

TREASURY ANALYSIS - AASB 1049

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (Oct 2007)

Major impact of changes for 2008/09

- Under AASB 1049, the whole-of-government and general government sector (GGS) financial report must be prepared on a harmonised Government Finance Statistics (GFS) / Accounting Standard (GAAP) basis.
- This means that a comprehensive income statement format is adopted for the whole of government and the GGS, that separates 'transactions' from 'other economic flows', and discloses the 'net operating balance' (GGS Budget Result), 'operating result' (GAAP result) and the 'comprehensive result' (total non-owner movements in equity).
- However, full GFS/GAAP convergence has not been achieved, so reconciliations to 'pure GFS' key fiscal aggregates are required in the notes where there are differences.
- AASB 1049 does not currently impact on individual public sector entities' general purpose financial reports. However, NSW Treasury may require agencies to provide additional information to prepare the whole-of-government and GGS financial report.

Key features of Standard

Scope & Application

- AASB 1049 (October 2007) applies to each government's whole of government general purpose financial report and the GGS financial report. The Standard applies to annual reporting periods beginning on or after 1 July 2008 (para 2). AASB 1049 supersedes AAS 31 *Financial Reporting by Governments*. The withdrawal of AAS 31 (along with AAS 29) is discussed in greater detail in a separate *Treasury Analysis*.

Basis for harmonised GFS/GAAP

- The whole-of-government and GGS financial report must comply with the Australian Bureau of Statistics (ABS) GFS Manual to the extent that it would not conflict with Australian Accounting Standards. GFS provides information for the assessment of the macro-economic impact of a government and each of the government's sectors.
- To harmonise, optional treatments in Accounting Standards that align with the ABS GFS Manual must be applied (para 13 and 15). For example, fair value measurement in AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets*, AASB 140 *Investment Property* and AASB 139 *Financial Instruments*, must be applied, where possible, because GFS adopts fair value (para 14).
- Full GFS/GAAP convergence has not been achieved, as there are differences between GFS and GAAP in a number of areas. For example, unlike GAAP, GFS does not recognise doubtful debts or provisions, in the absence of a counter party (para 42).
- Where there are differences between GFS and GAAP, GAAP prevails, and reconciliations to pure GFS are required in the notes (para 41 & 52) (refer 'notes' below).

Components of the financial report

- The whole-of-government and the GGS financial report comprises a balance sheet, operating statement (applying a AASB 101 comprehensive income statement format), cash flow statement and notes. A separate statement of changes in equity is not required (para 25).

Comprehensive income statement - Transactions vs other economic flows

- In the operating statement, all expenses and revenues must be classified as either 'transactions' or 'other economic flows' based on GFS principles (para 30). For example (para 31):
 - Changes in fair value of financial instruments are classified as other economic flows (other than undistributed interest or dividends).
 - Actuarial gains/ losses are classified as other economic flows.

<ul style="list-style-type: none"> - Changes in fair value of investment property include two components; i.e. consumption of capital (transactions) and price changes (other economic flows). - Doubtful debts are classified as other economic flows. - Bad debts are classified as transactions to the extent they are mutually agreed. - Other revaluation gains/losses and gains/losses on disposal. <ul style="list-style-type: none"> • The separation of ‘transactions’ and ‘other economic flows’ is the major change, which means that there are three main aggregates in the income statement i.e. net operating balance (GGS Budget result); operating profit/loss (GAAP result); and comprehensive income (non owner movements in equity) (refer below). <p><i>Key fiscal aggregates</i></p> <ul style="list-style-type: none"> • A number of ‘key fiscal aggregates’ must be disclosed on the face of the financial statements, based on GFS principles. These include (para 28, 32 & 37): <ul style="list-style-type: none"> - Net operating balance – calculated as ‘income from transactions’ minus ‘expenses from transactions’. [In NSW, this is used as the GGS Budget Result]. - Net lending – net operating balance less the net acquisition of non-financial assets. This represents the financing requirements of government. - Cash surplus / (deficit) and its derivation – calculated as net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid. - Net worth and total change in net worth (comprehensive result). <p><i>Notes</i></p> <ul style="list-style-type: none"> • AASB 1049 requires additional notes for the whole-of-government and GGS, including: <ul style="list-style-type: none"> - Reconciliations to pure GFS key fiscal aggregates, where there are differences compared to the harmonised aggregates and an explanation of the differences (para 41). - Disaggregated information for each broad function, using the GFS ‘government purpose classification’ (para 48-49). - Where presented to Parliament, budgeted financial statements for the whole-of-government financial report and GGS financial report (including explanations of major variances between the original budget and actuals) (para 59). - Sector information (for the GGS, public trading enterprises and public financial corporations) in the notes to the whole-of-government financial report, including primary financial statements, reconciliations to pure GFS key fiscal aggregates and reconciliations to the whole-of-government financial statements (para 52). As a result, segment information under AASB 114 /AASB 8 is not required to be disclosed.
<p>Main differences applicable for 2008/09 compared to 2007/08</p> <ul style="list-style-type: none"> • Prior to AASB 1049, there was no Accounting Standard for the GGS. In the past, the GGS Budget was prepared primarily on a GFS basis. However, the Budget on a GAAP basis, was also included in the appendices to the Budget Papers (primary financial statements only). A full GAAP financial report (including notes) was only prepared for the whole-of-government (in accordance with AAS 31) but not for the GGS. • Previously, AAS 31 for the whole-of-government was on a GAAP basis only and did not consider GFS requirements. AAS 31 requirements have been relocated across a number of Standards. The withdrawal of AAS 31 and AAS 29 is discussed in separate <i>Treasury Analyses</i>.
<p>Impact on the public sector</p> <ul style="list-style-type: none"> • Currently AASB 1049 only impacts on the whole of government and GGS; it does not currently impact on individual public sector entities. However, NSW Treasury may require agencies to provide additional information to prepare the whole-of-government and GGS financial report. For example, additional information may be required from individual entities: <ul style="list-style-type: none"> - to dissect ‘transactions’ from ‘other economic flows’; e.g. bad and doubtful debts and interest/dividends from other fair valuation gains/losses. - where accounting policies differ materially from the not-for-profit policies applied by the whole-of-government and GGS.

Policy and Implementation issues

- NSW Treasury has already mandated options consistent with GFS principles, to the extent possible. There should be no changes in the mandates impacting on individual agencies.

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.