

Attachment A

EXTERNAL REPORTING STANDARDS

The *Charter of Budget Honesty Act 1998* requires that the Pre-Election Economic and Fiscal Outlook (PEFO) be based on external reporting standards and that departures from applicable external reporting standards be identified.

This attachment describes the external reporting standards upon which the financial statements in Attachment B are based. The standards are consistent with those used in the 2004-05 Budget and the 2003-04 Final Budget Outcome.

The major external standards used for PEFO reporting purposes are:

- the Australian Bureau of Statistics' (ABS) Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0, which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and
- Australian Accounting Standards (AAS), including AAS 31 *Financial Reporting by Governments*.

Consistent with the presentation adopted by the Government in the Budget, the PEFO tables, with the exception of tables in Appendix B, do not include goods and services tax (GST) collections and equivalent payments to the states and territories, which is a departure from ABS GFS and AAS. Estimates of GST receipts are provided in Table B5 of Appendix B.

ABS GFS requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Australian Government assets in the balance sheet (and would, therefore, be inconsistent with the market valuation principle).

The AAS financial statements currently record IMF Special Drawing Rights (SDRs) as a liability. This is consistent with AAS. The GFS statements also record SDRs as a liability. However, in accordance with the IMF's GFS manual, IMF SDRs are not treated as a liability in ABS GFS although they are treated this way in other IMF documentation. In view of these differences, the current approach remains in place pending further consultation with the ABS and IMF, and developments in train to harmonise GFS and AAS.

Similarly, the GFS financial statements currently adopt the AAS treatment for circulating coins. Under this treatment revenue is recognised upon the issue of coins and no liability is recorded, as there is no legal obligation requiring coins on issue to be repurchased by the Australian Government. However, in ABS GFS, coins on issue are

treated as a liability and no revenue is recognised. The current accounting treatment remains in place pending further consultation with the ABS and IMF, and developments in train to harmonise GFS and AAS.

ABS GFS also requires defence weapons be treated as expenses. Defence weapons inventories are recorded as capital investment rather than expenses until such inventories can be reliably identified and measured. The treatment of these inventories as capital or expenses has the same impact on the underlying cash and fiscal balances.

In relation to the recognition of taxation revenue, the preferred basis of recognition and measurement under both GFS and AAS is at the time the underlying activity giving rise to the tax liability occurs. However, in order to ensure the reporting of reliable GFS and AAS budget estimates and outcomes, taxation revenue is recognised the earlier of when an assessment of a tax liability is made or cash payment is received by the Australian Taxation Office or the Australian Customs Service. This alternative method is permitted under both GFS and AAS when there is an inability to reliably measure taxation revenues at the time the underlying transactions or events occur. Accordingly, for most categories of taxation revenue, there is a short lag between the time at which the underlying economic activity giving rise to the tax liability occurs and when the revenue is recognised. Longer lags of up to a year occur for some elements of company and superannuation funds taxation.