

## REPORT ON THE POST IMPLEMENTATION REVIEW OF AASB 1049

AASB 1049 *Whole of Government and General Government Sector Financial Statements* was developed in response to the Financial Reporting Council (FRC) strategic direction (December 2002) to the AASB to harmonise the Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).

The objective of the FRC strategic direction was to develop an Australian Accounting Standard for a single set of government reports which are auditable and comparable between jurisdictions, and in which the financial (outcome) statements are directly comparable with relevant budget statements.

AASB 1049 (October 2007, as amended) has undergone many amendments since its release. In April 2021, the FRC commissioned an independent Post-Implementation Review (PIR) of AASB 1049.

The purpose of the PIR is, in respect of Whole of Government and General Government Statements, to:

- a) evaluate the extent to which AASB 1049 (October 2007, as amended) and the budgetary disclosure requirements in AASB 1055 *Budgetary Reporting* (March 2013, as amended) have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved;
- b) develop improvements, if needed, to AASB 1049 to better achieve the objective of the FRC strategic direction and the objectives set out in AASB 1049;
- c) evaluate the costs and benefits of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055; and
- d) reassess whether there is a need to have a specific Accounting Standard to harmonise GFS and GAAP.

The PIR involved information gathering and research activities as follows:

- a) Preparation of a Consultation Paper that included questions for users of and preparers of government financial statements, which was circulated to targeted stakeholders and other members of the public on request;
- b) Video conference meetings with stakeholders to discuss their responses to the Consultation Paper, as required;
- c) A review of academic research papers, Australian Accounting Standards, and relevant publicly available documents of the AASB and other standard-setting bodies.

### Key findings

All stakeholders who responded to the Consultation Paper stated that the objective of the FRC direction has been achieved - AASB 1049 has been successful in harmonising GFS and GAAP reporting, but harmonisation may be eroding. There is strong support for retaining AASB 1049 and AASB 1055 in their current form.

### Report recommendations

- **Recommendation 1:** No significant changes should be made to AASB 1049.
- **Recommendation 2:** Consideration should be made to implementing minor changes to AASB 1049, AASB 1055 and supporting material to improve harmonisation, reduce cost or improve information for users (see section 6.1 of the Report for further detail).

- **Recommendation 3:** The number and magnitude of convergence differences should be monitored over the next three years to gauge the impact on the costs of preparers and users and the impact on usefulness of the financial statements.

Recommendation to the FRC

Acceptance of the Report and consideration, in conjunction with the Public Sector Working Group of next steps.
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DRAFT 13 October 2021

Post-Implementation Review of  
AASB 1049 *Whole of Government  
and General Government Sector  
Financial Reporting*

Prepared for the Financial Reporting Council

Langfield-Smith Consulting  
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Prepared by Dr Kim Langfield-Smith

Langfield-Smith Consulting

ABN 892 7979 5620

October 2021

[langfieldsmithconsulting@outlook.com](mailto:langfieldsmithconsulting@outlook.com)

0417 327 088

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## Executive Summary

### Background to the Post-Implementation Review

AASB 1049 *Whole of Government and General Government Sector Financial Statements* was developed in response to the Financial Reporting Council (FRC) strategic direction (December 2002) to the AASB to harmonise the Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).<sup>1</sup>

The objective of the FRC strategic direction is to develop an Australian Accounting Standard for a single set of government reports which are auditable and comparable between jurisdictions, and in which the financial (outcome) statements are directly comparable with relevant budget statements.

AASB 1049 (October 2007, as amended) has undergone many amendments since its release. In April 2021, the FRC commissioned an independent Post-Implementation Review (PIR) of AASB 1049.<sup>2</sup>

The purpose of the PIR is, in respect of Whole of Government and General Government Statements, to:

- (a) evaluate the extent to which AASB 1049 (October 2007, as amended) and the budgetary disclosure requirements in AASB 1055 *Budgetary Reporting* (March 2013, as amended) have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved;
- (b) develop improvements, if needed, to AASB 1049 to better achieve the objective of the FRC strategic direction and the objectives set out in AASB 1049;
- (c) evaluate the costs and benefits of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055; and
- (d) reassess whether there is a need to have a specific Accounting Standard to harmonise GFS and GAAP.<sup>3</sup>

The PIR involved information gathering and research activities as follows:

- (a) Preparation of a Consultation Paper that included questions for users of and preparers of government financial statements, which was circulated to targeted stakeholders and other members of the public on request;

All stakeholders who responded to the Consultation Paper stated that *the objective of the FRC direction has been achieved* - AASB 1049 has been successful in harmonising GFS and GAAP reporting, but harmonisation may be eroding.

There is strong support for retaining AASB 1049 and AASB 1055 in their current form.

<sup>1</sup> GAAP refers to Australian Accounting Standards and GFS is the Australian System of Government Finance Statistics: Concepts, Sources and Methods (ABS cat no 5514.0), most recent update 2015.

<sup>2</sup> Langfield-Smith Consulting was awarded the public tender to undertake the PIR, independent from the FRC and AASB.

<sup>3</sup> *Request for Quotation (Approach to Market) Post-Implementation Review of AASB 1049 Whole of Government and General Government Sector Financial Reporting*, Financial Reporting Council and Australian Accounting Standards Board, 2020.

- (b) Video conference meetings with stakeholders to discuss their responses to the Consultation Paper, as required;
- (c) A review of academic research papers, Australian Accounting Standards, and relevant publicly available documents of the AASB and other standard-setting bodies.

## Harmonisation of GFS and GAAP

AASB 1049 applies to the Australian government and each state and territory government (nine jurisdictions). Before AASB 1049, jurisdictions produced a mix of financial reports released at various times and based on different frameworks, including GAAP, cash GFS, and accrual GFS. Several researchers described confusion amongst users, a lack of use of GAAP-based reports by financial markets and rating agencies due to un-timely release, and inconsistencies between budget data and financial reports within the same jurisdiction.<sup>4</sup>

AASB 1049 specifies requirements for the form and content of Whole of Government and General Government Sector financial reports, consistent with GAAP, and with the rules of the GFS manual. Thus, differences between financial statements produced under GFS and GAAP data are reduced – the data is harmonised. AASB 1049 requires the following:

*Unless otherwise specified in this Standard, the whole of government financial statements and the GGS financial statements shall adopt the same accounting policies and be prepared in a manner consistent with other applicable Australian Accounting Standards. (paragraph 9)*

*... where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied. (paragraph 13)*

The Australian Bureau of Statistics (ABS) makes adjustments to the GAAP data in the accounts of the Commonwealth, states and territory governments, to produce GFS data. Since the release of AASB 1049, many of the differences between GAAP and GFS have not been significant.

## Summary of findings

### (a) Has the objective of the FRC strategic direction been achieved?

Without exception, all stakeholders who responded to the Consultation Paper stated that AASB 1049 has been successful in harmonising GFS and GAAP reporting so that *the objective of the FRC strategic direction has been achieved*.

HoTARAC<sup>5</sup> stated that all of their members “overwhelmingly report that AASB 1049 meets its objectives”. Many stakeholders - users and preparers of government financial statements – were

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<sup>4</sup> See for example, Aggestam et al. (2014) and Challen and Jeffrey (2003). **Appendix C** contains a list of academic references with full citation details.

<sup>5</sup> HoTARAC - Heads of Treasury Accounting and Reporting Advisory Committee

passionate in their belief that AASB 1049 has had a positive impact on the quality, consistency, and efficiency of government financial reporting.

Not only has harmonisation been achieved, AASB 1049 has led to additional benefits, including improved information to assess stewardship and accountability of governments, greater comparability between end-of-year financial reports and budgets and between reports of jurisdictions, and improved data quality for the ABS.

However, most stakeholders warned that requirements in some new or amended Australian Accounting Standards have started to *erode the level of harmonisation between GAAP and GFS* and thus, the achievement of the objective of the FRC strategic direction.

For example, AASB 16 *Leases*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 1059 *Service Concession Arrangements: Grantors* do not include optional treatments that would enable jurisdictions to comply with both the Australian Accounting Standards and the GFS rules. AASB 16 is the standard of most concern. While convergent differences are reported in the explanatory notes to the accounts (AASB 1049 paragraph 41(a)), there is concern that over time the cumulative differences may increase significantly and consistency between GAAP and GFS will decrease.

One solution is to include optional treatments in AASB 16 or AASB 1059 to reduce convergence. However, this would compromise the integrity of the two standards and the AASB principle of transaction neutrality. Another solution is for the GFS rules to be changed. However, this would compromise the GFS framework and impact the harmonisation of the Australian GFS with the international GFS.

**(b) How useful are specific requirements of AASB 1049 and are changes to AASB 1049 needed?**

A range of information in the Whole of Government and GGS financial statements was found to be useful to stakeholders and other users.

1. The measurement of non-current assets and liabilities at **fair value** was *supported by stakeholders*. Fair value is accepted by the ABS as a reasonable proxy for the GFS requirement of valuing non-current assets at current market value, and thus supports harmonisation. Fair value provides useful information for macro-economic analysis and the longer-term focus necessary in the public sector, and fair values hold governments accountable for decisions about the existing use of those assets.

The main *shortfalls in using fair value* are the practical challenges of measurement (where there is no or a limited active market for assets), and the ongoing costs incurred by jurisdictions to determine fair value.

2. There was strong support from all stakeholders for retaining the requirement to disclose **key fiscal aggregates**. Stakeholders stressed the usefulness of key fiscal aggregates for a range of users and their decision making, with one stakeholder describing the disclosure of key fiscal aggregates as one of the most useful aspects of AASB 1049.
3. The disclosure of the **reconciliation or explanation about differences in key fiscal aggregates** was not highly valued by many stakeholders, and the arguments provided to retain this disclosure requirement were not strong.

A review of 2019-2020 financial statements of jurisdictions, demonstrates that under AASB 1049 paragraph 41, the disclosure of the reconciliation and/or explanation can be undertaken at quite



manageable levels of detail, and therefore presumably for a modest cost. Continuing to require the difference be disclosed could signal the types of items that make up that convergence and whether convergence difference is increasing (or not). It is only recently that the choice to provide a descriptive explanation of the convergence difference rather than a quantitative reconciliation has been allowed, and this can be expected to be adopted by more jurisdictions in the future.

4. There was strong support for retaining the **budgetary disclosure requirements under AASB 1055** based on their usefulness, and their impact on comparability, transparency and accountability.

Minor opportunities for improvements to AASB 1049 and AASB 1055 were suggested, but overall, stakeholders presented strong views that *no changes should be made to AASB 1049 and AASB 1055*.

**(c) Do the benefits to users exceed the costs of compliance with AASB 1049?**

The cost of compliance with AASB 1049 is only a small component of the overall cost of financial reporting by governments. Indeed, rather than increasing costs, AASB 1049 provide an efficient way of controlling costs, and minimising the costs associated with meeting the wider public sector reporting requirements. Thus, the costs to preparers are minimal and clearly exceed the benefits to users.

**(d) Is there still need for a specific Accounting Standard to harmonise GFS and GAAP?**

There is *overwhelming support for retaining AASB 1049 (and AASB 1055) in its current form*. To rely only on other Australian Accounting Standards would create additional cost for jurisdictions and the ABS, reduce consistency in reporting, negatively impact harmonisation, and reduce the quality of information and auditability.

## Recommendations

AASB 1049 (and AASB 1055) have achieved the FRC strategic direction, and a range of other positive outcomes have resulted from the introduction of the two standards.

**Recommendation 1 No significant changes should be made to AASB 1049.**

**Recommendation 2 Consideration should be made to implementing minor changes to AASB 1049, AASB 1055 and supporting material, as outlined in section 6.1.**

The potential for erosion in the level of harmonisation between GAAP and GFS has emerged with the release of AASB 16 and AASB 1059. It is still too early to gauge the magnitude of the convergence difference that will result.

If future amendments to Australian Accounting Standards or new Australian Accounting Standards lead to convergence differences that are significant in number and in magnitude, harmonisation between GFS and GAAP will decrease and consideration may need to be given to the ongoing importance of the FRC strategic direction. Growing convergence differences may lead to increased costs for preparers of the financial statements and users (such as the ABS) and may impact the usefulness of accounting data in the financial statements.

**Recommendation 3 The number and magnitude of convergence differences should be monitored over the next three years to gauge the impact on the costs of preparers and users and the impact on usefulness of the financial statements.**

## 1. Introduction and context

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### 1.1 The purpose of the Post-Implementation Review

An independent post-implementation review (PIR) of AASB 1049 was commissioned by the FRC in April 2021. The purpose of the PIR is, in respect of Whole of Government and General Government Statements, to:

- (a) evaluate the extent to which AASB 1049 (October 2007, as amended) and the budgetary disclosure requirements in AASB 1055 *Budgetary Reporting* (March 2013, as amended) have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved;
- (b) develop improvements, if needed, to AASB 1049 to better achieve the objective of the FRC strategic direction and the objectives set out in AASB 1049;
- (c) evaluate the costs and benefits of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055; and
- (d) reassess whether there is a need to have a specific Accounting Standard to harmonise GFS and GAAP.

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* was developed in response to the FRC strategic direction (December 2002) to the AASB to harmonise the Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).<sup>6</sup>

*With regard to public sector reporting, the Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard 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 (GAAP). (FRC Bulletin 2002/5 18 December 2002, as modified by FRC Bulletin 2003/1 11 April 2003).*

### 1.2 The Australian approach to public sector reporting

AASB 1049 applies to the Australian government and each state and territory government (nine jurisdictions). Prior to AASB 1049, jurisdictions produced a mix of financial reports released at various times and based on different frameworks, including GAAP, cash GFS and accrual GFS. Several researchers described confusion amongst users, lack of use of GAAP-based reports by financial markets and rating agencies due to un-timely release, and inconsistencies between budget data and financial reports within the same jurisdiction.<sup>7</sup>

AASB 1049 specifies the requirements for the form and content of Whole of Government and GGS financial reports, adopting many of the GFS concepts specified in the GFS Manual issued by the Australian Bureau of Statistics (ABS).<sup>8</sup> Thus, many differences between financial statements produced under GAAP and GFS are reduced.

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<sup>6</sup> Australian Accounting Standards encompass GAAP.

<sup>7</sup> See for example, Aggestam et al. (2014) and Challen and Jeffrey (2003). Full citations are in **Appendix C**.

<sup>8</sup> The *ABS GFS Manual* is the Australian System of Government Finance Statistics: Concepts, Sources and Methods (ABS cat no 5514.0) as updated from time to time, most recently 2015.

Unlike some other countries (for example, New Zealand, South Africa<sup>9</sup>), Australia has not adopted specific public sector accounting standards that are fully or partially based on the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB). One reason for Australia's non-adoption is that creating specific public sector accounting standards would counter the AASB policy of *transaction neutrality*. This is a sector-neutral approach where "like transactions and events should be accounted for in a like manner by all types of entities, reflecting their economic substance (transaction neutrality), unless there is a justifiable reason not to do so."<sup>10</sup>

Australia has adopted Australian versions of IFRS Standards and has managed the needs of the public sector through AASB 1049 and where warranted, by providing optional treatments in Australian Accounting Standards which are consistent with GFS rules.

### The public sector reporting entities

AASB 1049 applies to the Whole of Government and General Government Sector (GGS) reporting entities. AASB 1049 defines the Whole of Government financial statements as:

*General purpose financial statements prepared by a government that are prepared in accordance with Australian Accounting Standards, including AASB 10 Consolidated Financial Statements, and thereby separately recognise assets, liabilities, income, expenses and cash flows of all entities under the control of the government on a line-by-line basis.*(Appendix A, Defined terms, p 18)

The GGS is one of three government sectors that make up the consolidated Whole of Government entity, as follows:<sup>11</sup>

- The *General Government Sector (GGS)* includes all government units and non-profit institutions controlled and mainly financed by taxation. These units are legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area and which:
  - (i) are non-market in nature;
  - (ii) provide goods and services to the community or individuals free of charge or at prices that are not economically significant; and
  - (ii) redistribute income and wealth by means of taxes and other compulsory transfers.
- *Public non-financial corporations (PNFC)* include Australian resident government-controlled corporations and quasi corporations that provide goods and services which are mainly market, non-regulatory and non-financial in nature. They are financed predominately through sales to consumers of goods and services, e.g., government-controlled utilities and transport companies.
- *Public financial corporations (PFC)* include Australian resident government-controlled corporations and quasi corporations that provide auxiliary financial services or trade in

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<sup>9</sup> See [International Public Sector Financial Accountability Index | IFAC](#)

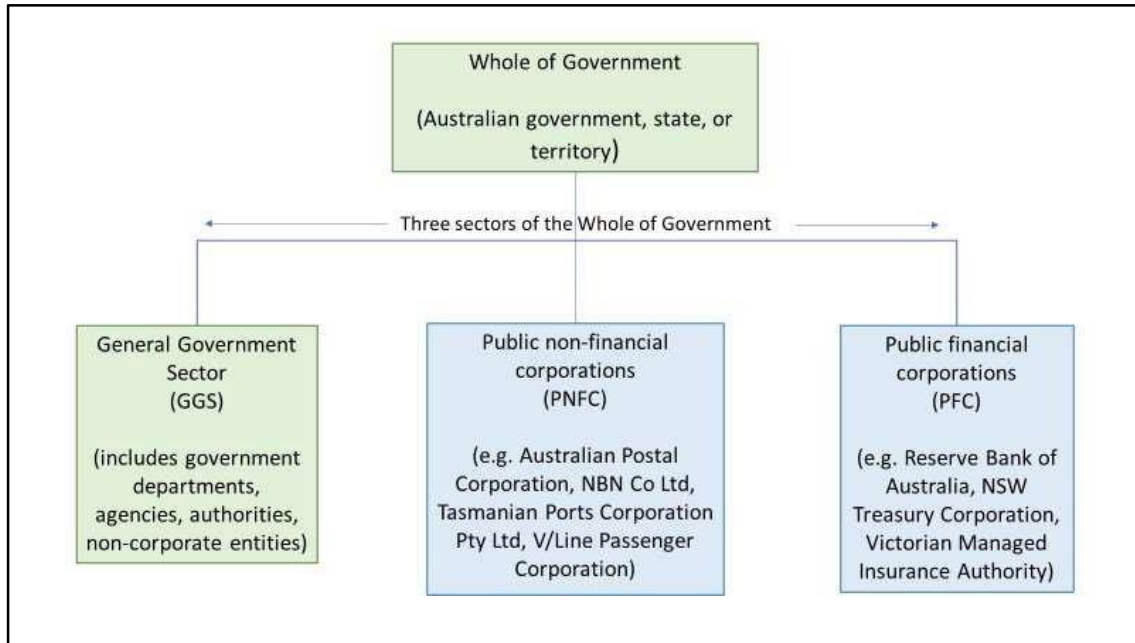
<sup>10</sup> The AASB's *Approach to International Public Sector Accounting Standards*, October 2019, p. 5.

<sup>11</sup> Based on AASB 1049, Appendix A Defined terms, pp. 17-18, and [Glossary | Department of Finance](#)

financial assets and liabilities and operate commercially in the financial markets, e.g., government-controlled banks and insurance companies.

**Figure 1** illustrates the relationships between the two reporting entities under AASB 1049, shaded in green. AASB 1049 does not apply to the financial reporting by local government. The Treasury or Finance authorities in each Australian jurisdiction are responsible for determining reporting requirements for these entities.

**Figure 1 The reporting entities under AASB 1049**



### The Australian GFS and international harmonisation

The Australian GFS Manual is produced by the Australian Bureau of Statistics (ABS) and GFS are used by government agencies<sup>12</sup> and others for macroeconomic analysis and decision making, preparation of the national accounts and the analysis of fiscal policies.

The principles of Australian GFS are outlined in the 2015 GFS Manual, which is based on two international statistical standards:

- the *System of National Accounts 2008* (SNA 2008), issued jointly by the United Nations (UN), the International Monetary Fund (IMF), the Commission of European Communities, the Organisation for Economic Co-operation and Development (OECD) and the World Bank; and
- the *International Monetary Fund Government Finance Statistics Manual 2014* (IMF GFSM 2014), which is the international statistical standard for GFS. The current version was released in 2015, replacing the 2001 version.<sup>13</sup> The next version is expected to be released in 2025.

The IMF GFSM 2014 is consistent with SNA 2008, with common statistical concepts and classifications.

<sup>12</sup> For example, the Commonwealth Grants Commission uses GFS data as a basis for allocating GST revenue to states and territories.

<sup>13</sup> GFS Manual (2015), p. 1-2.

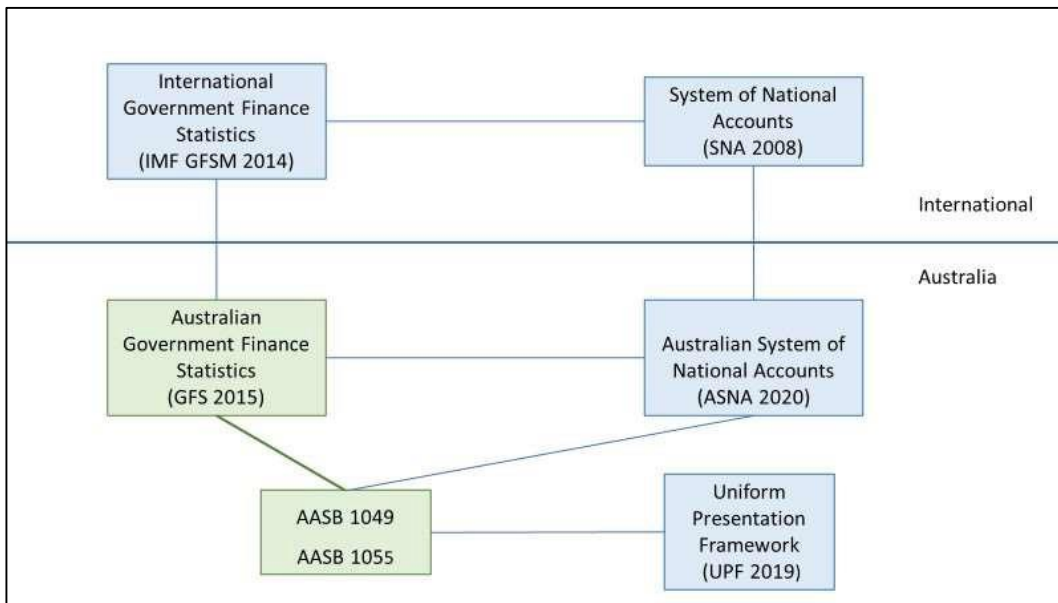
The core definitions and descriptions in the Australian GFS are largely consistent with equivalent descriptions and definitions in the IMF GFSM 2014. As Australia is a member of the IMF, the ABS provides Australian GFS to the IMF for publication along with the data of other IMF member countries. The common framework enables the data to be used for international comparisons of economic and finance data, by agencies such as the OECD, World Bank and the Asia Development Bank.

The Australian System of National Accounts (ASNA)<sup>14</sup> is based on SNA 2008, and the ASNA draws on the Australian GFS data.

Another framework relevant to Australian government financial reporting is the Uniform Presentation Framework (UPF) first agreed to by all Australian governments in 1991. This framework outlines the presentation format for government financial information and is largely consistent with and reinforces AASB 1049.

**Figure 2** illustrates the linkages between the various international and Australian frameworks. The harmonisation that is relevant to AASB 1049 and to this PIR is indicated in green. The Australian GFS is consistent, or is harmonised, with the international GFS and this is one constraint that can impact the level of harmonisation between the Australian GFS and GAAP financial reports.

**Figure 2 The broader context of harmonisation**



### Convergence between GFS and accounting data

The Australian GFS draws on accounting data reported in Whole of Government and GGS financial statements. These accounting data comply with Australian Accounting Standards and are largely consistent with that required by the ABS for GFS. However, there are convergence differences between the GFS and GAAP data. Many differences are not significant, and the ABS undertakes adjustments to the accounting data to determine GFS data. Some minor convergence differences existed when AASB 1049 was introduced and have persisted. Recently new convergence differences have emerged as a result of new or amended Australian Accounting Standards.

<sup>14</sup> 5216.0 - Australian System of National Accounts: Concepts, Sources and Methods, 2020-21, released 9 July 2021.

These differences are often due to different underlying frameworks and objectives of GFS versus GAAP. 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 sustainability of fiscal policy” (paragraph 4.2, p. 51, ABS 2015). The *objective of AASB 1049* is to provide financial information about the reporting entity that can be used to make decisions about stewardship by each government, accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government and its sectors; and information that facilitates assessment of the macro-economic impact of each government and its sectors (AASB 1049 paragraph 1).

### 1.3 The development of AASB 1049

Prior to AASB 1049, Australian governments issued financial statements prepared under GAAP and budget statements based on GFS principles. This was not only confusing to users of the statements, but it also “encouraged governments to indulge in presentation shopping”<sup>15</sup> and “increased the potential for opportunistic reporting of headline results using different frameworks.”<sup>16</sup>

The two frameworks had different objectives, definitions and classifications, and rules and recognition criteria. GAAP-based financial reports were not comparable across jurisdictions. GFS reports were not based on accounting standards and were not required to be audited. The significant dates in the history of AASB 1049 are listed in **Table 1** (next page).

AASB 1049 was first issued in September 2006, with a limited scope that included all government units and non-profit units financed by a particular government jurisdiction. The reissued AASB 1049 in October 2007 expanded the scope to encompass the reporting entities outlined in **Figure 1**.

In 2010, a limited PIR of AASB 1049 was undertaken to identify any material issues at an operational level. No major flaws were found. Minor changes included clarifications of requirements in AASB 1049, as well as changes to facilitate the orderly adoption of changes to the GFS Manual and related disclosures. The PIR did not explicitly evaluate whether the objective of the FRC strategic direction had been achieved.

In 2013, the budgetary disclosure requirements in AASB 1049 were relocated to AASB 1055 *Budgetary Reporting*, so the objective of the FRC direction is now being met through both AASB 1049 and AASB 1055. In 2019, the AASB amended AASB 1049 allowing the option to disclose a narrative rather than a quantitative explanation of differences between key fiscal aggregates measured using GFS and GAAP.

Since 2008, AASB 1049 has been amended 21 times to include minor changes to AASB 1049, and consequential changes arising from revisions of, issue of and withdrawal of other Australian Accounting Standards.

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<sup>15</sup> Challen and Jeffrey (2003).

<sup>16</sup> Wines and Scarborough (2006)

Table 1 Significant dates and events in the development of AASB 1049

Date	Event
December 2002	FRC strategic direction to the AASB
July 2005	ED 142 <i>Financial Reporting of General Government Sectors by Governments</i> issued.
September 2006	AASB 1049 <i>Financial Reporting of General Government Sectors by Governments</i> issued, to be applied to annual reporting periods beginning on or after 1 January 2009.
May 2007	ED 155 <i>Financial Reporting by Whole of Governments</i> issued.
October 2007	A revised AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i> was issued (effective annual periods on or after 1 July 2008). This Standard drew on ED 142 and ED 155 and superseded AASB 1049 <i>Financial Reporting of General Government Sectors by Governments</i> (September 2006) and AAS 31 <i>Financial Reporting by Governments</i> (November 1996), as amended.
2010	Limited PIR of AASB 1049 was undertaken to consider consistency of application of AASB 1049 across jurisdictions and to identify any material issues at an operational level.
May 2011	Amendments flowing from the limited PIR were AASB 2011-3 <i>Amendments to Australian Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments</i> . The amendments included providing relief from adopting the latest version of the ABS GFS Manual and related disclosures.  AASB 2011-13 <i>Amendments to Australian Standards – Improvements to AASB 1049</i> . Amendments included allowing voluntary disclosure of additional fiscal aggregates and providing additional guidance and examples on classification between transactions and other economic flows for GAAP items without GFS equivalents.
March 2013	Budgetary disclosure requirements in AASB 1049 were relocated to AASB 1055.
December 2012	AASB 2012-8 <i>Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms</i>
December 2019	AASB 2019-7 <i>Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations</i> Provided an option to explain (but not quantify) material differences between the GAAP and GFS measures of the key fiscal aggregates
April 2021	PIR of AASB 1049 was commissioned.

## 1.4 The focus of this report

The remainder of this report will address the four purposes of the PIR that were outlined in **section 1.1**.

This report draws on written responses to the Consultation Paper and interviews with stakeholders. Relevant academic and research papers were referred to, as were other AASB standards, and publicly available AASB documents and meeting agenda papers.

**Appendix A** lists the specific questions that were part of the RFQ, and which were used as a basis for the design of the questions included in the Consultation Paper. **Appendix B** outlines the research process and sources of evidence.



## 2. Has the objective of the FRC strategic direction been achieved?

Without exception, all stakeholders who responded to the Consultation Paper stated that *the objective of the FRC direction has been achieved*. That is, AASB 1049 has been successful in harmonising GFS and GAAP reporting.

HoTARAC<sup>17</sup> stated that all of their members “overwhelmingly report that AASB 1049 meets its objectives”.

Many users and preparers of government financial statements were enthusiastic in their belief that AASB 1049 has had a positive impact on the quality, consistency and efficiency of government financial reporting. Not only has harmonisation been achieved, AASB 1049 has led to many positive outcomes.

*AASB 1049 and its GFS/GAAP harmonisation concept is an innovative solution to reporting macro- and micro-economic information and is among the reasons Australia is regarded internationally as being at the forefront of public sector financial reporting.*<sup>18</sup>

*AASB 1049 provides Australia with a unique framework to report centrally on accounting and macroeconomic information. This has greatly enhanced public sector reporting in Australia. While Australian governments have agreements on common presentation formats, these cannot address measurement and recognition principles, that rightly belong in formal accounting and economics frameworks. As a component of the AASB's framework, AASB 1049 carries authority and its impacts are well understood by users, including users who are not financial accountants.*<sup>19</sup>

### The key task of the Post-Implementation Review

Evaluate the extent to which AASB 1049 (October 2007, as amended) and the budgetary disclosure requirements in AASB 1055 *Budgetary Reporting* (March 2013, as amended) ) have been successful in harmonising GFS and GAAP reporting, such that the objective of the FRC direction has been achieved.

### 2.1 Positive consequences of AASB 1049

The comments by HoTARAC, ACAG<sup>20</sup> and other stakeholders emphasised many *positive outcomes* associated with AASB 1049:

- Information is available about stewardship and accountability of the resources entrusted to governments.
- The macro-economic impact of government, and its sectors, is provided in a format that is easy to read and understand.
- Government accountability is achieved through the publication of financial reports, and the tabling of these reports in Parliament.

<sup>17</sup> HoTARAC - Heads of Treasury Accounting and Reporting Advisory Committee

<sup>18</sup> Department of Finance, Commonwealth Government

<sup>19</sup> NSW Treasury

<sup>20</sup> ACAG - Australasian Council of Auditors General



- Financial statements of governments are more easily auditable, as they are based on Australian Accounting Standards.
- The quality of budget information has improved, due to the discipline of comparing (unaudited) budget data with (audited) annual outcomes.<sup>21</sup>
- A government's published budget is comparable with year-end financial reporting, supporting transparency and accountability.
- AASB 1049 requires a high level of consistent measurement, recognition and presentation, enabling greater comparability between jurisdictions and between the government sectors.<sup>22</sup>
- Improved quality of statistical data available to the Australian Bureau of Statistics (ABS); and
- Improved whole of government consolidation processes through restricting accounting treatments adopted by reporting entities.<sup>23</sup>

## 2.2 Erosion of the level of harmonisation

Despite the high level of agreement that the objective of the FRC's strategic direction has been met, most stakeholders cautioned that recent changes to some Australian Accounting Standards have started to erode the level of harmonisation between GAAP and GFS and the achievement of the objective of the FRC strategic direction.

One source of erosion is that some new or amended Australian Accounting Standards do not include optional treatments that are consistent with GFS principles. These optional treatments enable jurisdictions to comply with both the Australian Accounting Standards and the principles and rules of the GFS Manual. This enhances harmonisation.

AASB 1049 states:

*Unless otherwise specified in this Standard, the whole of government financial statements and the GGS financial statements shall adopt the same accounting policies and be prepared in a manner consistent with other applicable Australian Accounting Standards. (paragraph 9)*

*... where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied. (paragraph 13)*

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<sup>21</sup> Most Australian jurisdictions require budgets to be prepared consistent with Australian Accounting Standards to some extent. Not all jurisdictions require their budgets to be audited.

<sup>22</sup> Treasury departments stated that harmonisation has been further supported by the implementation in 2008-09 of the AASB 1049-consistent UPF by all jurisdictions.

<sup>23</sup> AASB 1049 restricts accounting policies, both specifically and through reference to GFS principles. This can be leveraged to reduce the variability in accounting policies used by reporting entities, resulting in time and cost savings in examining and adjusting the outcomes of accounting policies when preparing consolidations.

Another source of erosion is the lack of speed and the difficulty of making changes to the rules in the GFS Manual, compared to making changes to the Australian Accounting Standards. There are several reasons for this:

- The ABS is reluctant to initiate frequent changes to the GFS Manual given the purposes for which GFS data is used, domestically and internationally. Consistency of data over time is valued for the National Accounts and other macroeconomic indicators.
- The Australian GFS needs to harmonise with the IMF GFSM 2014 (see **Figure 2**) and any changes to the IMF GFS require the involvement of other IMF member countries and an agreement to make changes.
- As discussed in section 1.2, both the ABS and the AASB are reluctant to make changes that are inconsistent with their underlying frameworks and objectives, and this could lead to irreconcilable differences.

## 2.3 Stakeholder feedback on new accounting requirements

In recent years, the AASB has invited public feedback on proposals to amend or issue new Australian Accounting Standards. Feedback from preparers and users of public sector financial reports have often focused on the impact of new requirements on the harmonisation of GFS and GAAP, particularly where no GFS-consistent optional treatments are included in the new accounting requirements.

In the Basis for Conclusions, the AASB has frequently stated that in deciding whether to include an optional treatment, they have had to *balance the principle of neutrality with the principles underlying the particular accounting standard and/or harmonisation of GFS and GAAP*.

However, stakeholders state that the lack of an optional treatment has led to an increase in convergence differences between the Whole of Government and GGS financial statements and the GFS fiscal aggregates.

The ABS states that for their purposes small convergence differences are not a threat to harmonisation, and many of the differences have existed from the launch of AASB 1049. However, when convergence differences grow in magnitude, the complexity of determining the GFS data needed by the ABS can increase as can costs for preparers and the ABS.

Three examples of recent changes to Australian Accounting Standards which have led to new convergence differences are outlined below. While harmonisation issues relating to AASB 1058 and AASB 1059 were mentioned by only a few stakeholders, concerns with the impact of AASB 16 on convergence were more widespread.

### **AASB 16 Leases**

AASB 16 *Leases* has replaced AASB 117 *Leases* and no longer distinguishes between a lessees' operating leases and financial leases. The treatment of operating and finance lease for a lessor is largely unchanged under AASB 16. AASB 16 applies to annual reporting periods beginning on or after 1 January 2019.

Under AASB 16, for lessees, leases are now recognised as right-of-use assets with the associated lease liability, interest and depreciation expense. The GFS Manual continues to distinguish between operating and finance leases, which is now clearly inconsistent with GAAP, and no GFS-consistent optional treatment is provided in AASB 16.

The ABS has indicated that the lack of a GFS-consistent option in AASB 16 will create additional cost for the ABS, as they rework data to enable their own GFS reporting. The GFS Manual is very unlikely to change to be consistent with AASB 16 due to its need for consistency with international GFS and due to the different framework underlying the GFS. In particular, the GFS follows the principle of counter-party symmetry, whereas GAAP does not.<sup>24</sup> AASB 16 is based on IFRS 16 *Leases*, and the new accounting treatment of leases will be common to the countries who have adopted the IFRS standard.

Some Treasury Departments indicated they are unlikely to continue to retain data to support the GFS classifications of operating and finance leases, due to the high cost of maintaining two sets of data. It is claimed that the growing convergence difference between the GAAP statements and the GFS, due to the adoption of AASB 16, could be confusing for users. Some treasury departments highlighted the impact of the new AASB 16 requirements on the calculation of net debt, which is of significant interest to users of Whole of Government and GGS as a key indicator for the setting of fiscal policy, budget decision making and the analysis of public sector finances.

### **AASB 1059 Service concession arrangements: Grantors**

Under AASB 1059, service concession arrangements involve an operator:

- Providing public services related to a service concession asset on behalf of the grantor; and
- Managing at least some of those public services at the operator's own discretion, rather than at the direction of the grantor.

Examples include bridges, tunnels, and hospitals. The focus of AASB 1059 is as follows:

*The standard addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from the grantor's perspective. The Standard is based on International Public Sector Accounting Standard IPSAS 32 Service Concession Arrangements: Grantor and is informed by AASB Interpretation 12 Service Concession Arrangements, which sets out the accounting for the operator in a public-to-private service concession arrangement. For example, the principles for recognition of a service concession asset are broadly consistent with AASB Interpretation 12. (AASB 1059, p. 4)*

Only two jurisdictions (Treasury Tasmania and the ABS) mentioned harmonisation issues arising from AASB 1059 in their response to the consultation paper, although all jurisdictions address the matter to some extent in their 2019-2020 financial statements. Queensland and Northern Territory have indicated they are still assessing the implications of AASB 1059 on their statements. AASB 1059 applies to annual reporting periods beginning on or after 1 January 2020. Victoria has early adopted AASB 1059 in their 2019-2020 financial statements, and the impact they disclose is significant.

During the development of AASB 1059, HoTARAC provide feedback to the AASB that the change in AASB 1059 from a risk and reward approach (consistent with the GFS manual) to a control approach would result in significant GAAP/GFS harmonisation differences.<sup>25</sup> The difference in recognition

<sup>24</sup> Under the GFS rules, an asset will only be recognised by a party to a transaction if the other party recognises a corresponding liability. Under AASB 16, this "symmetry" is not required.

<sup>25</sup> AASB Meeting 17 September 2019, Agenda Item 13.2, Letter from HoTARAC to AASB [13.2 HoTARAC Letter M172.pdf](#) ([aasb.gov.au](http://aasb.gov.au))

criteria and measurement of the asset/liability for various arrangements could result in significant convergence differences. They argued that this could undermine the credibility, relevance and confidence in public sector financial reporting and require careful narrative explanations of the differences.

The matter was also discussed in the Basis for Conclusions for AASB 1059 (paragraphs BC 109 – 111). The Board explained that in considering the issue they weighed the *policy on GAAP/GFS harmonisation* against the *policy of transaction neutrality*. The Board decided that it was not necessary to amend its decisions reflected in AASB 1059 in order to better achieve GAAP/GFS harmonisation. Thus, any material differences between GAAP and GFS could be reflected in the explanatory note on convergence differences.

AASB 1059 is based on IPSAS 32 *Service Concession Arrangements: Grantor*. However, there are important differences between the two standards. This is an international issue. The Intersecretariat Working Group on National Accounts (ISWGA) has listed this matter on their Research Agenda and has established a relationship with the IPSASB, to consider amending the SNA to follow new accounting standards if appropriate. An updated version of the SNA is under development at the IMF and is due for release in 2025.<sup>26</sup>

### **AASB 1058 *Income of Not-for-Profit Entities***

AASB 1058 *Income of Not-For Profit Entities* applies to annual periods beginning on or after 1 January 2019 but before 1 January 2021. Earlier application is permitted for annual periods beginning before 1 January 2019.

Only one stakeholder referred to this standard as a potential issue for harmonisation.<sup>27</sup> The adoption of this standard may cause some jurisdictions to defer the recognition of some capital grants to a future accounting period. The provider of a grant may expense the payment in an earlier period. In contrast, the GFS Manual recognises the payment and receipt of grants when the payment is made. This will create new differences between the GAAP data and GFS.

Most differences in treatment between GAAP and GFS will be timing differences, rather than permanent differences. As indicated in the Basis for Conclusion of AASB 1058, when AASB 1058 was developed, the impact of the standard on harmonisation with the GFS was considered.<sup>28</sup> The Board advised that some differences in GFS and the GAAP requirements could only be addressed by making changes to the underlying principles in AASB 1058 and AASB 15, which it was not willing to do. It noted that convergence differences could be accounted for in the explanatory note to the accounts.

### **In conclusion**

In summary, it is the lack of a GFS-consistent optional treatment in AASB 16 (and possibly) AASB 1059 that is of concern to stakeholders. While convergent differences can be accounted for in the explanatory note to the accounts under AASB 1049 (paragraph 41(a)), there are claims that over time the cumulative differences may increase and consistency between GAAP and GFS will widen. Changing requirements in AASB 16 and AASB 1059 to accommodate public sector reporting would compromise the integrity of the two standards and also the AASB principle of transaction neutrality.

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<sup>26</sup> The Intersecretariat Working Group on National Accounts (ISWGA) set up by the UN Statistical Service [System of National Accounts](#)

<sup>27</sup> Department of Treasury and Finance, Tasmanian Government

<sup>28</sup> AASB 1059 BC 174-176.

As a similar gap between accounting standards and GFS may emerge in other countries, a solution may be available over time.

### 3. The usefulness of specific requirements of AASB 1049

An important part of the PIR was to identify if any changes to AASB 1049 are needed to better achieve the objective of the FRC strategic direction and the objectives of AASB 1049 in terms of the information needs of users.

#### 3.1 What information in Whole of Government and GGS is of greatest use?

In responding to this question, many stakeholders referred to the objective of AASB 1049 (paragraph 1), that the Standard will provide users with:

- (a) Information about the *stewardship* by each government and accountability for the resources entrusted to it;
- (b) Information about the *financial position, performance and cash flows* of each government and its sectors; and
- (c) Information that facilitates *assessment of the macro-economic impact* of each government and its sectors.

Respondents from **treasuries** specified that the users<sup>29</sup> of the Whole of Government and GGS financial statements include public servants, governments, parliamentarians, media and the public. They stated that compliance with AASB 1049 leads to comparability between budgets, the audited financial statements and between different jurisdictions and is this is particularly relevant to:

- Stewardship and accountability for the resources entrusted to government;
- The financial position, performance and cash flows of each government and each sector; and

#### The information needs of users

Identify the key information needs of users of Whole of Government and GGS financial statements

Identify which specific requirements in AASB 1049 users find most useful, and which do they find least useful:

(a) measuring most assets and liabilities at fair value in accordance with AASB 13 to align with GFS; and extent to which measuring non-financial assets at fair value provides users with sufficient information about performance and cash flows of non-financial assets.

(b) the key fiscal aggregates presented in accordance with AASB 1049;

(c) the reconciliation or explanations about the difference in the key fiscal aggregates measured in accordance with GFS compared with those measured in accordance with GAAP; and

(d) the budgetary disclosure requirements set out in AASB 1055.

(RFQ Q 1, 2, 5, 6)

<sup>29</sup> There is some ambiguity in identifying the breadth of users of the financial statements and the information they specially find the most use. This has been discussed extensively in the academic and professional literature with little resolution. Several stakeholders stated that more detailed research needs to be undertaken to understand the needs of specific users of Whole of Government and GGS financial statements.

- Assessments of the macro-economic impact of each jurisdiction and its sectors.

Also, the use of a single underlying set of financial information provides a consistent source of data for users such as the ABS, Commonwealth Grants Commission (CGC), and credit agencies. The consistent presentation between the budget and year-end financial reporting required under AASB 1049 (and the UPF) can provide transparency over the budget process and accountability for expenditure of public funds.

The **specific information** that treasuries listed as the most useful, includes:

- Fiscal aggregates (for macro-economic and fiscal sustainability analysis);
- Sectoral information (for macro-economic analysis);
- Separate reporting of each sector and in particular, the GGS;
- Single line recording of PFC, PNFC investments in the GGS financial statements (allowing a clear line of sight to the government investment exposure);
- Separation of other economic flows from transactions (for macro-economic analysis);
- Detailed line-item information for budgetary comparisons (for accountability);
- Analysis of taxes by nature (for inter-jurisdictional and international comparisons);
- Analysis of expenditure by function (for jurisdictional and international comparisons); and
- Notes providing the analysis of balances included in the financial statements (for accountability).

**ACAG** stated that the following information “is expected to be beneficial for users”:

- Transactions that make up the net operating balance (budget result) of the GGS;
- The requirement to disclose expenses disaggregated by function as this provides users with an additional understanding of economic impacts of where and how taxpayers’ funding is being used at an aggregated level lower than the GGS;
- Net operating balance which is a key measure from a budgetary perspective. This measure allows users to see how well a government is controlling its expenditure given its largely routine nature of revenues; and
- The accrual-based balance sheet recognises non-cash liabilities such as defined benefit superannuation plans and a consolidated debt position (for example, useful in determining credit ratings and understanding the capital structure of a government).

### 3.2 Measuring assets and liabilities at fair value

While noting the challenges in determining fair value and the ongoing cost of undertaking valuations, there was strong support from stakeholders for retaining fair value as a basis for the measurement of assets and liabilities. This view is consistent with that reported by the AASB in their ongoing *Fair Value Measurement for Not-for-Profit Entities* project.<sup>30</sup>

Stakeholders provided the following *reasons in support of measuring assets and liabilities using fair value*:

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<sup>30</sup> This objective of this project is to “address issues and concerns raised by public sector constituents regarding the application of AASB 13 *Fair Value Measurement* by public sector entities”, see [Fair Value Measurement of NFP Entities project summary \(aasb.gov.au\)](https://www.aasb.gov.au/fair-value-measurement-of-nfp-entities)

- Fair value measurement of physical non-current assets and liabilities is accepted by the ABS as a reasonable proxy for the GFS requirement of valuing non-current assets at market value.
- Because of the resulting consistency between GFS and GAAP, jurisdictions do not need to maintain two sets of records for asset values. Prior to AASB 1049, methods used for valuation of non-current assets in the public sector varied, with some jurisdictions valuing some non-current assets at historical cost.
- Fair value is a useful tool for measuring and assessing the changing value of assets and liabilities over time.
- Government decisions about changes in the use of assets, or their disposal are better reflected in the accounting outcomes when fair value is applied.
- Fair value provides useful information for macro-economic analysis and for the longer-term focus needed in the public sector.
- Many assets are held by governments for considerable periods of time, meaning historical cost may be irrelevant or not available. Historical cost would result in many assets recording zero values.
- Arguably, fair values hold governments accountable for decisions about the existing use of those assets.

So, the adoption of fair value for assets and liabilities *supports the harmonisation of GAAP and GFS*, and hence the FRC strategic direction.

The main *shortfalls in using fair value* are the challenges of measurement and the ongoing high cost of undertaking valuations. These issues are also cited in the private sector. Stakeholders cited the following issues:

- There are significant practical challenges in determining fair value in the public sector where there is no or limited active market for assets. This can lead to diversity in the application of principles depending on the assumptions and understanding of individual valuers.
- The ongoing costs incurred by jurisdictions to determine fair value can be high due to the complexity and magnitude of the valuation exercise. ACAG stated it was aware some users wanted to see a disclosure of the comparison between cost and fair value as they struggle to comprehend the basis of fair value for certain assets. They questioned whether it might be useful to reassess whether the widespread use of fair value in the public sector continues to be supportable from a cost/benefit perspective.

One solution suggested by stakeholders was that AASB 13 *Fair Value Measurement* could include options for valuation that are consistent with those methods allowed in the GFS Manual where fair value is not feasible. The ABS stated that other measurement choices are provided in the GFS Manual to provide practical alternatives in situations where fair value is not an option.

Fair value should be retained as a basis for measurement of non-current assets and liabilities in accordance with AASB 13, as it contributes to harmonisation and to information that is valued by users.



### 3.3 Key fiscal aggregates presented in accordance with AASB 1049

Key fiscal aggregates are defined in AASB 1049 as follows:

*Referred to 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. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth and cash surplus/(deficit). (AASB 1049, Appendix A, page 17)*

AASB 1049 paragraph 16 requires that the key fiscal aggregates must be disclosed for the Whole of Government and GGS. In addition, governments may choose to disclose additional fiscal aggregates as long as they are clearly distinguished from the key fiscal measures (paragraph 18A, 18D). Both key fiscal aggregates and any voluntarily disclosed aggregates, must 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 flow (AASB 1049, paragraph 16).

*There was strong support from stakeholders to retain the requirement to disclose key fiscal aggregates.*

Stakeholders who responded to the question on the usefulness of key fiscal aggregates stressed the value for a range of users and their decision making. For example, HoTARAC indicated:

*The minimum key fiscal aggregates required by AASB 1049, are commonly referred to by a range of internal and external stakeholders. Headline results for jurisdictions are based on the key fiscal aggregates described in AASB 1049....Decision making by individual agencies and government is informed by reference to these fiscal aggregates.*

Some treasuries stated it was:

*... the most useful aspect of this standard, providing consistent, robust, well-defined and well-understood financial objects that can be used as a focus of transparent and accountable financial management, analysis, and interjurisdictional comparison.*

*The availability of well-defined and comparable key fiscal aggregates also facilitates the communication of State policy and related analysis, both for internal policy advice and external purposes.*

Also, clearly defined and consistent presentation of key fiscal aggregates, were valuable as they:

- indicate the influence that government activity has on the economy of a jurisdiction;
- indicate the impact to capital markets of financial and investing activities that are undertaken by government;
- inform government fiscal strategy as a component of macro-economic management; and
- facilitate comparable international economic (and social) comparisons between jurisdictions within Australia (through the ABS) and internationally through bodies such as the International Monetary Fund (IMF) and the Organisation for Economic Co-Operation and Development.



ACAG stated that many users and preparers who are not familiar with the economic concepts may find the requirements hard to understand and implement. They suggested there could be benefit in providing additional plain language explanations for these measures.

They also suggested that an additional aggregate the separation of 'Other Economic Flows' from the operating result could be useful as it separates changes in volumes and values in assets that are not necessarily within the government's control from those items that are controlled by the government. This makes the government more accountable for the net operating balance. However, this additional disclosure is currently cited in AASB 1049 paragraph 18A as a potential voluntary disclosure, so there is no prohibition on jurisdictions disclosing this additional aggregate.

Given the value of key fiscal aggregates for a range of users' decision making, there should be no changes made to this disclosure requirement.

### 3.4 Reconciliations or explanations of differences between key fiscal aggregates

AASB 1049 paragraph 41, requires that, 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) (1) the key fiscal aggregates measured in accordance with the ABS GFS Manual;*  
*and*  
*(2) a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences; or*

*(B) an explanation of how each of the key fiscal aggregates provided pursuant to paragraph 16 of this Standard is calculated and how it differs from the corresponding key fiscal aggregate measured in accordance with the ABS GFS manual*

It is only recently that AASB 1049 was amended to allow for an explanation only to be disclosed. This change was driven by stakeholder concern that the potential for differences between the GFS and GAAP data to widen would increase the cost of undertaking a quantitative reconciliation.

Only six stakeholders commented on the usefulness of the disclosure of the convergence differences. Reasons provided *in support of maintaining these disclosures* were not strong, and included the following:

- As the objective of AASB 1049 is to converge the two frameworks, it seems consistent to disclose the explanation of differences, when relevant and practical.
- It is important for users to be aware of the key differences between AASB 1049 and the GFS-based measures, particularly as recent change to Australian Accounting Standards have led to differences between the accounting and GFS measures.

*However, all stakeholders who responded expressed doubt whether the explanation of differences was useful or was even used by any user group.*

While supporting the reconciliations themselves as useful, ACAG questioned whether some of the explanations accompanying the reconciliations were of value for users such as the general public, due to the level of expertise required to understand GAAP and GFS.

*ACAG sees greater value in the reconciliation of key fiscal aggregates relating to the Operating Statement compared to the Balance Sheet measures as this allows readers to see how well the government is controlling its expenditure given its routine revenue sources. ... ACAG questions the usefulness of the reconciliation of the net worth key fiscal aggregates due to the large (and increasing) number of differences in accounting for items in the Balance Sheet.*

In support of not mandating the disclosure, several respondents stated that the ABS publishes jurisdictional outcomes using GFS data several months after the audited financial statements prepared in accordance with AASB 1049 have been published. The ABS undertakes several adjustments to arrive at the “pure” GFS data. This casts doubt on the value of the Whole of Government and GGS disclosures. It was also noted by one stakeholder that IPSAS 22 does not require such disclosures due to concerns about the practicability, and the costs and benefits.

The ABS noted that they do not use the explanations of the differences in key fiscal aggregates directly as they consult directly with treasuries to access more detailed information that underlies the aggregates to determine the GFS data. However, the narrative disclosures of convergence do alert the ABS to the type of differences that they may need to adjust for in calculating their final GFS data.

In reviewing the disclosures published in the most recent financial statements of jurisdictions, the level of detail of the reconciliation /explanation disclosures differs greatly across jurisdictions.<sup>31</sup> These range from:

- a descriptive statement of the types of differences between GAAP and GFS that have arisen and the fiscal aggregates they impact (Victoria); to
- detailed explanations running for many pages that include extensive quantitative reconciliations (see the Queensland and Commonwealth governments).

It is clear that the requirements for a reconciliation and/or explanation can be undertaken at quite manageable levels of detail, and therefore presumably for a modest cost. It seems within the scope of jurisdictions to determine the level of detail they will disclose in their note.

A continuing requirement to provide an explanatory note describing the type of items that make up the convergence difference could have advantages in providing an alert to the types of items that make up that convergence, and as a way to signal that convergence differences are increasing (or not).

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<sup>31</sup> This is likely because recent changes which allow a descriptive explanation only, applies to annual periods beginning on or after 1 January 2020, but many adopted this in the 2019-2020 reports.

The value of this disclosure to users is unclear and given that jurisdictions have the option to provide a detailed reconciliation/explanation or brief explanation no change to paragraph 41 is recommended.<sup>32</sup>

No changes should be made to the requirement to provide reconciliation or explanations for convergence differences between GFS and GAAP, particular given the recent changes to allow qualitative reconciliations.

### 3.5 Budgetary disclosure requirements in AASB 1055

Only five stakeholders responded to this matter and comments were brief. There was a strong agreement among stakeholders that the budgetary disclosure requirements in AAS 1055 were useful.

Several treasury stakeholders reflected on the state of budgetary reporting prior to AASB 1049 and AASB 1055, when citing the following *positive comments*:

- The disclosures are a key component of comparability, transparency, and accountability.
- Explanations of major variances allow users of financial statements to make a more informed assessment of the financial results.
- The introduction of AASB 1055 has standardised budgetary disclosures requirements, leading to more consistent format and improving comparability across jurisdictions and between actual and budgeted results.

HoTARAC further stated that the objectives of AASB 1055 rely on the requirements in AASB 1049 by:

- mandating recognition and measurement bases;
- requiring presentation by sector; and
- requiring alignment with the GFS framework.

However, ACAG noted some *limitations* that may impact the usefulness of the budgetary disclosures:

- The quality of budgetary reporting disclosures varies across jurisdictions, being brief and not fully explaining the sources of variations from budget.<sup>33</sup>
- The reporting of budgets in the financial statements is a duplication, as budgets are separately reported through the parliamentary reporting process.

There were suggestions for *reducing the extent of budgetary disclosures* from some treasury stakeholders and ACAG.

- Budgetary reporting relating to the Statement of Financial Position should only focus on items such as capital expenditure, borrowings and unusual or particularly significant items. (ACAG)

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<sup>32</sup> This reasoning is consistent with the Basis for Conclusions in AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliation*.

<sup>33</sup> This is not a limitation of AASB 1055.

- Budgetary information about the Statement of Cash Flows provides little relevant information for users as variations in cash flows are primarily the result of variations affecting the other two statements. The explanations of movements in the cash flow refer to the underlying movements and offer little informative value. (ACAG)
- The most useful variances relate to the Statement of Comprehensive Income. Variances in the Statement of Financial Position are often driven by closing balance differences and variance in the Statement of Cash Flows duplicate those found in the other two statements. (A treasury stakeholder)

Another suggestion from a treasury stakeholder is that AASB 1055 should be amended to allow the latest budget, in addition to or instead of the original budget, in the comparison with actual results. This would reflect better government accountabilities in practice.<sup>34</sup>

Also, the requirement to provide explanations for variances to original budget provides an unnecessary burden (given other commonly available publications such as Mid-year Reviews and more recent Budget Papers include details of changes since the previous forecast) and can create confusion amongst users (due to different bases for variance reporting in the different reports).

Given the lack of compelling evidence of any major shortcomings in the requirements of AASB 1055, there should be no major amendments made to the standard.

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<sup>34</sup> Most jurisdictions require some form of mid-year budget update, which serves as the point of accountability following its release. For example, at the Federal level, this is the Mid-Year Economic and Fiscal Outlook.

## 4. The costs of AASB 1049

The benefits that have arisen from AASB 1049 are outlined in sections 2 and 3 of this report. These need to be compared to the costs of applying AASB 1049 and the budgetary disclosure requirements in AASB 1055.

### 4.1 The costs to preparers

Stakeholders that responded to these questions were the preparers of GAAP and GFS reports - the treasuries and the ABS

The total cost to governments of producing financial statements has been estimated in prior research. For example, in a AASB discussion paper, the cost of preparation (including the valuation of non-financial assets) and audit of public sector financial statements was estimated to be more than \$1 billion per annum.<sup>35</sup>

This included the costs of financial reporting well *beyond that required for AASB 1049*, which only applies to the Whole of Government and GGS financial statements. In particular, the cost of complying with State or Territory legislation or Treasurer's instructions, usually includes preparing Tier 1 reporting for the many entities (departments, agencies and business enterprises) that make up the Whole of Government and GGS.<sup>36</sup> The cost of this compliance is significant.<sup>37</sup>

#### The cost to treasuries

This report does not provide an estimate of the cost to treasuries of complying with AASB 1049. As several treasury stakeholders stated, they do not keep separate data or undertake separate processes to produce Whole of Government and GGS statements under AASB 1049. However, two stakeholders did estimate some indicative annual costs, which were remarkably similar:

- Queensland Treasury estimated their current costs to fulfil all financial reporting obligations under AASB 1049, GFS and UPF and budgeted financial data to be approximately \$2 million per year. This includes direct salaries and an estimate of direct and indirect software and IT related costs.
- WA Treasury estimated the cost related to AASB 1049 disclosures at around \$1.3 million per year for salaries, superannuation and related costs. The cost of the auditor-general related to AASB 1049, was estimated at about \$0.40 million per annum.

### Key areas of focus

How costly is it to a jurisdiction to comply with the requirements in AASB 1049?

How useful are the financial data provided under AASB 1049 to the ABS?

Would the costs change if jurisdictions were required to prepare financial statements under Australian Accounting Standards without AASB 1049?

Could compliance and preparation costs reduce by changing the principles underlying AASB 1049 in whole or in part?

Do the benefit to users in having financial statements prepared in accordance with AASB 1049 outweigh the cost to a jurisdiction?

(RFQ Q 8, 9, 10, 11, 12)

<sup>35</sup> AASB Discussion Paper: *Improving Financial Reporting for Australian Public Sector*, June 2018.

<sup>36</sup> Tier 1 reporting apply applies to Australian Government, State and local governments under AASB 1053. South Australia and Queensland and the Australian Government allow Tier 2 reporting for entities below Whole of Government.

<sup>37</sup> The AASB project on *Improving Public Sector Reporting in the Public Sector*.

Most treasury stakeholders stated that the cost of complying with AASB 1049 could not be quantified, as they cannot isolate this cost from the cost of complying with other reporting frameworks. The lack of separability of these costs is largely a result of the alignment of GAAP and GFS requirements, in accordance with AASB 1049, as well as other reporting needs that they needed to comply with.

There was a common theme in the responses from treasuries that the introduction of AASB 1049 has *decreased costs for treasuries*, and if AASB 1049 was to cease to exist, *the costs would likely increase*. (See section 5 for further discussion.) In particular:

- The UPF prescribes the minimum disclosures for financial statements and other tables, and this is needed for interjurisdictional comparison;
- GFS data needs to be provided to the ABS, so for example, the cost of estimating fair values of assets and liabilities would still be required in the absence of AASB 1049.
- Current values of assets need to be determined for insurance purposes, where appropriate. Consequently, savings from not applying AASB 13 *Fair Value Measurement* (required because of the application of AASB 1049) would be minimal. The requirement to determine fair values of assets and liabilities would continue to be required for GFS purposes, even if not required under Australian Accounting Standards; and
- Other state or territory legislation, which requires the production of financial statements and other financial information for government entities would continue.<sup>38</sup>

The Commonwealth Department of Finance noted:

*The requirements of other AAS incur greater preparation costs than AASB 1049. For example, AASB 13 Fair Value Measurement, AASB 16 Leases, the disclosure provisions of AASB 119 Employee Entitlements and AASB 7 Financial Instruments: Disclosures. A comprehensive review of preparation costs/benefits should consider the provisions of these other accounting standards.*

HoTARAC stated that current financial management systems in jurisdictions have been designed to manage government reporting requirements based on the harmonisation of accounting and GFS concepts. Before the introduction of AASB 1049, governments needed to maintain two sets of records, in order to meet their obligations to provide GFS information to the ABS and to prepare budget statements and outcome reports.

### **The costs to the ABS**

The ABS, a major user of the financial statements, outlined the impact of AASB 1049 on their costs:

- The ABS incurs limited direct costs as a result of AASB 1049.
- The need to collect GFS data from jurisdictions would exist in the absence of AASB 1049.
- The ABS has worked closely with treasuries over many years to find efficiencies that reduce the costs of GFS data reporting for both the ABS and treasuries.
- AASB 1049 adds value by helping streamline GFS data reporting requirements, which allow single sources of data and outputs to be used in multiple ways with minimal intervention.

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<sup>38</sup> These requirements may differ across jurisdictions. For example, in most states and territories treasury instructions require most entities to use Tier 1 reporting. However, South Australia, Queensland and the Commonwealth allow Tier 2 reporting for entities below Whole of Government level (AASB Research Report No 6: *Financial Reporting Requirements Applicable to Australian Public Sector Entities*, May 2018, p. 16).

However, the ABS stated that substantial resourcing is required by the ABS to make adjustments to bring jurisdiction data in line with GFS principles. They saw this cost as likely to increase as changes to some Australian Accounting Standards have led to the emergence of new convergences between GFS and GAAP.

In particular, the changes to AASB 16 *Leases* and AASB 1059 *Service concession arrangements: Grantors* do not align with the current GFS Manual. The ABS needs to adjust the data in the financial statements of Whole of Government and GGS to determine the required GFS data. The ABS saw the key issue as the lack of an optional GFS-consistent treatment in these standards as contributing to an erosion of harmonisation between GAAP and GFS, and an increase in their costs.

### **The costs to other users**

The Commonwealth Department of Finance reflected on the likely impact of AASB 1049 on the costs to users:

- Direct costs to users of accessing and interpreting information are *minimised by AASB 1049* as only one set of financial statements needs to be accessed and interpreted;
- The indirect costs to users if information is unclear or inconsistent are *reduced by AASB 1049* as there is a single, consistent set of financial statements;
- Costs to regulators may be *increased or reduced by AASB 1049*, depending on the regulation model;
- Costs to the AASB, which has to manage frequent amendments and feedback, are possibly *increased by AASB 1049*;
- Cost to the ABS *have decreased*, due to receipt of more consistent and compliant accounting data with fewer deviations from GFS; and
- Audit and assurance costs could be higher under AASB 1049 because auditors need to understand both Australian Accounting Standards and the GFS Manual.

## **4.2 Impact on costs of preparing financial statements without AASB 1049**

Informal conversations and formal responses from stakeholders indicated that treasuries have developed purpose-driven templates or models that integrate the requirements for Australian Accounting Standards and GFS reporting. Treasuries do not maintain “two sets of books”. Thus, treasuries have developed efficient ways to manage the complexity of the cost of reporting under the various frameworks.

Rather than costs increasing through AASB 1049, it was reported that AASB 1049 provides an *efficient way of controlling the costs of compliance*, with some treasuries stating that the introduction of AASB 1049 has probably *minimised the costs* associated with broader public sector reporting requirements, and that if AASB 1049 was withdrawn, the Whole of Government financial statements and accompanying explanatory note disclosures would still need to be prepared annually, with the exception of some notes e.g. GFS/GAAP convergence. Information on sectors is already required under the UPF. GFS data would still need to be reported to the ABS.

If AASB 1049 was to cease to exist, costs would likely be incurred by treasuries in developing new accounting policies and possible new models to address the reporting gap that this withdrawal would create.

### 4.3 Impact on costs of changing the principles underlying AASB 1049

Key principles that underly AASB 1049 include the following:

- Whole of Government and GGS financial statements shall be consistent with applicable Australian Accounting Standards.
- Where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied.
- When optional treatments in Australian Accounting Standards are available, the option that is aligned with the principles or rules in the ABS GFS Manual shall be applied.

Treasuries have indicated that the application of AASB 1049 has not led to increased preparation costs. AASB 1049 has not only impacted on the comparability of financial reporting across jurisdictions; it provides an efficient approach to enabling this. The principles outlined above are core to the approach taken in AASB 1049 and are consistent with the AASB principle of transaction neutrality.

An analysis of recent amendments to accounting standards that do not have the GFS-consistent optional treatments is that in response to feedback from public sector stakeholders, changes are not accommodated as this would require either changing the principles that underlie the particular accounting standard or changing the transaction neutral principle.

An area of debate is the cost of fair value measurement:

- ACAG stated that the high cost of requiring fair valuation may not be sustainable.
- Some treasuries stated that they need to value assets using fair value for insurance purposes and for GFS purposes.
- Conversations with stakeholders revealed that the fair values are often achieved using indices, which reduces cost.

As the separable costs of compliance with AASB 1049 are not significant, no changes need to be made to AASB 1049 to reduce costs.

### 4.4 Costs versus benefits of AASB 1049

Based on the above discussion, the costs of compliance with AASB 1049 by treasuries, do not appear to be significant and in fact treasuries see AASB 1049 as creating cost efficiencies. Clearly for jurisdictions, the high cost of complying with State or Territory legislation or Treasurer's instructions for financial reporting are far more significant.

The costs of complying with other standards, such as AASB 13 *Fair Value Measurement*, can be high, but as explained, in some jurisdictions fair values need to be estimated for other purposes. When this is compared with the significant benefits of AASB 1049 as claimed by stakeholders, it is clear that benefits to users exceed the costs to preparers.



## 5. Is there still a need for a specific Accounting Standard to harmonise GFS and GAAP?

In prior sections, the benefits of AASB 1049 contributing towards the harmonisation of GFS and GAAP has been presented. The costs of complying with AASB 1049 by preparers are not significant.

Harmonisation of GFS and GAAP has increased since AASB 1049 was introduced – albeit with some concerns about possible erosion.

Is there still a need for a specific standard to harmonise GFS and GAAP?

### 5.1 Would AASB 1055 alone provide sufficient information for users?

Stakeholders indicated that in the absence of AASB 1049, AASB 1055 alone would not provide sufficient information for users of financial statements.

HoTARAC and several Treasury Departments elaborated

on the *disadvantages of relying only on AASB 1055 and other Australian Accounting Standards*:

- Financial statements would not be required to be produced at the GGS level. While jurisdictions could regulate this requirement through their own legislation, AASB 1049 provides a consistent basis for performing this consolidation across jurisdictions;
- The Statement of Comprehensive Income line items, including key subtotals, may no longer reflect GFS presentation rules. AASB 1049 requires transactions to be presented consistent with GFS;
- Different transactions could potentially be measured and recognised inconsistently across jurisdictions and between government sectors. AASB 1049 effectively reduces the options available under Accounting Standards.
- There would be no mandated consistent basis for recognition and measurement, which is currently in AASB 1049;
- Financial statements and budget statements might return to the pre-AASB 1049 days when the two statements were based on different frameworks. This would make it difficult to explain variations between the budget and the actuals in the financial statements and potentially confuse users.
- Key fiscal aggregates would not be required, and their measurement would not be prescribed;
- Reconciliations of convergence differences would not be provided.

While some of the above could be included in other Australian Accounting Standards this could lead to complexity for preparers and further difficulties for harmonisation.

### Area of focus

Determine whether financial statements prepared in accordance with AASB 1055, in the absence of AASB 1049, would still provide sufficient information for users of Whole of Government and GGS financial statements.

Assess whether compliance with other applicable AASB Standards, without AASB 1049, could achieve the objectives outlined in paragraph 1 of AASB 1049.

(RFQ Q 3, 7)

## 5.2 Would compliance with other Australian Accounting Standards be sufficient for user needs?

All stakeholders agreed that in the absence of AASB 1049, compliance with other Australian Accounting Standards *would not achieve the objectives as outlined in paragraph 1 of AASB 1049*, in relation to stewardship, accountability and assessing macroeconomic impact of governments and their sectors

*There was overwhelming agreement among stakeholders that AASB 1049 must be retained in its current form.*

It was stated that many of the requirements of AASB 1049, impact on disclosure of information that is valuable for users. Other Australian Accounting Standards do not require this information be disclosed. In particular:

- **The reporting of the GGS entity.** Prior to AASB 1049, separate financial reporting of the GGS was not required by Accounting Standards. The GGS is considered of particular value to users. AASB 1049 also outlines how the consolidation should be accounted for. AASB 10 *Consolidated Financial Statements* does not currently provide this guidance.
- **Consistency of financial reporting across jurisdictions.** Without AASB 1049, jurisdictions would have more discretion on what information to include in financial reports, which could lead to a reduction in comparability in the financial statements of the states, territories and the Commonwealth as each jurisdiction would exercise its own discretion regarding the information to include (which may or may not be relevant for their users).
- If there was no AASB 1049, the Uniform Presentation Framework (UPF) could provide guidance for jurisdictions. However, the UPF currently draws on AASB 1049 and the GFS. The UPF is a presentation framework and does not specify recognition criteria or measurement.
- **Consistency of GAAP reporting with GFS.** AASB 1049 requires jurisdictions to present items in the Whole of Government and GGS statements consistent with GFS classifications, which enhances comparability across jurisdictions. Without AASB 1049, users may need to refer to two separate sets of financial statements to meet their information needs. While consolidated financial statements prepared under Australian Accounting Standards would provide some information about the stewardship and accountability, many of the useful financial statement disclosures required by AASB 1049 would be lost in the absence of AASB 1049.
- **Reporting of key fiscal aggregates.** The requirement to report key fiscal aggregates is not included in other Australian Accounting Standards. It was claimed that these data are widely used by decision-makers to assess the financial performance and position of a jurisdiction and are often used as measures or targets in a government's fiscal strategy, particularly net operating balance (budget result), and net debt.
- **Constraining choices in accounting treatments.** AASB 1049 constrains the choices available when presented with options in Accounting Standards, which enhances comparability of financial reporting across jurisdictions.
- **Macroeconomic analysis.** GAAP based financial reports do not assist the macro-economic impact of government activities unless they have been prepared consistent with the GFS framework. They are unlikely to provide information that facilitates assessments of the macro-economic impact of each government and its sectors.

- **Auditability of government statements AASB 1049** requires the preparation of financial statements and the basis of preparation, which are generally subject to an audit process. Without AASB 1049, it would be up to each jurisdiction to determine what level of scrutiny their GFS information would be subject to. It was stated by HoTARAC that alternative approaches outside of AASB 1049 may not be sufficiently robust for auditors.

Thus, the requirements in AASB 1049 that provide better information for users in understanding the stewardship and accountability of each government and in assessing the macro-economic impact of each government and its sector are as follows:

- The disclosure of key fiscal aggregates
- Requirements to report financial statements for the GGS
- Compliance with the GFS framework
- Publication of WOG and GGS at same time
- Adoption of optional treatments

AASB 1049 is based on the principle of harmonisation and to abandon this would likely lead to increased costs for treasuries, and the ABS and other user groups.

## 6. Minor amendments to AASB 1049 and AASB 1055

In this last section, suggested amendments to AASB 1049 and AASB 1055 will be summarised. Many of these have already been mentioned in prior sections of this report.

No major flaws in AASB 1049 or AASB 1055 were uncovered in this review, so the suggested amendments are minor.

Positive comments included:

*We are not aware of any significant outstanding areas of concern formally expressed by key constituents, either in response to AASB outreach or initiated by users, in relation to the current operation of this accounting standard.<sup>39</sup>*

Alternate ways of achieving the FRC strategic direction are also considered.

### 6.1 Potential improvements to AASB 1049 and AASB 1055

Stakeholders provided strong statements urging that *no changes to be made to AASB 1049*, particularly changes that would impact the harmonisation of GAAP and GFS and comparability across jurisdictions. However, minor amendments were suggested to improve harmonisation, reduce cost, or improve information for users.

#### Potential amendments to AASB 1049

Identify what amendments to AASB 1049 would be necessary to provide the information users require and/or whether there may be alternative approaches to achieving the FRC strategic direction

Are there alternative approaches to achieving the FRC strategic direction?

(RFQ Q 4)

<sup>39</sup> Department of Treasury and Finance, Victoria

### Improvements to AASB 1049

- **Consider simplifying** the requirement for disclosure of total assets by function (paragraph 48 (b)).<sup>40</sup> This disclosure is not mandated by the ABS GFS manual; the ABS only require disclosure of total expenses by function. The attribution of functions to total assets is problematic when it comes to assets such as cash or investments or office accommodation and can result in significant judgements being exercised which may not be consistent across jurisdictions. An option might be to restrict the disclosure to property, plant and equipment.
- Remove the mandatory requirement to disclose assets by function (AASB 1049 paragraph 48(b)). In contrast one treasury stated that it is likely that this information is widely used, and the disclosure could be voluntary.
- Review, rationalise and update the information on harmonisation differences and the examples that are currently provided (AASB 1049 paragraph 14);
- **Rationalise the examples appended to AASB 1049.** These examples are extensive and potentially costly to maintain for the AASB.
- Allow for **more user-defined fiscal aggregates**, in addition to those mandated as key fiscal aggregates in AASB 1049.
- Remove the public sector requirement to present **a statement of changes in equity** in circumstances where it is redundant because it does not provide additional information to that in the other statements and explanatory notes.

### Opportunities to strengthen AASB 1049 guidance material are as follows:

- Improve the clarity and utility of required disclosures of the differences between the GFS framework and the GAAP, particularly those resulting from the increasing complexity in the requirements of new Australian Accounting Standards which create additional convergence differences;
- Incorporating guidance on accounting for the treatment of accumulated equity reserve balances on Machinery of Government entity changes in the financial statements of the transferee, the transferor and at a consolidated set of financial statements level;
- Clarify the criteria for capital transfers from the GGS to other government sectors to be classified as equity injections, as opposed to contributions giving rise to income in the hands of the recipient; and
- Incorporate disclosure guidance in respect of financial instruments (AASB 9) and fair value measurement of non-financial assets (AASB 13), targeted to the needs of the users of the public sector consolidated government financial reports.

### Out of date paragraphs

Update the out-of-date paragraphs of AASB 1049:

- Paragraphs 29 and 30;
- Update the page references to the GFS in the Appendix A Key Terms to reflect the page numbers in the current GFS Manual.

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<sup>40</sup> Some stakeholders stated that this disclosure is not useful while others cited it as one of the advantages of AASB 1049.

### Potential improvements to AASB 1055

As discussed in section 3.5, there were suggestions for reducing the extent of budgetary disclosures from treasury stakeholders and ACAG.

- Budgetary reporting relating to the Statement of Financial Position should only focus on items like capital expenditure, borrowings and unusual or particularly significant items.
- Budgetary information about the provides little relevant information for users as variations in cash flows are primarily the result of variations affecting the Statement of Comprehensive Income and. The explanations of movements in the cash flow refer to the underlying movements and offer little informative value.
- Consider whether the budgetary reporting relating to the Balance Sheet should only focus on items like capital expenditure, borrowings and unusual or particularly significant items.
- Budgetary information on the Statement of Cash Flows could be removed as variations in cash flows are primarily the result of variations affecting the Operating Statement and Balance Sheet, therefore the explanations of movements in the cash flow refer to the underlying movements and offer little informative value.
- AASB 1055 should be amended to allow the principal budget v actual comparison to use the latest budget, in addition to or as a replacement for the current original Budget comparison requirement. This would reflect government accountabilities in practice. As background, the unique circumstances of the public sector mean that budgets are reviewed more often than is the case in the private sector; and
- it would be useful to require entities provide meaningful disclosures on the elements contributing to movements recorded as 'Other Economic Flows' are made, rather than just a narrative about what each item is. For example, if there is a material change to an actuarial assumption, disclosure of the key factors causing the material change would be useful

## 6.2 Are there alternative approaches to achieving the FRC strategic direction?

As discussed in prior sections, stakeholders have stated that AASB 1049 provides an efficient and cost-effective means for ensuring consistent, accurate reporting across jurisdictions. The costs to preparers of complying with AASB 1049 do not appear to be significant, due to the need for preparers to produce similar data for other reporting obligations.

Two alternatives to using AASB 1049 to achieve the FRC strategic direction could include the following:

- *Relying on local legislation to regulate reporting in each Australian jurisdiction.* This approach would be challenging (and costly to each jurisdiction and the ABS) due to the difficulty in ensuring consistent legislative requirements across jurisdictions and would potentially reduce comparability in reporting requirements and measurement. This was the approach in place prior to AASB 1049 and the problems associated with this are well known and have been discussed earlier in this report.
- *Relocating the provisions of AASB 1049 and AASB 1055 throughout other Australian Accounting Standards.* This would add complexity for the users of Australian Accounting Standards, adding time and cost for preparers of financial statements, and would make the other accounting standards more complex.

Harmonisation between GAAP and GFS would be difficult to maintain under either alternative. Harmonisation is one of the core principles of Australian public sector reporting, and because of the advantages of consistent information for users and cost efficiencies. AASB 1049 appears to be the best way for achieving this.

## Appendix A Scope of the Project

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The Request for Quotation specified the following key responsibilities and duties for the project, to include (but not limited to):

a) perform outreach to stakeholders, research and analysis in order to determine:

### **Information needs of users of Whole of Government and GGS financial statements**

1. Identify the key information needs of users of Whole of Government and GGS financial statements in each jurisdiction.
2. Identify which specific requirements in AASB 1049 do users find most useful, and which do they find least useful. This includes identifying which key fiscal aggregates determined in accordance with GFS users find most useful. In particular, but not limited to, identify the extent that the following requirements of AASB 1049 provide useful information to users:
  - (a) measuring most assets and liabilities at fair value in accordance with AASB 13 to align with GFS;
  - (b) the key fiscal aggregates presented in accordance with AASB 1049;
  - (c) the reconciliation or explanations about the difference in the key fiscal aggregates measured in accordance with GFS compared with those measured in accordance with GAAP; and
  - (d) the budgetary disclosure requirements set out in AASB 1055.
3. Determine whether financial statements prepared in accordance with AASB 1055, in the absence of AASB 1049, would still provide sufficient information for users of Whole of Government and GGS financial statements. That is, consider whether budget statements and the corresponding financial statements that are presented under the same measurement basis in accordance with Australian Accounting Standards – but might not necessarily be measured at fair value to align with GFS and do not provide key fiscal aggregates information – provide sufficient information for users.
4. Identify what amendments to AASB 1049 would be necessary to provide the information users require and/or whether there may be alternative approaches to achieving the FRC strategic direction.
5. In addition to 2(a) above, research on the extent that measuring non-financial assets held by public sector at fair value under AASB 13 provide useful information to users of financial statements. Identify whether the current values in financial statements is sufficient in meeting the objective stated in paragraph 1(b) of AASB 1049 to provide sufficient information to users about the performance and cash flows (as appropriate) of non-financial assets in each government.
6. Assess whether and to what extent do the current Whole of Government and GGS financial statements, prepared in accordance with AASB 1049, achieve the objectives outlined in paragraph 1 of AASB 1049, including whether financial statements:
  - a. provide users with information about the stewardship and accountability of each government; and
  - b. facilitate assessments of the macro-economic impact of each government and its sectors.

7. Assess whether compliance with other applicable AASB Standards, without AASB 1049, could achieve the objectives outlined in paragraph 1 of AASB 1049. If not, identify which specific requirements in AASB 1049 would lead to better information for users in understanding the stewardship and accountability of each government and in assessing the macro-economic impact of each government and its sector.

**Costs to comply with AASB 1049**

8. Assess how costly is it to a jurisdiction to comply with the requirements in AASB 1049 – the Treasury Department in each jurisdiction is required to provide GFS reporting to the Australian Bureau of Statistics (ABS) as well as compile financial statements in the agreed format of the Uniform Presentation Framework (UPF)<sup>3</sup>, which is largely harmonised with key requirements of AASB 1049 to facilitate comparability among the jurisdictions.
  9. In respect of 8 above, assess the cost savings to a jurisdiction for not having to keep a separate set of records and reports to provide GFS and UPF reporting, as a result of aligning GAAP and GFS in accordance with AASB 1049. Assess whether costs would change if jurisdictions were required to prepare financial statements under Australian Accounting Standards without AASB 1049.
  10. Given that leases and service concession arrangements cannot be aligned with GFS under the current GFS Manual and ABS is able to make adjustments to the information in the financial statements of Whole of Government and GGS to compute the required GFS information, assess the usefulness to ABS of the current financial statements of Whole of Government and GGS being prepared under AASB 1049.
  11. Whether compliance and preparation costs could be reduced by changing the principles underlying AASB 1049 in whole or in part;
  12. Assess whether and to what extent does the benefit to users in having financial statements prepared in accordance with AASB 1049 outweigh the cost to a jurisdiction; and
- b) prepare a report to the FRC documenting the above research and outreach findings, their analysis and recommendations.



## Appendix B Stakeholder Consultation

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### The consultation processes

In May 2021, a Consultation Paper was completed by Langfield-Smith Consulting (LSC), an independent consultant. The Consultation Paper provided the background to the PIR and included a series of open-ended questions for users and preparers of government financial statements.

To ensure that the PIR was an independent review, the Consultation Paper was not published on the FRC or AASB websites and stakeholder submissions were not submitted to the FRC or AASB. LSC developed a stakeholder contact list, sent invitations to stakeholders to respond to the questions in the CP, managed queries in relation to the PIR and advised that responses to the Consultation Paper be emailed directly to LSC.

The process for stakeholder consultation included the following:

- A stakeholder mailing list was developed. The list of stakeholder groups listed in the RFQ provided the starting point. Web searches and phone calls to offices helped ensure that the correct person or committee was on the mailing list.
- Emails were sent by LSC to individual stakeholders inviting them to respond to the questions in the Consultation Paper that were the most relevant to them as a user or as a preparer.
- Email invitations were followed up by phone calls to ensure that the email had been sent to the most relevant person at the agency or department.
- Some stakeholders recommended other agencies or individuals as additional contacts.
- Stakeholders who contacted LSC directly were added to the mailing list and were emailed invitations to respond to the Consultation Paper.
- A three-month consultation period was set, ending Monday 9 August 2021.
- Phone calls were conducted with some stakeholders, who did not wish to send a written submission or as an addition to their submission.
- All stakeholders on the mailing list were sent a reminder email three weeks before the due date of 9 August 2021.
- Late responses were accepted and included in the analysis.

It was important that the Consultation Paper was publicised as widely as possible to maximise the breadth of responses:

- FRC and AASB placed ongoing notices on their public websites indicating that LSC was undertaking the PIR and those interested in contributing should contact LSC directly to obtain a copy of the Consultation Paper.
- Finance and Accounting Association of Australia and New Zealand (AFAANZ), the peak body for accounting and finance academics, placed a notice in their Monthly Newsletter over three months, inviting academics to respond to the Consultation Paper.
- An invitation was sent to The Economics Society of Australia to publicise the PIR among their members.

## Responses

Fifty-eight email invitations were sent to stakeholders and 14 written responses were received as outlined in **Table 3** (next page). As invitations and responses were sent and received from both groups and individual stakeholders, it is not appropriate to calculate a response rate.

ACAG and HoTARAC were invited to participate in on-line group discussions. On-line group meetings were conducted with staff from the International Monetary Fund (IMF), Australian Bureau of Statistics (ABS), the Commonwealth Grants Commission and ACAG.

Most written responses were comprehensive and detailed, and included deep coverage of the issues.

The spread of submissions was dominated by submissions from Treasury departments (ten responses), who are preparers of government financial statements and are also users of those statements. While there were similarities in their responses, there were some different perspectives based on their specific jurisdictional situations. The response of the Auditors General (ACAG) was a more arms-length perspective on the issues.

Major users of government financial statements such as the ABS, and users of GFS (Australian Grants Commission and IMF) provided views that balanced the opinions of Treasury.

The lack of responses from academic researchers was disappointing. Anecdotal responses indicated that public sector financial reporting is now a far less popular research area compared to previous decades.

## Stakeholders providing written responses or engaging in on-line meetings

The following stakeholders submitted written comments and/or engaged in on-line group meetings:

- Australasian Council of Auditors General (ACAG)
- Australian Bureau of Statistics (ABS)
- Australian Grants Commission (AGC)
- CPA Australia
- David Hardidge (individual response)
- Department of Treasury and Finance, Tasmanian Government
- Department of Treasury and Finance, Victoria
- Department of Treasury, Western Australia
- Department of Treasury and Economic Development, ACT
- Department of Treasury and Finance, South Australia
- Department of Treasury and Finance, Northern Territory
- Department of Finance, Australian Government
- Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC)
- International Monetary Fund (IMF)
- NSW Treasury
- Queensland Treasury

**Table 3** Invitations and responses to the consultation paper

<b>Stakeholders</b>	<b>Invitations to comment</b>	<b>Declined invitation to submit written comments</b>	<b>On-line group meetings</b>	<b>Written Submissions</b>
Australian Bureau of Statistics (ABS)	1	0	1	1
Academic researchers (including academic accounting and economics peak bodies)	12	4	0	0
Australian Grants Commission (AGC)	1	1	1	
Government Audit Offices (including Australasian Council of Auditors General (ACAG))	10	0	1	1
International Monetary Fund (IMF)	1	1	1	0
Journalists	3	0	0	0
Parliamentarians	6	0	0	0
Professional accounting bodies	3	0	0	1
Public Accounts Committees/Parliamentarians	9	4	0	0
Ratings agencies	2	0	0	0
Treasury offices (including Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC))	10	0	0	10
Other government departments	1	0	0	0
Individual submission	0	0	0	1
<b>Total</b>	<b>59</b>	<b>10</b>	<b>4</b>	<b>14</b>

## Appendix C Academic Research and Literature Review

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A search for academic research papers relevant to this PIR was undertaken as follows:

- Experts in economics and accounting were contacted to build up a list of active researchers in the areas of public sector financial reporting and public sector accounting standards in Australia and New Zealand.
- The websites of academic researchers were reviewed for relevant published or unpublished papers or conference presentations.
- Databases of journal content and journal articles were searched, e.g., Google Scholar, SSRN, Academia.com and ResearchGate, using key words and author names.
- The content of journals that specialise in public sector accountability and reporting were reviewed, via the publisher websites.

There was a surprisingly small number of papers that addressed AASB 1049 directly or public sector financial reporting.

The following academic articles were reviewed.

Aggestam, C., Chow D., Day, and Pollanen, R., (2014) *Whole of government accounts: who is using them?* The Association of Chartered Certified Accountants (ACCA), August 2014.

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