

APPENDIX B: STATEMENT OF ACCOUNTING PRINCIPLES AND POLICIES

FINANCIAL STATEMENTS

In recent years the budget papers have included financial reports prepared using two different reporting frameworks – Government Finance Statistics (GFS) and Australian Accounting Standards incorporating generally accepted accounting principles (GAAP).

The budget aggregates have been amended for the 2008-09 Budget to adopt a single harmonised GFS-GAAP approach. The format of the harmonised financial statements and aggregates is based on the reporting standard AASB 1049 *Whole of Government and General Government Financial Reporting*. The Uniform Presentation Framework (UPF) (endorsed by the Australian Loan Council) was also revised to be consistent with AASB 1049, effective from this Budget.

Budget Paper No. 2 *Budget Statement* presents three budget financial statements that are consistent with AASB 1049:

- ◆ Operating Statement
- ◆ Balance Sheet
- ◆ Cash Flow Statement.

Consolidated budget financial statements

All consolidated sector reports in this budget paper have been prepared for the first time based on AASB 1049, which adopts a harmonised GFS-GAAP framework. This particularly affects the sector reports published in Chapter 1 and the UPF statements in Chapter 10, which were prepared in previous years on a pure GFS basis.

The general rules for adopting AASB 1049 are:

- ◆ Consolidated sector financial reports are prepared in accordance with recognition, measurement and disclosure requirements as per GAAP.
- ◆ Where options exist in accounting standards, the option that is consistent with GFS must be chosen to minimise convergence differences. However, where there is any conflict between GAAP and GFS, GAAP prevails.
- ◆ Amended presentation requirements exist including a harmonised operating statement. The statement dissects revenues and expenses into transactions and other economic flows, as defined by the *ABS GFS Manual*.

Full convergence on GFS and GAAP has not been achieved. This means that there are some differences between AASB 1049 harmonised aggregates in the budget papers and the pure GFS information that the ABS reports. For example, the timing of the ABS's accrual treatment for Australian road transport grants differs to the cash recognition treatment adopted under accounting standards. Details of the other main convergence differences can be found in Chapter 10 under the heading Primary Financial Statements, where the convergence differences have been reported for each of the primary statements.

AASB 1049 is applicable for consolidated sector reporting. It does not apply for individual agency reporting.

Agency accounting based reports

Agency statements in Budget Paper No.3 *Budget Estimates* have been prepared in accordance with Australian Accounting Standards and generally accepted accounting principles (GAAP). However as AASB 1049 is applicable for consolidated sector reporting only, the agency statements are not prepared on a GFS-GAAP harmonised basis.

Agency operating statements include all accrued expenses and revenues and reflect the operating result for the individual general government agencies. This differs from the budget result (net operating balance) in Chapter 1 which is prepared on a AASB 1049 harmonised basis. The harmonised budget result has an economic focus and for this reason excludes from the net operating balance any revenues and expenses related to the revaluation of assets or liabilities. These types of revenues and expenses are largely outside the control of governments.

Examples of these revenues or expenses included in the agency accounting operating result but excluded from the budget result are:

- ◆ superannuation actuarial assessments
- ◆ gains or losses on the sale of assets and
- ◆ gains or losses associated with debt management activities.

The harmonised AASB 1049 operating statement discloses details of the above valuation adjustments as *other economic flows*, reporting them below the consolidated net operating balance (i.e. the Budget result for the general government sector). The AASB 1049 harmonised financial reports also reflect the accounting operating result which is the same concept as the agency operating result. However the difference is that for the harmonised AASB 1049 financial reports, the focus is on the budget result (net operating balance), above the accounting operating result, and the net operating balance is not disclosed in the agency operating statements.

The presentation of agency operating statements in Budget Paper No. 3 *Budget Estimates* is less than that required under accounting standards. This is because budget paper presentation has been prepared to focus on agency operations and their net cost of services. Therefore, operating statements exclude government contributions that are normally required under accounting standards. In addition there is no disclosure of agency non-operating equity movements, as most agencies have minimal equity changes, aside from their operating results.

DEPARTURES FROM AUSTRALIAN ACCOUNTING STANDARDS

Under the *Public Finance and Audit Act 1983*, the Treasurer is required to present a statement that discusses the nature of and the reasons for any departure from AAS principles in relation to general government financial statements.

The budget preparation departs from Australian Accounting Standards as follows:

- ◆ Certain reserve trusts created under the *Crown Lands Act 1989* have been excluded. There are approximately 33,000 Crown reserves in New South Wales. Some of these reserves are managed by the NSW Government and others by local governments and trusts. A project has commenced to identify and value Crown reserves controlled by the NSW Government.

The likely value of the reserves controlled by the NSW Government cannot be estimated with any certainty. First estimates based on preliminary data are that the total value of these reserves may be between \$1 billion and \$7 billion. However, the total value may be outside this range. The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts, once this project is complete and the value can be reliably estimated.

The Auditor-General has qualified his opinion on the 2006-07 Total State Sector Accounts. In his opinion:

As disclosed in Note 1 Statement of Significant Accounting Policies, under the heading Principle of Consolidation, the State is undertaking a project to identify and value the Crown reserves it controls under the *Crown Lands Act 1989*. Until the project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the financial report.

- ◆ Since the adoption of AEIFRS in 2005-06, accounting standards require that comparative financial information be restated in accordance with changes in accounting treatments and new standards. Throughout the 2008-09 Budget papers, information for the 2004-05 and previous financial years has not been restated on an AEIFRS basis. In particular,
 - for 2004-05, the information presented is on a pre-AEIFRS basis to be consistent with the presentation in the 2004-05 Budget papers and audited financial reports and
 - for 2003-04 and earlier years, financial information is not available on an AEIFRS basis.
- ◆ It is impracticable to analyse all historic transactions to ensure that they were measured and reported consistent with AASB 1049. The consolidated results published in this budget paper have been back cast on a harmonised GFS-GAAP basis on a best endeavours basis. For example, historic information in the consolidated operating statements has been recast on the basis of available dissections between GFS transactions and other economic flows. Further, *land and fixed assets* prior to 2005-06 cannot be dissected into its component classes, to match the assets classes that have been reported since 2005-06.

Details of the main convergence differences between GFS and GAAP are explained in Chapter 10. Convergence differences are not departures from accounting standards. In accordance with AASB 1049 requirements, full details of convergence differences will be disclosed in the 2008-09 Outcomes Report.

BUDGET SCOPE

The Budget incorporates all general government sector agencies as defined by the Australian Bureau of Statistics, subject to a materiality threshold. A list of NSW public sector agencies (classified according to sector) appears in Appendix C.

The general government sector covers all agencies that receive parliamentary appropriations or are regulatory in nature.

Defining the budget sector as equal to the general government sector improves transparency and accountability by providing a comprehensive picture of the non-commercial operations of the Government, and an independent definition of the budget's scope.

The financial transactions of public financial enterprise (PFE) sector and public trading enterprise (PTE) sector agencies are not generally reflected in the budget aggregates.

However, there are exceptions to the above which the budget aggregates do include. These are:

- ◆ explicit payments for social programs, which are non-commercial functions required of PTEs by the Government
- ◆ dividends, tax equivalent payments and guarantee fees payable by the PTEs and PFEs which are shown as revenues in the general government sector and
- ◆ general government sector investment in the PTE and PFE sectors entities.

Another important measure of the Government's performance is how they are managing the total state sector balance sheet. Chapter 6 includes commentary on the management of total state sector financial assets and liabilities, including net debt and superannuation liabilities.

Similarly, Chapter 10 includes financial information presented in accordance with AASB 1049 for the general government sector, the public trading enterprise sector and the non-financial public sector. This fulfils uniform presentation framework requirements agreed between the Commonwealth and State governments.