



Project:	Application of AASB 18 <i>Presentation and Disclosure in Financial Statements</i>	Meeting:	AASB 1 May 2025 (M212)
Topic:	NFP public sector entities preparing Tier 1 GPFS	Agenda Item:	5.1
		Date of paper:	15 April 2025
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		Decision-Making:	High
		Project Status:	Decide on standard-setting response

Objective of this paper

- 1 This paper is designed to be read after reading the ‘process undertaken in stakeholder consultations’ section of the Cover Memo (Agenda Paper 5.0).
- 2 Whole of Government (WoG) and the General Government Sector (GGS) are defined in AASB 1049 *Whole of Government and General Government Financial Reporting*.¹
- 3 In view of AASB 18 *Presentation and Disclosure in Financial Statements*, the objectives of this paper are for the Board to:
 - (a) consider stakeholder feedback received from targeted consultations and **decide how AASB 18 should be applied by the following entities in the public sector in preparing general purpose financial statements (GPFS):**
 - (i) WoG and GGS. Specifically, to **decide:**
 - (A) which of the existing specific presentation requirements in AASB 1049 should continue to take precedence over the presentation requirements in Accounting Standards (currently in AASB 101 *Presentation of Financial Statements*) in view of the introduction of AASB 18 when preparing WoG and GGS financial statements; and
 - (B) whether any AASB 18 requirements (that are not specifically overridden by AASB 1049 requirements) require modification for application by WoG and GGS entities;

1 GGS is the institutional sector comprising all government units and non-profit institutions controlled and mainly financed by government as defined in the ABS GFS Manual.

- (ii) not-for-profit (NFP) public sector entities preparing Tier 1 GPFS controlled by WoG; and
- (iii) local government entities, which are not controlled by WoG; and

(b) subject to the Board's decisions in (a), the extent of any work needed to specify the presentation requirements for these public sector entities.

- 4 Agenda Item 8 for this meeting discusses the Board's project on updating AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The questionnaire distributed to public sector stakeholders sought feedback only on the application of AASB 18 by WoG/GGS, NFP public sector entities preparing Tier 1 GPFS and local government entities. However, most of the stakeholder feedback and concerns are relevant also to NFP public sector entities preparing Tier 2 GPFS. Therefore, any relief from, or modifications of, AASB 18 requirements the Board may decide to provide for NFP public sector entities preparing Tier 1 GPFS would affect the Board's project on AASB 1060 regarding the financial statements presentation and disclosure requirements of NFP public sector entities preparing Tier 2 GPFS.

Targeted consultations

- 5 The questionnaire was provided to the following public sector stakeholders:

- (a) the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC);
- (b) the Financial Reporting and Accounting Committee of the Australasian Council of Auditors-General (ACAG-FRAC); and
- (c) the Office of Local Government of each government (via HoTARAC).

- 6 At the time of writing, staff have received:

- (a) written responses from the Audit Office of five jurisdictions;
- (b) written responses from the Treasury office of one jurisdiction and a letter from HoTARAC outlining the preliminary views of HoTARAC members on certain aspects of AASB 18; and
- (c) a written response from a stakeholder who provided views in their personal capacity.

- 7 Staff did not receive any responses from Offices of Local Government. However, two Audit Offices provided feedback relevant to local government entities.

- 8 The questionnaires and the written responses received are presented as Agenda Paper 5.4 in the supplementary folder for the Board's reference.

Applying the Standard-Setting Framework

- 9 The staff analysis and staff recommendations in this paper are based on the [AASB Not-for-Profit Entity Standard-Setting Framework](#) (the Standard-setting Framework). Specifically, in accordance with paragraphs 30(g) and 30(h) of the Framework, staff consider whether modifications to AASB 18 or AASB 1049 are necessary regarding:

- (a) terminology differences, current practice issues, and variations in the accountability or regulatory framework, as well as differences in governance or financial management associated with public sector entities; and

- (b) whether the costs of preparing and disclosing information required under AASB 18 outweigh the benefits to users of public sector entity GPFS.

Structure of this paper and summary of staff recommendations

- 10 Stakeholder feedback obtained from the targeted outreach indicated that there is a need to undertake further due process to clarify the presentation requirements for public sector entities. Staff recommend proceeding to develop an Exposure Draft (ED) to publicly consult on the matters discussed in Sections 1–4 of the paper.
- 11 The table below summarises the staff recommendations in each section.

Section	Staff recommendation on matters to propose in an ED
Section 1: Income statement presentation	
1.1 : WoG and GGS	Staff recommend proposing to keep the status quo for WoG and GGS to continue preparing their financial statements in accordance with AASB 1049.
1.2 : NFP public sector entities preparing Tier 1 GPFS	Staff recommend proposing: <ul style="list-style-type: none"> (a) as an interim step, to permit NFP public sector entities preparing Tier 1 GPFS to present income statements using their existing format and be regarded as being compliant with Australian Accounting Standards; and (b) at a later stage, after the Board has considered the results of the IPSASB's Presentation of Financial Statements project and has progressed further in the Board's own Public Sector Financial Reporting Framework project, to consider whether there is merit in requiring NFP public sector entities to categorise income and expenses into the operating, investing and financing categories and to present the two new subtotals as set out in AASB 18.
1.3 : Local government entities	Staff recommend proposing: <ul style="list-style-type: none"> (a) as an interim step, to permit local government entities to present income statements using their existing format and be regarded as being compliant with Australian Accounting Standards; and (b) at a later stage, after the Board has considered the results of the IPSASB's Presentation of Financial Statements project and has progressed further in the Board's own Public Sector Financial Reporting Framework project, to consider whether there is merit in requiring local government entities to categorise income and expenses into the operating, investing and financing categories and to present the two new subtotals as set out in AASB 18.
Section 2 : Presentation of expenses	Staff recommend proposing to keep the status quo in respect to presenting expenses in the income statement. That is:

Section	Staff recommendation on matters to propose in an ED
	<p>(a) in respect to WoG and GGS, to require presenting expenses in accordance with AASB 1049; and</p> <p>(b) in respect to NFP public sector entities preparing Tier 1 GPFS and local government entities, propose modifications to Accounting Standards so that the Treasury Offices or the Offices of Local Government would not be prohibited from mandating the appropriate basis for presenting expenses to achieve consistency in reporting.</p>
Section 3 : Aggregation and disaggregation	Staff recommend proposing that all entities in the public sector preparing Tier 1 GPFS will be required to apply the AASB 18 aggregation and disaggregation requirements and no public-sector-specific guidance is needed.
Section 4 : Management-defined performance measures (MPMs)	Staff recommend proposing that all entities in the public sector preparing Tier 1 GPFS be exempted from mandatory disclosure of MPMs in the Exposure Draft. Entities may voluntarily disclose information about any MPMs that they consider useful for their users.

Executive summary

- 12 To assist Board members reviewing this paper, staff have prepared an executive summary in tabular format on the next page. The executive summary provides a high-level overview of the following:
- (a) current practices of public sector entities in preparing GPFS (first table);
 - (b) key messages from stakeholder feedback obtained in targeted outreach, shown in green shapes;
 - (c) staff recommendation on the proposals to include in the ED, shown in red shapes; and
 - (d) matters staff consider should be clarified or proposed in the ED (second table). This information reflects the staff's current tentative thinking on certain specific matters to be included in the ED. Board members are not requested to make decisions regarding the content of this table. However, Board members will be given opportunities to provide feedback to staff on the current tentative thinking.
- 13 The legend for the executive summary is as follows.

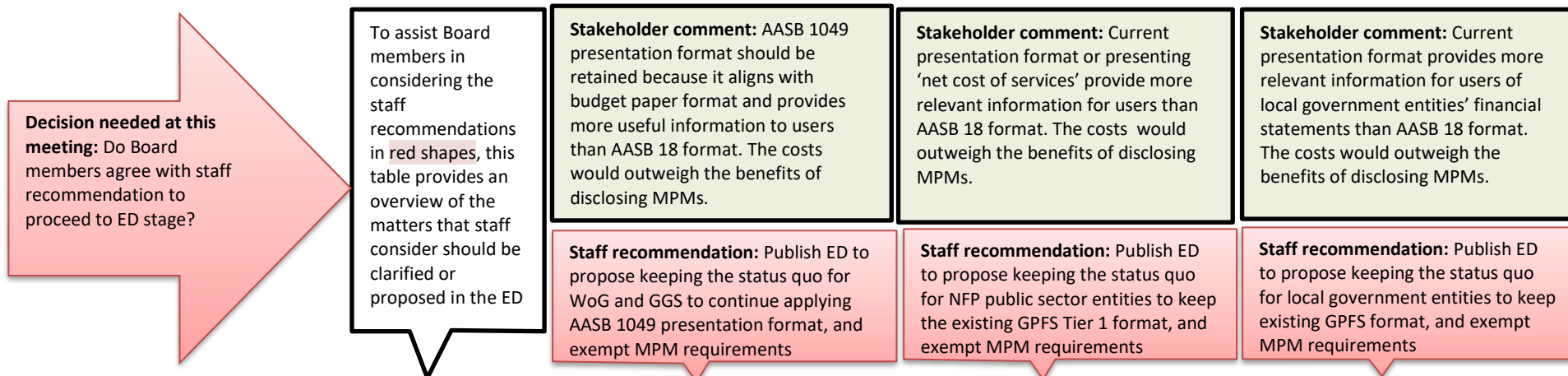
Matters require the Board's decision at this meeting

Information about stakeholder feedback received in targeted outreach

Question for Board members:

Q1: Do Board members agree with the staff recommendations described in the table in paragraph 11, which are summarised in the red shapes in the Executive Summary on the next page?

AASB 101 requirements	Current practice		
	WoG and GGS	NFP public sector entities preparing Tier 1 GPFS (controlled by WoG)	Local government entities (not controlled by WoG)
Presentation of income statement	AASB 1049 overrides AASB 101	AASB 101 + Treasury mandate. Treasury mandate presentation by nature	AASB 101 + mandate from the Office of Local Government. Expenses are disclosed by nature
Presenting expenses			
Aggregation and disaggregation	AASB 101 applies	AASB 101 applies	AASB 101 applies



AASB 18 requirements	Staff recommend the Exposure Draft clarify how AASB 18 interacts with AASB 1049 and current practices, as follows		
Presentation of income statement – to categorise income and expense into operating, investing and financing categories and present two new subtotals	AASB 1049 overrides AASB 18	As an interim step, propose modifications to Standards to permit existing practices and be regarded as being compliant with Australian Accounting Standards	As an interim step, propose modifications to Standards to permit existing practices and be regarded as being compliant with Australian Accounting Standards
Presenting operating expenses – permits mixed presentation of expenses by nature and by function			
Aggregation and disaggregation – aggregate and disaggregate items based on characteristics and to consider the roles of the primary financial statements and the notes	AASB 18 would apply except for specified disaggregation requirements in AASB 1049	Applying AASB 18 requirements is not expected to change the line items currently presented	Applying AASB 18 requirements is not expected to change the line items currently presented
Management-defined performance measures (MPMs) – disclose in a single note information about subtotals of income and expenses that the entity uses in public communications outside financial statements about management's view of an aspect of the entity's financial performance	Exempt these entities from disclosing MPMs Entities may voluntarily disclose information about MPMs they consider useful for their users		

Section 1: Income statement presentation

14 This section considers how the AASB 18 income statement presentation requirements should be applied by the following entities in the public sector:

- (a) [Section 1.1](#): WoG and GGS;
- (b) [Section 1.2](#): NFP public sector entities preparing Tier 1 GPFS that are controlled by WoG; and
- (c) [Section 1.3](#): Local government entities, which are not controlled by WoG.

1.1: WoG and GGS

15 Paragraphs 16–20 provides background information about AASB 1049 for the Board’s information.

Purpose of AASB 1049

16 The Financial Reporting Council (FRC) issued a strategic direction to the AASB in December 2002:

“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” (FRC Bulletin 2002/5 18 December 2002, as modified by FRC Bulletin 2003/1 11 April 2003).

17 AASB 1049 was developed in October 2007 (effective for annual periods on or after 1 July 2008) as the AASB’s response to the FRC’s strategic direction to harmonise GFS and GAAP.

18 To harmonise GFS and GAAP, AASB 1049 requires WoG and GGS to comply with the principles and rules in the ABS GFS Manual (published by the Australian Bureau of Statistics) when preparing financial statements where they would not conflict with Australian Accounting Standards. This includes requiring WoG and GGS to present in the income statement:

- (a) income and expenses based on ‘transactions’ and ‘other economic flows’ [AASB 1049.30]:
 - (i) ‘Transactions’ is defined in AASB 1049 and ABS GFS Manual as “interactions between two institutional units by mutual agreement or actions within a unit”;
 - (ii) ‘Other economic flows’ is defined as “Changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets)”; and
- (b) key fiscal aggregates (subtotals) [AASB 1049.32]:
 - (i) net operating balance;
 - (ii) total change in net worth (before transactions with owners in their capacity as owners, where they exist); and
 - (iii) net lending/(borrowing) and its derivation from net operating balance; net operating balance’, ‘total change in net worth’ and ‘net lending/(borrowing)’.

- 19 Key fiscal aggregates are analytical balances in the ABS GFS Manual, which 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.
- 20 The presentation format of AASB 1049 is interrelated with the [Uniform Presentation Framework](#) (UPF), implemented in 1992–93 by the Commonwealth and state governments in their budget documents. The purpose of the UPF was to introduce uniformity into the presentation of GFS so that users of the information could make valid comparisons between jurisdictions in their budget papers.² It was recognised that a more uniform approach to the presentation of financial data would facilitate a better understanding of individual governments' budget papers and provide for more meaningful comparisons of each government's financial results and projections.

Post-implementation review of AASB 1049

- 21 In 2020, the FRC commissioned an independent Post-implementation Review (PIR) of AASB 1049 and AASB 1055 *Budgetary Reporting* relating to WoG and GGS, which was conducted by Dr Kim Langfield-Smith.
- 22 The resulting Report "The Post-Implementation Review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*" (the PIR Report) was accepted by the FRC at its 10 December 2021 meeting.³ The FRC asked the AASB to consider the recommendations noted in the PIR Report.⁴
- 23 While improvements in some areas of AASB 1049 were identified in the PIR Report, stakeholders did not express a need for changing the income statement or balance sheet presentation for WoG and GGS. The PIR Report noted (in page 2) "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 ... **There is strong support for retaining AASB 1049 and AASB 1055 in their current form.**" [emphasis added]
- 24 Based on the PIR Report, there is a strong support to retain AASB 1049 and continue requiring WoG and GGS to present their income statements and balance sheets as set out in AASB 1049.

Interaction between AASB 18 and AASB 1049

- 25 AASB 18.47 requires an entity to classify income and expenses into operating, investing and financing categories. AASB 18 also requires an entity to include two additional subtotals in the statement of profit or loss:
- (a) operating profit or loss, which comprises all income and expenses classified in the operating category [AASB 18.70]; and
 - (b) profit or loss before financing and income taxes, which comprises operating profit or loss and income and expenses classified in the investing category [AASB 18.71].

2 <https://www.abs.gov.au/methodologies/government-finance-statistics-annual-methodology/2022-23#concepts-classifications-sources-and-methods>; accessed 07/02/2025.

3 The PIR Report was presented as Agenda Item 4B for the FRC meeting held on 10 December 2021. The FRC papers for that meeting can be accessed [here](#), Agenda Item 4B starts on page 24 of the FRC papers.

4 Staff plan to present analysis of the recommendations noted in the PIR Report at a future Board meeting.

- 26 As mentioned in paragraph 18, to harmonise GFS and GAAP, AASB 1049 requires WoG and GGS to present in the income statement:
- (a) income and expenses based on ‘transactions’ and ‘other economic flows’, which is different from the AASB 18 categories; and
 - (b) key fiscal aggregates, which includes presenting subtotals on the face of the income statement.
- 27 The [Appendix](#) to this paper includes an extract of an illustrative example in AASB 1049 illustrating an acceptable format for WoG statement of comprehensive income, for the Board’s reference.
- 28 AASB 1049.9 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.” [emphasis added] That is, the specific income statement presentation requirements in AASB 1049 are expected to take precedence over the presentation requirements of AASB 18, in the same way as they currently take precedence over some of the presentation requirements of AASB 101.
- 29 Consistent with the stakeholder feedback reflected in the PIR Report, all questionnaire respondents disagreed with requiring WoG and GGS to categorise income and expenses into the operating, investing and financing categories required by AASB 18. They are of the view that:
- (a) the presentation requirements outlined in AASB 1049 are well-established and well-understood;
 - (b) because governments in all Australian jurisdictions are required to prepare budget papers in accordance with UPF, WoG and GGS should be permitted to continue to present their financial statements in a manner consistent with UPF. AASB 1049 presentation formats are consistent with UPF.
 - (c) incorporating the AASB 18 categories would confuse users and not add any benefits.
- 30 In HoTARAC’s response it states that “HoTARAC jurisdictions strongly and unanimously support the retention of AASB 1049 ‘as is’ and that AASB 18 does not apply to whole-of-government financial statements”.

Staff analysis

- 31 Staff note the following context:
- (a) Since budget papers are prepared in accordance with UPF, presenting the income statement based on the AASB 18 presentation requirements would detract from the objective of the FRC’s strategic direction (quoted in paragraph 16) – to prepare outcome statements in a manner that would be directly comparable with the relevant budget statements.
 - (b) Page 3 of the PIR Report noted the following:
 - (i) “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.” [emphasis added]
 - (ii) “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.”
[emphasis added]

- 32 Based on the stakeholder feedback from targeted outreach and the PIR report, staff consider that the specific presentation requirements in AASB 1049 provide more relevant and useful information for users of WoG and GGS consolidated financial statements than would be the case applying the income statement categories in AASB 18.
- 33 Additionally, staff consider that it is prudent to not introduce changes to the presentation of WoG and GGS financial statements ahead of considering the forthcoming changes to the ABS GFS Manual anticipated in 2027-28. AASB 1049 contains principles and definitions adapted from the 2005 version of the ABS GFS Manual. AASB 1049 has not yet been updated to reflect the 2015 version of the Manual. Additional changes to the Manual are anticipated in 2027-28. The Board’s work program includes a project that would consider changes to the ABS GFS Manual and possible update of AASB 1049.

Staff recommendation

- 34 Staff recommend keeping the status quo for WoG and GGS to continue preparing financial statements in accordance with AASB 1049.

1.2: NFP public sector entities preparing Tier 1 GPFS controlled by WoG

Respondents’ feedback

- 35 Staff have categorised respondents’ feedback in accordance with the justifiable circumstances for sector-specific modification described in paragraphs 30(g) and 30(h) of the Standard-setting Framework (described in paragraph 9).
- 36 **Feedback relating to current practices:** Respondents provided the following comments.
- (a) NFP public sector entities in two jurisdictions are required to present ‘net cost of services’ in the income statement. They are of the view that this subtotal provides more relevant information to public sector users. ‘Net cost of services’ is calculated as total expenses (also known as total costs of services) less income received from its own sources (i.e. excluding appropriations from its government). NFP public sector entities in the Australian Government and the Western Australian Government are required to present net cost of services in the income statement.
 - (b) Further to (a), respondents commented that applying the AASB 18 income statement classification would detract from meeting the needs of users and reduce the clarity and understandability of financial statements. This is because NFP public sector entity financial statements (and local government entity financial statements) typically separate the impact on their operating result by including separate subtotals in the financial statements to show the operating result before items such as:
 - (i) depreciation, amortisation and impairment, fair value movements and gain/loss on the sale of assets – these items are non-cash items and typically form a large part of NFP public sector entity financial statements;

- (ii) capital grants – these grants can vary significantly from one year to the next. These grants must be applied for specific capital projects and are not directly related to underlying operations presented in the income statement; and
 - (iii) restricted grants and investment funds that can only be used for specific purposes.
- (c) IFRS 18.BC3(a) notes that a key driver for introducing the three new categories and related subtotals is to address diversity in presentation. However, diversity in presentation is not prevalent in the public sector. The Treasury Office and the Office of Local Government provide a specified format for the financial statements (in the form of model accounts) to reduce inconsistency among public sector entities within a jurisdiction. The Commonwealth Department of Education also provides a specified format for university financial statements. Respondents are of the view that the current presentation format is well-established and understood by users.

37 Feedback relating to public-sector-specific governance structure and reporting requirements: Respondents provided the following comments.

- (a) The AASB 18 categorisation requirements seem to focus on cash flows which is not a key focus of users of public sector financial statements. They suggested that if categorisation of income and expenses is required, the AASB should discuss with jurisdictional regulators in considering suitable alternative categories.
- (b) Users of public sector financial statements do not assess expenditure based on the operating, investing and financing categories described in AASB 18. Instead, they focus on assessing the costs of service delivery and how these costs are funded. These costs are typically grouped as either operating costs (relating to the day-to-day operations of the entity) or capital costs (relating to costs associated with constructing or purchasing tangible assets).
- (c) Debt financing of government activities is typically managed centrally with funding provided to consolidated fund and advanced to government departments and public sector entities through the appropriation process. As a result, the full cost of interest and borrowings is not necessarily captured in an NFP public sector entity's financial statements.
- (d) NFP public sector entities are often subject to changes in structure and composition due to administrative restructures and machinery of government changes. Consequently, assessment of specified main business activity (and therefore categorisation of income and expenses) and MPM disclosures may need to be re-assessed in light of the new structure; with comparatives having less relevance.

38 Feedback relating to costs: Three respondents commented that categorising income and expenses into the operating, investing and financing categories would incur significant costs. This is because a new chart of accounts and report mappings might be needed to capture the new categorisation. For example, interest expenses might be currently mapped as one classification that may be required to be split into three categories to comply with AASB 18.

39 Feedback relating to the absence of benefits: One respondent commented that, conceptually, the categorisation of income and expenses may allow entities to have a clear operating outcome they can communicate with users and may assist users in better understanding the underlying operational transactions (as they would be presented separately from investing and financing income and expenses). However, other respondents commented that they do not consider categorising income and expenses in the three new categories would provide useful information for users of public sector GPFS. They provided the following comments.

- (a) Financial statements of public sector entities serve more as a transparency and accountability mechanism for the resources provided to them rather than an indication of the entity's future financial performance. Users of public sector GPFS are more concerned about stewardship and the entity's ability to provide public goods and services than the entity's ability to generate future cash inflows. Therefore, classifying income and expenses into the operating, investing or financing categories is unlikely to provide additional information to users compared to the current income statement formats.
- (b) Removing items such as interest expenses and expenses relating to employee benefit liabilities from the operating category is unimportant for users of NFP public sector entity financial statements. The nature of NFP public sector entities means that they inherently will have fewer activities in the investing and financing categories because their core focus is on providing goods and services which are generally funded by appropriations or other forms of taxes or rates.
- (c) Applying the AASB 18 income statement classification would detract from the needs of users and reduce the clarity and understandability of financial statements. HoTARAC commented that the "operating profit or loss" and "profit or loss before financing and income taxes" subtotals are less relevant for users of NFP public sector financial statements. They suggest the Board consider permitting NFP public sector entities to present a "net cost of services" or "total income/total expenditure" layout, instead of the AASB 18 presentation format.

Staff analysis

- 40 Based on respondents' feedback, staff consider that it is justifiable under the Standard-setting Framework for NFP public sector entities preparing Tier 1 GPFS to depart from the AASB 18 requirements relating to the income statement presentation (including assessment of main business activities, classification of income and expenses and presenting related subtotals in the income statement).
- 41 Staff note the following context.
 - (a) In contrast to the IASB stakeholders, the Board has not heard from Australian stakeholders that there is a need to change how public sector entities present their income statements.
 - (b) The respondents' feedback indicated that the costs to categorise income and expenses into the operating, investing and financing categories will be significant when there is no evidence that these categories as described in AASB 18 will provide additional useful information for users of public sector GPFS.
 - (c) In respect to the respondents' comment described in paragraph 36 (a)–(b), outside of financial statements, staff observed that 'net cost of services' is often used by Treasury Offices as a budget management tool to control a public sector entity's overall recurrent expenditure to within approved budget limits. 'Net cost of services' is a measure well-understood by users of public sector GPFS or budget papers. In addition, staff observe that one jurisdiction has adopted a GFS-based 'transactions' versus 'other economic flows' presentation format for its entities. This classification is required by AASB 1049 for WoG and GGS financial statements. The net cost of services format can be presented and still be compliant with AASB 101, but the same is not true for AASB 18.⁵

5 This is because operating items would be expected to appear both above and below the net cost of services line in the income statement.

- (d) AASB 1055.6 requires NFP entities within the GGS of each government to disclose the “original budgeted financial statement presented to parliament, presented and classified on a basis that is consistent with the presentation and classification adopted in the corresponding financial statement prepared in accordance with Australian Accounting Standards.” As a result, most of these entities prepare budget papers in the same format as their GPFS. If the GPFS income statement format is changed to incorporate the AASB 18 categories, it is likely that these entities would incorporate the same change to the budget papers. However, this change might confuse readers of budget papers as, more broadly, those papers are not structured using the operating, investing and financing categories.
- (e) As discussed in Section 1, staff are recommending keeping the current format for WoG and GGS and not categorising income and expenses into the three new categories. Therefore, if the Board agrees with the staff recommendation in Section 1, requiring NFP public sector entities to categorise income and expenses into the three new categories would likely require these entities to make consolidation adjustments or maintain two charts of accounts and mappings:
 - (i) one for compliance with AASB 18; and
 - (ii) another for WoG and GGS consolidation.
- (f) If NFP public sector entities were required to assess main business activities and classify income and expenses into the three new categories, respondent feedback indicated that additional guidance may be required to be developed to assist entities in determining:
 - (i) whether providing financing to intra-government entities would be considered “providing financing to customers” for the purposes of AASB 18;⁶ and
 - (ii) the relevant category for categorising income and expenses relating to common public-sector transactions, including:
 - (A) appropriations and grants;
 - (B) capital grants, that relate to purchases or construction of assets rather than to fund an entity’s operations;
 - (C) contributions from owners and distributions to owners;
 - (D) service concession arrangements or public-private partnerships;
 - (E) capital received in the form of tangible assets;
 - (F) interest foregone on concessional loans;
 - (G) extinguishment of a liability to another government entity within the same government; and

6 This is relevant because, for example:

- (a) the central agency in a Department would provide funding to other agencies in the same Department; and
- (b) a government might have established a central borrowing agency that would manage investments and borrowings for the government as a whole and would provide funding to other agencies when needed or directed by the government.

- (H) income from receipt of cash, cash equivalents and investments that are designated as restricted assets.

42 Staff considered whether there might be merit in having the Board consider providing NFP public sector entities (and local government entities) with an option to voluntarily apply the AASB 18 income statement classifications. As noted in paragraph 41(e), if such an option were provided, public-sector-specific guidance may need to be developed to assist in the application of the AASB 18 categories. Based on stakeholder feedback it is highly unlikely that NFP public sector entities and local government entities would voluntarily apply the AASB 18 income statement classifications. Therefore, staff have not discussed the option further in this paper.

Cross-cutting project

43 The Board's work program includes a project on the Public Sector Financial Reporting Framework. The Board has previously determined that the objectives of this project are to:

- (a) develop objective criteria to determine which entities of the Commonwealth and State, Territory and Local Governments should be required to prepare GPFS; and
- (b) determine the financial reporting requirements that would apply to the financial statements, including considering how the linkage between financial, budget and service performance information can be enhanced.

44 The Public Sector Financial Reporting Framework project has been paused since 2020. At its [November 2023 meeting](#), when discussing the plan for issuing AASB 18, the Board decided that as part of its project, it would consider the IPSASB's Presentation of Financial Statements project, including requesting comments from Australian stakeholders on the IPSASB's forthcoming Consultation Paper.

45 The IPSASB is expecting to publish a Consultation Paper in September 2025 (with the aim of finalising a Standard in Q1 2028). Based on the discussions at its March 2025 meeting, the IPSASB is expecting to include in the Consultation Paper options for the presentation of the income statement. This would include seeking feedback from international public sector stakeholders on categorising income and expenses into the operating, investing and financing categories described in IFRS 18. Therefore, stakeholders' responses to the IPSASB's forthcoming Consultation Paper would likely provide input to the Board's consideration of how the IFRS 18 requirements for categorising income and expenses into the three new categories by applied by public sector entities.

Staff recommendation

46 In respect to NFP public sector entities preparing Tier 1 GPFS, based on respondents' feedback and in light of other projects in the Board's work program, staff recommend:

- (a) as an interim step, to permit these entities to present income statements using their existing format (including presenting 'net cost of services' or to follow the AASB 1049 presentation format) and be regarded as being compliant with Australian Accounting Standards; and
- (b) at a later stage, after the Board has considered the results of the IPSASB's Presentation of Financial Statements project and has progressed further in the Board's own Public Sector Financial Reporting Framework project, to consider whether there is merit in requiring these entities to categorise income and expenses into the operating, investing and financing categories and to present the two new subtotals as set out in AASB 18.

1.3: Local government entities

- 47 The Offices of Local Government did not provide a response to the questionnaire.
- 48 The Audit Office of two jurisdictions provided feedback relating to applying AASB 18 to local government entities. Their comments were summarised in Section 1.2. They commented that diversity in presentation is not prevalent in the public sector and that the current presentation format is well-established and understood by users. Therefore, it is unclear whether there would be benefits in introducing the AASB 18 income statement categories or whether the relevant regulator would be open to changing the current presentation format.
- 49 Concurrent with the observations noted by those Audit Offices, staff noted that many local government entities present the income statement to show net operating results (income and expenses relating to day-to-day operations) and separately present capital grants relating to construction or purchase of assets. Some local government entities exclude one-off items from their net operating results (such as income from assets received free of charge, asset disposal and fair value adjustments).
- 50 Consistent with the staff views in Section 1.2, staff consider the current formats in local government financial statements – to separate capital and one-off amounts from net operating results – provide more relevant information for users than the AASB 18 format. This is because users are likely to focus on the net operating results that are net of one-off and capital amounts to assess the true costs of service delivery by the local government entity.

Staff recommendation

- 51 Consistent with the staff recommendation in Section 1.2, in light of likely future work on the Board's Public Sector Financial Reporting Framework project, staff recommend proposing the following in the Exposure Draft:
- (a) as an interim step, keeping the status quo to permit local government entities to present income statements using their existing format and be regarded as being compliant with Australian Accounting Standards; and
 - (b) at a later stage, after the Board has considered the results of the IPSASB's Presentation of Financial Statements project and has progressed further in the Board's own Public Sector Financial Reporting Framework project, to consider whether there is merit in requiring local government entities to categorise income and expenses into the operating, investing and financing categories and to present the two new subtotals as set out in AASB 18.

Section 2: Presenting operating expenses

AASB 18
<p>"In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics (see paragraphs B80–B85):</p> <ul style="list-style-type: none">(a) the nature of expenses; or(b) the function of the expenses within the entity." [AASB 18.78] <p>"Any individual line item shall comprise operating expenses aggregated on the basis of only one of these characteristics, but the same characteristic does not have to be used as the aggregation basis for all line items." [AASB 18.79]</p>

AASB 18
<p>“In determining how to use the characteristics of nature and function to provide the most useful structured summary as required by paragraph 78, an entity shall consider:</p> <ul style="list-style-type: none"> (a) what line items provide the most useful information about the main components or drivers of the entity’s profitability ... (b) what line items most closely represent the way the business is managed and how management reports internally ... (c) what standard industry practice entails. If expenses are classified in the same way by entities in an industry, users of financial statements can more easily compare expenses between entities in the same industry. (d) whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions. In such cases, an entity shall classify these expenses by nature.” [AASB 18.B80]

- 52 AASB 101 requires an entity to present in the statement of profit or loss expenses by either their nature or function. In contrast, AASB 18 permits an entity to use a mixed basis for different operating expense line items. AASB 18 requires an entity to consider other specific matters, as stated in AASB 18.B80(a)–(d), in determining how to use the characteristics of nature and function to provide the most useful structured summary.
- 53 Stakeholder input was sought on whether the flexibility for WoG/GGS or other entities within the scope of this paper to apply judgement in determining which expense items should be presented by their nature or by their function might be beneficial or might adversely affect the information provided to users. Four respondents provided input on this matter. Their feedback is summarised below.
- (a) Using a mixed presentation of expenses by nature and by function may lead to less consistency, making it difficult for users to understand financial statements.
 - (b) Public sector entities apply consistent basis for presenting expenses based on Treasury model financial statements or Treasury mandates.
 - (c) One respondent commented that their Treasury Office mandates that public sector entities present expenses by their nature. Staff are aware that this is also the case in most jurisdictions because ABS GFS Manual requires (and therefore AASB 1049 requires) disclosure of expenses by nature.
 - (d) One respondent commented that AASB 1052 *Disaggregated Disclosures* requires government departments and local government entities to disaggregate expenses (and other information) for each major function or activity.

Staff analysis

- 54 Staff note the following context.
- (a) When developing IFRS 18, the IASB was aware of the concern described in paragraph 53(a) that “mixed presentations can make it difficult to compare entities, particularly if the labels used for nature line items do not make it clear whether expenses of that nature are also included in some function line items” (IFRS 18.BC250). However, the IASB was concerned that prohibiting a mixed presentation might also prevent an entity from presenting useful information in the statement of profit or loss or presenting operating expenses in a way that contributes to providing the most useful structured summary of those expenses (IFRS 18.BC251–BC252).

- (b) In respect to WoG and GGS, AASB 1049 prescribes specific presentation and disclosure requirements relating to expenses that would take precedence over the AASB 18 requirements.
- (c) In respect to NFP public sector entities and local government entities, at the conceptual level, respondents' feedback did not indicate NFP-specific or public-sector-specific reasons to prohibit a mixed presentation in presenting expenses. However, at the practical level, consistent with the staff views in Section 1, it would be prudent to not introduce changes to the presentation of these entity's financial statements until the Board has progressed further in its Public Sector Financial Reporting Framework project.
- (d) Staff also consider that expenses is a key focus area of uses of public sector financial statements. Therefore, it is important to maintain consistent reporting of expenses among the NFP public sector entities and local government entities in the same jurisdiction to promote comparability.

Staff recommendation

55 Based on the analysis of the feedback above, and consistent with the staff view in Section 1 to keep the status quo for all entities within the scope of this paper until the Board has progressed further in its Public Sector Financial Reporting Framework project, staff recommend also keeping the status quo in respect to presenting expenses in the income statement. That is to propose the following in the Exposure Draft:

- (a) in respect to WoG and GGS, to require presenting expenses in accordance with AASB 1049; and
- (b) in respect to NFP public sector entities preparing Tier 1 GPFS, propose modifications to Accounting Standards so that it would not prohibit the Treasury Office from mandating the appropriate basis for presenting expenses to achieve consistency in reporting to facilitate WoG and GGS consolidation; and
- (c) in respect to local government entities, propose modifications to Accounting Standards so that it would not prohibit the Office of Local Government from mandating the appropriate basis for presenting expenses to achieve consistency in reporting among the local government entities in the same jurisdiction.

Section 3: The roles of the primary financial statements and the notes, and aggregation and disaggregation

AASB 18
<p>AASB 18.41 states: "... Unless doing so would override specific aggregation or disaggregation requirements in Australian Accounting Standards, an entity shall (see paragraphs B16–B23):</p> <ul style="list-style-type: none"> (a) classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics; (b) disaggregate items based on characteristics that are not shared; (c) aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries (see paragraph 16); (d) aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information (see paragraph 17); and (e) ensure that aggregation and disaggregation in the financial statements do not obscure material information (see paragraph B3)."

- 56 AASB 101 requires an entity to present separately each material class of similar items, according to their nature or function (AASB 101.30). AASB 18 replaces the concept of a 'material class of items' for aggregating and disaggregating items with a requirement to aggregate and disaggregate items based on characteristics and guidance on the roles of the primary financial statements and the notes to help an entity determine the line items to be presented in the primary financial statements and the items to be disclosed in the notes.
- 57 One respondent is of the view that the requirements in AASB 18.41 are neither an improvement to existing practice nor a hindrance to providing useful information to users. However, they commented that moving to a 'structured summary' approach is a more prescriptive basis of presentation, which is counter to the principle that preparers are responsible for determining the relevant information to present based on their user needs and the environment in which they operate. The respondent is concerned that this prescriptive approach with a focus on line item-driven disclosures will encourage form-filling style reporting.
- 58 Another respondent commented that they have not identified any issues to indicate that the roles of the primary financial statements and the notes are not appropriate for NFP public sector entities. They commented that currently financial statements do not always present information that is appropriately aggregated or disaggregated including the misuse or overuse of the "other" category. This is because NFP public sector entities and local government entities prepare financial statements based on model accounts provided by the Treasury Office or the Office of Local Government and sometimes are reluctant to add items to the model accounts or remove notes for items that are not material. If NFP public sector entities apply the principles in AASB 18 appropriately, it is likely to lead to more useful information provided to users.

Staff analysis

- 59 In respect to the respondents' comment described in paragraph 57, staff note that the IASB's intention behind the aggregation and disaggregation requirements outlined in AASB 18.41 is to provide further guidance in response to feedback raised by users of GPFS that financial statements do not always include appropriately aggregated or disaggregated information (IFRS 18.BC71). Staff consider that judgement is needed in applying the requirements in AASB 18.41, in the same way as judgement is necessary when applying AASB 101. Staff are not aware of any evidence suggesting that the requirements in AASB 18.41 would lead to form-filling style reporting.
- 60 Staff do not consider the respondents' feedback indicate an NFP-specific or a public-sector-specific reason to modify AASB 18 under the Standard-setting Framework. Additionally, paragraph BC75 of the Basis for Conclusions to IFRS 18 states that the IASB expects that "an entity would generally conclude that line items previously determined to be a 'material class of items' would also contribute to a useful structured summary." Therefore, applying AASB 18 aggregation and disaggregation requirements might not significantly affect how the line items and disclosures currently disclosed by NFP public sector entities or local government entities.
- 61 In respect to WoG and GGS, currently the general aggregation and disaggregation in AASB 101 applies except for specified disaggregation requirements in AASB 1049. Equally, staff consider that the AASB 18 aggregation and disaggregation requirements are capable of being applied by WoG and GGS alongside the AASB 1049 requirements.

Staff recommendation

- 62 Based on the above, staff are of the view that the AASB 18 aggregation and disaggregation requirements should be applied by all NFP entities in the public sector preparing Tier 1 GPFS.

- 63 Staff recommend proposing in the Exposure draft that all NFP entities in the public sector preparing Tier 1 GPFS will be required to apply the AASB 18 aggregation and disaggregation requirements and no public-sector-specific guidance is needed.

Section 4: Management-defined performance measures

AASB 18
<p>AASB 18.122 requires an entity to disclose in a single note information about all measures that meet the definition of management-defined performance measures (MPMs).</p> <p>AASB 18.117 states that an MPM is a subtotal of income and expenses that:</p> <ul style="list-style-type: none"> (a) an entity uses in public communications outside financial statements; (b) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and (c) is not specifically required to be presented or disclosed by Australian Accounting Standards (including the subtotals listed in AASB 18.118).

- 64 A few respondents commented that some NFP public sector entities present 'underlying results' in their annual report (outside of financial statements) that would be an MPM. An explanation of how underlying results is calculated is usually provided in the annual report. It typically adjusts "surplus/deficit for the period" for once-off items or items of a capital nature that do not reflect the entity's general operating activities.
- 65 In respect to the benefits of preparing the MPM disclosure, one respondent noted that the requirements outlined in AASB 18.117–125 may be beneficial for both preparers and users. However, the Audit Office in one jurisdiction provided the following comments.
- (a) Governments publish a broad range of information, including in budgets and annual reports, and share performance and expenditure information on a variety of platforms including websites and media releases. Therefore, it may be difficult for public sector auditors to provide reasonable assurance that the MPMs are complete.
 - (b) They are concerned about the costs of scanning through all written communication documents in identifying all MPMs. They recommend the Board to further consult with preparers to assess whether the users of public sector financial statements require this information for decision making.
 - (c) AASB 18.B115 states that "a subtotal of income and expenses related to that reportable segment would meet the definition of a management-defined performance measure if it met the other parts of the definition of a management-defined performance measure." AASB 1052 requires certain public sector entities to disclose disaggregated information, which can be considered similar to segment information prepared by private sector entities. AASB 1055 requires certain public sector entities to present in GPFS budgetary information. They commented that it would be helpful to clarify the interactions between MPMs and AASB 1052 and AASB 1055.
- 66 HoTARAC provided feedback from a preparer's perspective. They questioned the applicability of the MPM disclosure requirements in the public sector context. They provided the following comments:
- (a) In respect to WoG and GGS, AASB 1049 requires disclosure of key fiscal aggregates. Therefore, key fiscal aggregates do not fall within the definition of MPMs.

- (b) The IASB's concern regarding management using alternative presentations of income and expenses has limited application to NFP public sector entities and local government entities. This is because alternative measures of financial performance are not widely used in these entities. These public sector entities typically provide service delivery metrics specific to a particular function that would typically have greater relevance to users than alternative subtotals of income and expenses. Users' focus is on how the entity's service delivery is funded and the net surplus or deficit of the entity.
- (c) In respect to for-profit public sector entities, they are less likely to report alternative measures of profit compared to private sector entities. The users' focus on these entities would be on the statutory profit and any dividends available for repatriation to the government.

Staff analysis

- 67 Staff noted that ACAG, in its [submission](#) to ED 298, questioned the value of requiring public sector entities to disclose MPMs in the financial statements. Public sector entities already disclose information about their performance either within the financial statements or as part of the annual reports. They were of the view that it may not be necessary to require disclosures of MPMs in financial statements as public sector entities can provide value-added additional information as appropriate without it being mandated.
- 68 Further to the feedback from public sector auditors, staff observed that in the public sector the budget papers or other written communications are often prepared by staff members who are not the preparers of the entity's GPFS. There may also be situations where written communications are being developed without the knowledge of those who are preparing the GPFS. Therefore, from a preparer's perspective, it may be difficult to ensure the completeness of MPMs used in all written communications.
- 69 Staff consider that, in respect to WoG/GGS, NPF public sector entities preparing Tier 1 GPFS, and local government entities:
 - (a) at the conceptual level, there does not appear to be a reason to exempt or modify AASB 18 requirements relating to MPMs for these entities; however
 - (b) at the practical level, staff consider that the costs required to ensure all MPMs are disclosed in GPFS and have them audited would outweigh the benefits since these public sector entities already have various forms of written communications about their performance and most subtotals used in those documents are well-defined or well-understood by users. Staff consider that it is justifiable under the Standard-setting Framework to not require these entities to disclosure MPMs in GPFS.

Staff recommendation

- 70 Staff recommend proposing that all entities in the public sector preparing Tier 1 GPFS be exempted from mandatory disclosure of MPMs in the Exposure Draft. Entities may voluntarily disclose information about MPMs that they consider useful for their users. Staff consider that once practice emerges regarding possible voluntary disclosures about MPMs, this might assist the Board's assessment of the usefulness of those disclosures in these entities in the public sector for the purposes of a future post-implementation review of AASB 18.

Appendix: Illustrative Examples in AASB 1049 illustrating an acceptable format for WoG statement of comprehensive income

Revenue from Transactions

Taxation revenue

Other revenue

Interest, other than swap interest

Dividends from associates (part of share of net profit/(loss) from associates)

Sales of goods and services

Other current revenues

Expenses from Transactions

Employee benefits expense

Wages, salaries and supplements

Superannuation

Use of goods and services

Depreciation

Interest, other than swap interest and superannuation interest expenses

Subsidy expenses

Grants

Social benefits

Superannuation net interest expenses

Loss on write-off of financial assets at fair value through operating result

NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE

Other Economic Flows – Included in Operating Result

Other revenue

Net swap interest revenue

Net foreign exchange gains

Net gain on sale of non-financial assets

Net gain on financial assets or liabilities at fair value through operating result

Amortisation of non-produced assets

Doubtful debts

Share of net profit/(loss) from associates, excluding dividends

OPERATING RESULT

Other Economic Flows – Other Comprehensive Income

Items that will not be reclassified to operating result

Revaluations

Remeasurements of the defined benefit liability

Items that may be reclassified subsequently to operating result

Net gain on financial assets measured at fair value

COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS

KEY FISCAL AGGREGATES

NET LENDING/(BORROWING)

plus Net acquisition/(disposal) of non-financial assets from transactions

NET OPERATING BALANCE

plus Net other economic flows

TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS