraphs 6-10: Based on AAS 27A, 29A and 31A]

- 11 Where an entity recognises and measures land under roads at the time or before the transitional provision in paragraph 6 lapses, but after the entity's first-time adoption of Australian equivalents to International Financial Reporting Standards (IFRSs), the entity may, in relation to land under roads, elect to adopt the fair value or revaluation as deemed cost exemptions contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, as if it were adopting Australian equivalents to IFRSs for the first time.

- 12 Paragraph 11 enables an entity, after its first-time adoption of Australian equivalents to IFRSs but before or at the time the transitional provision in paragraph 6 lapses, to elect to:

- (a) measure the fair value of land under roads and use that fair value as the deemed cost;
- (b) use an earlier AASB 1041 *Revaluation of Non-Current Assets* revaluation of land under roads as its deemed cost; or
- (c) use an earlier deemed cost of land under roads established from an event-driven fair value measurement, as its deemed cost.

[Source for paragraphs 11 and 12: Based on the relief contained in paragraphs 16, 17 and 19 of AASB 1]

Definition

land under roads: land under roadways, and road reserves, including land under footpaths, nature strips and median strips.

[Source for definition: Based on paragraph 12 of AAS 27 and paragraph 17.1 of AAS 29]

AASB 10XZ

DISAGGREGATED DISCLOSURES

AASB 10XZ *Disaggregated Disclosures* contains the text from AAS 27 *Financial Reporting by Local Governments* and AAS 29 *Financial Reporting by Government Departments* relating to reporting of disaggregated information by local governments and government departments. A marked-up copy of the text of the paragraphs originally from AAS 27 and 29 is presented in paragraphs 9 to 18.

Objective

- 1 The objective of this Standard is to establish principles for reporting:
 - (a) financial information by function or activity by local governments; and
 - (b) financial information about service costs and achievements by government departments.
- 2 Information about the different types of functions or activities of a local government or service costs and achievements of a government department helps users of financial reports:
 - (a) better understand the entity's past performance; and
 - (b) make more informed judgements about the entity as a whole.

Disclosures made in accordance with this Standard provide users with information relevant to assessing the performance of a local government or government department, including accountability for resources entrusted to it.

Application

- 3 **Paragraphs 9 to 12 of this Standard apply to general purpose financial reports of local governments.**
- 4 **Paragraphs 13 to 18 of this Standard apply to general purpose financial reports of government departments.**
- 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 before 1 July 2008, provided there is early adoption for the same annual reporting period of any amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.**
- 7 This Standard does not specify disaggregated disclosure requirements for governments. The requirements for disaggregated disclosures for governments are contained in the Standard to be developed from ED 155 *Financial Reporting by Whole of Governments*.²
- 8 **When applicable, this Standard supersedes paragraphs 86 to 89 of AAS 27 *Financial Reporting by Local Governments* as issued in June 1996 and**

² The Board is aiming to finalise its short-term review of AAS 31 to coincide with the issue of the Standard arising from the GAAP/GFS Harmonisation project on whole of government reporting. If both projects are able to be progressed as scheduled it will not be necessary for the proposed new Standard AASB 10XZ to apply to governments because the Standard arising from ED 155 will address disaggregated disclosure requirements for governments.

paragraphs 12.7 to 12.7.4 of AAS 29 *Financial Reporting by Government Departments* as issued in June 1998.

Classification According to Function or Activity by Local Governments

Paragraphs 9 to 12 apply only to local governments.

- 9 **~~In respect of each broad function or activity of the local government, the general purpose~~ The financial report of a local government shall disclose in respect of each broad function or activity:**
- (a) **by way of note:**
 - (i) **the nature and objectives of that function/activity; and**
 - (ii) **the carrying amount of assets ~~which~~ that are reliably attributable to that function/activity; and**
 - (b) **by way of note or otherwise:**
 - (i) **income revenues for the reporting period ~~which are~~ that is reliably attributable to that function/activity, with component revenues from related grants disclosed separately as a component thereof; and**
 - (ii) **expenses for the reporting period ~~which~~ that are reliably attributable to that function/activity.**
- 10 **The information provided by way of note in accordance with paragraph 9 shall be aggregated and reconciled to agree with the related information in the financial statements of the local government.**
- 11 This Standard requires disclosure of information about the assets, ~~revenues~~ income and expenses of the local government according to the broad functions or activities of the local government, whether they be related to service delivery or undertaken for commercial objectives. Disclosure of this information assists users in identifying the resources committed to particular functions/activities of the local government, the costs of service delivery ~~which~~ that are reliably attributable to those functions/activities, and the extent to which the local government has recovered those costs from ~~income~~ revenues ~~which~~ that is are reliably attributable to those functions/activities. Function/activity classification of financial information will also assist users in assessing the significance of any financial or non-financial performance indicators reported by the local government.
- 12 ~~AASB 114 *Segment Reporting* 16 "Financial Reporting by Segments" and AASB 8 *Operating Segments* is~~ are not applicable to local governments. The bases considered appropriate for identifying broad functions or activities of local governments would not necessarily accord with the criteria for identification of segments contained in ~~that~~ those Standards. However, preparers of financial reports may find that the guidance contained in ~~that~~ those Standards is useful in identifying the ~~revenues~~ income, expenses and assets ~~which~~ that are reliably attributable to the broad functions or activities of the local government. ~~An example of the disclosures required in respect of the broad functions or activities of the local government is provided in the illustrative general purpose financial report in Appendix 1 to this Standard.~~

[Source for paragraphs 9-12: Based on paragraphs 86-89 of AAS 27]

Disclosure of Service Costs and Achievements by Government Departments

Paragraphs 13 to 18 apply only to government departments.

- 13 ~~The following must be disclosed in the general purpose financial report of a government department~~ **shall disclose:**
- (a) **in summarised form, the identity and purpose of each major activity undertaken by the government department during the reporting period;**
 - (b) **if not otherwise disclosed in, or in conjunction with, the government department's general purpose financial report, a summary of the government department's objectives;**
 - (c) **expenses reliably attributable to each of the activities identified in (a) above, showing separately each major class of expenses; and**
 - (d) **~~income~~ revenues reliably attributable to each of the activities identified in (a) above, showing separately user charges, ~~income~~ revenues from government and other ~~income~~ revenues by major class of ~~income~~ revenues.**
- 14 Government departments are required to achieve service delivery as well as financial objectives. Accordingly, a government department's performance is assessed by reference to the effectiveness, economy and efficiency with which the government department achieves its service delivery and financial objectives. Financial information is therefore only a subset of the information necessary to enable an adequate assessment of a government department's performance. Accordingly, the ~~general purpose financial report is presented as part of an annual report which that~~ discloses information about such matters as the government department's objectives and service delivery achievements during the reporting period. To enhance the quality of information available for assessing performance, ~~this Standard paragraph 13~~ requires that a summary of the government department's objectives be disclosed in the financial report where the government department's annual report does not include this disclosure.
- 15 ~~This Standard Paragraph 13~~ also requires disclosure of information about the expenses and ~~revenues income~~ attributable to the major activities of a government department for the reporting period, ~~and encourages~~ ~~the disclosure of the assets deployed and liabilities incurred in relation to those activities shall also be provided.~~ This information is relevant in assessing the effectiveness, efficiency and economy of operations and of resource allocation decisions. It is also necessary for reviewing existing expenditure commitments and service delivery arrangements, and for considering the long-term funding implications of new initiatives.
- 16 However, in some instances it may not be possible to reliably attribute all expenses and ~~revenues income~~ to each of the major activities of a government department. ~~This Standard Paragraph 13~~ requires that the ~~general purpose financial report of a government department only disclose, on an activity by activity basis, information about the expenses and revenues which income that can be reliably attributed to major activities.~~

Identifying Major Activities of Government Departments

- 17 Judgement is required to identify those activities of a government department ~~which that~~ warrant separate disclosure in the ~~general purpose financial report~~. Exercising this judgement involves a consideration of the following:
- (a) the objectives of the government department;

- (b) the likely users of the general purpose financial report;
- (c) the activity level that may be relevant to users' assessments of the performance of the government department; and
- (d) the concept of materiality as set out in the ~~Statement of Accounting Concepts SAC 3 'Qualitative Characteristics of Financial Information' and in Australian Accounting Standard AAS 5 'Materiality'~~Framework for the Preparation and Presentation of Financial Statements and AASB 1031 Materiality.

[Source for paragraphs 13-17: Based on paragraphs 12.7-12.7.4 of AAS 29]

- 18 AASB 10XX Administered Items also contains requirements relating to the disclosure of administered income and expenses attributable to a government department's activities. The principles in this Standard are used in satisfying the requirements in AASB 10XX.

[Source for paragraph 18: New paragraph]

PROPOSED AMENDMENTS TO EXISTING STANDARDS

AMENDMENTS TO AASB 3

BUSINESS COMBINATIONS

The AASB proposes to amend the Appendix A of AASB 3 *Business Combinations*, via an amending Standard, so far as it relates to the definition of reporting entity.

It is proposed that the amendments to AASB 3 are applicable to annual reporting periods beginning on or after 1 July 2008, and that early adoption is permitted, provided there is early adoption for the same annual reporting period of all other amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.

The proposed amendments are as follows (shown in marked-up text):

reporting entity An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial report for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

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.

local government An entity comprising all entities controlled by a governing body elected or appointed pursuant to a Local Government Act or similar legislation.

government department A government controlled entity, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it.

AMENDMENTS TO AASB 116

PROPERTY, PLANT AND EQUIPMENT

The AASB proposes to amend AASB 116 *Property, Plant and Equipment*, via an amending Standard, to specifically mention infrastructure, cultural and heritage assets and to provide Australian Guidance relating to depreciation and fair valuation of heritage assets.

It is proposed that the amendments to AASB 116 are applicable to annual reporting periods beginning on or after 1 July 2008, and that early adoption is permitted, provided there is early adoption for the same annual reporting period of all other amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.

A clean copy of the proposed text for the amendments is presented:

Aus6.2 Examples of property, plant and equipment held by not-for-profit public sector entities include but are not limited to infrastructure, cultural, community and heritage assets.

AUSTRALIAN IMPLEMENTATION GUIDANCE TO ACCOMPANY AASB 116

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

- G1. In accordance with paragraphs 7(b), 15 and Aus15.1 of AASB 116 only those heritage 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 asset. Heritage 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 asset.
- G2. Of those heritage assets that satisfy the reliable measurement criterion for initial recognition purposes, paragraph 29 of AASB 116 permits, but does not require, revaluation.
- G3. Furthermore, given the nature of many heritage assets that meet the recognition criteria, those assets may have unlimited 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.

AMENDMENTS TO AASB 127

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The AASB proposes to amend AASB 127 *Consolidated and Separate Financial Statements*, via an amending Standard, to integrate the current paragraphs on control of entities from AAS 31 *Financial Reporting by Governments* as Aus paragraphs into AASB 127 and to amend the ‘Comparison with International Pronouncements’ statement that accompanies AASB 127.

A clean copy of the proposed text for the ‘Comparison with International Pronouncements’ statement and amended guidance for AASB 127 relating to control in the public sector (paragraphs Aus13.1-Aus 13.10) is presented below.

Amendments to the ‘Comparison with International Pronouncements’ statement that accompanies AASB 127

The paragraph immediately following the sub-heading ‘Compliance with IAS 27’ in the ‘Comparison with International Pronouncements’ statement accompanying AASB 127 is changed as follows:

Compliance with IAS 27

Entities other than governments, government agencies or local governments that comply with AASB 127 will simultaneously be in compliance with IAS 27. Governments, government agencies or local governments using the added Aus paragraphs may not be simultaneously complying with IAS 27.

Scope of Consolidated Financial Statements

Paragraphs 12 and 13 of AASB 127 are presented below so that the proposed amended Aus paragraphs can be read in the context of the existing Standard. They are shaded to differentiate them from the amended paragraphs.

12 Consolidated financial statements shall include all subsidiaries of the parent.³

Factors Indicating Control

13 Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:⁴

- (a) power over more than half of the voting rights by virtue of an agreement with other investors;**
- (b) power to govern the financial and operating policies of the entity under a statute or an agreement;**
- (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or**

³ If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be accounted for in accordance with that Standard.

⁴ See also Interpretation 112 *Consolidation – Special Purpose Entities*, as identified in AASB 1048 *Interpretation and Application of Standards*.

- (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Replace Aus13.1-Aus13.5 of AASB 127 with the following:

It is proposed that the following paragraphs are applicable to annual reporting periods beginning on or after 1 July 2008, and that early adoption is permitted, provided there is early adoption for the same annual reporting period of all other amending, revised or new Standards necessary to implement the proposals arising from this Exposure Draft.

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 reports. 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, in the preparation of financial reports, 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 State or Federal 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 report of the relevant government.

[Source for paragraphs Aus13.1-Aus13.10: Merging of paragraphs Aus13.1-Aus13.5 of AASB 127 and paragraphs 9.1-9.1.9 of AAS 31]

AMENDMENTS TO AASB 137

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The AASB proposes to amend AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, via an amending Standard, to add new Aus paragraphs and a new 'Compliance with IAS 37' statement to scope out the obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent from AASB 137.

It is proposed that the amendments to AASB 137 are applicable to annual reporting periods beginning on or after 1 July 2008, and that early adoption is permitted, provided there is early adoption for the same annual reporting period of all other amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.

A clean copy of the proposed text for the amendments is presented.

The AASB proposes to add the following new Aus paragraphs to AASB 137:

Aus9.1 Notwithstanding paragraph 1 [of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*], in respect of not-for-profit public sector entities, obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent are excluded from the scope of this Standard [AASB 137].

Aus9.2 The exclusion from the application of this Standard [AASB 137] of obligations arising from local government and government existing public policies, budget policies, election promises and statements of intent is not intended to achieve a different result, in terms of the recognition of liabilities, from the practice followed by not-for-profit public sector entities at the date of introduction of paragraph Aus9.1 above. These obligations raise issues for financial reporting that require further research. Therefore, until further progress has been made in this regard, such obligations are excluded from the scope of this Standard [AASB 137].

Compliance with IAS 37

The paragraph immediately following the sub-heading 'Compliance with IAS 37' in the 'Comparison with International Pronouncements' statement accompanying AASB 137 will be deleted, and replaced with the following:

For-profit entities (except for for-profit government departments) and not-for-profit private sector entities that comply with AASB 137 will simultaneously be in compliance with IAS 37. Not-for-profit public sector entities and for-profit government departments using the added Aus paragraphs in the Standard that scope out obligations arising from local government and government existing public policies, budget policies, election promises and statements of intent may not be simultaneously complying with IAS 37. Whether a not-for-profit public sector entity or a for-profit government department will be in compliance with IAS 37 will depend on the accounting policies applied to the obligations arising from local government and government existing public policies, budget policies, election promises and statements of intent.

REVISED AASB 1004

CONTRIBUTIONS

The AASB proposes to issue a revised AASB 1004 *Contributions* to include the material related to contributions from AASs 27, 29 and 31 in a separate section by amending paragraphs 1 to 7 and the Appendix and adding paragraphs 14 to 64 to the Standard.

Explanation of mark-up conventions for AASB 1004 and source information for each paragraph to be included in the revised Standard

Paragraphs 1-13 (except paragraphs 1.1-1.3) below are the existing text from paragraphs 1-15 of AASB 1004 and are presented here to enable the proposed new paragraphs from AASs 27, 29 and 31 to be read in the context of the existing Standard. They are shaded to differentiate them from the proposed new paragraphs. Paragraphs 1-7 of AASB 1004 are presented marked-up for proposed changes to the application clauses consequent to the proposed amendments. No changes are proposed to paragraphs 8-15 (except their numbering, which would change to 6-13).

Paragraphs 14-25 merge paragraphs transferred from AASs 27, 29 and 31 and are presented as clean text.

Paragraphs 26-42 are based on paragraphs originally from AAS 29 and are presented as clean text.

Paragraphs 43-49 merge paragraphs transferred from AASs 27, 29 and 31 and are presented as clean text.

Paragraphs 50-55 are new requirements and are presented as clean text.

Paragraphs 56-58 merge paragraphs transferred from AASs 27, 29 and 31 and are presented as clean text.

Paragraphs 59-64 are based on paragraphs transferred from AAS 29 and are presented as clean text.

Appendix of Defined Terms: unamended from AASB 1004, except the inclusion of a new definition 'restructure of administrative arrangements' presented in clean text.

Application

1 Subject to paragraphs 1.1 to 1.3, ~~This Standard applies to:~~

- (a) each not-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 reports of each other not-for-profit entity that is a reporting entity; and
- (c) financial reports of not-for-profit entities that are, or are held out to be, general purpose financial reports.

1.1 Paragraphs 26 to 38 and 59 to 64 only apply to general purpose financial reports of government departments that are reporting entities.

1.2 Paragraphs 14 to 25, 39 to 49 and 56 to 58 only apply to general purpose financial reports of local governments, government departments that are reporting entities, and governments.

1.3 Paragraphs 50 to 55 only apply to general purpose financial reports of government controlled not-for-profit entities and for-profit government departments that are reporting entities.

1.4 The following table summaries the types of entities to which particular paragraphs apply:

Type of entity to which the paragraph is applicable	Content of paragraphs	Para No.
Not-for-profit entities	Measurement of contributions	6
	Recognition of contribution of assets	7-10
	Liabilities forgiven	11-12
	Disclosures	13
Government controlled not-for-profit entities and for-profit government departments	Restructure of administrative arrangements	50-55
Local governments, government departments and governments	Recognition of contributions other than contributions by owners	14-25
	Contributions of services	39-42
	Contributions by owners and distributions to owners	43-49
	Disclosure of contributions	56-58
Government departments	Taxes collected by government departments	26
	Parliamentary appropriations	27-33
	Liabilities of government departments assumed by other entities	34-38
	Government department disclosures	59
	Compliance with parliamentary appropriations and other externally imposed requirements	60-64

2 This Standard applies to annual reporting periods beginning on or after ~~1 January 2005~~ 1 July 2008.

3 This Standard ~~shall not~~ may be applied to annual reporting periods beginning on or after 1 January 2005 but before ~~1 January 2005~~ 1 July 2008, provided there is

early adoption for the same annual reporting period of any amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.

4 The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

5 When ~~applicable~~ ~~applied or operative~~, this Standard supersedes:

~~(a) AASB 1004 *Revenue* as notified in the *Commonwealth of Australia Gazette* No S 283, 17 June 1998; and~~

~~(a) AASB 1004 *Contributions* as notified in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004;~~

~~(b) AAS 15 *Revenue* as issued in June 1998.~~

~~(b) paragraphs 59 to 70 and paragraphs 92 and 93 of AAS 27 *Financial Reporting by Local Governments*;~~

~~(c) paragraphs 7.4, 7.4.2, 8.2 to 8.2.1, 8.2.3 to 8.2.5, 10.5, 10.5.1, 10.5.4 to 10.5.7, 10.5.9 to 10.5.10 to the extent that these paragraphs refer to contributions or related matters, 10.5.17, 10.6 to 10.12.9, 11.1 to 11.2.4, 12.2, 12.4 to 12.4.1, 12.6 to 12.6.4 of AAS 29 *Financial Reporting by Government Departments*; and~~

~~(d) Section 14 and paragraph 15.2.1 of AAS 31 *Financial Reporting by Governments*.~~

~~6. Both AASB 1004 and AAS 15 remain applicable until superseded by this Standard.~~

~~7. Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.~~

Measurement of Contributions

6 8. Income shall be measured at the fair value of the *contributions* received or receivable.

Recognition of Contributions of Assets

7 9. Income arising from the contribution of an asset to the entity shall be recognised when, and only when, all the following conditions have been satisfied:

~~(a) the entity obtains control of the contribution or the right to receive the contribution;~~

~~(b) it is probable that the economic benefits comprising the contribution will flow to the entity; and~~

~~(c) the amount of the contribution can be measured reliably.~~

~~8~~ 10. A contribution occurs when an entity receives an asset, including the right to receive cash or other forms of asset without directly giving approximately equal value to the other party or parties to the transfer; that is, when there is a *non-reciprocal transfer*. Contributions would, for example, include donated assets. Contributions that are income exclude *contributions by owners*.

~~9~~ 11. In some cases it may be difficult to determine whether the entity has control of a contribution or the right to receive a contribution. One such case could be economic

benefits expected to be received under a multi-year public policy agreement. The entity does not obtain control of a contribution under such an agreement until it has met conditions or provided services or facilities that make it eligible to receive a contribution. On this basis, under multi-year public policy agreements, income would be recognised only in relation to contributions received or receivable under policy agreements. Another example is where a donor pledges a donation to an entity. If the pledge is not enforceable against the donor, the entity does not control the contribution.

- 10 12. In some cases it may be difficult to determine whether the entity is giving approximately equal value to the other parties to a transfer. This is particularly the case where, for example, fees are charged by a not-for-profit entity for the potential use of a general pool of facilities. In circumstances where clubs and professional associations charge fees in return for contributors being able to enjoy the use of facilities, receive publications or practice in a particular vocation for a defined period, an exchange transaction can be presumed and the fees would not be treated as contributions. The recipient of the fees would have a contractual or constructive obligation to refund some or all fees if it were unable to provide the facilities or services. In circumstances where the benefits to contributors are only nominal, such as acknowledgment letters, general information about the entity's activities and satisfaction of contributors' altruistic goals, the fees are in the nature of contributions.

Liabilities Forgiven

- 11 13. **The gross amount of a liability forgiven by a credit provider shall be recognised by the borrower as income.**

- 12 14. Where equity is substituted for a liability, this is not treated as a forgiveness.

Disclosures

- 13 15. **The following information shall be disclosed:**

- (a) contributions of assets, including cash and non-monetary assets; and**
- (b) the forgiveness of liabilities.**

Recognition of Contributions, other than Contributions by Owners, by Local Governments, Government Departments or Governments

Paragraphs 14 to 25 of this Standard apply only to local governments, government departments and governments.

Contributions

- 14 Contributions, other than contributions by owners, to a local government, government department or government are received in the form of involuntary transfers, such as rates, taxes and fines, and voluntary transfers, such as grants and donations. In the case of government departments, parliamentary appropriations, other than those that give rise to a liability or that are in the nature of a contribution by owners, may also be a type of contribution.
- 15 This Standard requires contributions, other than contributions by owners, to be recognised as income when the transferee local government, government department or government obtains control over them, irrespective of whether conditions are imposed on the use of the contributions. The transferee does not have a present obligation to sacrifice future economic benefits to the transferor, even though the transferee has a fiduciary responsibility to use the assets effectively and efficiently in pursuing its objectives. This fiduciary responsibility pertains to all assets and does not, of itself, create a present obligation to make sacrifices of future economic benefits to external parties. Accordingly, the receipt of contributions does not give rise to a liability.
- 16 For transfers to a local government, government department or government to create a present obligation on that entity to make future sacrifices of economic benefits to external parties, the transfers must be reciprocal. Where assets are provided on the condition that the local government, government department or government is to make a reciprocal transfer of economic benefits, and that transfer has not occurred prior to the reporting date, a liability is recognised as at the reporting date in respect of such amounts.

[Source for paragraphs 14 and 15 and first sentence of paragraph 16: Merging of contents of paragraphs 60, 64-65 of AAS 27, paragraphs 10.12.1-10.12.3 of AAS 29 and paragraph 14.1.1 of AAS 31; Source for second sentence of paragraph 16: Merging of contents of paragraph 67 of AAS 27 and paragraph 10.12.4 of AAS 29]

- 17 Reciprocal transfers are transfers in which the transferor and transferee directly receive and sacrifice approximately equal value. Examples of reciprocal transfers are sales of goods and services, the provision of loan funds, and the provision of employee services. A reciprocal transfer also occurs where, for example, assets are provided to a government department on the condition that the government department renders particular services to the transferor of the assets and, if the services are not rendered, those assets are required to be remitted directly to the transferor. Another example of a reciprocal transfer is where a user charge is provided to a local government in advance for repairs to a private road, where the charge would be repayable directly to the provider or providers if the works were not performed.
- 18 For a transaction to be reciprocal, the transferor must have a right to receive the benefits directly. It is not sufficient that the transferor receives benefits indirectly as a result of the transfer. For example, when a government provides a grant to a local government, it does not receive value directly in exchange, although it (or those it represents) would indirectly receive a benefit as a result of the local government deploying the grant in providing goods or services to beneficiaries that the grantor government represents.

[Source for paragraphs 17 and 18: Merging of contents of paragraph 61 of AAS 27, paragraphs 10.12.2 and 10.12.4 of AAS 29 and paragraphs 14.1.8 and 14.1.9 of AAS 31]

- 19 While involuntary transfers to local governments, government departments and governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. The receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. For this reason, involuntary transfers are non-reciprocal transfers.

[Source for paragraph 19: Merging of paragraph 62 of AAS 27 and paragraph 14.1.10 of AAS 31]

- 20 There could be instances where a transfer of economic benefits comprises a reciprocal component and a non-reciprocal component. For example, where another entity transfers a building to a local government, government department or government at a price that intentionally is significantly lower than its fair value, the transfer is in part reciprocal (to the extent that approximately equal value is received directly in exchange) and in part non-reciprocal. In this circumstance, because a reciprocal transaction is involved, any unsatisfied obligation to provide consideration in return for the building is a liability of the local government, government department or government.

[Source for paragraph 20: Based on paragraph 14.1.11 of AAS 31]

- 21 If a local government, government department or government failed to meet the specific conditions attaching to a contribution of assets and part or all of the contribution is required to be repaid, a liability and an expense would need to be recognised for the amount payable. In this circumstance, the transferee has a present obligation to the transferor that has arisen as a result of a past event: the failure of the transferee to meet the conditions for retention of the contribution.

[Source for paragraph 21: Merging of contents of paragraph 69 of AAS 27, paragraph 10.12.7 of AAS 29 and paragraph 14.1.4 of AAS 31]

Control over Assets

- 22 Control of amounts in the nature of voluntary transfers arises when the transferee can benefit from funds transferred to it and deny or regulate the access of others to those benefits. Therefore, control arises when, for example, government departments can use funds granted or transferred to purchase goods and services or retain those funds for future purchases.

[Source for paragraph 22: Based on paragraph 10.5.5 of AAS 29]

- 23 The timing of gaining control over assets acquired from voluntary non-reciprocal transfers, such as grants and donations, depends upon the arrangements between the transferor and the transferee. For example, where a State Government receives a single-year grant from the Commonwealth Government to provide services in the following reporting period, the State Government obtains control over the grant when the grant eligibility criteria have been satisfied or the services or facilities under the grant agreement (if any) have been provided, which may coincide with the date of its receipt. This is because when the State Government satisfies grant eligibility criteria or provides services or facilities under any grant agreement, it has the capacity to benefit from the grant and can deny or regulate the access of others to it. Correspondingly, in this circumstance, the Commonwealth Government would recognise an expense at the same time.
- 24 In the case of multi-year grant agreements from a government to another level of government or a government department, the transferee government or government

department does not control the contributed assets, and therefore should not recognise revenues, until the transferor government has a present obligation that is binding. For example, the transferee government or government department does not gain control of assets under a multi-year public policy grant agreement until it has met conditions such as grant eligibility criteria or provided the services or facilities that make it eligible to receive a contribution. On this basis, under multi-year public policy agreements, income would be recognised only in relation to grants received or receivable under any grant agreement.

[Source for paragraphs 23 and 24: Merging of contents of paragraph 10.12.5 of AAS 29 and paragraphs 14.1.6 and 14.1.7 of AAS 31]

- 25 Control over assets acquired from involuntary non-reciprocal transfers, such as rates, taxes and fines, is obtained when the underlying transaction or other event giving rise to control of the future economic benefits occurs. For example, taxes are recognised when the underlying transaction or event that gives rise to the government's right to collect the tax occurs and can be measured reliably. In some cases an inability to reliably measure taxes when the underlying transactions or events occur means that they may need to be recognised at a later time. In most cases, taxes will be recognised in the reporting period in which the tax assessments are due to be issued or during which the tax collections are received. For this reason, the disclosure of policies adopted for recognising taxes will enhance the understandability and comparability of information relating to them. Where the transfers arise from a periodical charge, such as a land tax, a government obtains control over the assets on the day on which the government becomes entitled to levy the land tax. Control over assets acquired from local government rates would be obtained at the commencement of the rating period or, where earlier, upon receipt.

[Source for paragraph 25: Merging of contents of paragraph 68 of AAS 27, paragraph 10.5.10 of AAS 29 and paragraphs 14.1.5 and 15.2.1 of AAS 31]

Taxes Collected by Government Departments and Parliamentary Appropriations to Government Departments

Paragraphs 26 to 33 of this Standard apply only to government departments.

Taxes collected by government departments

- 26 It is unlikely that taxes, for example, income tax, will qualify as income of the agency responsible for their collection. This is because the agency responsible for collecting taxes does not normally control the future economic benefits embodied in tax collections (see AASB 10XX *Administered Items*). Taxes are recognised when the definition of, and recognition criteria for, income is met. Accordingly, taxes which are controlled by the tax collection agency and which satisfy the recognition criteria for income specified in paragraph 7 of this Standard qualify for recognition as income in the reporting period during which control is obtained. This means that taxes are treated in the same manner as described in paragraph 25.

[Source for paragraph 26: Based on paragraph 10.5.9 of AAS 29]

Parliamentary appropriations to government departments

- 27 **Parliamentary appropriations over which a government department gains control during the reporting period shall be recognised as:**
- (a) **income of that reporting period where the appropriation:**
 - (i) **satisfies the definition of income in the *Framework for the Preparation and Presentation of Financial Statements (the Framework)*; and**

- (ii) satisfies the recognition criteria for income;
- (b) a direct adjustment to equity where the appropriation satisfies the definition of a contribution by owners; or
- (c) a liability of the government department where the appropriation:
 - (i) satisfies the definition of liabilities in the *Framework*; and
 - (ii) satisfies the recognition criteria for liabilities in the *Framework*.

[Source for paragraph 27: Based on paragraph 10.5 of AAS 29]

28 Parliamentary appropriations may be designated as recurrent appropriations, capital or works and services appropriations or other appropriations. Irrespective of the designation given to a parliamentary appropriation, its recognition as income, a contribution by owners or a liability requires an evaluation of the characteristics of the parliamentary appropriation by reference to the definitions of income, contributions by owners and liabilities. This ensures that the substance, rather than the form, of the parliamentary appropriation is reported.

[Source for paragraph 28: Based on paragraph 10.5.1 of AAS 29]

Parliamentary Appropriations as Income

- 29 The parliamentary appropriation process currently adopted in some jurisdictions in Australia is such that government departments do not gain control of funds appropriated for their use until obligations are incurred or expenditures are made by the government department. In these jurisdictions, appropriations recognised as income are in the nature of a recovery of costs incurred for the acquisition of goods and services or for amounts otherwise expended. As such, a government department usually only controls amounts appropriated by parliament for its use during the reporting period where those amounts have been expended or are required to meet obligations incurred during that reporting period.
- 30 However, the nature of parliamentary appropriations, and the circumstances that give rise to a government department's control of such appropriations, can vary across different jurisdictions in Australia, and may vary for different types of appropriations within a particular jurisdiction. In addition, a government department's authority and ability to maintain separate bank accounts and to retain funds that have been appropriated for its use but that have not been expended during a reporting period can change over time. Similarly, the nature and content of appropriation legislation, the manner in which government departments' activities are funded, and the mechanisms by which parliament and the government ensure that the government departments' use of public funds is appropriate and consistent with government priorities as sanctioned by parliament, can change over time. These changes can affect a government department's ability to control amounts appropriated for its use. Accordingly, the extent to which amounts appropriated for a government department's use are recognised as income of a particular reporting period is determined by reference to the characteristics of the appropriation process and the circumstances in which the government department obtains control of appropriated amounts.
- 31 Where the nature of parliamentary appropriations is such that a government department's control over appropriations is not dependent on expenditure or the incurrence of obligations or the completion of agreed outputs, services or facilities, the government department's control of the appropriated amounts occurs at the earliest of:
- (a) the commencement of the period to which the appropriation applies;
 - (b) the receipt of the appropriated funds; and

- (c) the date on which the government department's authority to expend appropriated funds becomes effective.

[Source for paragraphs 29-31: Based on paragraphs 10.5.6 and 10.5.7 of AAS 29]

- 32 Where a government department controls amounts appropriated to it for transfer to other parties, those amounts give rise to assets and income when the government department gains control of those appropriations. Where a government department controls the appropriations and the conditions for transfer to beneficiaries are satisfied during the reporting period but the amounts have not been transferred as at the reporting date, the government department recognises a liability in respect of such amounts. Where amounts are to be transferred in future reporting periods and the conditions for transfer are also to be satisfied in future reporting periods, the government department does not recognise a liability as at the reporting date in respect of such amounts.

[Source for paragraph 32: Based on paragraph 10.5.17 of AAS 29]

- 33 Parliamentary appropriations made to enable a tax collection agency to perform its services are income of that agency. This is because the agency has the authority to deploy the appropriated funds for the achievement of its objectives and, consequently, controls the assets arising from the appropriation.

[Source for paragraph 33: Based on paragraph 10.5.10 of AAS 29]

Liabilities of Government Departments Assumed by Other Entities

Paragraphs 34 to 38 of this Standard apply only to government departments.

- 34 **A liability of a government department that is assumed by the government or other entity shall be accounted for as follows:**
- (a) **on initial incurrence of the liability by the government department, the government department shall recognise a liability and an expense;**
 - (b) **on assumption of the liability by the government or other entity, the government department shall extinguish the liability and:**
 - (i) **when the assumption is not in the nature of a contribution by owners, the government department shall recognise income of an amount equivalent to the liability assumed; or**
 - (ii) **when the assumption of the liability is in the nature of a contribution by owners, the government department shall make a direct adjustment to equity of an amount equivalent to the liability assumed.**
- 35 The obligation to make payments to employees in respect of long-service leave and other employee benefits may rest with the government, a central agency or other entity. However, the costs of long-service leave and other employee benefits are part of the cost of the goods and services provided by the government department for which those employees work. Employment contracts or employment arrangements may be such that a government or other entity, rather than the government department, directly incurs the obligation to settle liabilities that arise in respect of benefits of the government department's employees. Alternatively, it may be that the government department initially incurs the obligation to settle such liabilities, and the government or other entity then assumes that obligation.
- 36 A government or other entity may initially incur, and then settle, obligations in respect of the wages, salaries and other costs of the employees of a government department during the reporting period. Similarly, other expenses of operating the government

department during the reporting period, such as building occupancy expenses, may be incurred and settled by the government or other entity. In such cases, the government department does not recognise a liability when the expenses are initially incurred. Rather, the government department recognises income equivalent to the fair value of the employee services or other assets it receives, and recognises expenses of the same amount to reflect that the economic benefits represented by those employee services or other benefits have been consumed by the government department. For employee services, this normally occurs when the services are provided, but in some instances the costs of these services forms part of the cost of acquiring an asset.

- 37 When an employee transfers from one government department to another government department, the liability in respect of employee benefits accrued up to the transfer date is usually transferred to the transferee government department. In such cases, the transferor government department may make a payment to the transferee government department for the employee's accrued benefits. When an employee transfers from one government department to another government department:
- (a) the transferor government department extinguishes any liability for employee benefits recognised in respect of the employee, and recognises income equivalent to the liability extinguished. When a payment is made or is to be made by the transferor government department in consideration for the assumption of the liability by the transferee government department, the transferor government department extinguishes the liability and recognises a decrease in assets (cash) or an increase in liabilities (cash payable). When the payment is less than the total amount of the liability, the transferor government department recognises income equal to the amount of that shortfall; and
 - (b) the transferee government department recognises an expense and a liability in respect of any present obligations to pay accrued employee benefits in the future that are assumed as a consequence of the transfer. When a payment is made or is to be made to the transferee government department in consideration for the assumption of the liability, the transferee government department recognises the liability assumed and an increase in assets (cash or cash receivable). When the payment is less than the total amount of the liability for employee entitlements assumed, the transferee government department recognises an expense equal to the amount of that shortfall.
- 38 As noted in paragraphs 34 to 36, a government may initially incur or subsequently assume all obligations to make payments to employees of a government department in respect of long-service leave and other employee benefits. In such cases, the transfer of employees between government departments will not give rise to the need for the transferee government department to recognise expenses and liabilities or for the transferor government department to extinguish liabilities and recognise income as outlined in paragraph 37.

[Source for paragraphs 34-38: Based on paragraphs 8.2, 8.2.1 and 8.2.3-8.2.5 of AAS 29]

Contributions of Services

Paragraphs 39 to 42 of this Standard apply only to local governments, government departments and governments.

- 39 Contributions of services to local governments, government departments and governments shall be recognised as income when and only when:**
- (a) the fair value of those services can be reliably determined; and**
 - (b) the services would have been purchased if they had not been donated.**

[Source for paragraph 39: Based on paragraph 10.12 of AAS 29]

- 40 Local governments, government departments and governments may receive contributions of goods or services free of charge or for nominal consideration by way of gift or donation. The assets and income recognised by the recipient in respect of such contributions, subject to the requirements of paragraph 7 of this Standard, are measured at the fair value of the goods or services received. This ensures that the income statement reports the change in resources controlled by the recipient as a result of the operations for the reporting period, and that the balance sheet reports the assets and liabilities of the recipient as at the reporting date.

[Source for paragraph 40: Based on paragraph 10.12.6 of AAS 29]

- 41 Some donated services, while useful, may not be central to the delivery of the outputs of the local government, government department or government. In these cases, it is unlikely that the recipient would purchase the services if they were not donated. Recognition of the fair value of those services as income and expenses is not relevant to assessments of the cost of services provided by, or the financial performance of, the recipient. Accordingly, this Standard requires that contributed services only be recognised when the services would be purchased if not donated and when their fair value can be measured reliably.

[Source for paragraph 41: Based on paragraph 10.12.9 of AAS 29]

- 42 In some cases, the gaining of control over the assets that result from contributions and the consumption of the future economic benefits embodied in those assets will be simultaneous. For example, donated services give rise to income and an asset of the recipient and, simultaneously, an expense as the future economic benefits embodied in the asset are consumed. Therefore, the net effect of the contribution of services is the recognition of income and an expense. Such recognition is important if the income statement is to reflect fully the cost of services provided during the reporting period and the sources and amounts of the entity's income. Such information is useful in assessing the cost efficiency of an entity's performance and the amounts and sources of likely future resource requirements.

[Source for paragraph 42: Based on paragraph 10.12.8 of AAS 29]

Contributions by Owners and Distributions to Owners of Local Governments, Government Departments and Governments

Paragraphs 43 to 49 of this Standard apply only to local governments, government departments and governments.

- 43 **Contributions by owners shall be recognised as a direct adjustment to equity when the contributed assets qualify for recognition.**
- 44 **Distributions to owners shall be recognised as a direct adjustment to equity when the associated reduction in assets, rendering of services or increase in liabilities qualifies for recognition.**
- 45 It is important to distinguish contributions by owners from other contributions. It may be argued that contributions that are provided on the condition that they be expended on assets that increase the capacity of the entity to provide particular services should be classified as contributions of equity. However, such contributions would be contributions by owners as defined in the Appendix to this Standard only when the contributor establishes by way of the contribution a financial interest in the net assets of the entity that:

- (a) conveys entitlement both to a financial return on the contribution and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
 - (b) can be sold, transferred or redeemed.
- 46 Contributions by owners are examples of non-reciprocal transfers. Examples of contributions by owners (and distributions to owners) are non-reciprocal transfers between a government department and the controlling government acting in its capacity as owner. A government receives contributions by owners when, for example, entities controlled by the government issue shares to the public.
- 47 Contributions by owners can occur upon establishment of the entity or at a subsequent stage of the entity's existence, provided that the contributions establish a financial interest in the net assets of the entity that conveys entitlements both to dividend-type distributions and to distributions of any excess of assets over liabilities in the event of the entity being wound up. Contributions by owners can be in the form of cash, non-monetary assets such as property, plant and equipment, or the provision of services. In some instances, the contribution may result from the conversion of an entity's liabilities into equity.
- 48 Reductions in equity as a result of distributions to owners (either dividends or returns of capital) can be in the form of a transfer of assets, a rendering of services or an increase in liabilities. Distributions from government departments to governments are made at the discretion of the government.
- 49 Whether 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 been adopted for government departments in some Australian jurisdictions, transactions or other events in the nature of contributions by owners or distributions to owners do not normally occur. However, some governments have adopted 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.

[Source for paragraphs 43 to 49: Merging of contents of paragraphs 63 and 70 of AAS 27, paragraphs 11.1-11.2.4 of AAS 29 and paragraphs 14.1.12 and 14.1.13 of AAS 31]

Restructure of Administrative Arrangements

Paragraphs 50 to 55 of this Standard apply only to government controlled not-for-profit entities and for-profit government departments.

- 50** In relation to a *restructure of administrative arrangements*, a government controlled not-for-profit transferor entity or a for-profit government department transferor entity shall recognise distributions to owners and a government controlled not-for-profit transferee entity or a for-profit government department transferee entity shall recognise contributions by owners in respect of assets transferred.
- 51** In relation to a *restructure of administrative arrangements*, a government controlled not-for-profit transferor entity or a for-profit government department transferor entity shall recognise contributions by owners and a government controlled not-for-profit transferee entity or a for-profit government department

transferee entity shall recognise distributions to owners in respect of liabilities transferred.

- 52 When both assets and liabilities are transferred as a consequence of a restructure of administrative arrangements, a government controlled not-for-profit transferor entity or a for-profit government department transferor entity and a government controlled not-for-profit transferee entity or a for-profit government department transferee entity shall recognise a net contribution by owners or distribution to owners, as applicable.**
- 53 When activities are transferred as a consequence of a restructure of administrative arrangements, a government controlled not-for-profit transferee entity or a for-profit government department transferee entity shall disclose the expenses and income attributable to the transferred activities for the reporting period, showing separately those expenses and items of income recognised by the transferor during the reporting period. If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.**
- 54 For each material transfer, the assets and liabilities transferred as a consequence of a restructure of administrative arrangements during the reporting period shall be disclosed by class, and the counterparty transferor/transferee entity shall be identified. With respect to transfers that are individually immaterial, the assets and liabilities transferred shall be disclosed on an aggregate basis.**
- 55 The disclosures required by paragraph 54 will assist users to identify the assets and liabilities recognised or derecognised as a result of a restructure of administrative arrangements separately from other assets and liabilities and to identify the transferor/transferee entity.

[Source for paragraphs 50-55: New paragraphs, to supersede paragraphs 7.4, 7.4.2 and 10.6-10.9.3 of AAS 29]

Disclosure of Contributions

Paragraphs 56 to 58 of this Standard apply only to local governments, government departments and governments.

- 56 The financial report shall disclose, separately by way of note, the amounts and nature of:**
- (a) contributions recognised as income during the reporting period in respect of which expenditure in a manner specified by a transferor contributor had yet to be made as at the reporting date, details of those contributions and the conditions attaching to them;**
 - (b) contributions recognised as income during the reporting period that were provided specifically for the provision of goods or services over a future period;**
 - (c) contributions recognised as income during the reporting period that were obtained in respect of a future rating or taxing period identified by the local government or government for the purpose of establishing a rate or tax;**
 - (d) the nature of the amounts referred to in (a), (b) and (c) above and, in respect of (b) and (c) above, the periods to which they relate; and**
 - (e) contributions recognised as income in a previous reporting period that were obtained in respect of the current reporting period.**
- 57 Where a local government, government department or government receives contributions on the condition that the related assets shall be expended in a particular

manner or used over a particular period, and those conditions are undischarged in part or in full as at the reporting date, the entity will have a strong fiduciary responsibility in relation to the deployment of those contributed assets. As noted in paragraph 15 this fiduciary responsibility does not constitute a liability. However, information about the contributions, including the conditions, is relevant to users of the financial report, particularly in assessing performance and the discharge of accountability obligations. Accordingly, this Standard requires disclosure of those conditions where they are yet to be discharged, in part or in full, as at the reporting date. In addition, disclosure of contributions recognised as income in a previous reporting period that were provided specifically in respect of the current reporting period will provide information relevant to users' assessments of the entity's recovery of the cost of goods and services it has provided during the current reporting period.

[Source for paragraphs 56 and 57: Merging of contents of paragraphs 92 and 93 of AAS 27 and paragraphs 12.4 and 12.4.1 of AAS 29]

58 The financial report shall disclose separately the fair value of goods and services received free of charge, or for nominal consideration, that are recognised during the reporting period.

[Source for paragraph 58: Based on paragraph 12.2(d) of AAS 29]

Additional Government Department Disclosures

Paragraph 59 of this Standard applies only to government departments.

59 The financial report of a government department shall disclose separately:

- (a) appropriations, by class; and**
- (b) liabilities that were assumed during the reporting period by the government or other entity.**

[Source for paragraph 59: Based on paragraph 12.2(b) and (c) of AAS 29]

Compliance with Parliamentary Appropriations and Other Externally-Imposed Requirements

Paragraphs 60 to 64 of this Standard apply only to government departments.

60 The financial report of a government department shall disclose separately:

- (a) a summary of the recurrent, capital or other major categories of appropriations, disclosing separately:
 - (i) the original amounts appropriated for the reporting period; and**
 - (ii) the total amounts appropriated for the reporting period;****
- (b) amounts authorised other than by way of appropriation and advanced separately by the Treasurer, other minister or other legislative authority for the reporting period;**
- (c) the expenditures for the reporting period in respect of each of the items disclosed in (a) and (b) above;**
- (d) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures for the reporting period; and**

- (e) **the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the reporting period, not already disclosed by virtue of (d) above, and that are relevant to assessments of the government department's performance, financial position or financing and investing activities.**

[Source for paragraph 60: Based on paragraph 12.6 of AAS 29]

- 61 The information disclosed about compliance with externally-imposed requirements shall be in a form that is relevant to users of that information, and that reflects the following:
- (a) the operating characteristics of the government department;
 - (b) the structure of the appropriations;
 - (c) any other requirements that are imposed externally on the government department; and
 - (d) the general purpose nature of the financial report.

[Source for paragraph 61: Based on paragraph 12.6.3 of AAS 29]

- 62 For the purposes of economic decision making, including assessments of accountability, this Standard requires that users of financial reports be provided with information about the amounts appropriated or otherwise authorised for a government department's use, and whether the government department's expenditures were as authorised. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the government department to continue to provide services at a similar or different level in the future.

[Source for paragraph 62: Based on paragraph 12.6.2 of AAS 29]

- 63 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations line-item by line-item for each activity, is sufficient for most users of a government department's financial report. Determining the level of detail and the structure of the summarised information is a matter of judgement. The detailed information about compliance with spending mandates required by certain users should be provided in special purpose financial reports.

[Source for paragraph 63: Based on paragraph 12.6.3 of AAS 29]

- 64 In addition to requirements to comply with expenditure limits imposed by parliamentary appropriations, government departments are subject to a range of legislative, regulatory and other externally-imposed requirements governing their operations. Knowledge of non-compliance with such requirements is relevant for accountability purposes and may affect users' assessments of the government department's performance and likely future operations. It may also influence decisions about resources to be allocated to that government department in the future.

[Source for paragraph 64: Based on paragraph 12.6.4 of AAS 29]

Note: The shaded text below is the Appendix in the present AASB 1004 which would remain unchanged:

APPENDIX

DEFINED TERMS

This appendix is an integral part of AASB 1004.

Contributions Non-reciprocal transfers to the entity.

Contributions by owners Future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which:

- (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) can be sold, transferred or redeemed.

Non-reciprocal transfer A transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer.

The AASB proposes to include the following definition in the Appendix to AASB 1004:

Restructure of administrative arrangements The reallocation or reorganisation of a government’s assets, liabilities and activities and responsibilities amongst the entities that the government controls that occurs as a consequence of a rearrangement in the way in which a government’s activities and responsibilities as prescribed under legislation or other authority are allocated between the government’s controlled entities.

CONSEQUENTIAL AMENDMENTS TO OTHER STANDARDS

AMENDMENTS TO AASB 5

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The AASB proposes to amend paragraphs Aus2.1 to Aus2.4 of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, via an amending Standard.

It is proposed that the amendments to AASB 5 are applicable to annual reporting periods beginning on or after 1 July 2008, and that early adoption is permitted, provided there is early adoption for the same annual reporting period of all other amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.

The proposed amendments are shown in marked-up text in the following:

Aus2.1 The requirements in this Standard [AASB 5] do not apply to:

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

Aus2.2 ~~AAS 29 *Financial Reporting by Government Departments*~~ AASB 1004 *Contributions* includes requirements for the disclosure of assets, liabilities, items of equity, revenues and expenses resulting from the restructuring of administrative arrangements ~~between government departments~~.

Aus2.3 An administered activity of a government department does not give rise to revenues and expenses of the department reporting the administered activity (see AASB 10XX *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 ~~AAS 27 *Financial Reporting by Local Governments*~~ 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.

AMENDMENTS TO AASB 101

PRESENTATION OF FINANCIAL STATEMENTS

The AASB proposes to amend paragraph Aus14.2 of AASB 101 *Presentation of Financial Statements*, via an amending Standard.

It is proposed that the amendments to AASB 101 are applicable to annual reporting periods beginning on or after 1 July 2008, and that early adoption is permitted, provided there is early adoption for the same annual reporting period of all other amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.

The proposed amendment is shown in marked-up text in the following:

Aus14.2 ~~In some circumstances e~~Compliance with *Australian equivalents to IFRSs* by for-profit entities will not necessarily lead to compliance with IFRSs. ~~These~~ This circumstances ~~include, for example,~~ arises when the entity is a for-profit government department public sector entity to which ~~AAS 29 *Financial Reporting by Government Departments*~~ particular Standards apply, such as AASB 10XY *Land Under Roads – Transitional Requirements* and AASB 1004 *Contributions*, and to which Aus paragraphs in various other Australian Accounting Standards apply. ~~applies and the entity has applied a requirement in that Standard that overrides~~ Those requirements override the requirements in an Australian equivalent to IFRSs that would otherwise apply.

AMENDMENTS TO AASB 114

SEGMENT REPORTING

The AASB proposes to amend paragraph Aus1.3 of AASB 114 *Segment Reporting*, via an amending Standard.

It is proposed that the amendments to AASB 114 are applicable to annual reporting periods beginning on or after 1 July 2008, and that early adoption is permitted, provided there is early adoption for the same annual reporting period of all other amending, revised or new Standards necessary to implement the requirements arising from this Exposure Draft.

The proposed amendments are shown in the marked-up text in the following:

Aus1.3 This Standard does not apply to not-for-profit entities, ~~which would include reporting entities to which Australian Accounting Standards AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments*, and AAS 31 *Financial Reporting by Governments* apply~~ including local governments, government departments and governments. AASB 10XZ *Disaggregated Information* These Standards includes requirements relating to the disclosure of disaggregated information by local governments and government departments. The Standard to be developed from Exposure Draft ED 155 *Financial Reporting by Whole of Governments* will include requirements relating to the disclosure of functional and sector information by whole of governments. AASB 1049 *Financial Reporting of General Government Sectors by Governments* includes requirements relating to the disclosure of disaggregated information by General Government Sectors of governments.

BASIS FOR CONCLUSIONS

PROPOSALS ARISING FROM THE SHORT-TERM REVIEW OF THE REQUIREMENTS IN AAS 27, AAS 29 AND AAS 31

This Basis for Conclusions accompanies, but is not part of, ED 156.

Introduction and Background

- BC1 This Basis for Conclusions summarises the Board’s considerations in reaching the main conclusions in Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AASs 27, 29 and 31*. It includes the reasons why the Board accepted particular approaches and rejected others.
- BC2 Currently, topic-based Australian equivalents to International Financial Reporting Standards (IFRSs) specify the extent to which they are applicable to public sector entities. Some exclude from their scope not-for-profit entities (for example, AASB 2 *Share-based Payment*) and others specify particular requirements/relief for not-for-profit entities (for example, AASB 116 *Property, Plant and Equipment*). In addition, there are topic-based Australian Accounting Standards that are not Australian equivalents to IFRSs that apply only to not-for-profit entities (for example, AASB 1004 *Contributions*).
- BC3 Currently overlaying all of these Standards are the industry-based Standards AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*. These Standards effectively specify that all other applicable Australian Accounting Standards apply, subject to ‘override provisions’. The override provisions specify that, where there is a conflict between AASs 27, 29 and 31 and other Australian Accounting Standards, AASs 27, 29 and 31 requirements prevail. AASs 27, 29 and 31 also specify certain other additional requirements (for example, disclosure of administered items by government departments). It is timely to 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 considers that differences should be removed, where appropriate and timely, to improve the overall quality of financial reporting. Furthermore, to the extent AASs 27, 29 and 31 have not kept up with contemporary accounting thought, it is timely that their requirements be reviewed. In addition, it is timely to consider whether the encouragements in AASs 27, 29 and 31 should be made mandatory or removed. It is now also timely that any uncertainty in the application of cross-references and the override provisions in AASs 27, 29 and 31 are removed.
- BC4 The Board considered two alternative mechanisms for implementing the approach of updating and improving the requirements for local governments, government departments and governments:
- (a) to review the requirements in AASs 27, 29 and 31 and either, 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) to 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.
- BC5 The Board concluded that, 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, it is now timely to adopt alternative (a).
- BC6 Where the Board has identified that the existing material in AASs 27, 29 and 31 can be improved within time and resource constraints, improvements have been made. Because time and resources do not permit improvements to all aspects, much of the material in AASs 27, 29 and 31 is to be retained substantively unamended and located in topic-based Standards. Improvements will be progressed in due course in line with section 3.3 ‘Ongoing public sector issues’ of the AASB Public Sector Policy Paper (available on the AASB website: www.aasb.com.au), updated from time to time.
- BC7 The Board is proposing not to retain the illustrative financial reports provided in AASs 27, 29 and 31, because the purpose of those illustrative financial reports was to provide educational tools in the initial stages of accrual reporting by local governments, government departments and governments and are therefore no longer needed.
- BC8 The first stage of the short-term review of the requirements in AASs 27, 29 and 31 has been the preparation of a paragraph-by-paragraph analysis of each of AASs 27, 29 and 31 listing each individual 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 are also provided in the analysis. The Board’s primary focus at this stage is on, where necessary, dealing with the requirements from the three Standards in such a way as to not leave a vacuum.
- BC9 Each paragraph from AASs 27, 29 and 31 has been classified according to whether:
- (a) it is no longer needed or is adequately dealt with in other Standards;
 - (b) it is more appropriately dealt with in other Standards; or
 - (c) it is 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 provided on the AASB website support this Basis for Conclusions, but do not form part of the Basis for Conclusions.

- BC10 In reviewing the paragraphs, the Board noted that some material in AASs 27, 29 and 31 would, under the current style of drafting Standards, be located in a separate Basis for Conclusions. For example, paragraph 6.3.12 of AAS 29 provides a rationale for the disclosure of information about administered items. Given the short-term nature of the review of AASs 27, 29 and 31, the Board concluded that explanations for 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 they are relocated.
- BC11 The Exposure Draft and this Basis for Conclusions address all aspects of the short-term review of AASs 27, 29 and 31. Not all areas are relevant to all constituents from local governments, government departments and governments. Furthermore, some of the proposals go beyond the scope of these entities, where it is regarded as appropriate for consistent accounting policies to be adopted across a group of like entities. The most substantive issue where the scope of the current requirements are proposed to be

extended to a wider range of entities relates to restructures of administrative arrangements, where the scope of the requirements is extended beyond government departments to encompass all government controlled not-for-profit entities (see paragraphs BC51-BC56).

- BC12 The remainder of this Basis for Conclusions focuses on the issues that the Board considers to be of greatest significance. The topics of discussion cover the following areas:
- (a) proposed new topic-based Standards:
 - (i) AASB 10XX *Administered Items*;
 - (ii) AASB 10XY *Land Under Roads – Transitional Requirements*; and
 - (iii) AASB 10XZ *Disaggregated Disclosures*;
 - (b) proposed amendments to existing Standards:
 - (i) AASB 3 *Business Combinations*;
 - (ii) AASB 116 *Property, Plant and Equipment*;
 - (iii) AASB 127 *Consolidated and Separate Financial Statements*;
 - (iv) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
 - (v) AASB 1004 *Contributions*;
 - (c) requirements/guidance adequately addressed in other Standards; and
 - (d) requirements/guidance that would no longer be addressed in Standards.

Proposed New Topic-Based Standards

AASB 10XX *Administered Items*

- BC13 The Board proposes to retain the current requirements and guidance relating to administered items from AAS 29 and include them, substantively unchanged for now, in a new topic-based Standard applicable only to government departments.
- BC14 The Board considered locating the material in an existing Standard such as AASB 101 *Presentation of Financial Statements*. However, the Board concluded that the material is sufficiently dissimilar from the other requirements of AASB 101 to warrant a separate Standard and a new Standard on administered items would make the requirements easily identifiable by financial report preparers and auditors.
- BC15 The Board notes that some of the acknowledged inadequacies in AAS 29 will be retained, including the lack of extensive guidance for identifying administered items and the potential inadequate prominence given to administered items in financial reports. The proposed new Standard is a short-term measure until such time as the Board undertakes a longer-term project on administered items as part of a broader review.
- BC16 The Board concluded that it is appropriate to limit the application of the new Standard to government departments because extending the application of the requirements as part of the short-term review would delay the short-term project and impinge on the issues to be addressed in the longer-term. As a part of the Board's fundamental longer-term review of the requirements in AAS 29, consideration will be given to the

different treatments available that would result in administered items being given more prominence and disclosed in more detail in the general purpose financial reports of government departments and other entities.

- BC17 In line with the second last sentence of paragraph BC3, the Board considered whether paragraph 5.2.5 of AAS 29 should be amended to require items collected or distributed on behalf of another entity or held in legal custody that are neither administered nor controlled to be disclosed. The Board concluded that disclosure should be required (see paragraph 13 of proposed AASB 10XX *Administered Items*), to provide information to users about the resources over which the entity has responsibility, albeit a different type of responsibility than for administered or controlled items.
- BC18 Also consistent with paragraph BC3, the Board decided that, although transfers not controlled by a government department (such as pensions paid to beneficiaries) do not qualify for recognition, details of the broad categories of recipients and the amounts transferred to those recipients should be required to be disclosed in the financial report (see paragraph 20 of proposed AASB 10XX) because the resulting information is relevant for understanding the government department's financial performance.
- BC19 Paragraph 12.9.4 of AAS 29 encourages the disclosure of information about administered assets and administered liabilities on an activity basis. Again, consistent with paragraph BC3, the Board considered whether that encouragement should be removed or made mandatory. The Board concluded that the encouragement should be removed, noting that its removal does not create a vacuum.

AASB 10XY Land Under Roads – Transitional Requirements

- BC20 The Board decided to issue a Standard as part of the short-term review of the requirements in AASs 27, 29 and 31 to retain the existing transitional relief for land under roads. The proposed Standard expresses the requirements generically, applicable only to local governments, government departments and governments.
- BC21 The Board concluded that in principle land under roads is property and therefore falls within the scope of AASB 116. Once the present transitional relief lapses, for the purpose of facilitating the adoption of accounting for land under roads in accordance with AASB 116, the Board concluded that further transitional requirements should replicate the fair value or revaluation as deemed cost exemptions in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These would be used when a local government, government department or government recognises and measures land under roads at or before the expiry of AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A* (as amended by AASB 2006-3 *Amendments to Australian Accounting Standards [AASB 1045]*, which extended the expiry date of the land under roads transitional provisions from annual reporting periods ending on or after 31 December 2006 to annual reporting periods ending on or after 31 December 2007), but not as part of its first-time adoption of Australian equivalents to IFRSs.
- BC22 The Board notes that in respect of not-for-profit entities, consistent with AASB 116, where land under roads is acquired at no cost, or for a nominal cost, for initial recognition purposes cost is fair value as at the date of acquisition. AASB 116 requires the cost of an item of property, plant and equipment to be recognised as an asset if, and only if, the cost of the item can be measured reliably. This would require land under roads acquired at no cost or for a nominal cost to be recognised if, and only if, its fair value as at the date of acquisition can be measured reliably. Given the length of time since land under roads may have been acquired, the Board notes that such a criterion may not be met. Where that is the case, the Board concluded that such land under roads should not be required to be recognised and measured at current fair

value. Accordingly, application of the recognition criteria in AASB 116 may result in the non-recognition of land under roads acquired at no cost or for a nominal cost.

AASB 10XZ *Disaggregated Disclosures*

- BC23 The Board decided to retain the requirements relating to segment-like reporting⁵ from paragraphs 86-89 of AAS 27 and paragraphs 12.7-12.7.4 of AAS 29 and relocate them into a separate new topic-based Standard. Because of the differing requirements, the AASB concluded that they should be retained substantively unchanged and expressed separately for local governments and government departments respectively. A longer-term separate project on disaggregated disclosures for local governments and government departments will be progressed in due course.
- BC24 The AASB considered relocating the material into AASB 114 *Segment Reporting* (and subsequently AASB 8 *Operating Segments*), but rejected this option consistent with its intention to retain requirements substantively unchanged in the short term. The guidance in AASB 114 (and AASB 8), which is not applicable to not-for-profit entities, comprehensively addresses segment reporting issues and specifies requirements that differ substantially from what is currently required under AASs 27, 29 and 31.
- BC25 Paragraph 12.7.2 of AAS 29 encourages the disclosure of information about assets deployed and liabilities incurred in relation to each major activity undertaken by a government department. Consistent with paragraph BC3, the Board decided that in relation to disaggregated information, assets deployed and liabilities incurred in relation to each major activity undertaken by a government department should be required to be disclosed (see paragraph 15 of proposed AASB 10XZ *Disaggregated Disclosures*). The information is relevant in assessing the effectiveness, efficiency and economy of operations and of resource allocation decisions.
- BC26 The Board decided not to retain the requirements relating to segment-like reporting from paragraphs 15.12-15.12.2 of AAS 31. It is not necessary for the proposed new Standard AASB 10XZ to specify disaggregated disclosure requirements for governments, as the GAAP/GFS Harmonisation project on whole of government financial reporting is being progressed in parallel with the short-term review of AASs 27, 29 and 31 and the Standard arising from the GAAP/GFS Harmonisation project will address disaggregated disclosure requirements for governments (see Exposure Draft ED 155 *Financial Reporting by Whole of Governments*).

Proposed Amendments to Existing Standards

AASB 3 *Business Combinations*

Local governments, government departments and governments as reporting entities

- BC27 With the adoption of Australian equivalents to 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 has 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 and government department are also added to AASB 3 to avoid leaving a vacuum. The definition of government will be contained in the Standard to be developed from ED 155.

⁵ Segment-like reporting is known under different names in each of AAS 27, 29 and 31. In AAS 27 it is referred to as 'classification according to function or activity'; in AAS 29 it is referred to as 'service costs and achievements' and in AAS 31 it is referred to as 'disaggregated information'. For the purposes of this Basis for Conclusions the term 'segment-like reporting' will be used for all three standards.

AASB 116 Property, Plant and Equipment

Infrastructure, cultural, community and heritage assets

- BC28 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, as this is not explicitly stated elsewhere in Australian Accounting Standards.
- BC29 In making this decision the Board intends that the new Aus paragraph apply beyond local governments, government departments and governments, to all not-for-profit public sector entities. In principle, it could apply to all entities. However, the Board has adopted the policy that Standards for Australian for-profit entities (with the exception of for-profit government departments) should not differ from IFRSs, unless it is considered essential in the Australian reporting environment.
- BC30 In addition, the Board decided to provide Australian Guidance with AASB 116 addressing reliable measurement, revaluations and depreciation of heritage assets. The Board concluded that in the short term there is a need for such guidance. The focus is on heritage 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 have expressed the most concern. The proposed new material is a short-term measure until such time as the AASB undertakes the longer-term project outlined in the AASB Public Sector Policy Paper, item 3.3(h).
- BC31 The Board intends that its decision to provide such Australian Guidance will not amend the principles in AASB 116. In particular, the Board intends that the Australian Guidance does not imply that an entity's asset maintenance program justifies non-depreciation. The Australian Guidance notes that, depending on the nature of the heritage asset, it may have an unlimited useful life, 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

- BC32 AASs 27 and 29 both contain 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.
- BC33 The Board decided to retain the current guidance on control from AAS 31 in principle for now (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 still 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 Public Sector Policy Paper, item 3.3(d). The proposed amended section of AASB 127 on control in the public sector would apply to all entities currently reporting under AASs 27, 29 and 31.
- BC34 The Board notes 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 notes that the current Aus paragraphs in AASB 127 could similarly be 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 being retained in AASB 127) focus on groups (because typically in the public sector the parent is not explicitly identified, instead the focus tends to be on ‘government’, ‘parliament’ and ‘ministers’). The longer-term project on control in the public sector will address this matter.

- BC35 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 intends that whole of government financial reports continue to be prepared on a full consolidation basis in accordance with AASB 127 (see ED 155).
- BC36 The Board decided to retain the example from paragraph 9.1.7(e) of AAS 31, which states that State/Territory governments do not control local governments, because 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 is based on the fact that, currently, paragraph Aus13.4 of AASB 127 reflects a view that local governments are not controlled entities.
- BC37 Having made this decision the Board notes that application of the present paragraph Aus13.4 of AASB 127 may not result in compliance with IAS 27 *Consolidated and Separate Financial Statements*. Accordingly, the AASB intends amending the ‘Compliance with IAS 27’ statement that accompanies AASB 127 to acknowledge that compliance with the present paragraph Aus13.4 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 AASB 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.

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

- BC38 The Board decided for now to:
- (a) exclude obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent from the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
 - (b) include an Aus paragraph in AASB 137 that conveys the message that the scope exclusion is not intended to achieve a different result, in terms of the recognition of liabilities, from the practice followed by not-for-profit public-sector entities at the date of introduction of the amendments to AASB 137.

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 Public Sector Policy Paper, item 3.3(c).

AASB 1004 Contributions

General approach

- BC39 The Board decided for now to broadly retain the material on contributions from AASs 27, 29 and 31 and locate it in a separate section within AASB 1004

Contributions because it is not adequately covered in existing Australian Accounting Standards.

- BC40 The Board concluded that, in the short term, minimal changes should be made to the content of the material. The Board considers that it is appropriate to review the requirements and guidance for contributions as part of a longer-term project as outlined in the AASB Public Sector Policy Paper, item 3.3(b).
- BC41 The Board considered two options for relocating the requirements on contributions into AASB 1004:
- (a) merging the AASs 27, 29 and 31 paragraphs into the existing AASB 1004 requirements; or
 - (b) adding the AASs 27, 29 and 31 paragraphs into a separate section in AASB 1004.
- The paragraphs in AASs 27, 29 and 31 containing guidance about contributions are very detailed and contain a large amount of commentary whereas the existing guidance in AASB 1004 is significantly less detailed. The Board concluded that merging the AASs 27, 29 and 31 requirements with the AASB 1004 requirements would, in effect, require the redrafting of the entire Standard, which is beyond the scope of this project. The integration approach is also considered more likely to raise controversial revenue recognition issues for all not-for-profit entities that, as noted in paragraph BC40, the AASB proposes to deal with as a separate longer-term project applicable to a broader range of entities.
- BC42 The Board also considered whether the guidance from AASs 27, 29 and 31 should be merged into a single set of generic requirements or expressed separately for local governments, government departments or governments. The Board concluded that the three sets of guidance from AASs 27, 29 and 31 are sufficiently similar to be merged to form one set of requirements – noting that such an approach would result in some changes for some entities. One area where this will occur is the disclosure of conditions on contributions where government departments and governments would be required to make the disclosures not previously required, because AAS 27 is more onerous than AASs 29 and 31.
- BC43 In addition, the Board proposes to extend the application of the requirements relating to ‘contributions of services’ to apply beyond government departments to both local governments and governments, for consistency across the three types of entities.
- BC44 Because the guidance from AASs 27, 29 and 31 partly overlaps with the guidance currently in AASB 1004, the proposed requirements have been amended to reduce duplication.
- BC45 The Board considered whether the paragraphs of AAS 29 that address the accounting for parliamentary appropriations, which are only applicable to government departments, should be incorporated into AASB 1004 as a separate section. The Board noted the view that the requirements are no longer needed given the nature of current arrangements between governments and government departments for parliamentary appropriations compared with past arrangements and government departments’ familiarity with accrual accounting. However, the Board concluded that the paragraphs should be retained, in keeping with Board’s short-term intention of retaining the guidance from AASs 27, 29 and 31 where there are no comparable requirements in existing Australian Accounting Standards and thereby avoid creating a vacuum.
- BC46 Paragraph 15.2.1 of AAS 31 deals with the disclosure of policies adopted for recognising tax revenues. Given the nature of the commentary, the Board concluded that it would be most logical to locate the contents of this paragraph in AASB 1004 within the area that relates to recognition of ‘contributions, other than contributions by

owners, by local governments, government departments or governments' and within the section 'control over assets' in a paragraph that discusses control over assets acquired from involuntary non-reciprocal transfers, such as rates, taxes and fines. In doing this, the Board decided to extend the requirements beyond governments to local governments and government departments.

Liabilities assumed by other entities

- BC47 The Board decided to substantially retain the guidance in AAS 29 relating to the treatment of liabilities assumed by other entities in the financial report of a government department. The Board concluded that, although AASB 1004 currently specifies requirements for liabilities that are forgiven, AASB 1004 does not explicitly deal with liabilities that are assumed by other entities.
- BC48 The Board considered whether to align the requirements in paragraphs 8.2, 8.2.1 and 8.2.3-8.2.5 of AAS 29 for derecognition of liabilities with the corresponding requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. The Board noted that the AAS 29 requirements, which reflect a symmetrical accounting approach, may not be consistent with the criteria for derecognition of a liability in AASB 139, which does not necessarily result in symmetry and refers to liabilities arising from contracts. Given the relationship between an entity assuming a government department's liability (such as the controlling government) and the government department, the Board concluded that the symmetrical accounting adopted in AAS 29 is appropriate for derecognition of liabilities.

Government department disclosures relating to revenue

- BC49 The Board concluded that it would be most logical to incorporate the requirements from paragraphs 12.2(b)-(d) of AAS 29 relating to disclosure requirements for certain revenue items (that is, appropriations by class; liabilities that were assumed during the reporting period by the government or other entity; and the fair value of goods and services received free of charge, or for nominal consideration, and recognised during the reporting period) into AASB 1004. This is because they are disclosures of items of revenue that, for the purpose of the short-term review, are considered to be sufficiently related to the scope of AASB 1004.
- BC50 The Board proposes to limit the requirements in paragraphs 12.2(b) and (c) of AAS 29 to government departments, in keeping with its approach of retaining AASs 27, 29 and 31 requirements in the short term. In keeping with the Board's proposal to extend the application of the proposed section on 'contribution of services' to apply beyond government departments to both local governments and governments (see paragraph BC43), the Board concluded that the disclosure requirements in paragraph 12(d) of AAS 29 relating to revenue disclosures about contributions of services should also be extended to apply to local governments and governments. Furthermore, the Board concluded that the paragraph in question should be amended to refer to recognised contributions of services to be consistent with the proposed requirements under which not all contributions received would be required to be recognised.

Restructures of administrative arrangements

- BC51 The Board believes it is timely to amend the requirements in paragraphs 7.4, 7.4.2 and 10.6-10.9.3 of AAS 29 for restructures of administrative arrangements as part of the short-term review of AAS 29 and in light of the existing definition of contributions by owners that is contained in AASB 1004. The Board decided to define restructures of administrative arrangements and to specify that they are in the nature of transactions with owners to be recognised on a net basis. In particular, the Board concluded that a transfer of net assets arising as a consequence of a restructure of administrative arrangements would be best treated as a distribution to owners by the

transferor and a contribution by owners by the transferee. The Board concluded that this approach is preferable to the current approach whereby transfers need to be designated as contributions by owners at the time of the transfer to be treated as such. The Board notes that this would result in a significant change in the current AASB 29 requirements as the possibility of treating a transfer as a revenue/expense item would no longer be available.

- BC52 The Board concluded that the effect of the requirements should be expanded beyond government departments to include all government controlled not-for-profit public sector entities, noting that this would be consistent with the scope of Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* which applies to all wholly owned public sector entities that prepare general purpose financial reports, not just government departments. This will assist in harmonising requirements and guidance in relation to contributions by owners. It is not intended that the proposed amended requirements for restructures of administrative arrangements necessarily apply in analogous circumstances. For example, it is not intended that the proposed amended requirements apply in the accounting for restructures of commonly controlled private sector entities.
- BC53 Although assets and/or liabilities assumed by another entity as a consequence of a restructure of administrative arrangements are not currently explicitly dealt with in AASB 1004, the Board concluded that AASB 1004 is an appropriate location for this material as it is the Standard that is best suited to dealing with contributions, including contributions by owners, to not-for-profit reporting entities and for-profit government departments.
- BC54 In addition, in accordance with its decision to issue AASB 2005-6 *Amendments to Australian Accounting Standards [AASB 3]*, the Board concluded that AASB 3 is not an appropriate Standard in which to locate specific requirements relating to restructures of administrative arrangements because business combinations involving entities or businesses under common control are now excluded from the scope of AASB 3.
- BC55 The Board also concluded that it is not necessary at this time to explicitly address the measurement basis to be adopted for transferred assets and liabilities due to a restructure of administrative arrangements. An asset acquired by a government controlled not-for-profit entity or a for-profit government department as a consequence of a restructure of administrative arrangements is considered to be a contribution by owners, and the requirements in Interpretation 1038 apply. However, Interpretation 1038 does not specify the measurement basis to be adopted with respect to contributions by owners or distributions to owners. In addition, AASB 3 does not address the measurement issue for a restructure of entities under common control. The Board acknowledges that, as the proposed amendments do not specify the measurement basis to be adopted, assets and liabilities transferred in the course of a restructure of administrative arrangements could be measured at fair value or book value.
- BC56 The Board notes that the scope of the amendment relating to restructures of administrative arrangements is limited to the transfer of a business (as defined in AASB 3). The Board does not intend the requirements to apply where, for example, individual or groups of assets that are not a business are transferred, noting that transfers of individual and groups of assets are scoped out by the definition of a business in AASB 3.

Compliance with parliamentary appropriations and other externally imposed requirements by government departments

- BC57 The AASB notes that issues relating to compliance with parliamentary appropriations and other externally imposed requirements are important for government

accountability. Accordingly, the Board concluded that the requirements in paragraphs 12.6 and 12.6.2-12.6.4 of AAS 29 for disclosure of compliance with parliamentary appropriations and other externally imposed requirements should be retained.

- BC58 The Board concluded that the requirements for the disclosure by government departments of compliance with parliamentary appropriations and other externally imposed requirements are sufficiently related to the topic of contributions to be incorporated in AASB 1004.
- BC59 Consistent with the short-term nature of the project the requirements are to be limited to government departments rather than applying them more broadly to not-for-profit public sector entities. In due course, the Board will consider extending the application of the requirements.
- BC60 The Board concluded that it is appropriate to not retain paragraph 12.6.1 of AAS 29, which explains the meaning of parliamentary appropriations, as it is no longer necessary.

Requirements/Guidance Adequately Addressed in other Standards

- BC61 The Board believes that requirements/guidance on some particular issues in AASs 27, 29 and 31 can be effectively replaced by the requirements/guidance on particular issues in existing topic-based Standards. For some situations the Board has decided not to issue a new topic-based Standard or amend existing Standards and instead intends that existing topic-based Standards apply to local governments, government departments and governments. The paragraph-by-paragraph analyses on the AASB website contain detailed analyses of each paragraph of AASs 27, 29 and 31 and identify any corresponding requirement/guidance in other Australian Accounting Standards or relevant pronouncements. The more substantive issues include:
- (a) net cost of services format of the income statement;
 - (b) restricted assets; and
 - (c) restructures of local governments.

Net cost of services format of the income statement

- BC62 The Board concluded that it is not necessary to carry forward into topic-based Standards the explicit guidance on the validity of the net cost of services format of the operating statement currently provided in paragraphs 6.3, 6.3.5 and 6.3.10 of AAS 29. The Board concluded that there is sufficient flexibility in AASB 101 and support in AASB 107 *Cash Flow Statements* to permit government departments and other entities to continue to adopt the net cost of services format for the income statement in appropriate circumstances.

Restricted assets

- BC63 The Board concluded that it is not necessary to retain the current requirements for restricted assets from paragraphs 90 and 91 of AAS 27 and paragraphs 12.3 and 12.3.1 of AAS 29. The Board concluded that other Standards, including AASB 1031 *Materiality*, AASB 107, AASB 116 and AASB 138 *Intangible Assets*, cover the type of guidance required for different types of assets.

Restructures of local governments

- BC64 In the absence of paragraphs 71-75 of AAS 27, restructures of local governments would be subject to the general requirements in AASB 3 or AASB 1004, as applicable, by a transferee and AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* or other relevant Standards by a transferor. Consistent with transaction-neutral principles, the Board believes that the general principles in those Standards are appropriate and adequate in the case of restructures of local governments.
- BC65 The Board notes that this would result in a significant change in the current requirements in AAS 27.
- BC66 As noted in paragraph BC36, the Board concluded that it is appropriate to retain, unamended for now, the contents of paragraph Aus13.4 of AASB 127, which states that the financial statements of local governments are not required to be consolidated with the financial statements of a government. Accordingly, local governments would not be treated as commonly controlled entities.

Requirements/Guidance that would no Longer be Addressed in Standards

- BC67 In some situations the Board concluded that requirements and/or guidance that is currently addressed in AASs 27, 29 and 31 no longer needs to be addressed in Standards. The paragraph-by-paragraph analyses on the AASB website contain detailed analyses of each paragraph of AASs 27, 29 and 31 and identify any corresponding requirement/guidance in other Australian Accounting Standards or relevant pronouncements. The items of particular note include:
- (a) budgetary reporting;
 - (b) performance indicators; and
 - (c) cash flows from government-controlled financial institutions.

Budgetary reporting

- BC68 The Board concluded that it is inappropriate for Standards to simply encourage disclosure of budgetary information (paragraph 26 of AAS 27). The Board also concluded that it would be inappropriate to require disclosure of budgetary information for local governments, and other entities, without undertaking a longer-term project on the topic of budgetary reporting, as outlined in the AASB Public Sector Policy Paper, item 3.3(j). The Board notes that AASB 1049 *Financial Reporting of General Government Sectors by Governments* requires presentation of certain budgetary information for General Government Sectors and that the promulgation of this requirement followed a thorough due process. ED 155 also includes proposals for budgetary disclosures in whole of government financial reports.

Performance indicators

- BC69 The Board concluded that it is inappropriate for Standards to simply have non-mandatory commentary on performance indicators. The Board also concluded that it would be inappropriate to require disclosure of performance indicators until such time as the AASB undertakes a longer-term project on the topic, as outlined in the AASB Public Sector Policy Paper, item 3.3(m).

Cash flows from government-controlled financial institutions

BC70 The Board decided not to retain the current material from paragraphs 15.11 and 15.11.1 of AAS 31. The Board concluded that there is no evidence that separate disclosure of cash flows from government-controlled financial institutions is used by users.