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Guidance paper - disclosure of underlying result by Government businesses

Objective of this guidance

Tasmanian government businesses often disclose alternative performance measures in their annual reports, or other publications, in addition to the profit or loss disclosed under accounting standards and other requirements issued by the Australian Accounting Standards Board (AASB).

This guidance is intended to assist government businesses in assessing the appropriateness of the disclosure of alternative performance measures in annual reports and other publications. This guidance incorporates information published by the Australian Securities and Investments Commission (ASIC) and the Australian Institute of Company Directors (AICD) relating to the use of 'non-IFRS financial information'.

Non-IFRS financial information is defined by ASIC as 'financial information that is presented other than in accordance with all relevant accounting standards'¹. Examples of non-IFRS financial information include underlying result, earnings before interest and tax (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA) and surplus from operational activities.

This guidance focuses on the most commonly used measure of non-IFRS reporting – underlying result, and provides information that may assist those charged with the governance of government businesses in determining whether the underlying result is appropriately explained and disclosed in annual reports.

Financial reporting framework for government businesses

Treasurer's Instruction GBE 08-51-07 *Application of Australian Accounting Standards* requires government businesses comply with Australian Accounting Standards and Interpretations. State owned companies are also required to comply with these requirements in accordance with the *Corporations Act 2001*.

In 2007, the AASB modified Australian Accounting Standards so that their requirements are identical to International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board for for-profit entities.

¹ ASIC Regulatory Guide 230, *Disclosing non-IFRS financial information*, December 2011

Why disclose underlying result?

Reporting underlying result is an increasingly common occurrence both in Australia and globally amongst entities that report their results publicly. For example In Tasmania, councils are require to report their underlying result under an Order issued by the Minister for Local Government. Underlying result is often used to clarify, understand and assess an entity's underlying performance.

ASIC guidance on using underlying result information

ASIC's main concern about the use of underlying result is that the information is not misleading. [Regulatory Guide 230](#) applies to all documents issued in conjunction with the release of profit results (such as director reports, investor's reports, media releases, profit announcements, operating and financial review and the financial report). In short, RG230 provides the following considerations:

- underlying result information may not be included in the financial statements
- IFRS financial information should be given equal or greater prominence compared to underlying result information, in particular IFRS profit
- underlying result information should be:
 - explained and reconciled to the IFRS financial information
 - calculated consistently from period to period
 - unbiased and not used to remove 'bad news' or 'one-off' items.

Considerations related to the disclosure of underlying result

The following questions may help government businesses assess the transparency of their underlying result disclosure and whether improvement may be needed:

- What is the purpose of the underlying result measure?
- Does the disclosure indicate why the presentation of this information is useful for readers?
- Would users of the financial information be misled by the underlying result measure?
- Has the underlying result measure been given more prominence in reporting performance than the comparable statutory result?
- Is the underlying result financial information appropriately labelled to distinguish it from statutory financial information?
- Has a clear explanation been provided as to how the underlying result information is calculated and has a reconciliation between the underlying result and IFRS financial information been provided?

- Is the calculation of underlying result balanced in that it eliminates similar items affecting both revenue and expense?
- If the calculation of underlying result has changed from the previous period, is there an explanation about the nature of the change, the reasons for the change and the financial impact of the change?
- Do adjustments to underlying result made in the current period have a relevant corresponding item as an adjustment in the comparative period?
- Have items described as 'one-off' or 'non-recurring' occurred in the past or likely to recur again in the future?
- Is the source of information used in the underlying result calculation verifiable?
- Are there adequate controls and oversight in place over both the calculation and disclosure of underlying result?
- Is there disclosure of whether the underlying result information has been audited or reviewed in accordance with Australian Auditing Standards?

To conclude, where a government business presents an underlying result, it is strongly encouraged that the guidance within ASIC's Regulatory Guide 230 is followed. The key being to adopt a consistent approach that promotes full and clear disclosure to all users of the financial information that minimises the possibility of users being misled.