

Basis for Conclusions on AASB 1049 Whole of Government and General Government Sector Financial Reporting

This Basis for Conclusions accompanies, but is not part of, AASB 1049.

Introduction

- BC1 The Preface to this Standard outlines the broad strategic direction issued to the Australian Accounting Standards Board (AASB) by the Financial Reporting Council (FRC) that gave rise to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This Basis for Conclusions summarises the Board's considerations in developing the Standard. It focuses on the issues that the Board considers to be of greatest significance.
- BC2 In developing the Standard, the Board first considered GAAP/GFS harmonisation issues from a General Government Sector (GGS) perspective. This resulted in the issue of AASB 1049 *Financial Reporting of General Government Sectors by Governments* in September 2006. It included a requirement that a government not make its GGS financial report available prior to its whole of government financial report being made available. The Board became aware that no jurisdiction intended to early adopt AASB 1049 (September 2006) because of this requirement, combined with concern that the whole of government accounting basis (then specified in AAS 31 *Financial Reporting by Governments*) was, at the time, different from the GGS accounting basis (specified in AASB 1049).
- BC3 In addressing this concern, the Board considered the extent to which the principles in AASB 1049 (September 2006) should apply to whole of government financial reporting. The Board concluded that the requirements for GAAP/GFS harmonised whole of government financial reports, incorporating requirements for information about the GGS, the Public Non-Financial Corporations (PNFC) sector and the Public Financial Corporations (PFC) sector, should be based on the principles in AASB 1049 (September 2006). This reflects the relationship between the GGS of a government, the other sectors of a government and the whole of government and is a response to an assessment of user needs. Given the relationship between the GGS and whole of government, an alternative approach that would result in fundamentally different accounting bases for GGS financial reports and whole of government financial reports has the potential to confuse some users.
- BC4 The Board developed a separate Exposure Draft (ED 155 *Financial Reporting by Whole of Governments*) for the purpose of exposing its proposals for GAAP/GFS harmonisation requirements for whole of government financial reporting, rather than present the proposals integrated with the requirements in AASB 1049 (September 2006). However, the Board indicated its intention in ED 155 that the Standard to be developed would be an amended AASB 1049 that specifies, in an integrated way, the GAAP/GFS harmonised requirements for GGS financial reports and whole of government financial reports. The Board concluded that a single integrated Standard is justified on the basis that:
- (a) it more effectively acknowledges the strong relationship between whole of government financial reports and GGS financial reports. An integrated Standard is consistent with the requirement that GGS financial reports not be made available prior to the release of whole of government financial reports (see paragraphs BC18-BC20);
 - (b) it is more consistent with a topic-based approach to setting Standards; and
 - (c) it imposes a greater discipline on the Board to ensure that the requirements are expressed in the same way for GGS and whole of government, and only differ where intended.

GGG financial reports

Preparation of GGS financial reports [paragraphs 2 and 7]

The nature of a GGS financial report

- BC5 Due to the unique circumstances related to the GGS, its relationship to the whole of government (see paragraphs BC18-BC20) and its macro-economic significance, the Board concluded that a Standard should require the preparation of financial reports of a federal, state or territory government's GGS. The Board also

supported the GGS presenting a financial report on the basis that whole of government financial reports are to be available at the same time as the GGS financial report (see paragraph BC18).

- BC6 The Board concluded that it is not necessary to specify whether the GGS is a reporting entity and whether the GGS financial report prepared in accordance with the Standard is a general purpose financial report (GPFR) because the Standard itself prescribes the particular requirements for the scope of the GGS and the form and content of the GGS financial report.

GGs financial report prepared on a partial consolidation basis

- BC7 It is inherent in the definition of a GGS that government controlled entities within the PNFC sector and PFC sector are not consolidated in the GGS financial report (see paragraphs BC11-BC13). Only government controlled entities that fall within the boundary of a GGS are consolidated. Accordingly, the Board concluded that a government should produce a GGS financial report on a partial consolidation basis (see paragraph 19).
- BC8 This focus on the GGS and consequently the partial consolidation approach is consistent with, to some extent, the ‘through the eyes of management’ approach adopted in AASB 8 *Operating Segments*. The information used to manage a government includes GGS information prepared on a partial consolidated basis because, essentially, the GGS equates to the budget sector of Australian governments, and reporting of budget outcomes is a major focus.
- BC9 The Board’s decisions reflect that:
- (a) the GGS is a significant sector of a government that warrants prominence in financial reporting;
 - (b) GGS financial information is relevant to users and is widely distributed;
 - (c) GGS financial information should be made available to the public in a manner that meets the key characteristics of comparability, understandability, relevance, reliability and timeliness set out in *AASB Framework for the Preparation and Presentation of Financial Statements*; and
 - (d) GGS financial information is necessary to provide a link to GGS budgets, which are a means by which governments outline their taxing policies and resource allocation decisions (see paragraphs BC57-BC62).
- BC10 An alternative view considered by the Board is that, because a GGS is a sector of the whole of government, GGS financial information prepared on a partial consolidation basis should only be included in the whole of government GPFR (see also paragraph BC20). When that GGS financial information is presented in a financial report that is separate from the whole of government GPFR, it should be characterised as a special purpose financial report. However, as explained in paragraph BC6, the Board decided that, because the Standard prescribes the form and content of the GGS financial report, it is not necessary to take such an approach.

Accounting for GGS investments in PNFC sector and PFC sector entities in GGS financial reports [paragraphs 19 and 20]

- BC11 The issue of the accounting for GGS investments in PNFC sector and PFC sector entities in the GGS financial report is closely related to the basis on which the GGS financial report is prepared and to the issue of partial consolidation (see paragraphs BC7-BC10).
- BC12 The Board decided that, consistent with GFS principles and rules, entities that are controlled by a government, but are not part of the GGS of the government, should be recognised in the GGS financial report as investments.
- BC13 Furthermore, the Board concluded that GGS controlling investments in PNFC sector and PFC sector entities should be measured at, depending on circumstances, fair value, the government’s proportional share of the carrying amount of net assets (as a surrogate for fair value) or zero. Measurement at fair value, or at the government’s proportional share of the carrying amount of net assets where fair value is not reliably measurable, is consistent with GFS. Not allowing investments to be measured below zero is consistent with the principles elsewhere in GAAP (for example, AASB 128 *Investments in Associates* does not allow negative investment values when using the equity method).
- BC14 When a GGS’s controlling investment in a PNFC sector or PFC sector entity is measured at the government’s proportional share of the carrying amount of net assets, for consistency with GFS principles, it should be accounted for as a financial asset consistent with AASB 139 *Financial Instruments: Recognition and Measurement*, rather than as if it were an investment in an associate accounted for using the equity method of accounting.

Accounting for GGS investments in jointly controlled entities and associates in GGS financial reports [paragraph 24]

- BC15 The Board concluded that investments in jointly controlled entities and associates should be measured using the equity method of accounting, except when the investment is classified as held for sale in accordance with *AASB 5 Non-current Assets Held for Sale and Discontinued Operations*. This is on the basis that, consistent with paragraph 19 of this Standard that prescribes the use of the consolidation procedures in *AASB 127 Consolidated and Separate Financial Statements*, the GGS financial report is treated as if it is a consolidated financial report rather than as ‘separate financial statements’, as defined in *AASB 127*.

Disclosures about the GGS in the summary of significant accounting policies note [paragraph 39(b)]

- BC16 The Board concluded that additional disclosures relating to the nature of the GGS and its relationship to the whole of government financial report should be made as part of the note in the GGS financial report containing the summary of significant accounting policies. These disclosures are intended to help overcome concerns that users might perceive the GGS financial report as being a substitute for the whole of government financial report. Furthermore, the disclosures are intended to help users understand the nature of the GGS and its financial reports to provide a greater link to the budget outcome reports, to the extent they focus solely on the GGS.

Other disclosures specific to the GGS [paragraph 41(b)]

- BC17 Given this Standard encompasses GFS concepts and definitions for the GGS, the Board considered it appropriate to require additional disclosures to be included in the GGS financial report. The additional disclosures include:
- (a) a list of entities within the GGS and any changes to that list since the previous reporting date and reasons for the changes (paragraph 41(b)(i)). This disclosure informs users of the controlled entities that have been consolidated into the GGS financial report and, for the purposes of year to year comparisons, the changes to the list of entities. The reasons for changes should be capable of being traced back to the ABS GFS Manual definition of the GGS and should reflect a fundamental change to the nature of an entity’s functions and purpose;
 - (b) a list of significant investments in PNFC sector and PFC sector entities (paragraph 41(b)(ii)). This disclosure informs users of the controlled entities that have not been consolidated into the GGS financial report and the effect of GGS management decisions to retain or divest these investments and their effect on the balance sheet of the GGS; and
 - (c) the aggregate amount of dividends and other distributions to owners as owners from PNFC sector and PFC sector entities to the GGS and the aggregate amount of the comprehensive result of the PNFC sector and PFC sector entities that is attributable to the GGS for the reporting period (paragraph 41(b)(iii)). This disclosure provides further information about the relationship between the GGS and PNFC sector and PFC sector entities.

Relationship between GGS financial reports and whole of government financial reports [paragraphs 8 and 39(b)(iv)]

- BC18 As noted in paragraph BC2, the Board concluded that, because of the relationship between the GGS (partially consolidated) financial report and the whole of government (fully consolidated) financial report, the GGS financial report should not be made available prior to the whole of government financial report being made available. Furthermore, the GGS financial report should include a cross-reference to the whole of government financial report (see paragraph 39(b)(iv)). This approach ensures that GGS financial reports are given due prominence within an appropriate context. That context is the whole of government financial reports that provide information about all the resources controlled by the government.
- BC19 Board consultations indicated that most jurisdictions would be able to meet the requirement for the whole of government financial report to be available at the time the GGS financial report is prepared in the short term. One jurisdiction faced a number of impediments, including legislative provisions, to achieving completion of the whole of government financial report at the same time as a GGS financial report could be prepared. The Board therefore decided to specify a mandatory operative date for the Standard of the year beginning 1 July 2008, and to allow early adoption (see paragraphs 3 and 4). The Board’s decision not to permit the preparation and presentation of GGS financial reports at an earlier date than for the whole of government financial report is consistent, by analogy, with the requirements in *AASB 127* that parent entity financial reports cannot be prepared and presented unless consolidated financial statements are available.

- BC20 Prior to this Standard, Australian Accounting Standards only anticipated that sectors of a whole of government (including the GGS) might be disclosed in the whole of government financial report in the form of disaggregated information. That is, separate financial reporting of a GGS was not contemplated. The Board considered whether, consistent with this disaggregated information approach, the proposals in International Public Sector Accounting Standards Board (IPSASB) Exposure Draft ED 28 *Disclosure of Financial Information about the General Government Sector*, since reflected in IPSAS 22 *Disclosure of Financial Information About the General Government Sector*, should be adopted in Australia. When a government elects to disclose information about its GGS in its whole of government financial reports, IPSAS 22 requires the information to conform with the accounting policies of the whole of government financial report (which are not GAAP/GFS harmonised) except for consolidation requirements and the accounting for investments in controlled PNFC sector and PFC sector entities. The Board concluded that such an approach would not adequately facilitate the presentation of GGS information and GFS information with appropriate prominence.

Whole of government financial reports

Specification of requirements for whole of government financial reports

- BC21 AAS 31 was first issued in 1996 and specified requirements for general purpose financial reporting by governments. Since then, AAS 31 had only been subject to limited reviews, the most recent in June 1998.¹ The Board considered it timely to undertake a comprehensive review of the requirements in AAS 31 through two concurrent and interrelated AASB projects:
- (a) the GAAP/GFS Harmonisation project; and
 - (b) the Short-term Review of the Requirements in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*.
- BC22 This Standard, which is a result of the GAAP/GFS Harmonisation project, together with the new, amending and revised Standards being developed from the Short-term Review of the Requirements in AASs 27, 29 & 31, supersede AAS 31.
- BC23 This Standard requires governments to prepare GPFRs that adopt applicable Australian Accounting Standards, except when otherwise specified (see paragraph 9). The Short-term Review of the Requirements in AASs 27, 29 & 31 retains or amends the AAS 31 requirements by amending, where appropriate, the Australian Accounting Standards that this Standard requires to be adopted by governments. The Bases for Conclusions accompanying Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* and to accompany the resulting new, amending or revised Standards, contain the Board's rationale for its treatment of the requirements in AAS 31. This Basis for Conclusions provides the Board's rationale for adopting GAAP/GFS harmonisation principles for whole of governments.
- BC24 The Board concluded that adopting the GAAP/GFS harmonisation principles in this Standard would help ensure that the multiple needs of users for both GAAP and GFS based information prepared under a harmonised framework at a whole of government level (incorporating sector information) are satisfied.

Preparation of whole of government financial reports [paragraphs 2 and 7]

- BC25 Due to the nature of governments, the Board concluded that a Standard should continue to specify requirements for the preparation of whole of government GPFRs of the federal and each state and territory government.

Consolidation of non-resident entities

- BC26 Generally, the controlled entities that are not consolidated within the GGS would be consolidated under both GAAP and GFS in whole of government financial reports, and therefore one of the more controversial aspects dealt with in the context of GGS financial reporting (see paragraphs BC5-BC13) does not arise in the context of whole of government. However, a different kind of non-consolidation issue conceivably arises. Under

¹ Although AAS 31A *Amendments to the Transitional Provisions in AAS 31* was issued in December 1999 and AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29 & AAS 31* was issued in October 2002, they only had the effect of extending the transitional provisions for land under roads.

GAAP, irrespective of residency, all controlled entities are consolidated. Under GFS, controlled non-residents are not consolidated. For example, an off-shore subsidiary of a PNFC sector entity or PFC sector entity is not consolidated under GFS because it is not part of the Australian economic territory. Instead GFS records the parent PNFC sector or PFC sector entity as having an equity investment in the non-resident subsidiary and deriving dividend income from it. The non-resident subsidiary is an institutional unit in the economic territory of the other economy that would be part of that other economy's private sector.

- BC27 The Board concluded that, consistent with AASB 127, all controlled entities should be consolidated on a line-by-line basis in whole of government financial reports. If material, the GFS non-consolidation of non-resident subsidiaries would be shown as a reconciling difference (see paragraphs BC40(c) and BC52). The Board noted that Australian jurisdictions either do not have non-resident subsidiaries or have immaterial non-resident subsidiaries. Given that the issue is not significant in practice, the Board concluded that it is not necessary for the Standard to explicitly refer to the issue.

Consolidation of PNFC sector and PFC sector entities

- BC28 The Board noted that under AASB 1049 (September 2006), and carried over with some clarification into this Standard, the GGS recognises its investment in PNFC sector and PFC sector entities at, depending on circumstances, fair value, proportional share of the carrying amount of net assets (as a surrogate for fair value) or zero (see paragraph BC13).
- BC29 The Board considered the whole of government consolidation implications of GGS investments in PNFC sector and PFC sector entities potentially being measured at fair value in GGS financial reports. The Board noted that if the whole of government financial report were to consolidate PNFC sector and PFC sector entities at fair value, this would result in the recognition of, among other things, internally generated goodwill. The Board concluded that it is not appropriate for a government to recognise internally generated goodwill, noting that internally generated goodwill is also not recognised under GFS. Accordingly, the Board concluded that PNFC sector and PFC sector entities should be consolidated at the carrying amount of their net assets on a line-by-line basis, determined in a manner consistent with GAAP/GFS harmonisation principles.
- BC30 The Board noted that no PNFC sector and PFC sector entities in any Australian jurisdiction currently have traded shares and therefore the principle in this Standard would be expected to result in the investments being measured at the carrying amount of net assets, which is consistent with GFS in these circumstances. Therefore, the question of consolidating PNFC sector and PFC sector entities at fair value is not expected to arise frequently in practice.

Disclosure of whole of government sector information [paragraph 52]

PNFC sector and PFC sector information as note disclosure in whole of government financial reports

- BC31 The Board concluded that financial statements for the GGS, PNFC sector and PFC sector and reconciliations between GFS and GAAP measures of key fiscal aggregates for each sector should be disclosed in the whole of government financial report. The Board concluded that such information, together with related information, is sufficient to satisfy user needs in a general purpose financial reporting context and therefore it is not necessary to require the preparation of separate PNFC sector and PFC sector financial reports. To facilitate a presentation format that provides sufficient prominence to the various sectors relative to each other and the whole of government, the Board concluded that the sector financial statements could be presented:
- (a) as a table in the notes to the whole of government financial statements comprising all sectors, an adjustments column and the whole of government; or
 - (b) on the face of the government's financial statements.
- BC32 The Board considered whether to make the sector information disclosure requirements less onerous by only requiring disclosure of sector financial statements prepared on a GFS basis. The Board noted that this would in some respects broadly align with the 'through the eyes of management' approach adopted in AASB 8. However, the Board concluded that this approach should not be adopted because:
- (a) sectors are different in nature from operating segments;
 - (b) such an approach would not be consistent with the approach to GAAP/GFS harmonisation adopted for the GGS financial report; and

- (c) there would be a potential for user confusion if GGS financial reports adopt an accounting basis fundamentally different from that used for the GGS financial information presented in the whole of government financial report.
- BC33 The Board also considered whether to not require disclosure of reconciliations of GAAP and GFS measures of key fiscal aggregates for the PNFC sector and PFC sector (see paragraph BC52), noting a view expressed by some that having to provide such information is onerous for preparers. The Board concluded that such information is useful for a significant group of users and therefore should be included in the whole of government financial report.
- BC34 The Board noted that a government may choose to present information about additional sectors, such as the total non-financial public sector (comprising the GGS and PNFC sector). The Board concluded that it is not necessary to prescribe the disclosure of additional sectors, because the GGS, PNFC sector and PFC sector comprise a comprehensive disaggregation of the whole of government. However, where a government elects to disclose information about additional sectors, this should be made on a comparable basis. This ensures that information contained in the financial report is consistent.

GGs investment in PNFC sector and PFC sector entities

- BC35 The Board addressed the question of whether the GGS information disclosed in the whole of government financial report should be consistent with the GGS financial report or the whole of government consolidated amounts. It therefore considered whether GGS investments in PNFC sector and PFC sector entities should be disclosed, and how they should be measured (fair value, carrying amount of net assets or zero). The Board noted that if a GGS investment in PNFC sector and PFC sector entities were to be measured at fair value in the whole of government financial report's sector information disclosures, there would be a disconnect between that amount and the carrying amount of net assets disclosed for the PNFC sector and PFC sector.
- BC36 The Board concluded that GGS investments in PNFC sector and PFC sector entities should be included in the sector information disclosures, and be measured at the carrying amount of net assets disclosed for the PNFC sector and PFC sector in the whole of government financial report. The Board notes that it is conceivable, although unlikely in practice, that information about the GGS investment in PNFC and PFC sectors in the GGS financial report might differ from the GGS financial information disclosed in the whole of government financial report. This is appropriate given the different contexts in which the two sets of GGS information are presented. GGS financial reports treat the GGS as akin to a separate reporting entity whereas the GGS information disclosed in whole of government financial reports treats the GGS as a sector of a reporting entity.

Issues common to whole of government financial reports and GGS financial reports

GAAP or GFS [paragraph 9]

- BC37 The Board considered whether GAAP or GFS principles should prevail for financial reporting purposes. The Board concluded that GAAP definition, recognition and measurement principles should be applied in accordance with other Australian Accounting Standards, unless otherwise specified, to accommodate GFS principles. In particular, in the interests of GAAP/GFS harmonisation, the Board concluded that GAAP presentation principles should be modified to accommodate GFS principles. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.
- BC38 An alternative approach to adopting GAAP with limited exceptions would have been to decide, for the purposes of preparing financial reports, that the GFS framework should apply. Making that declaration in a Standard would mean that GFS would become part of GAAP. However, the Board formed the view that its objective of promulgating an Australian Accounting Standard that provides useful information in a financial reporting context could be achieved without overriding entirely the GAAP framework. Accordingly, the Board's starting point was the principles and framework of GAAP, and the Board concluded that to simply adopt GFS in the Standard would be an inappropriate approach. To have adopted the GFS framework and principles as the starting point for the development of a Standard within the GAAP context, would have required the Board to become closely involved with all elements of the GFS framework. This would include any ongoing changes to the GFS framework, over which the Board has no control.
- BC39 The Board's decision to adopt GAAP with limited exceptions was made on the basis that the accounting prescribed under Australian Accounting Standards is appropriate for events that occur within the not-for-profit sector, including the government. The Board noted that, in developing those Australian Accounting Standards, where the International Financial Reporting Standards (IFRSs) upon which the Standards are based

do not sufficiently deal with not-for-profit circumstances, Aus paragraphs have been or will be inserted by the Board or separate Standards have been or will be issued to deal with those circumstances.

- BC40 The Board's conclusion facilitates GAAP/GFS harmonisation for whole of government financial reports and GGS financial reports by:
- (a) amending presentation requirements to encompass a comprehensive operating statement (paragraphs 29 and 52(b)(i)) that retains the GAAP classification system but overlays it with a transactions/other economic flows classification system based on GFS (paragraphs 30 and 52(b)(i));
 - (b) expanding disclosure requirements to accommodate, on the face of the statements, key fiscal aggregates under GFS (paragraphs 28, 32, 37 and 52(b)(i)) and the distinction between cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes adopted by GFS (paragraphs 36 and 52(b)(i)); and
 - (c) specifying supplementary disclosure requirements, including GFS measures of key fiscal aggregates, reconciliations between GAAP and GFS measures of key fiscal aggregates and explanations of differences between GAAP and GFS (paragraphs 41 and 52) – (see paragraphs BC48-BC53).
- BC41 The Board decided to utilise the GFS principles related to the distinction between transactions and other economic flows for presentation purposes in the operating statement as it facilitates GAAP/GFS harmonisation in a number of areas – especially at the key fiscal aggregates level. The Board formed the view that applying the GFS principles in this way is possible without breaching the principles of GAAP because the GAAP classification system has been retained but overlaid with the GFS classification system. Furthermore, GAAP disclosure requirements have been retained.
- BC42 In a whole of government context, including the disclosure of information about the PNFC sector and PFC sector, the Board considered the manner in which transactions with owners as owners should be treated. It concluded that, because they are different in nature from amounts recognised on the face of the operating statement, such transactions should be disclosed in the notes or a separate statement. However, consistent with AASB 1049 (September 2006) and paragraph 97(b) and (c) of AASB 101 *Presentation of Financial Statements*, and subject to paragraph 93B of AASB 119 *Employee Benefits*, movements in reserves should be disclosed in notes, on the face of the operating statement or in a separate statement.

Limitation of GAAP options [paragraph 13]

- BC43 The Board concluded that, where other Australian Accounting Standards allow optional treatments, only those treatments that align with GFS should be applied. The Board concluded that this is appropriate because it results in the selection of the accounting policies that advance the objective of GAAP/GFS harmonisation. The Board noted that this would in turn improve consistency and comparability between jurisdictions. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.
- BC44 This approach, which results in mandating a particular accounting policy or limiting an otherwise broader choice of policies, is a crucial element of GAAP/GFS harmonisation as it facilitates the adoption of GFS treatments within the GAAP framework.
- BC45 A contrary view considered by the Board is that all Australian Accounting Standards should apply, without exception, including the full range of optional treatments in those Standards. Under this view, any optional treatments available under GAAP would be available even where they do not align with GFS. It was also suggested that mandating particular optional treatments undermines the transaction neutrality principle. The Board rejected this view as not supporting the objective of GAAP/GFS harmonisation.

Adoption of ABS GFS Manual [paragraph 13]

- BC46 The Board concluded that this Standard should cross-reference to the GFS Manual published by the ABS as amended from time to time, rather than the International Monetary Fund's *Government Finance Statistics Manual 2001* (IMF GFSM 2001). It did so, notwithstanding the context of international harmonisation, on the basis that:
- (a) the ABS has a similar role to the role that the Board plays for GAAP. That is, the ABS GFS Manual refines the generic requirements of IMF GFSM 2001 into more specific and relevant requirements for the Australian context, and the Board refines the requirements of IFRSs in issuing Australian Accounting Standards in relation to not-for-profit entities. [Chapter 7 of the ABS GFS Manual includes a section on the relationship of the ABS GFS Manual to IMF GFSM 2001];

- (b) there is no compelling reason for preferring IMF GFSM 2001 over the ABS GFS Manual. Both the IMF and the ABS are independent authorities; and
- (c) Australia remains ahead of international developments in the field of GAAP/GFS harmonisation.

Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

- BC47 The reference to the ABS GFS Manual is an ambulatory reference, rather than a static one. This means that the ABS GFS Manual referred to is that which may be amended from time to time. In the absence of an ambulatory reference, it may be necessary for the Board to revise its Standard more frequently than would otherwise be the case.

Presentation of key fiscal aggregates [paragraphs 16, 28, 32, 37, 41(a)(i) and 52(b)(ii)]

- BC48 The Board concluded that, as well as requiring presentation of the usual GAAP aggregates, the Standard should require or allow certain GFS named key fiscal aggregates to be presented on the face of the financial statements. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context. These aggregates reflect some of the reporting features of the GFS system by including indicators of the macro-economic impact of a particular government's policy decisions on the economy as a whole, and its overall financing impact on capital markets. These GFS aggregates are important to an understanding of a GGS and a whole of government (including its sectors) and therefore they should be displayed with an appropriate level of prominence in the financial reports.
- BC49 The Board concluded that the key fiscal aggregates should be measured in a manner consistent with other amounts recognised on the face of the financial statements. The Board was mindful of the potential distortion of what might be regarded by some as 'pure GFS' measures of key fiscal aggregates. Nevertheless, the Board considered that the approach adopted increases understanding as to the manner in which the key fiscal aggregates are derived and interconnected with the existing GAAP concepts.
- BC50 Depending on the jurisdiction concerned, it is possible that the measurement differences will not be of great significance, and the Board expects that, over time, several of the measurement differences will be resolved. In any event, measurement differences are included in the reconciliations and explanations required by paragraphs 41(a)(i)(B) and 52(b)(ii)(B) (see paragraph BC52).
- BC51 The Board also noted some concerns about the GFS nomenclature being used to describe the key fiscal aggregates. Despite these concerns, the same GFS nomenclature has been retained on the basis that to do otherwise would require the introduction of further definitions and terminology that could cause confusion for users. This approach is consistent with the Board's expectation that, over time, several of the differences will be resolved. The Board further noted that GAAP and GFS already share other terminology, such as assets and depreciation, despite being subject to different definition, recognition and measurement requirements.
- BC52 Following the Board's decision to require the presentation of the key fiscal aggregates on the face of the financial statements, the Board also concluded that it is appropriate to stipulate certain disclosure requirements. Where the key fiscal aggregates presented on the face of the financial statements differ from those measured in accordance with the ABS GFS Manual, a reconciliation of the two measures and/or an explanation of the differences is required to be disclosed so that users are informed about the relationship between GAAP and GFS.
- BC53 The level of prominence of these disclosures is not prescribed in the Standard.

Disclosure of functional information [paragraphs 48 and 49]

- BC54 The Board concluded that disaggregated/functional information disclosure requirements should be limited to expenses (excluding losses) recognised in operating result and assets. It noted that this disaggregation provides information that is useful in understanding the disbursement of the overall resources of a government. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.
- BC55 In drawing this conclusion, the Board took into account that AASB 114 *Segment Reporting* (and AASB 8) does not apply to not-for-profit entities. The Board is monitoring the implementation of the International Accounting Standards Board (IASB) and the IPSASB Standards on segment reporting, and this may lead to an amendment to the requirements for not-for-profit entities more generally.

- BC56 The Board noted that governments are already providing comparable disaggregated information of GFS expenses and net acquisitions of GFS non-financial assets as part of their GFS reporting requirements and it does not appear to be unduly onerous. The Standard makes it clear that disaggregation should only occur where it can be reliably attributable to a function.

Budgetary information [paragraph 59]

- BC57 The FRC's broad strategic direction makes specific mention of budgetary information. The direction is, among other things, to achieve an Australian Accounting Standard "... in which the outcome statements are directly comparable with the relevant budget statements".
- BC58 The Board concluded that the Standard should require disclosure of certain budgetary information where budgetary information is presented to parliament, including the original budgeted financial statements. The Board also concluded that explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding budget amounts should be disclosed. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context. In doing so, the Board noted that Australian Accounting Standards, including this Standard, do not prescribe the preparation of a budget. The Board also noted that governments typically budget on a GGS basis rather than on a whole of government basis.
- BC59 The Board concluded that the 'presented' budget is more relevant to users than the 'adopted' budget. The presented budget is the one most widely publicised and, accordingly, is the primary reference point for any assessment of the reliability of budgeting, identification of major variances and assessment of the quality of stewardship in relation to the period. Therefore, this Standard mandates inclusion of the first budget presented to parliament. This Standard also allows for revised budgeted financial statements to be disclosed, acknowledging that revised budgets may occur late in the financial period and their disclosure can play a role in demonstrating an aspect of stewardship.
- BC60 The Board concluded that the requirement for disclosure of explanations of major variances should be a key feature within the Standard. It did so on the basis that the information is useful and relevant to users and that merely recording the amount of the variance is not sufficient to meet accountability needs. An explanation of major variances is critical if users are to find comparisons between actual and budget valuable input to their analysis of the performance of government. A similar requirement exists within the New Zealand Accounting Standard NZ IAS 1 *Presentation of Financial Statements* (paragraphs NZ41.1 and NZ41.2) – see also paragraph 70 of NZ FRS-42 *Prospective Financial Statements*.
- BC61 This is not an area in which the IASB has developed an IFRS. The Board considered IPSAS 24 *Presentation of Budget Information in Financial Statements* and concluded that it does not provide an appropriate basis for budgetary reporting in the Australian environment, particularly because it gives primacy to the budget basis over the accounting basis and contemplates explanations of variances being disclosed outside the financial report.
- BC62 The Board also noted that, as part of the Uniform Presentation Framework, typically Australian jurisdictions publish GGS budget information together with budget information relating to the PNFC sector (and the Non-Financial Public Sector, comprising the GGS and PNFC sector) but not the PFC sector. The Board considered whether sector-based budgetary information should be required to be disclosed in the whole of government financial report. The Board concluded that because the PNFC sector and PFC sector are not required by Australian Accounting Standards to prepare separate financial reports, a requirement to disclose budget information for the PNFC sector and PFC sector in whole of government financial reports would be onerous and of limited use to users even if that budget information is presented to parliament. The Board also noted that GGS budgetary information is required to be disclosed in GGS financial reports in accordance with this Standard. Accordingly, the Board concluded that sector-based budgetary information should not be required to be disclosed in whole of government financial reports.

Performance indicators

- BC63 The proposals in Exposure Draft ED 142 *Financial Reporting of General Government Sectors by Governments* (issued July 2005) relating to performance indicators were modelled on the requirements that were contained within AAS 27, AAS 29 and AAS 31 at that time. Most respondents to ED 142 supported the principles but seemed to interpret the proposals as potentially mandating disclosure of performance indicators in the GGS financial reports. Many claimed it would be premature to mandate disclosure of performance indicators.
- BC64 The Board decided to not retain the proposed requirements and guidance for either whole of government financial reports or GGS financial reports. It intends to consider issues relating to performance indicators more comprehensively in a separate project in due course.

Transitional requirements [paragraphs 66-68]

- BC65 Consistent with the general approach adopted in this Standard, the Board decided that the requirements relating to changes in accounting policies in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* should apply to the first financial report prepared in accordance with this Standard and that it is not necessary to specify such a requirement in this Standard.
- BC66 The Board noted that jurisdictions adopted Australian equivalents to IFRSs for their whole of government financial reports for annual reporting periods ending on 30 June 2006 (under AAS 31 and AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*) and AASB 1049 requires the date of transition of the GGS to be the date of transition used in the whole of government financial reports. The Board also noted that all jurisdictions intended deferring adopting AASB 1049 (September 2006) until a whole of government harmonised Standard is in place (see paragraph BC2). Accordingly, the Board concluded that it is only necessary to provide specific transitional requirements in a whole of government GAAP/GFS harmonised Standard to the extent necessary to facilitate consistency between GGS and whole of government financial reporting and between GAAP and GFS.
- BC67 The Board concluded that AASB 1 should be applied by GGSs in their first financial report prepared in accordance with this Standard, with certain exceptions.
- BC68 As noted in paragraph BC66, the Board concluded that, in relation to the GGS, the date of transition should be the date of transition used in the whole of government financial report and that the whole of government elections under AASB 1 that align with GFS should be adopted by the GGS. This is on the basis that the GGS is part of the whole of government. The Board noted that to do otherwise would inappropriately give rise to potential differences between the amounts in the GGS financial report and the whole of government financial report.
- BC69 The Board concluded that GGSs should be relieved from the disclosure requirements on transition, including the reconciliation from previous GAAP to Australian equivalents to IFRSs, in paragraphs 38 to 46 of AASB 1. The Board considers that the disclosures would not be relevant given that the date of transition of the GGS is the same as the date of transition used in the whole of government financial report, which is likely to be two or three years earlier than the first time the GGS applies this Standard.
- BC70 The Board also concluded that GGSs and whole of governments should be subject to the other aspects of AASB 1 to enable governments to avail themselves of the various forms of optional relief provided under AASB 1 to facilitate GAAP/GFS harmonisation. The extent to which that relief is available is limited to some extent by the operation of paragraphs 13, 66 and 68(c) of this Standard.