

## Overview of AASB 1049 – History, Amendments and Current Requirements

This Attachment 12.3 provides further background in relation to the Agenda Paper 12.1 (particularly paragraphs 6-10&17). It provides further details particularly for the Board members who do not fully recall the history of AASB 1049. This attachment is structured in the following four sub-headings:

- Circumstances under which AASB 1049 (including the requirements to disclose GFS measures of key fiscal aggregates and GAAP/GFS reconciliations) was introduced (paragraphs 1-4)
- History of amendments (paragraphs 5-10)
- AASB 1049 current requirements (paragraphs 11-17)
- Other reporting requirements (not part of AASB 1049 but relevant to GAAP/GFS harmonisation (paragraphs 18-22)

### ***Circumstances under which AASB 1049 (including the requirements to disclose GFS measures of key fiscal aggregates and GAAP/GFS reconciliations) was introduced***

- 1 In December 2002 the FRC issued a broad strategic direction for the Board to pursue as an urgent priority the harmonisation of GFS and GAAP reporting. The original FRC direction was expressed as:

“The objective should be achieved as an AAS for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.

The strategic direction agreed by the FRC involves including within Australian GAAP applicable to the public sector, the key features of the GFS framework. This will enable comparability across the public sector within Australia, without sacrificing the high level of international comparability which currently exists through GFS reporting.” (FRC Bulletin 2002/5 18 December 2002).

The direction was subsequently modified in March 2003 with the second paragraph deleted because “this would help ensure that the strategic direction was seen to be fully consistent with the respective roles of the FRC and AASB as specified in the Australian Securities and Investments Commission Act 2001.” (FRC Bulletin 2003/1 11 April 2003)

- 2 GAAP/GFS harmonisation was prompted by the following problems<sup>1</sup> and aimed to improve clarity, comparability and transparency of government reporting:
  - the co-existence of GFS reports and GAAP based financial reports, which were similar in appearance but with different fundamental objectives<sup>2</sup> and some legacy

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1 Challen, D and Jeffery C (2003) “Harmonisation of government statistics and generally accepted accounting principles” (Australian Accounting Review 13)

2 The objective of the GFS framework is to “facilitate macroeconomic analysis...” and “provide the means with which to assess and measure the economic impact of government activity and liquidity and sustainability of fiscal policy” (paragraph 4.2, page 51, ABS, 2015, Australian System of Government

differences. There were differences in some definitions, recognition criteria, measurement, classification and presentation rules and principles, which detracted from the usefulness of both types of reports;

- there were no requirements for GFS reports to be audited given no applicable AAS existed, which undermined the reliability of the key outcome information provided in the GFS reports; and
  - GAAP based financial reports were not comparable across jurisdictions (or with GFS based reports), which confused users of these reports including politicians.
- 3 In July 2005 the AASB issued ED 142 *Financial Reporting of General Government Sectors by Governments*, which led to the issuance of AASB 1049 *Financial Reporting of GGS by Governments* in September 2016. In May 2007, ED 155 *Financial Reporting by Whole of Governments* was issued. Although ED 155 focused only on WoG requirements, the Board decided to develop an integrated Standard that specifies GAAP/GFS harmonisation requirements for both GGS and WoG (including sectors) financial reporting. Accordingly, the Board issued a revised AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in October 2007, which is operative for annual reporting periods beginning on or after 1 July 2008, with early adoption allowed.
- 4 In developing the Standard, AASB due process was followed and included consultations with key constituents including HoTARAC and ABS. ABS was particularly supportive as it prefers statistical information derived from the rigour of an accounting (audited) system (to the extent the system is consistent with GFS principles or GFS can be deduced from the system).

### ***History of amendments***

- 5 Since it was issued in October 2007 AASB 1049 has been subject to a number of significant reviews and amendments, as noted in paragraphs 6-10 below.

#### ***Amendments arising from a post-implementation review (PIR)***

- 6 In 2010 the Board decided to undertake a PIR, to consider consistency of application of AASB 1049 across jurisdictions and to identify any material issues at the operational level with a view to improve financial reporting.
- The PIR review led to the following amending standards:
    - AASB 2011-3 *Amendments to Australian Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments* (May 2011): the

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Finance Statistics: Concepts, Sources and Methods). The objective of GAAP is to “provide financial information about the reporting entity that is useful to users of financial information in making decisions about providing resources to the entities” (paragraph OB2, page 29, *Framework for the Preparation and Presentation of Financial Statements (June 2014)*). These different objectives can give rise to different results. For example, GFS (as part of the System of National Accounts) maintains symmetry for both parties to a transaction whereas GAAP is not so constrained.

amendments included providing relief from adopting the latest version of the ABS GFS Manual and related disclosures.

- AASB 2011-13 *Amendments to Australian Standards – Improvements to AASB 1049*: the amendments included allowing disclosure of other fiscal aggregates but not as key fiscal aggregates; and providing additional guidance and examples on classification between transactions and other economic flows for GAAP items without GFS equivalents.
- The PIR considered the following significant issues related to GAAP/GFS reconciliation requirements but did not result in amendments to AASB 1049
  - A view was expressed that the disclosure of GAAP/GFS reconciliations is unnecessary and therefore the reconciliation requirements should be removed. However, the Board decided the reconciliation requirements should stay “because they provide useful information for users in the context of GAAP/GFS harmonisation and the reconciliation schedule is a critical part of AASB 1049.” (Basis for Conclusion on AASB 2011-13, paragraph BC30) Furthermore, continuing to require reconciliations was consistent with the Board’s expectation that, over time, several of the differences would be resolved.
  - Implications of GFS amounts determined by the ABS differing from and being published after the GFS amounts disclosed in the financial statements. The Board decided that the GFS amounts previously reported in the financial statements (not the GFS amounts published by ABS) would be the relevant amounts to be reconciled to in the comparative information disclosed in the following year’s financial statements, and this does not need to be explicitly addressed in AASB 1049. (Basis for Conclusion on AASB 2011-13, paragraph BC31)

#### *Amendments associated with Defence Weapons Platforms (DWPs)*

- 7 In August 2012 the AASB received a letter from the Commonwealth Department of Finance and Deregulation (DoFD) requesting deferral of the requirement to measure DWPs at fair value under AASB 1049.
- 8 The Board noted the substantial practical issues relating to the reliable measurement of DWPs at fair value and consequently issued the amending standard AASB 2012-8 *Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms* to provide a further 2-year transitional relief for DWPs.

#### *Other major amendments*

- 9 AASB 2013-1 *Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements* – amendments to relocate the budgetary information disclosure requirements to AASB 1055 *Budgetary Reporting*.

## *Consequential changes*

10 As listed below, AASB 1049 has been amended eleven times for consequential changes arising from other revised AAS, issuance of new AAS and withdrawal of existing AAS:

- *AASB 2008-9 Amendments to AASB 1049 for Consistency with AASB 101* – to align with revised AASB 101 *Presentation of Financial Statements* (September 2007), including presenting a WoG and GGS statement of changes in equity<sup>3</sup>, and using AASB 101 terminology (eg Balance Sheet is amended to statement of financial position)
- *AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* – arising from the IASB’s amendments to IAS 1 relating to presentation of Items of Other Comprehensive Income
- *AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* – arising from the revised AASB 119 *Employee Benefits*
- *AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* – arising from IASB’s amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and the AASB’s decision to defer the mandatory application of AASB 10 *Consolidated Financial Statements* to NFP entities
- *AASB 2013-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities* – arising from AASB’s amendments to AASB 10, AASB 12 *Disclosure of Interests in Other Entities* and AASB 127 *Separate Financial Statements*
- *AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* – as a result of withdrawal of AASB 1031 *Materiality*
- *AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15* – arising from the issuance of AASB 15 *Revenue from Contracts with Customers*
- *AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* – arising from the issuance of AASB 9 *Financial Instruments*
- *AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* – arising from revised AASB 101 to provide clarification regarding the disclosure requirements in AASB 101
- *AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* – arising from revised AASB 124 *Related Party Disclosures* to extend the scope of AASB 124 to include application by NFP public sector entities
- *AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15* – arising from deferral of the mandatory effective date of AASB 15.

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3 GFS Manual does not contemplate a statement of changes in equity

## **AASB 1049 current requirements**

AASB 1049 specifies the financial reporting requirements for WoG general purpose financial statements and GGS financial statements of each government.

### *Disclosure of key fiscal aggregates and GAAP/GFS reconciliation requirements*

- 11 AASB 1049 paragraphs 16<sup>4</sup>, 17, 28, 32 & 37 require disclosure of key fiscal aggregates on the face of the financial statements measured in accordance with AAS (GAAP measures).
- 12 'Key fiscal aggregates' is defined in Appendix A of AASB 1049 as "...analytical balances in the ABS GFS Manual, are data identified in the ABS GFS Manual as useful for macro-economic analysis purposes, including assessing the impact of a government and its sectors on the economy..." and are 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, and are therefore important to an understanding of GGS and WoG. Key fiscal aggregates as prescribed in AASB 1049 include net worth, net operating balance<sup>5</sup>, total change in net worth<sup>6</sup>, net lending/(borrowing)<sup>7</sup>, and cash surplus/(deficit)<sup>8</sup>.
- 13 AASB 1049 paragraph 18 allows a government to disclose additional information "in a way that does not detract from the information prescribed in this Standard". This

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4 AASB 1049 paragraph 16 states that "subject to paragraphs 41(a)(i)(A) and 52(b)(ii)(A) of this Standard, key fiscal aggregates that are disclosed for the whole of government or the GGS, either because they are required by this Standard or a government elects to provide additional information, shall be measured in a manner that is consistent with amounts recognised in the corresponding statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows."

5 "This is calculated as income from transactions minus expenses from transactions. Based on the definition in the ABS GFS Manual (Glossary, page 259)." (AASB 1049 Appendix A)

6 Net worth is defined as: "Assets less liabilities and shares/contributed capital. For the GGS, net worth is assets less liabilities since shares and contributed capital is zero. It is an economic measure of wealth and reflects the contribution of governments to the wealth of Australia. Defined in the ABS GFS Manual (Glossary, page 259)." (AASB 1049 Appendix A)

7 "The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Based on the definition in the ABS GFS Manual (Glossary, page 259)." (AASB 1049 Appendix A)

8 "Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less value of assets acquired under finance leases and similar arrangements. Defined in the ABS GFS Manual (paragraph 2.124)." (AASB 1049 Appendix A)

includes additional fiscal aggregates, such as net debt<sup>9</sup> and net financial liabilities<sup>10</sup> prescribed in the Uniform Presentation Framework (UPF)<sup>11</sup> (refer to paragraphs 18-19).

- 14 AASB 1049 paragraph 18B requires additional key fiscal aggregates be measured in accordance with AAS and "...Consistent with paragraphs 41(a)(i) and 52(b)(ii) of this Standard, where they differ, corresponding key fiscal aggregates measured in accordance with the ABS GFS Manual are disclosed, together with a reconciliation of the two measures of each key fiscal aggregate."
- 15 AASB 1049 paragraph 41(a)(i)&(ii) specifies the disclosure of GFS key fiscal aggregates, GAAP to GFS reconciliations for the WoG and GGS, and explanations of key technical terms<sup>12</sup>. The paragraph states:

"In addition to the disclosures required to be made in other explanatory notes in accordance with other applicable Australian Accounting Standards, the following disclosures shall be made:

(a) for the whole of government and the GGS:

(i) where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates provided pursuant to paragraph 16 of this Standard:

(A) the key fiscal aggregates measured in accordance with the ABS GFS Manual; and

(B) a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences; and

(ii) where the key fiscal aggregates measured in accordance with the ABS GFS Manual do not differ from the key fiscal aggregates provided pursuant to paragraph 16, a statement of that fact; and

(iii) explanations of key technical terms used ..."

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9 "Net debt equals sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements. The presentation of net debt has been broadened under the Australian GFS to incorporate a range of measures presented in a matrix format with expanding sector and instrument coverage. Jurisdictions will be maintaining the narrower definition of net debt outlined above." (page 14 of UPF).

10 "Total liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth." (page 14 of UPF).

11 "The UPF framework sets out the minimum information to be reported by governments." (page 2 of UPF).

12 Paragraphs 46 of 1049 clarifies that key technical terms include transactions, other economic flows, key fiscal aggregates such as net operating balance, other fiscal aggregates such as net debt, subtotals of the financial statements such as operating result and financial assets.

16 Equivalently, AASB 1049 paragraph 52(b)(ii)&(iii) specifies the disclosure by WoG of GFS key fiscal aggregates and GAAP to GFS reconciliations for the GGS, PNFC sector and PFC sector.

#### *Other presentation and disclosure requirements*

17 In addition to the GAAP/GFS reconciliation requirements, AASB 1049 introduced other requirements. These requirements have shaped today's public sector financial reporting and include:

- One of the key requirements under AASB 1049 is the limitation of GAAP options to align with GFS. This is the reason why the public sector's non-financial assets are measured at fair value rather than at cost (refer to paragraph 17 of the Agenda Paper 12.1). This also explains why in the public sector borrowing costs are not capitalised but expensed when incurred.
- AASB 1049 also specifies the partial consolidation basis for GGS financial statements in which it only consolidates entities within the GGS (government departments) using the consolidation procedures specified in AASB 10 and account for other government controlled entities in PNFC and PFC sectors as equity investments and measured at fair value, the government's proportional share of the carrying amount of net assets (as a surrogate for fair value) or zero. Disclosure of sector information within WoG, consisting GGS, PNFC and PFC is also required.
- To align presentation and disclosures to GFS requirements, AASB 1049 requires items of comprehensive results to be classified as 'transactions' or 'other economic flows', separate presentation in cash flow statements of cash flows from investing in financial assets for policy purposes and for liquidity management purpose, as well as disclosure of government purpose functions for non-financial assets and expenses.

#### ***Other reporting requirements (not part of AASB 1049 but relevant to GAAP/GFS harmonisation)***

##### *UPF*

18 UPF was introduced in the May 1991 Premiers' Conference. "The primary objective of the UPF is to ensure that the Commonwealth, State and Territory governments provide a common 'core' of financial information in their budget papers. It was recognised that a more uniform approach to the presentation of financial data would facilitate a better understanding of individual governments' budget papers and provide for more meaningful comparisons of each government's financial results and projections." (UPF, page 1) All jurisdictions now adopt UPF.

19 UPF was updated in 2008 in response to the release of AASB 1049 and was last updated in February 2019. UPF is now largely consistent with AASB 1049 **presentation**

requirements<sup>13</sup>. Differences between UPF and AASB 1049 presentation requirements include:

- UPF is applicable to budgets and requires mainly GGS information for the budget year, the preceding year and for three forward years, whereas AASB 1049 is only applicable to actuals reporting (financial statements) and requires GGS and WoG information for the financial year and the preceding year;
- UPF applies to the entire Australian public sector including PNFC and PFC sectors, albeit with a focus on GGS, while AASB 1049 applies to GGS and WoG;
- as noted in paragraph 13 above, UPF prescribes additional fiscal aggregates not included in AASB 1049 (eg net debt, net financial worth and net financial liabilities).

#### *AASB 1055 Budgetary Reporting*

20 AASB 1055 specifies budgetary disclosure requirements for the WoG, GGS and not-for-profit (NFP) entities within the GGS of each government where budgeted financial statements are presented to parliament.

21 AASB 1055 paragraph 6 requires:

“Where an entity’s budgeted

(a) statement of financial position;

(b) statement of profit or loss and other comprehensive income;

(c) statement of changes in equity; or

(d) statement of cash flows;

reflecting controlled items is presented to parliament and is separately identified as relating to that entity, the entity shall disclose for the reporting period:

(e) that original budgeted financial statement presented to parliament, presented and classified on a basis that is consistent with the presentation and classification adopted in the corresponding financial statement prepared in accordance with Australian Accounting Standards; and

(f) explanations of major variances between the actual amounts presented in the financial statements and the corresponding original budget amounts.”

22 Neither AASB 1055 nor UPF mandate the budget basis of recognition and measurement. Therefore, jurisdictions can choose the GFS basis or GAAP basis (or another basis) for budget purposes on an item by item basis.

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13 UPF only addresses presentation, it does not address recognition and measurement.