



Australian Government

**Australian Accounting
Standards Board**

AASB Research Report No 6:

Financial Reporting Requirements Applicable to Australian Public Sector entities

April 2018

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Acknowledgements

The principal authors express special thanks to the following:

- AASB Members for their comments on earlier drafts
- Australian Auditing and Assurance Standards Board staff for their contribution

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AASB Research Report Series

The AASB Research Centre promotes thought leadership in external reporting standard-setting and policy making through in-depth analysis of financial reporting issues and related empirical work.

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Contents

Contents	iii
Executive Summary	1
Introduction to the public sector in Australia	1
Public sector entities – reporting challenges	1
Comparison to international models	2
Where to from here.....	3
Overview of financial reporting requirements applicable to Australian public sector entities	4
Summary of issues identified by the research	9
Financial Reporting requirements applicable to public sector entities	12
Introduction	12
The Need for Public Sector Reporting.....	13
Structure of the Australian Public Sector	15
Overview of Australian financial reporting requirements	18
Introduction	18
Non-corporate public sector entities	18
Who must report	18
What must be reported	19
Corporate Public Sector Entities.....	22
Who must report	22
What must be reported?.....	22
Auditing requirements of the public sector	23
Other financial reporting issues	25
Government Financial Statistics Reporting	25
Financial Reporting Council Report.....	26
AASB Round table discussion	27
Administered vs Controlled items (AASB 1050)	28
Other Australian Specific Accounting Standards for the public sector	29
Definition of public sector reporting entities - International jurisdictions	30
IPASAB definition.....	30
Other international jurisdictions.....	31
Public Sector reporting in international jurisdictions	32
Levels of Government in other Jurisdictions	32
National Level of Government/Whole of Government.....	32
Other Levels of Government	34

Auditing requirements	36
Appendix A: Australian public sector financial reporting requirements	38
Commonwealth level	38
South Australia	40
Victoria	43
Western Australia	45
Queensland	48
NSW	50
Tasmania	52
ACT	55
Northern Territory	57
APPENDIX B: Selected international financial reporting requirements	59
New Zealand	59
United Kingdom	63
Hong Kong	67
Singapore	68
South Africa	69
Canada	72
United States of America	75

Executive Summary

Introduction to the public sector in Australia

The public sector of Australia is a large and disparate conglomeration of various public sector entities including statutory bodies, departments, controlled entities (for example, companies) and government-owned enterprises.

The Australian public sector covered by this Research Report, comprises three levels of government:

- (a) Commonwealth (national government) - The Australian Commonwealth Government is the first tier or level of government. It passes laws and is responsible for regulations that affect the whole country, but is limited to the powers outlined in s 51 of the Constitution.
- (b) State or Territory (regional government) - The second tier of Australian government consists of six states and two territories, namely: Western Australia; South Australia; New South Wales; Tasmania; Victoria; Queensland; Northern Territory; and the Australian Capital Territory.
- (c) Local Government (municipal government) - Local governments, also called councils, form the third tier or level of government and are responsible for, and deliver, many community services (such as public transport and waste disposal). Their establishment, powers and responsibilities are defined in state-based legislation.

It has been apparent for many years that the financial reporting framework governing public sector entities is in need of reform. Public sector entities complain of onerous and complex reporting requirements, and of producing financial reports that are not focused on the needs of their stakeholders.

To understand more about the basis for these criticisms, the Australian Accounting Standards Board (AASB) has documented in this Research Report the financial reporting requirements applicable to Public Sector entities in Australia. The Report also documents the requirements in some international jurisdictions. This information can be used to provide input into future discussions about the options available for changing public sector reporting.

This Report is part of a larger project by the AASB and the Auditing and Assurance Standards Board (AUASB) to assist in reforming the financial reporting framework in Australia for all sectors. The goal of the project for public sector entities is to achieve financial reporting that is clear, objective and comparable, balancing user needs and preparer costs. It also aims to reduce the burden on preparers by simplifying the requirements and ensuring that the information that they are required to provide is useful to them and their stakeholders. This Report will be followed by an AASB Discussion Paper detailing potential options for change, and an extensive program of outreach and consultation with public sector preparers and their stakeholders.

Public sector entities – reporting challenges

The research shows that there are a number of issues with the current financial reporting regime.

Onerous reporting requirements

The Australian Accounting Standards define all public sector entities as reporting entities unlike in other jurisdictions. This means that at all levels of government, public sector entities are required to prepare general purpose financial statements (GPFS) without considering the size or significance of their activities. This is exacerbated by the duplication of information that is presented in the consolidated financial statements of the whole of government, which repeats the information that each government entity has already issued in its own separate financial statements.

This imposes undue burden on smaller, lower level government statutory bodies/agencies which are required to prepare GPFS and, in almost all cases, apply Tier 1 reporting requirements.

Reporting is not fit for purpose

Currently there are only two Tiers of GPFS, Tier 1: Australian Accounting Standards and Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements. The Regulator may allow Tier 2 to be applied for some public sector entities if allowed within an Act or regulation. As such, only some States currently allow Tier 2 reporting requirements to be applied by certain entities whilst the majority of the public sector entities prepare financial statements under Tier 1 requirements. This can lead to inconsistency between different State/territories that have approved the application of Tier 2 reporting.

Complex and technical requirements

Public sector entities have a number of reporting requirements, namely those of the Australian Accounting Standards Board and of the ABS in collecting GFS data. In particular the general government sector (GGS) must comply with the ABS GFS Manual and this removes flexibility for public sector entities in applying the options in some accounting standards. The result is that some items are measured twice, once for GFS purposes and then again for financial reporting purposes. The benefits of reporting the same information in two different ways twice may not outweigh the costs of preparing that information. Furthermore there are application issues in practice with the specific disclosure requirements for administered items. For example, when the State operates as an agent for another tier of Government or a private sector entity, the distinction as an administered item may not always be clear.

Comparison to international models

This Research Report examines the financial reporting frameworks applicable to the public sector in six overseas jurisdictions for comparison purposes and to provide a benchmark to inform any future consideration of potential alternative approaches that might suit an Australian context.

This international research, documented in Appendix B of this Report, generally shows that other jurisdictions have less onerous financial reporting frameworks. For example, New Zealand has four tiers of reporting available to public sector entities, ranging from those with less than \$125,000 of annual operating payments and no 'public accountability' to entities with 'public accountability' and over \$30 million of annual expenses. At the lower end a simple cash accounting format is used together with a statement of service performance. At the top end full accrual accounting is used. In South Africa, only certain departments and agencies must prepare GPFS (equivalent to Tier 1) as the Minister of Finance has the authority to grant exemptions, and in Canada and the USA, only certain department and agencies need to prepare annual and consolidated financial statements.

Where to from here

Given the issues regarding reporting requirements noted above a number of questions need to be addressed:

- Should all public sector entities be required to prepare GPFS?
- Who are the users of those GPFS?
- What is the appropriate level of information that would meet users' needs?

Objective criteria will need to be determined to differentiate who must report and what must be reported publicly. This research is the beginning of a process through which the AASB will work with heads of government and other stakeholders to reach a clear, effective, broadly accepted framework for financial reporting by the public sector to address the questions above.

Possible options for reform of the current financial reporting framework will be detailed in the forthcoming AASB Discussion Paper *Possible Options for Improving the Financial Reporting Framework Applicable to Public Sector Entities*. The Discussion paper is intended to facilitate discussion and input from constituents and following on from this outreach sessions will be held across Australia from April this year.



Overview of financial reporting requirements applicable to Australian public sector entities

Table 1 – Comparison of financial reporting requirements for the Australian public sector

	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
Different definitions of entities	Department of State, a Parliamentary Department, a listed entity, a body corporate established by a law of the Commonwealth, a body corporate established under a law of the Commonwealth and prescribed by an act or rule as a Commonwealth Entity	Departments and public bodies. Public bodies mean public statutory authority; State business corporation or State body; Court Services Victoria; a body, office or trust body establish by an Act or Governor.	Departments and statutory bodies	Public Authorities. Public authority means government department; Minister; statutory authority that is an instrumentality of the Crown; or an entity whose accounts by law are audited by Auditor-General	Departments, statutory bodies and public service offices	Departments, sub-departments and statutory authorities	Government departments; statutory bodies; and statutory authorities (Directorates consist of administrative units, a part of, or a group of 2 or more administrative units.	Government Business Divisions and agencies. Agencies are a unit of government administration, or office or statutory corporation, nominated in an Administrative Arrangement Order as an Agency..
What needs to be reported									
WoG	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1
Departments	Tier 2 unless specifically listed to apply Tier 1 in the Rules	Tier 1	Tier 1	Tier 1 or 2 allowed for specific entities listed in the Act	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1
Agencies/ Statutory bodies	Tier 2 unless specifically listed to apply Tier 1 in the Rules	Tier 1	Tier 1	Tier 1 or 2 allowed for specific entities listed in the Act	Tier 1 or 2 allowed for statutory bodies not consolidated in WOG reporting	Tier 1	Tier 1	Tier 1	Tier 1
Local government (councils and subsidiaries)	N/A	Tier 1	Tier 1 and SPFS for business activities	Tier 1	Tier 1	Tier 1	No reference to Australian Accounting Standards	N/A	Tier 1



	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
			operated by councils						
Government Business enterprises/ State-owned corporations	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1 or 2 allowed for GBE not consolidated in WOG reporting.	Tier 1	Tier 1	Tier 1	Tier 1
Other reporting requirements	Yes – performance reporting	Yes – performance reporting	Yes – performance reporting	Yes – performance reporting	Yes – performance reporting	Yes – performance reporting	Yes – performance reporting	Yes – performance reporting	Yes – performance reporting
Audit requirements									
WoG	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General
Departments	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General
Agencies/ Statutory bodies	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General unless approved to be audited by authorised person	Yes – audited by Auditor General	N/A	Yes – audited by Auditor General	Yes – audited by Auditor General if requested by Treasurer
Local government	N/A	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes-registered company auditor or a firm	Yes-registered company auditor	Yes-registered company auditor or an approved	Yes – audited by Auditor General	N/A	Yes – audited by Auditor General, or registered



	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
				comprising at least one registered company auditor		person			company auditor
Government business enterprise/State owned corporation	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes-registered company auditor or an appropriately qualified person	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General

Overview of Financial Reporting Framework in International Jurisdictions

Table 2 - Comparison of the financial reporting requirements of public sectors in international jurisdictions

	New Zealand	United Kingdom	Hong Kong	Singapore	South Africa	Canada	United States of America
What needs to be reported							
WoG	General purpose financial statements (equivalent to Tier 1 – Public Sector Accounting standards developed based on IPSAS)	General purpose financial statements (equivalent to Tier 1) as per FReM which is based on IFRS	General purpose financial statements (equivalent to Tier 1)	General purpose financial statements (equivalent to Tier 1)	General purpose financial statements (equivalent to Tier 1)	General purpose financial statements (equivalent to Tier 1)	General purpose financial statements (equivalent to Tier 1)
State government	N/A	N/A	N/A	N/A	General purpose financial statements (equivalent to Tier 1)	General purpose financial statements (equivalent to Tier 1)	General purpose financial statements (equivalent to Tier 1)
Department and Agencies under	Option to select one of the	General purpose financial	Not required to prepare financial	General purpose financial	Only certain departments and	Only certain departments	Only certain departments and



	New Zealand	United Kingdom	Hong Kong	Singapore	South Africa	Canada	United States of America
WoG and state government	accounting approaches from Tier 1 -4 based on the stipulated criteria and thresholds	statements (equivalent to Tier 1) as per FReM which is based on IFRS	statements as included in consolidated financial statements of WoG.	statements (equivalent to Tier 1)	agencies must prepare General purpose financial statements (equivalent to Tier 1) subject to exemptions granted by section 92 of PFM Act	handling significant portfolios must prepare General purpose financial statements (equivalent to Tier 1)	agencies as required by the Chief Financial Officer Act must prepare GPFS.
Local government (councils and subsidiaries)	Option to select one of the accounting approaches from Tier 1 -4 based on the stipulated criteria and thresholds	Special purpose financial statements as Code of Practice on Local Authority Accounting in the United Kingdom	N/A	N/A	General purpose financial statements (equivalent to Tier 1)	General purpose financial statements (equivalent to Tier 1). However, libraries etc. below local government level are not required to prepare financial statements as they are included in the consolidated financial statements	General purpose financial statements (equivalent to Tier 1). Other entities below local government level can prepare SPFS with reduced level of reporting requirements depending on nature of activities
Other reporting requirements	Yes - Forecast financial statements (WoG) Other levels of government – Statement of borrowings, performance reporting etc.	Yes - Performance reporting and Accountability reporting	Yes - Statement of borrowings	N/A	Yes - Performance reporting	Yes - Performance reporting	Yes – Reconciliation to budget



	New Zealand	United Kingdom	Hong Kong	Singapore	South Africa	Canada	United States of America
Audit requirement							
WoG	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General
State government	N/A	N/A	N/A	N/A	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General
Department and Agencies under WG and state government	Yes – audited or reviewed by Auditor General based on stipulated threshold	Yes – audited by Auditor General	N/A	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General
Local government (councils and subsidiaries)	Yes – audited or reviewed by Auditor General based on stipulated threshold	Yes – audited by Auditor General	N/A	N/A	Yes – audited by Auditor General	Yes – audited by Auditor General	No – audited as part of the consolidated financial statements of each state

Summary of issues identified by the research

2 The following Table provides a list of ‘issues’ deduced from the research that lead to the current Australian financial reporting framework applicable to public sector being criticised.

Table 3 - Summary of Issues identified by the research

	Issues within Australia	Evidence (examples only, extracted from the research results)
1	The concept of “Reporting Entity” in the public sector is too onerous for small and local government reporting	<p>All public sector entities are currently specified as reporting entities¹. Appropriateness of the requirement to prepare GPFS by all level of governments² without considering the size or significance of the government entity is questionable.</p> <p>The government is required to prepare and lodge financial statements because the government is able to impose taxes and levies on constituents, and consequently to be accountable for the funds raised. In addition, the nature of the democratic process means that there is a need for greater public accountability.</p> <p>This imposes undue burden on smaller lower level government statutory bodies/agencies which are required to prepare GPFS and in almost all cases, apply Tier 1 reporting requirements.</p> <p>Given the onerous reporting requirements, the questions arise as to: whether all public sector entities should be required to prepare GPFS; who the users are of those GPFS; and the appropriate level of information that would meet users’ needs.</p> <p>This is likely to mean the criteria for public lodgement should be based on objective criteria such as size, type or the main functions of an entity.</p>
2	Reporting is not fit for purpose	<p>Compared to other international jurisdictions Australia currently only has two Tiers of GPFS, Tier 1: Australian Accounting Standards and Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.³ The Regulator may allow Tier 2 to be applied for some public sector entities if allowed within an Act or regulation. As such, most public sector entities prepare financial statements under Tier 1 requirements.</p> <p>The Report on the AASB Roundtable Financial Reporting Framework – Not-for-Profit (NFP) Public Sector Entities held in Melbourne on 20 January 2017 noted that there is an issue with the level of financial reporting required by NFP public</p>

¹ As per AASB 101 Aus7.2, In respect of public sector entities, local governments, governments and most, if not all, government departments are reporting entities:
Reporting entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.
Government means the Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.
Government department means a government controlled entity, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it.
Local government means an entity comprising all entities controlled by a governing body elected or appointed pursuant to a Local Government Act or similar legislation.

² As per paragraph 11(b) of the AASB 1053, Tier 1 reporting requirements shall apply to the GPFS of the Australian Government and state, Territory and local governments

³ As per paragraph 13(C) of the AASB 1053

	Issues within Australia	Evidence (examples only, extracted from the research results)
		sector entities. Participants noted that Tier 2 GPFS – RDR are not generally regarded as being cost-beneficial for eligible public sector entities. However, jurisdictions expressed some support for certain entities preparing a different form of GPFS in the future. Participants also noted that a third GPFS Tier may be useful and appropriate.
3	The value and relevance of public sector financial statements to stakeholders particularly for stakeholders outside the public sector ⁴	Identifying the audience is an issue for public sector financial statements, and determining what information they want and what they seek to do with that information. The answers to these questions are not as clear in the context of the public sector as they are in the private sector.
4	Complex and technical requirements	<p>There are a number of Australian Accounting Standards applicable to the Australian public sector entities. Paragraph 13 of AASB 1049 specifically requires the application of the rules and principles of the ABS GFS Manual when Australian Accounting Standards allow an optional treatment. Paragraph 14 of AASB 1049 provides examples of particular optional treatments in the accounting standards which are limited by the requirements of the application of ABS GFS. In particular:</p> <ul style="list-style-type: none"> • Assets within the scope of AASB 116 Property, Plant and Equipment, AASB 138 Intangible Assets or AASB 140 Investment Property may be measured at cost or at fair value. However the ABS GFS Manual requires these assets to be measured at market value. Hence cost option is not allowed unless a fair value cannot be measured reliably. • For certain financial instruments that may be measured at fair value or on another basis under AASB 9 Financial Instruments the GFS Manual requires market value as the measurement basis. <p>The requirement to comply with the ABS GFS Manual removes flexibility for public sector entities in applying accounting standards, and the benefits may not out weight the costs of preparing the required information.</p>
5	Duplication and inconsistency of regulatory requirements	<p>Consistent across Australia every public sector entity is required to submit financial statements for the public record. Thus the same information is duplicated in the separate financial statements of individual entities as well as in the consolidated financial statements.</p> <p>In some instances, the state or local government regulations and directions may modify the definitions in the Australian Accounting Standards which may lead to inconsistencies in the financial statements across different States and Territories. For instance paragraph A48 provides an example in Western Australia where the Treasurers Instructions specifically excludes related bodies from the definition of 'subsidiary' even though they are financially reliant on the resources of their agency.</p>

⁴ As discussed in the FRC Board paper – public Sector Financial statements at the meeting held on 28 March 2017

	Issues within Australia	Evidence (examples only, extracted from the research results)
		<p>This issue was also highlighted at the AASB Roundtable discussion in which participants flagged that the various financial reporting Acts would most likely need to be amended as part of the outputs of this project to achieve the project aims.</p>
6	Administered vs controlled	<p>The benefits of providing information on administered versus controlled expenses were questioned at the AASB Roundtable where participants discussed whether this distinction was necessary and useful, and whether different levels of accountability were attached to such items.</p> <p>Application issues also exist whereby in some scenarios, for example where the State operates as an agent for another tier of Government or a private sector entity, the distinctions may not always be clear.</p>
7	Lack of contestability of public sector auditing ⁵	<p>Government audit offices have considerable authority and usually play a more expansive role compared to auditors in the private sector.</p> <p>Due to political and media sensitivity, audit offices can sometimes interpret standards in ways that were not intended by standard setters, such as is currently occurring with the implementation of the related party disclosure standard. Public sector auditors can be more conservative and rigid in their interpretations of accounting standards.</p>

⁵ As discussed in the FRC Board paper – Public Sector Financial statements at the meeting held on 28 March 2017

Financial Reporting requirements applicable to public sector entities

Introduction

- 3 This report is part of the AASB's Financial Reporting Framework project. The objective of the project is to clarify and simplify the Australian financial reporting framework applicable to all sectors by developing more consistent and operational criteria/thresholds grounded in sound principles that specify:
 - who needs to prepare and lodge external financial statements on the public record
 - what needs to be reported (reporting requirements)
 - what level of assurance is appropriate (assurance requirements)
- 4 To achieve this objective the AASB is working in conjunction with Australian policymakers and regulators.
- 5 The specific financial reporting requirements of various regulators (both within Australia and overseas) identified in this Report are provided for comparative and informational purposes only. This Report does not consider the efficacy of the requirements nor does it make recommendations for the basis of reforming the current Australian financial reporting framework. However where readily available, the rationale given for the basis for the requirements is provided in the appendix to this Report. Those rationales will help inform the development of possible ways of reforming the current requirements that are to be included in the forthcoming AASB Consultation Paper *Possible Options for Improving the Financial Reporting Framework Applicable to Public sector entities*.

Public sector entities in Australia

- 6 The public sectors of Australia are large and disparate conglomerations of various public sector entities including statutory bodies, departments, controlled entities (for example, companies) and government-owned enterprises.
- 7 Australia's system of government comprises the Commonwealth that is a federation of eight states/territories, each of which has their own constitutions, parliaments, governments and laws. The Commonwealth constitution and each respective state constitution establishes the basis for the exercise of power. The Australian Capital Territory and the Northern Territory have been granted limited right of self-government by the federal government.⁶ Local government, while not part of these constitutional arrangements, form the 'third tier' of government. The structure of the government is explained later in this report. At the heart of the governance arrangements is the separation of power between Parliament, the executive government and the judiciary, known as the 'three arms of government'.

⁶ The seven other territories are excluded from this Research Report.

The Need for Public Sector Reporting

- 8 Similar to the charity sector, the financial reporting requirements for the public sector in Australia have had considerable criticism in that the requirements are too onerous, in particular for some smaller local government entities that have to apply the same financial reporting requirements as larger government entities.
- 9 As background to Australian requirements, it is of interest to review other countries and the IPSASB's approach to public sector reporting. In the US Paragraph 8 of the Statement of Federal Financial Accounting Concepts (SFFAC) No. 1 *Objectives of Federal Financial Reporting*, issued by the United States Federal Accounting Standards Advisory Board, states:

The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and must provide information useful to the citizens, their elected representatives, federal executives, and program managers. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government. Providing this information to program managers, executives, and members of Congress is essential to planning and conducting government functions economically, efficiently, and effectively for the benefit of society.

- 10 The sentiment expressed in the quote above is central to all statements of purpose regarding government reporting. For example, Paragraph 2 of the preface to *International Public Sector Accounting Standards* issued by the International Public Sector Accounting Standards Board, notes:

The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently, the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows. General purpose financial reports provide information to users for accountability and decision-making purposes. ...

- 11 Paragraph 9 of the US SFFAC 1 elaborates on the role of financial reporting, specifically stating that:

Financial reporting is not the only source of information to support decision-making and accountability. Neither can financial reporting, by itself, ensure that the government operates as it should. Financial reporting can, however, make a useful contribution toward fulfilling these goals.

- 12 In Australia the [Public Governance, Performance and Accountability \(Financial Reporting\) Rule 2015](#) (the FRR) notes that the objective of financial statements:

...is to provide information about the financial position, financial performance and cash flows of Commonwealth reporting entities that is useful to a wide range of users in making economic decisions. The financial statements also contain notes and supplementary schedules about the items in the income statement and balance sheet that are relevant to the needs of users.

- 13 The public sector clearly has an obligation to report on its activities to the public. However, some important questions arise from this:
- (a) To what level of granularity should public sector financial reporting be required?
 - (b) Should all elements of the public sector be held to the same level of accountability?
- 14 The public sector needs to be transparent and be accountable to parliament for its financial outcomes, with the primacy of the budget and the provision of information for economic management, both nationally and internationally. According to the Department of Finance website⁷, “Financial and corporate governance arrangements effectively determine how power and authority are provided, apportioned and exercised by different Commonwealth bodies. These arrangements have implications for how performance information, both financial and non-financial, is reported”.
- 15 In addition to financial reporting the public sector reports information that enables an assessment of the economic impact of the government on the economy. The Australian Bureau of Statistics General Finance Statistics Manual (ABS GFS Manual) was designed to measure macro-economic financial information. GFS is a statistical reporting system rather than an accounting system – however it contains recognition, measurement and disclosure rules for the preparation of a set of financial statements, and most of these rules are similar to those in the Australian accounting standards. GFS data is collected and reported to the IMF as part of an international system of data collection, with some local Australian material. International comparisons between governments are based on GFS.
- 16 This research report identifies the reporting requirements from a number of international jurisdictions to inform debate about the scope of public sector reporting. The first comparison made in this report is in terms of the granularity of reporting required when considering all elements of government.
- 17 Financial reporting requirements for public sector entities differ across jurisdictions, and indeed, even within Australia. For this reason, all Australian States and Territories are benchmarked first, followed by international comparisons for the following jurisdictions :
- (a) Canada;
 - (b) Hong Kong;
 - (c) New Zealand;
 - (d) Singapore;

⁷ [As per Department of Finance website, Financial and corporate governance arrangements effectively determine how power and authority are provided.](#)

- (e) South Africa;
 - (f) the United Kingdom; and
 - (g) the United States of America
- 18 These jurisdictions have been chosen as they are relatively comparable in terms of regulatory rigor as well as including jurisdictions that are traditionally compared to Australia in terms of financial reporting issues.
- 19 The scope of this Research Report is limited to regulations that require for-profit and not-for-profit public sector entities to publicly submit financial statements. Public submission ordinarily occurs by way of parliamentary review of the financial statements.

Structure of the Australian Public Sector

- 20 The Australian public sector comprises three levels of government:
- (a) Commonwealth (national government) - The Australian Commonwealth Government is regarded as the first tier or level of government. It passes laws and is responsible for regulation which affects the whole country, but is limited to within the powers outlined in s 51 of the Constitution.
 - (b) State or Territory (regional government) - The second tier of Australian government consists of six states and two territories, namely: Western Australia; South Australia; New South Wales; Tasmania; Victoria; Queensland; Northern Territory; and the Australian Capital Territory.
 - (c) Local Government (municipal government) - Local governments, also called councils, form the third tier or level of government and are responsible for, and deliver, many community services (such as public transport and waste disposal). Their establishment, powers and responsibilities are defined in state-based legislation.
- 21 The Australian Constitution defines the powers of the national government and its relationship with the States and the powers of local governments are defined by state government legislation in each state.

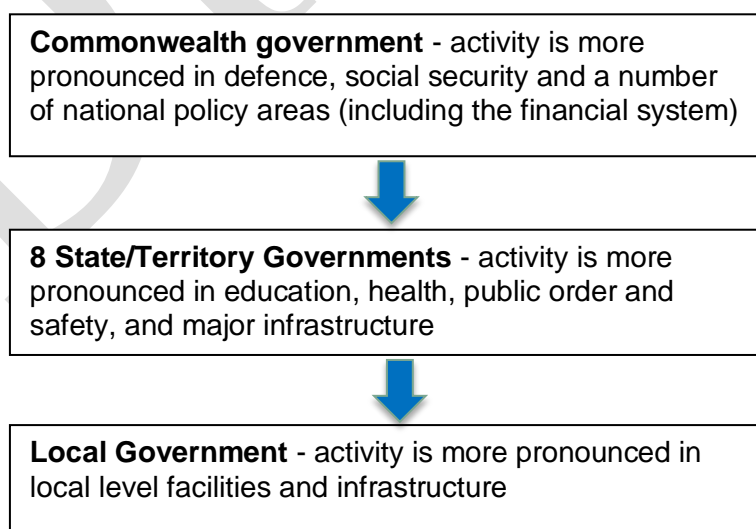


Figure 1 - *Three Levels of Australian Government*

- 22 The Commonwealth government, as shown in **Error! Reference source not found.**, comprises 18 departments consisting of 16 portfolios which are made up of 182 different entities and companies (agencies)⁸ and it operates a number of different organisational structures which include departments of state, office holders, statutory authorities (including statutory corporations), companies and trusts.

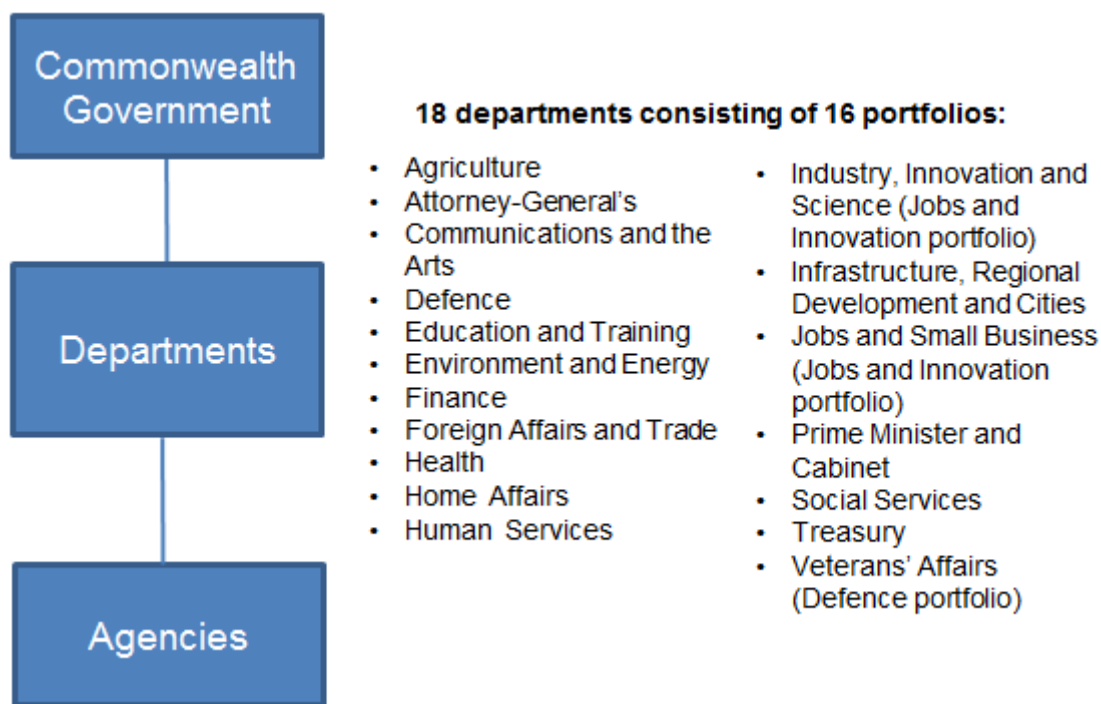


Figure 2 - Structure of the Commonwealth Government

- 23 Each level of government defines entities differently. For instance, at the Commonwealth level, an entity means a Department of State which is a parliamentary department that is responsible for a portfolio that is itself made up of a number of other entities such as an entity listed in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), which are generally referred to as agencies.
- 24 The Australian States and Territories adopt a similar structure with statutory authorities or administrative units replacing agencies, and directorates replacing departments⁹. To ensure consistency, this Research Paper will refer to these entities as departments and agencies/statutory bodies.

⁸ [Governance structures in the public sector: The Commonwealth government, as shown in Figure 2, comprises 18 departments consisting of 16 portfolios which are made up of 182 different entities and companies.](#)

⁹ Victoria, New South Wales, South Australia, Queensland, Western Australia and Tasmania all refer to statutory bodies and statutory authorities. The ACT refers to administrative units and Northern Territory refers to Government Business Divisions.

- 25 Departments are part of the Government and the Governor-General appoints ministers and establishes departments of States and agencies (in the case of States and Territories they are referred to as statutory bodies) and allocates responsibilities among ministers through Administrative Arrangements Orders. Ministers are assigned portfolio/s which becomes the Ministers' area of responsibility and details the principal responsibilities, the Acts they administer, the departments and agencies and office holders responsible to them. Within each portfolio there can be numerous agencies/statutory authorities established by their own separate legislation which are responsible for specific aspects of government administration and report to the responsible Minister on their operations.
- 26 Local Governments tend to be established under a specific piece of legislation, which also prescribes their reporting requirements.

Overview of Australian financial reporting requirements

Introduction

- 27 All three levels of government (Commonwealth, State or Territory and local) in Australia are subject to public general purpose financial reporting requirements (GPFs). Even within a level of government, departments and agencies/statutory bodies are required to prepare GPFs with limited exceptions. A department would usually provide its financial report to a minister who is responsible for that department. The minister then tables the financial report in parliament for scrutiny.
- 28 The above process achieves the government's goal of public financial accountability. Australian governments tend to be of the view that they are subject to a higher level of public accountability than the private sector. This stems, in part, from the government's ability to impose taxes and levies on constituents and consequently is accountable for the spending of the funds raised.
- 29 In addition, the democratic process lends itself to the need for greater public accountability. In other words, elected officials are accountable to those who elected them to office.

Non-corporate public sector entities

Who must report

- 30 As a consequence of the views expressed in paragraph 13, the vast majority of Australian public sector entities are required to prepare GPFs for tabling in parliament.
- 31 Financial report submission requirements are generally consistent across Australia and every public sector entity is required to submit financial statements for the public record. These requirements are stated in each of the respective legislative acts of the Government across all three government levels (discussed in more detail in Appendix A).
- 32 In all cases, public sector entities including government owned businesses/enterprises are required to prepare financial statements and lodge them to the Minister for the Legislative Assembly. In addition, the financial statements are required to be audited and in almost all cases, by the Auditor's General. These financial statements must be prepared in accordance with Australian Accounting Standards as well as any policy, instructions/directions from the Treasurer.
- 33 The next section provides an analysis broken into two parts :
- (a) non-corporate public sector entities' financial reporting requirements; and
 - (b) corporate public sector entities' financial reporting requirements.
- 34 Non-corporate public sector entities are government departments and agencies/statutory authorities and local governments, while corporate public sector entities are state-owned companies and government business enterprises.

What must be reported

- 35 As documented in Appendix A, all public sector entities are required to prepare financial statements in respect of the various legislative acts, in accordance with Australian Accounting Standards and as the Treasurer directs such as in the form of directions or instructions.
- 36 The Treasurer for each level of the Government must prepare whole of government consolidated financial statements each year. Departments and agencies/statutory bodies are also required to prepare financial statements for each economic entity such as subsidiaries, and consolidated financial statements as well. The respective legislation in relation to reporting requirements for the Commonwealth, state and local government refers to Australian Accounting Standards for the preparation of the financial statements.
- 37 AASB 1049 *Whole of government and General Government Sector Financial Reporting* specifies the requirements for whole of government GPFS and for the General Government Sector (GGS) financial statements of each government. and to make these statements available at all times. It also outlines the requirements for additional information such as reconciliations to key fiscal aggregates determined in accordance with the ABS GFS Manual, the whole of government and sector information¹⁰. More information relating to ABS GFS reporting is discussed in a later section of this Paper.
- 38 Currently the Australian Accounting Standards AASB 101 *Presentation of Financial Statements* states in paragraph Aus 7.2:

In respect of public sector entities, local governments, governments and most, if not all, government departments are reporting entities:

Reporting entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

Government means the Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.

Government department means a government controlled entity, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it.

Local government means an entity comprising all entities controlled by a governing body elected or appointed pursuant to a Local Government Act or similar legislation.

- 39 The Australian Accounting Standards AASB 1053 *Applications of Tiers of Australian Accounting Standards* outlines two Tiers of reporting requirements for preparing general purpose financial statements (GPFS), Tier 1: Australian Accounting Standards and Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

¹⁰ Sector information refers to GGS, Public Non-Financial Corporations (PNFC) sector and Public Financial Corporation (PFC) sector.

40 Paragraph 11(b) of AASB 1053 states that Tier 1 reporting requirements shall apply to the GPFS of the Australian Government and State, Territory and Local Government. Paragraph 13(3) states that the application of Tier 2 reporting requirements shall, as a minimum, apply to the GPFS of public sector entities, whether for profit or not-for-profit, other than the Australian Government and State, Territory and Local Government.

41 Table 4 below illustrates the financial reporting requirements for whole-of-government, Departments and Statutory authorities' for the 3 levels of government in preparing GPFS in accordance with the Australian Accounting Standards. As discussed in paragraph 39 the standards currently provide two tiers of financial reporting, GPFS and GPFS – RDR.

Table 4- Tiers permitted for non-corporate public sector entity financial reporting requirements

	Commonwealth	Australian Capital Territory	New South Wales	Northern Territory	Queensland	South Australia	Tasmania	Victoria	Western Australia
<i>Whole-of-Government</i>									
	1	1	1	1	1	1	1	1	1
<i>Departments</i>									
	1	1	1	1	1	1 / 2	1	1	1
<i>Statutory Authorities</i>									
	1 / 2	1	1	1	1 / 2	1 / 2	1*	1	1
<i>Local Government</i>									
	⊘	⊘	1	1	1	1	3	1	1

Legend

- 1 Only Tier 1 is permitted
- 1* Tasmanian statutory authorities' financial statements are presented together with the Department's annual report
- 1 / 2 Tier 1 is generally required, but Tier 2 may be applied instead
- 3 Tasmanian local government financial statements do not refernece the Australian Accounting Standards
- ⊘ Not applicable – In the ACT the Territory Government performs local government duties. In Tasmania, statutory authorities financial statements are prepared and attached within the Department's annual report.

- 42 In summary all 3 levels of the Australian Government are required to apply Tier 1 requirements in their whole-of-government financial statements and the same for departmental financial statements, except for some departments that are listed specifically in the SA legislation (see paragraph A15 and A16). The majority of statutory bodies' are also required to apply Tier 1 reporting requirements, except for Australian Capital Territory, Queensland and South Australia where statutory bodies may prepare Tier 2 financial reports if those entities are not consolidated into the whole-of-government financial statements.
- 43 As a result of paragraphs 11(b) and 13(c) of AASB 1053 *Application of Tiers of Australian Accounting Standards*, these paragraphs prohibit public sector entities from applying Tier 2 unless the Regulator specifically allows the application within the Act or Regulation. BC52 of AASB 1053 noted the Boards conclusion that the Australian Government and State, Territory and Local Governments should be subject to Tier 1 requirements. This is on the basis that these entities clearly satisfy the following criteria as a whole¹¹:
- (a) coercive power to obtain public funds;
 - (b) the level of public funds they use;
 - (c) their risk profile;
 - (d) their level of complexity; and
 - (e) their financial profile.

¹¹ See paragraphs BC52 and BC63-BC65 of AASB 1053 *Application of Tiers of Australian Accounting Standards*.

Corporate Public Sector Entities

Who must report

- 45 The Commonwealth, and some States and Territories deliver public services through business entities incorporated under State or Territory, or Federal legislation. These entities typically deliver various public services and can act in their own right exercising certain legal rights such as entering into contracts and owning property.
- 46 Public sector business entities are predominantly incorporated as either:
- (a) Government Business Enterprises (GBEs); or
 - (b) State/Territory-owned Corporations (SOCs).
- 47 GBEs are incorporated under their own enabling legislation in their State or Territory or incorporation. The entity's enabling legislation might refer to sections of the Corporations Act in varying degrees. For financial reporting obligations another State/Territory piece of legislation will specify the requirements.
- 48 SOCs are incorporated under the Corporations Act with the State/Territory Government owning a majority, or all, of the issued shares of the company.
- 49 All GBEs and SOCs are required to prepare annual financial reports and subsidiaries, if any, are also required to prepared annual financial statements to be provided to the Minister (more information contained in Appendix A).

What must be reported?

- 50 Generally GBEs that are established under their own enabling legislation have specific reporting requirements within that Act. In all cases, the reporting requirements will be the same as that required for the states/territory's statutory bodies' or Commonwealth agencies' reporting requirements. As such the financial statements must be prepared in accordance with the Australian Accounting Standards applying Tier 1 reporting requirements. Only the Commonwealth and Queensland allow GBEs to apply Tier 2 if they are not specifically listed to apply Tier 1 requirements for the Commonwealth or are not consolidated into the whole-of-government reports in Queensland.
- 51 SOC's are incorporated under the *Corporations Act 2001*, and as such, have the same reporting requirements as companies under the *Corporations Act 2001*. Public companies must prepare annual financial reports and directors' reports in accordance with Part 2M.3 of the *Corporations Act 2001*. The financial statements must be prepared in accordance with the Australian Accounting Standards and financial statements of subsidiaries, if any, as well as consolidated financial statements are required. This allows for comparability with the GBE's competitors.

Table 5 - Public sector corporate Commonwealth entity financial reporting requirements

Commonwealth	Australian Capital Territory	New South Wales	Northern Territory	Queensland	South Australia	Tasmania	Victoria	Western Australia
<i>Government Business Enterprises</i>								
⊘	1	1	⊘	1	1	1	1	1
<i>State-owned Corporations (under the Corporations Act)</i>								
1	⊘	1	1	1 / 2	⊘	1	1	⊘

Legend

- 1** Only Tier 1 is permitted
- 1 / 2** Tier 1 is generally required, but Tier 2 may be applied instead for those GBEs in Queensland that are not included in the consolidated whole-of-government report
- ⊘** Not applicable

52 Table 5 above shows that while different States and Territories may follow different incorporation approaches, almost all States and Territories require companies to prepare and submit financial statements with Tier 1 reporting requirements. At the Commonwealth level this facilitates consistent reporting across the Commonwealth public sector. At the State/Territory level, the options available are the same as those for statutory authorities in each State/Territory because the legislation and treasury rulings generally apply equally to all public sector entities.

Auditing requirements of the public sector

53 Almost all financial statements of public sector entities are required to be audited by the Auditor-General. Statutory authorities in the Northern Territory are not required to submit financial statements to the Auditor-General for auditing unless directed by the Treasurer, and Tasmanian statutory authorities' financial statements are included in the Department's financial statements. Queensland, Western Australia, Northern Territory and South Australia may allow an approved person other than the Auditor-General to audit financial statements of certain levels of government if approved by the Auditor-General.

54 Table 6 below shows the auditing requirements for the whole-of-government, Departments and Statutory authorities' for the 3 levels of government in accordance with Australian Auditing Standards.

Table 6 - Public sector auditing requirements

	Commonwealth	Australian Capital Territory	New South Wales	Northern Territory	Queensland	South Australia	Tasmania	Victoria	Western Australia
<i>Whole-of-Government</i>									
	✓	✓	✓	✓	✓	✓	✓	✓	✓
<i>Departments</i>									
	✓	✓	✓	✓	✓	✓	✓	✓	✓
<i>Agencies/Statutory Authorities</i>									
	✓	✓	✓	✓*	↻	✓	⊘	✓	↻
<i>Local Government</i>									
	⊘	⊘	✓	↻	✓	↻	✓	✓	↻
<i>Government Business Enterprises</i>									
	✓	✓	✓	✓	↻	✓	✓	✓	✓
Legend									
✓	Audit by Auditor-General								
✓*	Audit by Auditor-General if requested by Treasurer								
↻	May allow persons other than the Auditor-General to audit the financial statements								
⊘	Not applicable – In Tasmania, statutory authorities financial statements are prepared and attached within the Department’s annual report.								

Other financial reporting issues

Government Financial Statistics Reporting

- 55 Government Financial Statistics reporting is a measurement of the financial activities of governments and reflects the impact of those activities on other sectors of the economy. In other words, it is a specialised macroeconomic statistical framework, known as the government finance statistics (GFS) framework, designed to support fiscal analysis.
- 56 GFS is a statistical system not an accounting system – however it contains recognition, measurement and disclosure rules for the preparation of its financial statements, and most of these rules are similar to those in accounting.
- 57 The Financial Reporting Council has specifically given direction to require the AASB to pursue the harmonisation of GFS and Generally Accepted Accounting Principles (GAAP) reporting (Direction approved 12 December 2002). As such it is important to consider the impact that any changes to Australian Accounting Standards may have on GFS.
- 58 The Australian GFS system is based on two important international statistical standards:
- a system of national accounts embodied in *System of National Accounts 2008 (2008 SNA)*, issued jointly by the United Nations (UN), the International Monetary Fund (IMF), the Commission of European Communities, the Organisation for Economic Co-operation and Development (OECD) and the World Bank.
 - the *International Monetary Fund Government Finance Statistics Manual 2014 (IMF GFSM 2014)*, which is the international statistical standard for compiling GFS developed by the IMF (in consultation with member countries)
- 59 Public sector entities are categorised as follows in the Australian GFS framework¹²:

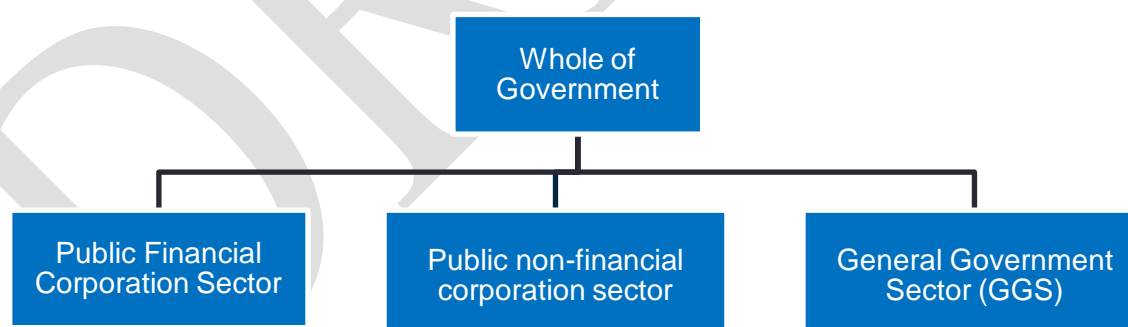


Figure 3 - Structure of Australian GFS framework

12 As laid out in the Australian System of Government Finance Statistics Concepts, Sources and Methods, 2015 edition (also known as the AGFS15)

How is GFS different from Australian Accounting Standards?

60 As discussed in paragraph 37 AASB 1049 requires within GGS financial statements the reconciliation to key fiscal aggregates in the GFs. Paragraph 13 of AASB 1049 specifically states that where compliance with the GFS Manual would not conflict with Australian Accounting Standards, the GFS rules should be applied. Further, GFS principles and rules are applied even when Australian Accounting Standards allow for optional treatments; this removes any flexibility for public sector entities in applying Australian Accounting Standards.

61 Key principles of GFS are:

- Market value is the default - Economic flows as well as assets, liabilities, and net worth are all valued at current market prices in the GFS framework
- Transactions and other economic flows are recorded- as distinct from profit and OCI in accounting. The main difference between the two approaches is in asset and liability valuation changes.
- Transactions that do not have a counterparty, are excluded- for example, provisions for doubtful debts and provisions for environmental remediation ('make good') are ignored.

As such GFS treats some specific transactions and balances differently from accounting standards.

62 Another difference is that when preparing GGS financial statements for the purpose of GFS, it organises the government into sectors based on entity objectives (rather than into groups based on control). Paragraph 19 of AASB 1049 specifically prohibits the consolidation of controlled entities for GGS financial statements in other sectors which conflicts with the requirements of AASB 10 *Consolidated Financial Statements*. A reconciliation will need to be prepared between the GGS financial statements prepared for the purpose of the ABS GFS Manual and the whole of government financial statements.

Financial Reporting Council Report

63 The Financial Reporting council considered the issues confronting the public sector in relation to frameworks and standards (both accounting and auditing) associated with public sector financial statements at its board meeting held on 28 March 2017. A number of issues were discussed as listed below;

- The value and relevance of public sector financial statements to stakeholders, particularly for stakeholders outside the public sector
- That public sector financial statements are not the key government document - Budget documents capture most of the interest
- Too many complex and technical requirements
- The concept of a reporting entity in the public sector context
- The relationship with IPSAS, and consideration of a more formal alignment II (See Appendix D as part of possible options).

- Risks over the medium term of the divergence between AAS and the IMF GFS based standards
- Lack of contestability of public sector auditing
- Importance of consistency in Time Series data
- Concerns for the public sector arising from the way in which Australian Accounting and Auditing standards currently operate, including the types of guidance/information currently made available
- Application of the concept of reliable measurement

AASB Round table discussion

- 64 The roundtable discussion on the Financial Reporting Framework for Public Sector Entities¹³ was held in January 2016 with external counterparties including representatives from State and Commonwealth Treasuries/Finance and audit firms.
- 65 The purpose of the AASB Roundtable was to provide a forum to discuss issues and share views in relation to the Australian financial reporting framework, particularly in terms of the requirements for public sector entities.
- 66 The following summarises the suggestions and comments that were made by the participants;
- State and Commonwealth Treasuries expressed some support for the possibility of departments and agencies preparing a different form of GPFS (for example, RDR GPFS) in the future, especially given the effort required to prepare Tier 1 GPFS
 - Participants noted that users of public sector GPFS are not necessarily easily identifiable for entities within the GGS/ Whole of Government. A participant noted that users would be likely to consider the GPFS from an accountability, rather than investor, perspective.
 - Participating jurisdictions communicated that, typically, only a limited number of subsidiary entities within the GGS/ Whole of Government (e.g. fewer than 20% of the total number of entities reporting) were material to the consolidated financial statements. The audit of these subsidiary entities was generally prioritised by the auditor.
 - Participants also suggested that it was important to identify and review the existence of users and their needs regularly; and some entities such as museums may prepare financial statements for promotional purposes, rather than because they are a reporting entity.

13

[The roundtable discussion on the Financial Reporting Framework for Public Sector Entities was held in January 2016](#)

- Participants agreed that there was scope for at least one further reporting Tier below Tier 2 to be developed. Participants considered the possibility of Tier 3 GPFS to include only limited information: for example, a statement of financial position, statement of financial performance, and disclosures about service performance. Participants also discussed whether certain entities (for example, smaller departments) could prepare financial reports that are simply an extract (or segment) of the Whole of Government consolidated financial statements, rather than GPFS.
- Participants generally agreed that an Expenses threshold could be a useful criterion in determining an appropriate reporting Tier, in preference to Revenue. This would be consistent with a focus on how public monies were utilised by the entity. Participants supported an Expenses threshold being determined as a relative percentage, rather than a fixed numerical figure (for example, a percentage of Whole of Government expenses).
- Participants generally agreed that the State/Territory and Commonwealth Governments, and entities such as Public Financial Corporations and Public Non-Financial Corporations should be categorised as Tier 1 entities.

Administered vs Controlled items (AASB 1050)

- 67 As defined in PGPA Act, administered items are usually those managed by an entity on behalf of the Government. Entities do not have control over these items, which are normally related to:
- Activities governed by eligibility rules and conditions established by the legislation (for example, grants, subsidies and benefit payments).
 - Items administered by the entity on behalf of the Commonwealth - Amounts are appropriated in the annual Appropriation Bills to meet the total estimated expenses for administered items that are expected to be incurred in the upcoming financial year. Administered items are appropriated separately by entity outcome, making clear what the funding is intended to achieve.
- 68 Departmental financial statements must clearly distinguish between those transactions and balances that are “controlled” by the department (i.e. the revenue, expenses, assets and liabilities used to conduct its business as a department) and those that are “administered” by it on behalf of the State.
- 69 As per paragraph 7 of AASB 1050, a government department has to disclose the following in its financial statements in relation to activities administered by that government department:
- (a) Administered income , showing separately;
 - i. each major class of income
 - ii. in respect of each major class of income, the amounts reliably attributable to each of the government department’s activities and the amounts not attributable to activities
 - (b) Administered expenses, showing separately;
 - i. each major class of expense

- ii. in respect of each major class of income, the amounts reliably attributable to each of the government department's activities and the amounts not attributable to activities
 - (c) Administered assets showing separately each major class of assets
 - (d) Administered liabilities, showing separately each major class of liability
- 70 At the Round table participants discussed whether the 'administered' versus 'controlled' items distinction was necessary and useful, and whether different levels of accountability were attached to such items.
- 71 One participant noted that his jurisdiction valued the distinction; another participant noted that application of the distinction may not always be clear, for example, where the State operates as an agent for another tier of Government or for a private sector entity. The general (but not unanimous) view was that reporting on administered items should not be extended to public sector entities other than departments.

Other Australian Specific Accounting Standards for the public sector

- 72 Other Australian specific accounting standards that Government entities must take into consideration relevant to this Paper are listed in Table 7:

Table 7 - Other Australian Specific Accounting Standards for public sector

AASB standards	Overview of standard
AASB 1004 Contributions	The Standard requires contributions other than contributions by owners, to be recognised as income when the transferrer local government, government departments GGS or whole of government obtains control over them, irrespective of whether restrictions or conditions are imposed on the use of the contributions. These contributions can be in the form of involuntary transfers such as rates, taxes and fines and voluntary transfers such as grants and donations. It also provides the disclosure requirements relating to the amount and nature of the contributions recognised as income, appropriations by class and liabilities that were assumed during the reporting period.
AASB 1051 Land Under Roads	This standard specifies the requirements for financial reporting of land under roads by local government, government department, General Government Sector (GGS) and whole of governments.
AASB 1052 Disaggregated Disclosure	The Standard contains relevant requirements in relation to the reporting of disaggregated information by local governments and government departments that are applying Tier 1 reporting requirements. Financial statements of local government must disclose the assets, income and expenses of local government according to the broad functions or activities of the local government whether they are related to service delivery or undertaken for commercial objectives.

AASB standards	Overview of standard
	Government departments must disclose information about the expenses, income, assets and liabilities attributable to the major activities of a government department for the reporting period. The information relates to assessing the effectiveness, efficiency and economy of operations and of resources allocation decisions.
AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities	This is an Interpretation applying to transfers of assets, or assets and liabilities, to wholly-owned public sector entities from other entities within the same group of entities. It addresses the essential characteristics of such contributions and provides indicators of contributions by owners and provides indicators of when those characteristics exist.
AASB 1055 Budgetary Reporting	The Standard specifies the budgetary disclosure requirements of the whole of government, GGS and not for profit entities within the GGS of each government.

Definition of public sector reporting entities - International jurisdictions

73 As noted in paragraph 38 to 40, Australian financial reporting framework for the public sector requires all the public sector entities to prepare GPFS in accordance with Australian Accounting Standards which currently specifies those public sector entities, local governments, governments and most, if not all, government departments as reporting entities. For the purpose of this research, the definition of reporting entity in the public sector framework in other international jurisdictions has been identified to examine the differences between them with Australia.

IPASAB definition

74 The conceptual Framework for General Purpose Financial Reporting by Public Sector issued by the International Public Sector Accounting Standards Board (IPSASB) defines that a public sector reporting entity may comprise two or more separate entities and present GPFRs as if they are a single entity, with the reporting entity referred to as a group reporting entity.

75 Section 4.3 of the conceptual framework notes that the key characteristics of a public sector reporting entity are that:

- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
- There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.

- 76 The IPSASB framework further states that the factors that are likely to signal the existence of users of GPFs of a public sector entity or group of entities include an entity having the responsibility or capacity to raise or deploy resources, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will be service recipients or resource providers who are dependent on GPFs for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFs of these entities will exist. On the other hand, the preparation of GPFs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those public sector entities for which such users exist are required to prepare GPFs.
- 77 The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFs for accountability and decision making purposes as explained in the Basis of conclusions 4.1 of the framework
- 78 It is clear that the IPSASB definition of public sector reporting entity does not include all public sector entities but is based on user needs. As a result, some local government entities such as libraries and cemeteries may not be defined as reporting entities. Thus IPSASB framework for GPFs by public sector entities is not as broad as the Australian reporting entity concept which states that all government entities are reporting entities.

Other international jurisdictions

- 79 In New Zealand, Public Benefit Entities (PBEs) are defined in External Reporting Board Standard A1 (XRB A1) Application of the Accounting Standards Framework as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.
- 80 In the United States of America, the FReM manual lists the criteria for an entity to be a reporting entity. As per section 29 to the FASAB Handbook, for any entity to be a reporting entity, as defined by Statement of Federal Financial Accounting Concepts, it would need to meet all of the following criteria.
- There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.
 - The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
 - There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.
- 81 As such the above definitions do not include all the government entities as reporting entities as stated in Australian Accounting Standards. Thus reduced levels of reporting or exemptions are granted to agencies below state government and local government level as summarized in Appendix B of this report.

Public Sector reporting in international jurisdictions

Levels of Government in other Jurisdictions

82 The Australian government structure is similar to other common law countries, as illustrated in Table 8 below. While many of the jurisdictions below might have further provinces and divisions, such as districts or councils, the table only reflects those levels of government with the power to make legislation or local laws.

Table 8 - Levels of government structures in other jurisdictions

	Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Hong Kong	United States of America
National Government (or equivalent)	✓	✓	✓	✓	✓	✓	✓	✓
State/ territory/provincial Government (or equivalent)	✓	✗	✓	✓	✓	✗	✗	✓
Local Government (or equivalent)	✓	✓	✓	✓	✓	✗	✗	✓
Legend								
✓	Level of government with law-making power exists							
✗	Level of government with law-making power does not exist							

83 Law-making levels of government are distinguished from others due to their general ability to tax constituents or influence policies that impact their constituents.

National Level of Government/Whole of Government

84 Not all jurisdictions are necessarily 'nations'. However, for the purposes of this report the term 'national level of government' is used to refer to the highest level of government in a jurisdiction.

85 Governments included in this report comprise departments and agencies, but they are not necessarily referred to as such, but this report uses those terms to describe the reporting requirements of each jurisdiction.

86 Table 9 below shows that generally all governments require the majority of their constituent parts to prepare and submit financial statements for public viewing. This may either be through 'houses' of parliament, to a committee or to the 'treasury' function. In all cases, however, the Whole of Government financial statements are publicly available, as noted in the following discussion.

Table 9 - Financial reporting requirements for national levels of government

	Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Hong Kong	United States of America
Whole of Government	✓	✓	✓	✓	✓	✓	✓	✓
Department, Agencies etc	✓	✓	↻	✓	↻	✓	✗	↻
Legend								
✓	Public submission generally required							
↻	Public submission may depend on exemptions/thresholds							
✗	Public submissions not generally required							

87 All jurisdictions require national-level whole-of-government GPFSSs to be made publicly available. New Zealand and South Africa have adopted International Public Sector Accounting Standards with some modifications, where relevant, for local legislation.

88 The United Kingdom, Canada, Singapore, Hong Kong have all developed local GAAP for public sector financial reporting which are based on IFRSs. The United States of America has developed its own local GAAP for public sector financial reporting.

89 All jurisdictions also require national-level, whole-of-government consolidated accounts to be prepared to the highest tier which is equivalent to Tier 1 General Purpose Financial Statements in the context of Australia.

90 Some variation in reporting obligations occurs at the department, or agency, level of the national government. Hong Kong stands out for not requiring departments, or agencies, to prepare separate financial statements. When considering **Error! Reference source not found.** this means that Hong Kong only prepares whole-of-government financial statements in the public sector because no other level of government exists.

- 91 In South Africa, only certain departments and agencies must prepare General purpose financial statements (equivalent to Tier 1) as the Minister of Finance has the authority to grant exemptions under the Public Finance Administration Act. (further explained in paragraph B65 to B68 in Appendix B).
- 92 In Canada, only certain departments handling significant portfolios must prepare General purpose financial statements (equivalent to Tier 1) as the Treasury Board Accounting Standards directive applies to the organizations listed in section 6 of the Policy on Financial Management and section 2 of the Financial Administration Act (explained further in paragraph B88 to B90 in Appendix B).
- 93 In the USA, only certain department and agencies must prepare consolidated financial statements as required by the Chief Financial Officer Act (explained further in paragraph B105 and B106 in Appendix B)
- 94 All jurisdictions, except New Zealand, require national government departments, or agencies, to apply the highest reporting tier available. New Zealand operates a 4-tier public sector reporting regime:
- (a) Tier 1 – ‘Publicly accountable’ entities with expenses in excess of NZD 30 million (full IPSAS-based PBE standards).
 - (b) Tier 2 – Non-publicly accountable entities with expenses between NZD 30 million and NZD 2 million (reduced disclosure).
 - (c) Tier 3 – Non-publicly accountable entities with expenses less than, or equal to, NZD 2 million (simple format accrual reporting).
 - (d) Tier 4 – Non-publicly accountable entities with expenses less than NZD 125,000 and permitted to apply Tier 4 by legislation (simple format cash reporting).
- 95 In New Zealand, public sector entities are referred to as Public sector Public Benefit Entities (Public Sector PBEs) in the NZ Reporting Framework. Public Benefit Entities (PBEs) are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

Other Levels of Government

- 96 Some of the investigated jurisdictions have devolved government into state, or provincial, levels of government and also local levels of government (such as municipalities or councils).
- 97 Table 10 below summarises the reporting requirements in each jurisdiction. Where a jurisdiction does not have a state, provincial, or local level of government a ‘not applicable’ icon is included in the table

Table 10 - State or provincial government and local government financial reporting obligations

	Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Hong Kong	United States of America
State/Provincial Government (or equivalent)								
	✓	✗	✓	✗	✓	✗	✗	✓
Department, Agencies etc of State/Provincial Governments								
	✓	✗	✓	✗	✓	✗	✗	✓
Local Government								
	✓	✓	↻	✓	✓	✗	✗	↻
Legend								
✓	Public submission generally required							
↻	Public submission and level of reporting may depend on exemptions/thresholds							
✗	Not Applicable							

98 In general, jurisdictions require all levels of government below the national level to prepare financial statements for the public record subject to a few exemptions in Canada and the United States of America. Singapore and Hong Kong only prepare whole-of-government financial statements in the public sector because no state or local government exists.

99 In Canada, local government departments and councils prepare consolidated financial statements each fiscal year. Thus the entities below local government such as libraries and water supply services are not required to prepare individual financial statements. The segment level information representing each function of the local authority is disclosed in the consolidated financial statements which summarizes revenue by type, expenses by functions and equity movements (further explained in paragraph B93 and B96 in Appendix B).

100 In the United States America, the *GASB Statement No 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* specifies a reporting requirement for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It further states;

- Special-purpose governments that are engaged in only governmental activities (such as some library districts) or that are engaged in both governmental and business-type activities (such as some school districts) generally should be reported in the same manner as general purpose governments.
- Special-purpose government entities engaged only in business-type activities (such as utilities) should present financial statements as required for enterprise funds, including Management Discussion & Analysis and other Required Supplementary Information (RSI) such as budgetary comparison schedules.

101 From a broader perspective, the frameworks for the preparation of financial statements at the level below national government are generally the same as at the national level. However, the financial reporting requirements of the local government level are also regulated by the Code of Practice on Local Authority Accounting in the United Kingdom. Furthermore, the local government financial reporting framework may include a few additional reporting requirements by local government acts in each state or local authority level.

Auditing requirements

102 The auditing and assurance requirements in each jurisdiction are summarised in Table 11.

Table 11 - Auditing and assurance requirements in each jurisdiction

	Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Hong Kong	United States of America
Whole of Government	✓	✓	✓	✓	✓	✓	✓	✓
State/Provincial Governments	✓	✗	✓	✓	✓	✗	✗	✓
Local Government	✓	↻	✓	✓	✓	✗	✗	↻
Legend								
✓	Required to be audited by Auditor General							
↻	may depend on exemptions/thresholds							
✗	Not Applicable							

103 In all jurisdictions, the financial statements of all levels of governments must be audited by the Auditor general or a qualified independent state auditor except for:

- New Zealand – The financial statements must be either audited or reviewed by a qualified auditor where total operating expenditure for each of the previous two accounting periods was below N\$1 million and over N\$500,000
- The United States of America - The Comprehensive Annual Financial Reports (CAFR) prepared by each state must be audited by an independent state auditor. The financial reports of agencies, departments with the state government and local government entities will be considered for audit by the State Auditor as part of the audit of the State's CAFR; therefore, an opinion will not be expressed on the financial statements of local governments and related information contained in their reports.

Appendix A: Australian public sector financial reporting requirements

Commonwealth level

- A1. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) is the legislative basis for managing and accounting for Commonwealth resource management system for Commonwealth entities¹⁴, which consists of corporate and non-corporate Commonwealth entities and Commonwealth companies. The difference between these entities is that a corporate Commonwealth entity is a body corporate which is legally separate from the Commonwealth, and a non-corporate Commonwealth entity is not a body corporate and is part of the Commonwealth.¹⁵ A Commonwealth company is a company incorporated under the *Corporations Act 2001* that the Commonwealth controls.¹⁶
- A2. For example, the 18 Departments listed in paragraph 22 include the Australian National Audit Office, the Australian Taxation Office and the Australian Accounting Standards Board and these are classified as non-corporate Commonwealth entities. Some examples of corporate Commonwealth entities include the Australian Postal Corporation, the National Gallery of Australia and the National Museum of Australia. The Australian Sports Foundation Limited and the NBN Co Limited are examples of Commonwealth companies. Further classifications can be made to Commonwealth entity or company as a Government Business Enterprise where its principle objective is that it adds to its shareholder value and is expected to operate in the industry sector and provide goods and services that the government mandates^{17,18}

Commonwealth entities

- A3. Section 46 of the PGPA Act requires Commonwealth entities to prepare an annual report to the Minister consisting of the annual financial statements and the audit report from the Auditor-General. The financial statements must comply with Australian Accounting Standards and any other requirements prescribed by the rules (described in paragraph A5 below); and present fairly the entity's financial position, financial performance and cash flow.
- A4. Section 48 of the PGPA Act requires the Finance Minister to prepare the annual consolidated financial statements that comply with the Australian Accounting Standards and provide them to the Auditor-General for audit and present to the Minister for tabling at the Legislative Assembly.

¹⁴ A Commonwealth entity is a Department of State; a Parliamentary Department; a listed entity in the PGPA Rule or other legislation; a body corporate that is established by a law of the Commonwealth; or a body corporate that is established under a law of the Commonwealth; and is prescribed by an act or the rules to be a Commonwealth entity. However the High Court and the Future Fund Board of Guardians are not Commonwealth entities.

¹⁵ Section 22 of the PGPA Act

¹⁶ Section 89 of the PGPA Act

¹⁷ RMG-126: Commonwealth Government Business Enterprise – Governance and Oversight Guidelines

¹⁸ For a list of all Commonwealth entities: https://www.finance.gov.au/sites/default/files/Flipchart_21_December_2017_2.pdf

- A5. The Public Governance, *Performance and Accountability (Financial Reporting) Rule 2015* (FRR) set out the rules that for the preparation of financial statements for Commonwealth entities. The FRR sets out the basis for common financial reporting requirements for all reporting entities¹⁹ to promote consistency in financial reporting across the Commonwealth and to facilitate comparisons between entities' financial statements. It also requires the preparation of the Australian Government's consolidated financial statements.
- A6. The FRR sets out the minimum financial reporting requirements for all Commonwealth entities in the preparation of their financial statements. Paragraph A6, Division 3 of the FRR requires financial statements to be prepared for:
- a) each Commonwealth entity that is not the parent entity in an economic entity;
 - b) each economic entity, comprising the Commonwealth entity and its subsidiaries; and
 - c) where an entity is the parent entity in an economic entity, it must either prepare parent entity financial statements as well as the consolidated financial statements²⁰, or it may disclose parent entity supplementary information in the notes of the consolidated financial statements. However the subsidiary of a Commonwealth is not required to prepare financial statements under the FRR as they are not Commonwealth entities.²¹
- A7. The FRR provides restrictions to the choice of accounting treatments to be applied to Commonwealth entities to ensure a consistent approach in financial reporting across the Commonwealth and to enable consolidated financial statements to be prepared for the whole of government.²²
- A8. Section 18 of the FRR specifies a list of reporting entities²³ that are required to prepare Tier 1 requirements whilst allowing those not listed to apply Tier 2 requirements as a minimum. In addition certain listed reporting entities are required to apply Tier 1 reporting requirements when applying accounting standards that are specifically listed within the Rule.
- A9. The Department of Finance produces Primary Reporting and Information Management Aid Forms of Financial Statements (PRIMA Forms)²⁴ that are formats and templates to enable reporting Non-corporate and Corporate Commonwealth entities to prepare their financial statements. These PRIMA Forms are not mandatory but they provide a consistent approach ensuring Commonwealth entities' financial reports are consistently prepared to allow the whole-of-government consolidated financial statements to be prepared. The PRIMA Forms include the most common disclosures and presentation affecting entities and are in accordance with the Australian accounting standards and/or the FRR.

19 Reporting entity means an applicable entity mentioned in subsection 6(1) for which financials statements must be prepared in the FRR.

20 Section 48 of the PGPA Act

21 Section 6(1)(b)(b) of the FRR

22 Guide to Part 3 of the FRR.

23 The list of reporting entities that must apply Tier 1 reporting requirements are: Australian National University; Australian Office of Financial Management, Australian Postal Corporation; Comcare; Commonwealth Superannuation Corporation; Defence Housing Australia; Export Finance and Insurance Corporation; Future Fund Management Agency and the Reserve Bank of Australia

24 [The Department of Finance produces Primary Reporting and Information Management Aid Forms of Financial Statements \(PRIMA\). These documents are non-mandatory but they provide the most common disclosures and presentations applying to reporting Commonwealth entities to comply with the Australian accounting standards and the PGPA Act.](#)

- A10. There are two sets of PRIMA forms, Tier 1 and Tier 2 based on the requirement of the reporting Commonwealth entities' requirements in the preparation of GPFSs. These forms can be modified to include further disclosures as they deem appropriate to meet their stakeholders' information needs and be reflective of their operations.
- A11. In addition to financial reporting, annual performance statements must also be provided about the Commonwealth entity's performance in achieving its purposes; and comply with any other requirements of section 16F of the FRR.

Commonwealth Companies

- A12. Section 97 of the PGPA Act requires Commonwealth Companies to provide to the Minister a copy of the company's financial report, director's report and auditor's report as required by the *Corporations Act 2001*. The auditor of Commonwealth companies can be the Auditor-General or another auditor as allowed under the *Corporations Act 2001*, in which case the audit Auditor-General will still be required to provide an audit report on the financial statements. The subsidiaries of Commonwealth Companies are also required to be audited by the Auditor General.

Government Business Enterprises

- A13. Section 5 of the PGPA Rule identifies a list of Commonwealth entities and Commonwealth companies that are government business enterprises. The contents of the annual reports of a corporate Commonwealth entity or a company is specified in the PGPA Rule as discussed in paragraphs 72 in addition to specific disclosures such as details of dividends paid or recommended, which is also required under section 300 of the *Corporations Act 2001*.

South Australia

State government

- A14. Section 23 of the *Public Finance and Audit Act 1987* requires every public authority²⁵ to deliver to the Auditor-General financial statements for the year that comply with the Treasurer's instructions. Section 41(b) of the *Public Finance and Audit Act 1987* issues Treasurer's Instructions setting out the form and content of financial statements that must be prepared by the Treasurer and public authorities. Paragraph 19.6 of Treasurer's Instruction 19 *Financial Reporting* makes the Chief Executive of each public authority responsible for the preparation of a GPFS that complies with Australian Accounting Standards and all accounting policy statements issued by the Treasurer.²⁶
- A15. The Department of Treasury and Finance has issued 6 Accounting Policy Frameworks (APFs 1-VI) containing accounting policy statements (APS) issued under the authority of section 41 of the *Public and Finance and Audit Act 1987*. APS2.6.1 of APF II *Content of General Purpose Financial Statements* allows some public authorities to be exempt from applying Tier 1 Australian Accounting Standards reporting requirements if they satisfy the following requirements:

²⁵ Public authority is defined in section 4 of the *Public Finance and Audit Act 1987* and means a government department; a Minister; a statutory authority (that is an instrumentality of the Crown; or the accounts of which the Auditor-General is required by law to audit and such other body or person as is prescribed, but does not include a statutory authority by which the accounts are audited by a person other than the Auditor-General)

²⁶ [Treasurer's Instruction 19 makes the Chief Executive of each public authority responsible for the preparation of a GPFS that complies with Australian Accounting Standards and all accounting policy statements issued by the Treasurer.](#)

- the consolidated expenses for the financial year are equal or less than \$5m and consolidated assets for the financial year are equal to or less than \$75m; or have a primary purpose of promoting the arts;
- are not a public corporation; a public insurer; and/or a public superannuation board/fund; and
- do not satisfy a public interest test²⁷.

A16. APS2.6.2²⁸ provides a list of approved public authorities that can prepare Tier 2 reporting which include the Auditor-General's Department, Defence SA and Electoral Commission of South Australia.

A17. Where a specific disclosure requirement is contained within the Accounting Policy Framework, materiality does not apply.

A18. Section 31 of the *Public Finance And Audit Act 1987* requires that each financial year, the Auditor-General must audit the public accounts and the accounts of each public authority. The Auditor-General may appoint a registered company auditor to audit accounts of the administrative unit²⁹ or to assist the Auditor-General.

A19. The Department of Treasury and Finance has also developed model financial statements for both Tier 1 and 2 reporting to assist public authorities in South Australia. These contain the minimum accounting standards and other mandatory requirements to provide consistency in the presentation of the financial statements.

Government business enterprises

A20. Government business enterprises are called state public corporations that are controlled by the SA government. A public corporation is an instrumentality of the Crown and holds its property on behalf of the Crown and is subject to control and direction by its Minister.³⁰ The SA Treasury provides a list of public non-financial and public financial corporations that are 100% controlled by the government.³¹

A21. A public corporation must prepare consolidated financial statements that comply with the requirements of the Treasurer in the corporation's charter and any applicable instructions of the Treasurer issued under the *Public Finance and Audit Act 1987*. As previously stated in paragraph A14 and A15 above, the financial statements must be GPFS and comply with Australian Accounting Standards and all accounting policy statements issued by the Treasurer. Specifically public corporations are not exempt from applying Tier 1 reporting requirements.

²⁷ The term 'public interest test' seems to come from the SA government's FOI and Public Interest Guidelines where an Accredited FOI Officer may determine that disclosure of information is in the public interest they must be satisfied that the benefit to the public resulting from disclosure will outweigh other public interests of non-disclosure.

²⁸ [APS 2.6.2 of the Accounting Policy Framework issued by the Department of Treasury and Finance in South Australia provides a list of approved public authorities that can prepare Tier 2 financial statements.](#)

²⁹ Administrative unit is defined in the *Public Finance and Audit Act 1987* a government department

³⁰ Section 6 of the *Public Corporations Act 1993*

³¹ [This document lists out the public non-financial and public financial corporations that are 100% controlled by the government.](#)

- A22. The Auditor-General must in respect of each financial year, audit the accounts and financial statements of the corporation.³² An annual report must be provided to the Minister each year that includes the audited accounts and financial statements and each subsidiary (if any) of the corporation each year.
- A23. In addition to the financial reporting, the corporation's Minister and the Treasurer must prepare a performance statement setting out the various performance targets that the corporation is to pursue in the year.³³

Local government

- A24. The *Local Government Act 1999* establishes councils under the system of local governments to provide for the governance and management of areas at the local level. A council must prepare for each financial year its financial statements and notes in accordance with standards prescribed by regulations and other statements or documentation relating to the financial affairs of the council required by the regulations.³⁴
- A25. The statements must be audited by the council's auditor³⁵ in accordance with the Australian Auditing Standards and Auditing Guidance Statements published by the Auditing and Assurance Standards Boards (AUASB)³⁶. The council must ensure that a copy of the audited statements are submitted by the council to the persons or bodies prescribed by the regulations and ensure that copies of its audited statements are available for inspection (without charge) and purchase by the public at the principal office of the council.
- A26. A council subsidiary or regional subsidiary³⁷ is subject to the direction and control of the council and must furnish to the council a report on the work and operations of the subsidiary. The report must incorporate audited financial statements of the subsidiary and contain any other information or report required by the council or prescribed by the regulations.³⁸ Similarly the financial statements of the council subsidiary or regional subsidiary must be audited by the auditor in accordance with Australian Auditing Standards.
- A27. A council, council subsidiary or regional subsidiary must ensure that all accounting records, accounts and financial statements are prepared and maintained in accordance with all relevant Australian Accounting Standards³⁹
- A28. There are no specific exemptions or guidance provided within the *Local Government Act 1999* or the *Local Government (Financial Management) Regulations 2011* that allows for councils, subsidiaries or regional subsidiaries to prepare Tier 2 Australian Accounting Standards.

32 Section 32 of the *Public Corporations Act 1993*

33 Section 13 of the *Public Corporations Act 1993*

34 Section 6 and 127 of the *Local Government Act 1999*

35 Section 128(3) prescribes the auditor must be a registered company auditor, or a firm comprising at least one registered company auditor. A person is not eligible to be the auditor if the person is a member of the council or the person is a nominated candidate for election as a member of the council.

36 Section 19 of the *Local Government (Financial Management) Regulations 2011*

37 Section 17(2) of a regional subsidiary is established by two or more councils and must be applied by the Minister.

38 Section 10-12 of the *Local Government Act 1999*

39 Section 11 of the *Local Government (Financial Management) Regulations 2011*

Victoria

State government

- A29. Section 24 of the *Financial Management Act 1994* (FMA) requires the Minister to prepare annual financial reports for each financial year in a manner and form determined by the Minister, having regard to appropriate financial reporting frameworks for the whole of government. These directions are issued to ensure consistent application of the accounting treatment across the Victorian public sector in compliance
- A30. All departments and public bodies⁴⁰ must also provide financial information as well as preparing and submitting financial statements to the Auditor-General. These financial statements are to be prepared in accordance with the Australian Accounting Standards and Interpretations as issued by the AASB.
- A31. Each department and public body, unless otherwise not required under the *Audit Act 1994* or any other Act, has to have its financial statements audited⁴¹ in accordance with the AUASB in relation to the financial statements or performance audits⁴².
- A32. Pursuant to section 8 of the FMA, the Minister for Finance has the authority to issue standing directions in relation to financial administration issues. The directions are in the form of the Financial Reporting Directions and guidance applicable to all entities defined as either a public body or a department, unless otherwise stated⁴³ such as class B cemetery trust. Compliance with the Financial Reporting Directions is mandatory and shall be consistently applied in the preparation and presentation of an entity's annual report. These directions aim to prescribe the accounting treatment and disclosure of financial transactions in circumstances where there are choices in accounting treatment, or in the absence of guidance and/or requirement in existing accounting pronouncements.⁴⁴
- A33. Unlike SA government, the Victoria government does not specify any entities that are allowed to prepare Tier 2 Australian Accounting Standards.
- A34. In addition to financial reporting requirements, there are Financial Reporting Directions in relation to the reporting of Performance Information. This Direction requires that the report of operations and audited statement of performance is required which must include relevant performance targets, actual results achieved and an explanation of any significant variances between the actual results.⁴⁵

40 Public bodies are defined in the Financial Management Act 1994 under section 3 as; public statutory authority; a State business corporation or State body within the meaning of the *Stated Owned Enterprise Act 1992*; Court Services Victoria; a body, office or trust body established under an Act or enactment or by the Governor in Council or a Minister that declared by the Minister by notice published in the Government Gazette to be a body or office to which Part 7 Accountability and Reporting of the *Financial Management Act 1994* applies.

41 Section 45(3) of the *Financial Management Act 1994* (FMA)

42 Section 13(1) of the *Audit Act 1994*

43 Section 1.2 of the Standing Directions of the Minister of Finance 2016

44 FRD 100A of the Financial Reporting Directions – framework (June 2016)

45 FRD 27C of the Presentation and reporting of performance information (May 2014)

- A35. The Financial Reporting Operations Framework also provides mandatory requirements for Departments on matters including financial reporting requirements and specific accounting issues. One specific issue is listed in Section 3 on the classification and treatment of controlled and administered items. Unless contributing to the output delivery, an item must be classified as administered where an act or binding agreement means the Department has no influence on the eligibility, timing or amount of the item.
- A36. The Department of Treasury and Finance have endorsed *Model Report for Victorian Government Departments* (the Model)⁴⁶ which are consistent with the Australian Accounting Standards including Interpretations and Financial Reporting Directions. All Victorian government departments are required to comply with the Model.

Government Business Enterprises

- A37. Government Business Enterprises are accountable to their portfolio Minister and the Parliament for their performance and are defined in section 5 of the *Public Administrative Act 2004* as public entities.
- A38. Public entities must provide to the Treasurer or the Minister any financial and non-financial information requested by the Minister when directed under section 93 and 94 of the *Public Administrative Act 2004*. Financial statements must be prepared in accordance with the requirements as set out by the Standing Directions of the Minister for Finance 2016. As required by the directions listed in paragraphs A33 to A35, the annual report must contain audited financial statements that are prepared in accordance with the Australian Accounting Standards and any other directions.
- A39. State owned enterprises consist of State business corporations or state owned companies. State owned companies are required to provide to the House of Parliament financial reports, directors' reports and the auditor's report audited by the Auditor-General for each State owned company as required by the Corporations Act.⁴⁷

Local Government

- A40. The *Local Government Act 1989* constitutes Councils where its primary objectives is to endeavour to achieve the best outcomes for the local community having regard to objectives such as ensuring the equitable imposition of rates and charges as well as ensuring the transparency and accountability in Council decision making.⁴⁸
- A41. A Council must prepare an annual report in respect of each year which contains, amongst other statements, an audited financial statements and a copy of the auditor's report on the financial statements.⁴⁹ The financial statements including notes attached are prepared in accordance with the current Australian Accounting Standards as it applies to the general purpose financial statements of local governments⁵⁰, ie Tier 1 Australian Accounting Standards.

46 The Model together with user guidance material are issued under Standing Direction 4.2 *Reporting Requirements in terms of Part 7 of the Financial Management Act 1994*.

47 Section 75 of the *State Owned Enterprise Act 1992*

48 Section 1A *Local Government Charter of the Local Government Act 1989*

49 Section 131 of the *Local Government Act 1989*

50 Section 3 of the *Local Government Act 1989*

- A42. In addition, section 20 the *Local Government (Planning and Reporting) Regulations 2014* prescribed the content of the financial statements of a Local Council must be prepared in accordance with the Local Government Model Financial Report. It must also include as notes, amongst other things, information relating to amounts of money and assets held in trust including any restrictions, list of grants by type and source.
- A43. The principles that guide the presentation of the financial statements as documented in the Local Government Model Financial Report is “to promote transparency and accountability of local governments and stakeholders”.
- A44. The audit requirements are the same as for Victoria state government as described in paragraph A31 above.

Western Australia

State government

- A45. Departments and statutory authorities as defined under the *Public Sector Management Act* are required to produce, and submit and publish an annual report⁵¹ in accordance with relevant legislation and Government policies as referred to in the Annual Reporting Framework⁵². The Public Sector Commission states that “*annual reports are an important tool in ensuring public sector transparency and accountability by providing the Western Australian Parliament with information about the performance of the public sector*”⁵³.
- A46. There are some exceptions for organisations in complying with the Annual Reporting Framework which are listed in the *Public Sector Management Act 1994*⁵⁴ such as universities. Although the Annual Reporting Framework is in the form of a guide and checklist, it contains the various reporting requirements as required for the public sector in Western Australia.
- A47. The Annual Report must contain financial statements, key performance indicators; report on the operations of the agency during the financial year, and any information prescribed by the Treasurer and/or Minister. These financial statements⁵⁵ must be prepared in accordance with the Australian Accounting Standards as well as any financial statements and information prescribed by the Treasurer’s instructions; and any other financial information required by a written direction given by the Minister⁵⁶. The annual report must be audited and tabled to Parliament including the audit opinion within 90 days of the end of the financial year.⁵⁷

51 Division 2 subsection 61(1) of FMA.

52 [The Annual reporting framework issued by Public Sector Commission of Government of Western Australia assists agencies in the preparation of annual reports by providing a summary of expectations, reporting requirements and details of where to obtain advice about specific obligations.](#)

53 Commissioner’s overview of the Annual Reporting Framework for 2016/17 financial year.

54 Schedule 1 – Entities which are not organisations of *Public Sector Management Act 1994*

55 Part 1 section 9 *Government Financial Responsibility Act 2000*.

56 Section 62(2) of FMA

57 Section 64(2) of the FMA.

- A48. The Treasurer's Instructions have the force of law and they apply to all agencies. Treasurer's Instructions prescribe the requirements at a minimum on accounting of matters such as revenue, expenditure for property and standards necessary to achieve the objects and purposes of the Act. For example TI 1105 '*Consolidated Financial Statements*' requires consolidated financial statements to be prepared where an agency has had a subsidiary at any time during the reporting period. These instructions modify the definition of control to reflect the accountability framework established under the FMA and Treasurer's Instructions which specifically excludes related bodies from the definition of 'subsidiary' even though they are financially reliant on the resources of their agency. The rationale for this instruction is because the financial operations of related bodies will generally not have their own resources and consequently they have no separate accountability under the FMA.⁵⁸
- A49. Treasurer's Instructions 1105 also modifies the definition of 'subsidiary' to apply to 'subsidiary bodies' as defined by the FMA, regardless of the AASB 10 test of control to ensure the inclusion within the consolidated financial statements.
- A50. The Department of Treasury has also developed Model annual reports as a guide covering the minimum annual reporting requirements of the *Financial Management Act 2006* and Treasurer's Instructions and are in accordance with Australian Accounting Standards.
- A51. The financial statements of an agency must be submitted to the Auditor General for audit in accordance with the *Auditor General Act 2006*.⁵⁹ Under the *Auditor General Act 2006* the Auditor General must audit and provide an opinion on the annual report on State Finances, accounts of agencies, local subsidiaries⁶⁰ that have appointed the Auditor General as their auditor. The Auditor General is to carry out an audit in such manner as the Auditor General thinks fit having regard to Auditing and Assurance Standards and the character and effectiveness of the internal control and internal audit of the relevant agency, person or body.⁶¹
- A52. In addition to financial reporting, the WA performance management framework, referred to as Outcome Based Management, facilitates the monitoring of outcomes through the delivery of services. Further information can also be found in Treasurer's Instructions 904 Key Performance Indicators which requires the disclosure of non-financial information to measure and report on an agency's performance.

Government Business Enterprise

- A53. Western Australia Government Trading Enterprises describe government bodies that derive their primary source of revenue from the sale of goods or services in a commercial environment such as Western Power and the Water Corporation.⁶² These government bodies are incorporated under their respective legislation, for example, statutory electricity corporations are established under the *Electricity Corporations Act 2005*.

58 Background to Treasurer's Instructions 1105 '*Consolidated Financial Statements*'

59 Section 63 of the FMA

60 The *Auditor General Act 2006* defines a local subsidiary that is not a foreign subsidiary

61 Section 28 of the *Auditor General Act 2006*

62 Schedule 1 of the *Public Sector Management Act 1994* provides a list of other entities in Western Australia

- A54. The reporting requirements are listed within the respective legislation for Government Trading Enterprises. For example the *Electricity Corporations Act 2005* requires that a financial report and a director's report must be prepared for each financial year by a corporation. The content of the annual financial report refers to sections of the *Corporations Act 2001* (s295) so that the financial statements are prepared in accordance with the Australian Accounting Standards.⁶³
- A55. As well as the financial statements, the director's report requirements refer to sections of the *Corporations Act 2001* (s299), that require a review and results of the operations of the entity during the year and any future developments and their expected results.⁶⁴
- A56. The financial report must be audited by the Auditor General and obtain an auditor's report.⁶⁵

Local Government

- A57. Local Government is required to prepare general purpose financial statements⁶⁶ in accordance with the *Local Government Act 1995* (LGA), the *Local Government (Financial Management) Regulations 1996* (FMR) and Australian Accounting Standards. As described in the *Western Australia Local Government Accounting Manual*, the primary benefits of financial reporting are to make councils accountable to the community for their financial management of local government operations and provide the community and other interested parties with access to information about their current financial status and their operational performance for the period in question.
- A58. In addition to the requirements to preparing financial statements, section 36 of FMR also details other reporting and disclosure requirements which include the preparation of a Rate Setting Statement.
- A59. A local government is required to submit to its auditor the accounts and annual financial report of the local government for audit⁶⁷ and the auditor needs to prepare an audit report. Section 7.3 of the LGA requires the local government's auditor is to be a person who is a registered company auditor or an approved auditor⁶⁸ and the audit is to be carried out in accordance with the Auditing Standards in Australia.⁶⁹

63 Division 3 Section 8 of the *Electricity Corporations Act 2005*

64 Division 3 Section 11 of the *Electricity Corporations Act 2005*

65 Section 14 of the *Electricity Corporations Act 2005*

66 Section 5A of FMR.

67 Section 7.2 of the LGA

68 An approved auditor is defined in section 7.5 of the LGA as a person approved by the Minister to be a registered local government auditor within the meaning of that term in Part XXVII of the *Local Government Act 1960* as in force before that commencement and was the auditor of a local government.

69 Section 9 of the *Local Government (Audit) Regulation 1996*

Queensland

State government

- A60. The *Financial Accountability Act 2009* (FA Act) requires agencies⁷⁰ and the whole of government to prepare annual financial statements and the annual report to be tabled in Parliament⁷¹, and the Treasurer may make standards about the policies and principles to be observed in financial and performance reporting⁷². However section 59 of the FA Act allows the Treasurer, wholly or partly, to exempt a department or statutory body from complying with financial and performance management standards if the Treasurer has consulted with the Auditor-General. Where the exemption relates to Australian accounting standards, the extent of non-compliance must be disclosed within the annual financial statements.
- A61. The Queensland Government Financial Accountability Framework (FAF) prescribes the processes and legislative requirements for Queensland departments and statutory bodies to comply with the financial and performance reporting requirements as per the *Financial and Performance Management Standard 2009* (FPMS).⁷³
- A62. The Auditor-General provides the rationale for an annual report to '*support transparency and drive continuous improvement in performance. Where annual reports incorporate relevant and reliable performance information, they increase trust and confidence in government service delivery*'⁷⁴.
- A63. Each department must comply with the Minimum Reporting Requirements (MRRs) of the FPMS when preparing annual financial statements, whilst statutory bodies only need to meet the minimum reporting requirements. All departments and those statutory bodies consolidated into the whole of government financial statements are required to prepare GPFS⁷⁵ applying Tier 1 reporting requirements. Statutory bodies which are not consolidated into the whole of government financial statements may apply Tier 2 reporting requirements. Consolidated whole of government financial statements complying with Tier 1 reporting requirements must be prepared within 6 months after the end of each financial year.⁷⁶

70 Agencies refer to departments and statutory bodies and public service offices as defined in section 1.1 of Annual report requirements for Queensland Government agencies. Public service offices are specified in Schedule 1 of the *Public Services Act 2008*. A department means a department of government, an entity for which an accountable officer is appointed section 65, the Office of the Governor and the Legislative Assembly and parliamentary service. A statutory body means an entity that is not a department, or a local government or an entity prescribed under another Act not to be a statutory body.

71 Sections 25, 62 and 63 of the FA Act.

72 Section 57 of the FA Act.

73 Section 11 of the FPMS requires departments and statutory bodies to comply with the document called 'A guide to the Queensland Government performance management framework' prepared by the Department of the Premier and Cabinet. Section 42 of the FPMS requires departments to comply with the minimum reporting requirements mentioned in the document called 'Financial reporting requirements for Queensland Government agencies' published by the Queensland treasury department.

74 Auditor-General's Report to Parliament No. 4 for 2013-12 p.12

75 Section 42 of the FPMS requires the financial statements must be prepared in accordance with the Australian accounting standards.

76 Section 25 of the FA Act

- A64. The MRRs contain a list of Financial Reporting Requirements (FRRs) that assists agencies in the preparation of their financial statements and provide updates on new and reviewed accounting policies and standards and advises on the application of accounting standards. For example, consolidated financial statement requirements are outlined in FRRs 2G Consolidated Financial Statements and Controlled Entities which specifies that agencies cannot apply the Parent entity exemption to prepare consolidated financial statements as provided in paragraph 4 or Aus4.1 of AASB 10 *Consolidated Financial Statements*. Where an agency has control over another entity, it must, subject to materiality⁷⁷, prepare consolidated financial statements for the agency and all of its controlled entities.
- A65. Departments and statutory bodies must prepare and give to the authorised auditor, the annual financial statements for audit⁷⁸ whilst the Treasurer must send the financial statements for the whole of government to the auditor-general for a report by the auditor-general.⁷⁹ An authorised auditor is defined in the *Auditor-General Act 2009* as the auditor-general or deputy-general, or a member of staff of the audit office or a contract auditor. Unless exempted⁸⁰ specifically under the *Auditor-General Act 2009*, the auditor-general must audit the consolidated fund and all public sector entities except for the audit office. The Auditor-General must prepare a report stating the extent to which the standards that the auditor-general applies or proposes to apply to the conduct of audits, and the extent to which the standards are in accordance with the auditing standards of relevant professional or statutory bodies⁸¹.
- A66. The Queensland Treasury provides model financial statements to assist agencies in the preparation of their annual financial statements to ensure consistency in presentation for both Tier 1 and Tier 2 reporting. These model financial statements are contained in the 'Financial reporting requirements for Queensland government agencies'⁸² and are for illustrative guidance only.
- A67. In addition to financial statements, FPMS also requires under section 50 that the annual report of a department or statutory body must contain information on the performance of the department or statutory body as required under the document called 'Annual report requirements for Queensland Government agencies' prepared by the Department of the Premier and Cabinet. Agencies should consider the outcomes, objectives, targets and performance indicators in *National Agreements* and *National Partnership Agreements* under the *Intergovernmental Agreement for Federal Financial Relations* when reporting on specific initiatives. The information on performance is also subject to audit by the Auditor General under the *Auditor-General Act 2009*. The Whole of government will from time to time be required to release plans or announce specific initiatives to address particular issues in Queensland and incorporate the information within the agency annual report.

Government Business Enterprises

77 Materiality is based on FRR 2B *Materiality* which provides the application guidance in including the assessment of who user would be, and the information they will mostly be interested in. Materiality may also need to be determined, based on comparisons between the figures in the parent entity and the controlled entity based on total assets, total liabilities, total income and total expenses using a >10% material, <5% not material and 5-10% judgement required rate.

78 Section 42(3) and 43(3) of the FPMS.

79 Section 25(4) of the FA Act.

80 Section 30(3) of the Auditor's General Act 2009 exempts public sector entity from audit by the auditor-general under section 30A or under a regulation made under section 31 or a controlled entity that is audited by an auditor approved by the auditor-general under section 32.

81 Section 58(1)(b) of the *Auditor's General Act 2009*

82 FRR6A provides the model financial statements for Tier 1 agencies, and FRR6B provides the model financial statements for Tier 2 agencies.

- A68. Queensland government-owned corporations (GOC) or their controlled entities' reporting requirements are prescribed in the relevant provisions of the *Government Owned Corporations Act 1993*. A GOC must be a public company limited by shares under the Corporations Act. The same provisions of the FA Act relating to the preparation and tabling of annual reports applies to a GOC⁸³ and prescribed GOC subsidiaries⁸⁴ with specific matters stated in section 120 of the *Government Owned Corporations Act 1993* such as the GOC's dividend policy to be included in the annual report.
- A69. The annual report must contain the audited financial statements of the company public sector entity and the shareholders of a public sector entity must appoint the auditor-general to be the auditor of the company, unless it was granted an exemption from audit by the auditor general in the *Auditor's General Act 2009*⁸⁵, in which case an appropriately qualified person⁸⁶ must be appointed to audit the company.

Local Government

- A70. Section 6.4 of the *Local Government Act 1995* requires a local government to prepare an annual financial report for the preceding year. The financial statements must be given to the auditor-general to prepare and sign an audit report as prescribed in section 7.12AD of the *Local Government Act 1995*. The specific requirement of the audit is detailed in the *Local Government Regulation 2012* under section 212 which specifies that the auditor-general conducting the audit does so in accordance with Australian auditing standards⁸⁷. The prescribed requirements of the annual financial statements are specified in the *Local Government Regulation 2012* which requires the financial statements to present a true and fair view, in compliance with the prescribed accounting standards⁸⁸.

NSW

State government

- A71. Section 6 of the *Public Finance and Audit Act 1983 No 152* specifies that the Treasurer is required to prepare consolidated financial statements for the whole of government for the State, and financial statements for the general government sector, in accordance with Australian Accounting Standards and any prescribed requirements by the Treasurer. These financial statements must be provided to the Auditor-General for audit.

83 Section 118 of the *Government Owned Corporations Act 1993*

84 A prescribed GOC subsidiary is defined in section 75 of the *Government Owned Corporations Act 1993* as a proprietary company and a company limited by shares within the meaning of the *Corporations Act*

85 Section 30A of the *Auditor's General Act 2009* may allow the auditor-general, by written notice given to a public sector entity, exempt the public sector entity from audit by the auditor-general for a financial year. The auditor-general may grant the exemption only if the auditor-general is reasonably satisfied that the audit of the public sector is reasonably satisfied that the audit of the public sector entity is small in size and of low risk.

86 An appropriately qualified person means a member of CPA Australia, or Institute of Chartered Accountants in Australia or Institute of Public Accountants holding a public practice certificate.

87 Section 58 of the *Auditor-General Act 2009*

88 Prescribed accounting standards are defined in section 177 of the *Local Government Regulation 2012* as GPFs in compliance with the Australian Accounting Standards, Statement of Accounting Concepts, Interpretations and Framework for the Preparation and Presentation of Financial Statement as published by the AASB.

- A72. For both departments⁸⁹ and statutory bodies⁹⁰, financial reports are to be prepared in accordance with Australian Accounting Standards and comply with any written directions of the Treasurer; the financial reports are to be audited by the Auditor-General.⁹¹
- A73. The *Financial Reporting code for NSW General Government Sector Entities* (the Code) sets out the financial reporting framework for all NSW Government Sector entities. Although the Code is no longer mandatory in its entirety and agencies can tailor the model to their individual circumstances, the financial reports must be prepared in accordance with Australian Accounting Standards. Within this guide, a model set of financial statements is given which does not make references to Tier 2 reporting requirements, nor does the Act or the Code make any reference to any exemptions for departments and statutory bodies from Tier 1 reporting requirements.
- A74. In addition to financial information, the NSW annual reporting legislation requires all statutory bodies and departments to prepare and present to Parliament an annual report containing non-financial information on their operational activities which includes their aims and objectives, and a summary review of their operations including financial and other qualitative information.⁹²

Government Business Enterprises

- A75. The NSW Government owns a number of commercial businesses in energy, water, ports and forestry known as State Owned Corporations established under the *State Owned Corporations Act 1989*. In addition, each of these State Owned Corporations have separate enabling legislation. The *State Owned Corporations Act 1989* has two classes of State owned corporations, company State owned corporations and statutory State owned corporations.⁹³
- A76. A company State owned corporation must provide an annual report of its own operations and its subsidiaries that, and the financial report must comply with the requirements of the *Corporations Act 2001*. The financial statements must be audited by the Auditor-General. In addition to financial reporting, the annual report must also include information comparing the performance of the company and its subsidiaries with the relevant statement of corporate intent as well as the dividend payable to the State by the company.⁹⁴ Subsidiaries of company State owned corporations have the same reporting requirements as the parent, unless the parent company state owned corporation has complied with all the requirements of the *Corporations Act 2001* in preparing consolidated financial reports, and the subsidiary has been exempted from preparing a financial report under the *Corporations Act 2001*.⁹⁵
- A77. A statutory State-owned corporation has the same financial reporting requirements as statutory bodies as discussed in paragraph A72 under the Annual Reports (*Statutory Bodies*) Act 1984 including a statement of operations and disclosures of any actual departures from the performance targets set out in the statement of corporate intent.

89 Department means a person, a group of persons or body specified in Column 1 of the Schedule 3 to the *Public Finance Audit Act 1983*. Departments are administrative units of the Crown and are not separate legal entities.

90 Statutory bodies means a person, group of persons or body to which Division 3 of Part 3 of the *Public Finance Audit Act 1983* applies, not being an entity referred to in section 39 (1A) of that Act, or those mentioned specifically prescribed to be a statutory body in the *Annual Reports (Statutory Bodies) Act 1984 No 87*.

91 Section 45D, 45F, 41B and 41C of the *Public Finance Audit Act 1983*.

92 Schedule 1 Annual Reports (Departments) Regulation 2015 and the Annual Reports (Statutory Bodies) Regulation 2015

93 Schedule 1 and 5 of the *State Owned Corporations Act 1989 No 134* provides a list of companies and corporations that has become company and statutory State owned corporation.

94 Section 24 of the *State Owned Corporations Act 1989 No 134*

95 Section 24(9) of the *State Owned Corporations Act 1989 No 134*

- A78. There are also two Public Financial Corporations in NSW that provide services including insurance lending and investment management of which the NSW Treasurer is a shareholder. The reporting requirements of these corporations are as required for statutory bodies under the *Annual Reports (Statutory Bodies) Act 1984*, as discussed in paragraph A72.⁹⁶

Local Government

- A79. Section 413 of the *Local Government Act 1993* requires councils to prepare an annual report that includes audited general purpose financial reports prepared in accordance with the *Local Government Act 1993* and the Australian Accounting Standards. The *Local Government Act 1993* references the *Local Government Code of Accounting Practice and Financial Reporting* detailing the financial reporting requirements that a council must incorporate when preparing its financial statements.
- A80. A council's auditor must audit its financial reports in accordance with Statements of Auditing Standards and Statement of Auditing Practice. Section 422 of the *Local Government Act 1993* states that the Auditor-General is the auditor unless a council, in writing asks to appoint a firm to be the auditor.
- A81. In addition to financial statements, the annual report must also report on its achievements in implementing its delivery program and the effectiveness of the principal activities undertaken in achieving those objectives in accordance with the *Integrated Planning And Reporting Guidelines* developed by the NSW Premier & Cabinet⁹⁷.

Tasmania

State government

- A82. The Tasmanian Treasurer is required to prepare an annual financial report for the whole of government for each financial year and the Treasurer's annual financial report is to be laid before each House of Parliament.⁹⁸ The annual financial report must contain the original estimates disclosed in the Budget Papers in respect of the major General Government Sector statements as defined by the Australian Accounting Standards. The Treasurer is to submit to the Auditor-General its financial statements and an audit report is prepared in accordance with the *Financial Management and Audit Act*.⁹⁹
- A83. Tasmanian heads of Agencies¹⁰⁰ must prepare a report containing information as required by the Treasurer's Instructions including a report on the performance of their functions as well as their financial statements in respect of the financial year. A report on the performance of the functions and the exercise of the powers of any statutory office or statutory authority attached to Agency must also be included in the Agency's report.¹⁰¹
- A84. The financial statements are prepared and certified in accordance as specified in the Treasurer's Instructions so as to present fairly:

⁹⁶ Part 2 of *State Insurance and Care Governance Act 2015 No 19* and Section 4 of the *Treasury Corporation Act 1983 No 75*

⁹⁷ Section 428 of the *Local Government Act 1993*

⁹⁸ Section 26E and 26F of the *Financial Management and Audit Act 1990*

⁹⁹ Section 16 of the *Audit Act 2008*

¹⁰⁰ Agency is defined as a Government department specified in Column 1 of Schedule 1 of the *Financial Management and Audit Act 1990*

¹⁰¹ Section 27 of the *Financial Management and Audit Act 1990*

- (a) the financial transactions of the Agency during the financial year; and
- (b) such components of financial position of the Agency at the end of the financial year as specified in the Treasurer's Instructions and such other components of financial position as Head of Agency considers desirable to be included in the statements.¹⁰²

- A85. Treasurer's instructions are issued under section 23 of the *Financial Management and Audit Act 1990*. These instructions contain mandatory and instructional guidance for agencies for the purpose of preparing their financial reports. Treasurer's Instruction 206 requires that an agency's financial statements must comply with Australian Accounting Standards and have regard to the *Framework for the Preparation and Presentation of Financial Statements and Statements of Accounting Concepts*.
- A86. The Agencies' financial statements must be accompanied by a Statement of Certification signed and dated by the Head of Agency that the financial statements, "*are in agreement with the relevant accounts and record and have been prepared in compliance with the Treasurer's Instructions...*" and at the date of signing, the Head of Agency is "*not aware of any circumstances which would render the particulars included in the financial statements misleading and inaccurate*".¹⁰³
- A87. The Treasurer's Instructions also provide model departmental financial statements which cross reference to Australian Accounting Standards. The Treasurer's Instructions together with the model departmental financial statements do not make reference to Tier 2 reporting requirements. There are no references in the relevant acts allowing Tier 2 reporting requirements to be applied.
- A88. Treasurer's Instructions 202 *Definition of 'Administered' and 'Controlled'* requires all transactions and balances of an Agency, other than those undertaken under a trustee or agency arrangement, to be categorised as administered or controlled. The general principles captured under the Treasurer's Instructions include revenue collected but not retained as administered revenues. Generally expenses incurred are controlled expenses and assets and liabilities are controlled unless those transactions directly relate to administered activities, in which case they are classified as administered transactions.
- A89. The Auditor-General is to audit the financial statements and any other information submitted by a Head of Agency as well as the statutory office or statutory authority attached to the Agency¹⁰⁴ in accordance with the requirements determined by the Australian Auditing and Assurance Standards¹⁰⁵.

102 Section 27 of the *Financial Management and Audit Act 1990*

103 See [TI 205 Certification of Annual Financial Statements](#)

104 Section 18 of the *Audit Act 2008*

105 Section 19(1) of the *Audit Act 2008*

Government Business Enterprises

- A90. The Tasmanian Government owns a number of Government businesses including both Government Business Enterprises and State-owned Companies. Government Business Enterprises are established under their own Portfolio Act and the framework of the *Government Business Enterprises Act 1995* whilst State-owned Companies are established under their own Portfolio Act and are incorporated under the *Corporations Act 2001*. The Minister of Portfolios is required to provide to Parliament the annual reports of each Government Business Enterprise and State-owned Company.
- A91. For Government Business Enterprises the Board is to prepare and forward to the Auditor-General a copy of its financial statements for each financial year in accordance with the *Audit Act 2008*. The auditing requirements are the same as Tasmanian agencies as discussed in paragraph A82. These financial statements must contain the documents and statements complying with Australian Accounting Standards as well as the requirements specified in the Treasurer's Instructions.¹⁰⁶ Part 8 Treasurer's Instructions GBE08-51-07 Application of Australian Accounting Standards requires the application of all Australian Accounting Standards and Interpretations specifying Tier 1 reporting requirements and AASB 8 *Operating Segments*.
- A92. The audited financial statements and other information and statements including the report on the performance of the Government Business Enterprises and its subsidiaries makes up the annual report.¹⁰⁷
- A93. State-owned Companies' reporting requirements are as required by the *Corporations Act 2001* as well as any other Treasurers' Instructions issued under the *Government Business Enterprises Act 1995* in relation to the determination, calculation and payment of income tax equivalents and guarantee fees as if they were Government Business Enterprises.¹⁰⁸ The audit of the financial statements of State-owned Companies is to be carried out by the Auditor-General in accordance with Australian Auditing Standards.¹⁰⁹

Local Government

- A94. Local government in Tasmania is made up of 29 councils with principal legislation covered under the *Local Government Act 1993*. Councils are incorporated as body corporates with perpetual succession under section 19 of the *Local Government Act 1993* and are established in each municipal area.
- A95. Each council must prepare an annual report containing specified information listed under section 72 of the *Local Government Act 1993* including the financial statements and a copy of the audit report under section 84 of the *Local Government Act 1993* which does not make any reference to Australian Accounting Standards. Rather it lists specific information and statements that must include the following:
- (a) interests of any councillors' major financial dealings, if any;
 - (b) a comparison of the council's actual and estimated revenue and expenditure;
 - (c) a statement of any revenue and expenditure of a council committee, a special committee or a controlling authority;

106 Section 52 of the *Government Business Enterprises Act 1995*
107 Section 55 of the *Government Business Enterprises Act 1995*
108 Department of Treasury and Finance – *Governance Framework Guide*.
109 Section 19 and 20 of the *Audit Act 2008*

- (d) a statement of operating, capital and competitive neutrality costs in respect of any significant business activities undertaken by the council during the year including a statement of revenue associated with the activity

A certification of the financial statements must be included to certify whether they fairly represent the financial position; results of operations and cash flow of the council.

- A96. In addition to financial statements, the annual report must contain a statement of council's activities and performance in respect of the preceding financial year's goals and objectives.¹¹⁰
- A97. The audit of the council's financial statements is to be carried out by the Auditor-General as required by the *Audit Act 2008* in accordance with Australian Auditing Standards.¹¹¹

ACT

State government

- A98. The ACT government structure consists of the Territory, directorates¹¹², territory authorities¹¹³ and territory-owned corporations.
- A99. The Treasurer must prepare annual financial statements for the Territory including all territory authorities and all territory-owned corporations for that year. The statements must be prepared in accordance with the Australian Accounting Standards¹¹⁴ and include the financial statements as required under the *Financial Management (Periodic and Annual Financial Statements) Guidelines 2016*¹¹⁵; a statement of the accounting policies adopted by the Territory; and the other statements that are necessary to fairly reflect the financial operations of the Territory during the year and its financial position at the end of the year.¹¹⁶ For the Territory, a statement of appropriation for the year must be included. Territory authorities must include an operating statement and a statement on their appropriations, if any was made to them.
- A100. The treasurer must give the Auditor-General the annual financial statements of the Territory and territory authorities for the financial year and the auditor-general is to give an audit opinion about the statements.¹¹⁷
- A101. The ACT Treasury has also developed model financial statement guidelines for agencies which contains the minimum disclosure requirements for their financial statements.

110 Section 72(1)(b) of the *Local Government Act 1993*

111 Section 18 and 19 of the *Audit Act 2008*

112 Directorates are defined in the *Financial Management Act 1996* as an administrative unit, a part of an administrative unit or a group of 2 or more administrative units.

113 Territory authorities is defined in the *Financial Management Act 1996* mean a body corporate established by an Act; includes an entity to which part 8 of the *Financial Management Act 1996* applies and/or ceased to exist; but does not include a body declares under section 3B not to be a territory authority.

114 Section 27 and section 63 of the *Financial Management Act 1996*

115 The *Financial Management (Periodic and Annual Financial Statements) Guidelines 2005* requires the preparation of an operating statement; a balance sheet; a statement of changes in equity, a cashflow statement for the Territory and a statement of appropriation.

116 Section 22 of the *Financial Management Act 1996*

117 Section 24(2) and 65 of the *Financial Management Act 1996*

- A102. In addition to financial reporting, ACT territory authorities are also required to measure and report and prepare a statement of the performance of the authority in meeting its objectives and of the authority's statement of intent for the year¹¹⁸. In addition, a report prepared under the *Annual Reports (Governments Agencies 2004)* for a territory authority for a financial year must be included which includes the authority's statement of performance for the year and the auditor-general's report about the statement of performance.¹¹⁹
- A103. Directorates must prepare annual financial statements relating to their operations in accordance with the Australian Accounting Standards and include the financial statements as required by the *Financial Management (Periodic and Annual Financial Statements) Guidelines 2016*.¹²⁰ A statement of performance is also required to be provided that must compare the performance of the directorate in providing each class of output with the forecast as outlined in Section 30A to 30E of the *Financial Management Act 1996*.
- A104. The directorates' annual financial statements must be provided to the auditor-general to be audited and an audit report is to be provided each year.
- A105. ACT Treasury has also developed model financial statements for the Territory, directorates and territory authorities which refer to the Tier 1 reporting requirements only. There are no references in the relevant acts allowing Tier 2 reporting to be applied.
- A106. ACT does not have local governments and the responsibilities are administered by a department of the territory government.¹²¹

Government business enterprises

- A107. A territory-owned corporation is a company limited by shares specified in schedule 1 of the *Territory-owned Corporations Act 1990*. The directors of the territory-owned corporations must prepare annual reports comprising a report on the operations of the corporation or consolidated group; and reports and financial statements that are required under the *Corporations Act 2001* as well as a copy of the auditor-general's report stating whether the reports give a true and fair view and comply with applicable Australian Accounting Standards.¹²² The auditor of the territory-owned corporation or its subsidiary must be the auditor-general.¹²³
- A108. Additionally the annual report must also include an assessment of the performance of the corporation or group in relation to the objectives and targets as set out in the corporate intent.

118 Section 68 of the *Financial Management Act 1996*

119 Section 71 of the *Financial Management Act 1996*

120 Section 27 of the *Financial Management Act 1996*

121 <https://www.australia.gov.au/about-government/how-government-works/local-government>

122 Section 22 of the *Territory-owned Corporations Act 1990*

123 Section 18 of the *Territory-owned Corporations Act 1990*

Northern Territory

- A109. Section 9, 10 and 11 of the Northern Territory (NT) *Financial Management Act* requires the Treasurer, Agencies¹²⁴ that are required under section 28 of the *Public Sector Employment and Management Act*, and Government Business Divisions¹²⁵, to prepare annual financial statements each financial year. The financial statements of the Treasurer and Government Business Divisions must be tabled in the Legislative Assembly together with the Auditor-General's report for both the Treasurer's and Government Business Divisions financial statements.¹²⁶ The Treasurer may direct the Accountable Officer¹²⁷ of an Agency to submit its financial statements to the Auditor-General for audit which must also be tabled to the Legislative Assembly.¹²⁸
- A110. In NT, there is also a Central Holding Authority which is considered to be the 'parent body' of Government and represents the ownership interest in all government controlled entities. The Central Holding Authority is required to recognise and record Territory items controlled by the Government and managed agencies on behalf of the Government and to prepare an annual information statement in accordance with the Australian Accounting Standards.¹²⁹
- A111. Section 38 of the *Financial Management Act* requires the Accountable Officer and every employee of an agency to comply with the Treasurer's Directions. These Treasurers' Directions include the reporting requirements for the whole of government¹³⁰, Agencies¹³¹ and Government Business Divisions¹³².
- A112. The Treasurer's annual financial statements take into account the requirements of the Uniform Reporting Standards¹³³ and GFS Framework. An Agency's financial statements must be prepared and comply with the requirements of relevant Australian Accounting Standards and other accounting pronouncements included in the related Treasurer's Directions Sections.¹³⁴

124 Part 1 of the *Financial Management Act* defines an agency to mean a unit of government administration, or office or statutory corporation, nominated in an Administrative Arrangements Order as an Agency for the purposes of the *Financial Management Act*, and includes where the case requires a part or division of an Agency.

125 Part 1 of the *Financial Management Act* defines a Government Business Division as an Agency, or part of an Agency, that recovers a significant proportion of its operating costs through charges on users; and is determined by the Treasurer to be a Government Business Division.

126 Section 9-10 of the *Financial Management Act*

127 Accountable officer for an Agency is the chief executive officer or a person whom the Treasurer declares in writing to be an Accountable Officer for the Agency.

128 Section 11(4) of the *Financial Management Act*

129 Treasurer's Directions Section F2.2: *Working for Outcomes – Central Holding Authority*

130 Part 2 Section 3 Government Financial Accounting - Accounting Framework And Financial Reporting

131 Section R2.1: Agency Financial Statements

132 Section R3.1: Government Business Division Financial Statements

133 Uniform Reporting Standards is defined in Part 1 Section 2 of the Treasurer's Directions as reporting standards agreed to by all States and Territories at the 1991 Premiers Conference, consistent with the Government Finance Statistics. The May 1991 Premiers' Conference agreed that the financial statements are to be prepared in accordance with the Australian Accounting Standards.

134 Treasurer's Directions Section A1.1: *Accrual Accounting*.

- A113. Treasurer's Directions Section R2.1: *Agency Financial Statements*, states that an Agency's financial statements have to comply with specific accounting standards AASB 101, AASB 107 and AAS 29. The financial statements must also be prepared in accordance with the prescribed pro forma financial statements in the Treasurer's Direction Appendix A.1: *Agency Financial Statements Pro forma – Text and Tables*. The pro forma financial statements do not make references to Tier 2 reporting and there are no references in the relevant acts allowing Tier 2 reporting to be applied.
- A114. Government Business Divisions financial statements need to be prepared in a form approved by the Treasurer and the Treasurer's Directions Section R3.1: *Government Business Division Reporting* requires compliance with Australian Accounting Standards and they are expected to be consistent with the requirements of Agencies' financial reporting requirements, specifically with regard to Appendix A.1 as discussed in paragraph A111.

Government Business Enterprises

- A115. Government owned corporations or subsidiaries are incorporated under the *Corporations Act 2001*. All of the shares of the Government owned corporation must be held by the shareholding of the Minister, which is the Treasurer or another nominated Minister
- A116. A Government owned corporation must forward to the Auditor-General its financial statements that are included in the annual report each year to be audited in accordance with the Australian Auditing Standards and an audit report to be provided. The financial statements for the year must comply with the requirements of the *Corporations Act 2001*, including the corporation's subsidiaries, and the requirement for consolidated financial statements.¹³⁵
- A117. A Government owned corporation must also provide its shareholding Minister a report on the corporation's performance in relation to its statement of corporate intent which contains information such as its objectives, financial targets and other measures by which the performance of the corporation can be judged and the accounting policies applied in the accounts.¹³⁶

Local Government

- A118. Local Governments in NT are established under the *Local Government Act* and a council is constituted for the government and management of that area. A council must provide to the Minister each year a copy of the council's audited financial statements. The report must also contain an assessment of the council's performance against the objectives stated in the relevant municipal, regional or shire plan and the activities of any local authority within the council's area.¹³⁷ The financial statements must conform with Australian Accounting Standards and other requirements in the regulations¹³⁸ and any guidelines that the Minister may make. The audit of these financial statements must be conducted by the council's auditor in accordance with the Australian Auditing Standards. The auditor can be the Auditor-General, a registered company auditor or an authorised audit company or a firm whose members include a registered company auditor.¹³⁹

135 Section 43 and 44 of the *Government Owned Corporations Act*

136 Section 40 and 41 of the *Government Owned Corporations Act*

137 Section 199 of the *Local Government Act*

138 Part 7 of the *Local Government (Accounting) Regulations*

139 Part 10.7 of the *Local Government Act*

APPENDIX B: Selected international financial reporting requirements

- B1. This section describes reporting and assurance requirements in other countries. The purpose is to gain an understanding of the financial reporting framework applicable to the public sector of other countries.
- B2. As noted in paragraph 16 above, the scope of the international comparison in this Report is limited to NZ, United Kingdom (UK), Hong Kong, Singapore, South Africa, Canada and the United States of America. These countries are selected for comparison because they are relatively comparable in terms of regulatory rigour or are jurisdictions that are often compared with Australia in terms of financial reporting issues.

New Zealand

- B3. Public sector entities are referred to as Public sector Public Benefit Entities (Public Sector PBEs) in the NZ Reporting Framework. Public Benefit Entities (PBEs) are defined in External Reporting Board Standard A1 (XRB A1) *Application of the Accounting Standards Framework* as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.
- B4. Public Sector PBEs in NZ are defined in paragraph 6 of External Reporting Board Standard A1 (XRB A1) *Application of the Accounting Standards Framework* as “PBEs that are public entities as defined in the Public Audit Act 2001¹⁴⁰ and all Offices of Parliament”.
- B5. NZ Public sector Public Benefit Entities are structured as follows:
- I. National government/ State Sector
 - a) State services departments
 - b) State-owned enterprises
 - II. Local Government
- B6. As defined in External Reporting Board Standard A1 (XRB A1) *Application of the Accounting Standards Framework*, New Zealand operates a 4-tier public sector reporting framework:

Table B1 Summary of reporting requirements of Public Sector PBEs in NZ (External Reporting Board 2017).

Tiers	Entity attributes	Reporting requirements and standards
Tier 1	<ul style="list-style-type: none"> ■ Has public accountability (as defined), or ■ Has total expenses (including grants) > \$30 million 	IPSAS-based PBE Standards

¹⁴⁰ As per section 5 of the Public Audit Act 2001, public entity means each of the following entities:

- (a) the Crown;
- (b) each office of Parliament, except where another auditor has been appointed for that office under section 45F(1)(b) of the Public Finance Act 1989;
- (c) an entity of a class described in Schedule 1;
- (d) an entity listed in Schedule 2;
- (e) an entity in respect of which the Auditor-General is the auditor under any other enactment (other than section 19);
- (f) an entity which is controlled by 1 or more entities of the kinds referred to in paragraphs (a) to (e).

Tiers	Entity attributes	Reporting requirements and standards
Tier 2	<ul style="list-style-type: none"> ■ Has no public accountability (as defined) ■ Has total expenses (including grants) ≤ \$30 million <p><i>and elects to be in Tier 2 rather than Tier 1.</i></p>	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> ■ Has no public accountability (as defined) ■ Has expenses ≤ \$2 million <p><i>and elects to be in Tier 3 rather than Tiers 1 or 2.</i></p>	PBE Simple Format Reporting Standard – Accrual (Public Sector) - PBE SFR–A (PS)
Tier 4	<ul style="list-style-type: none"> ■ Has no public accountability (as defined) ■ Has total operating payments of less than \$125,000 in each of the previous two reporting periods (ie not a 'specified not-for-profit entity') ■ Is permitted by an enactment to comply with a 'non-GAAP Standard' <p><i>and elects to be in Tier 4 rather than Tiers 1, 2 or 3.</i></p>	PBE Simple Format Reporting Standard – Cash (Public Sector) - PBE SFR–C (PS)

B7. Further explanation is as follows:

- a) The Tier 1 and 2 PBE standards consist of 38 individual standards derived largely from International Public Sector Accounting Standards (IPSAS).
- b) Tier 2 entities are generally subject to the same recognition and measurement requirements as Tier 1 entities but are able to use significantly reduced disclosure requirements.
- c) The Tier 3 accounting standard is based on a simple format reporting approach using accrual accounting. This reflects the small size and reduced level of complexity within many entities in this tier, as well as the needs of the users of the financial statements of these entities.
- d) The Tier 4 accounting standard also uses a simple format reporting approach, but uses cash accounting and is simpler than the Tier 3 standard as Tier 4 entities are very small.

Notably, all tiers include some form of related party disclosure requirements.

B8. NZ has adopted its definition of Public Accountability from IFRS which is applicable to both the public sector and the for-profit sector. As defined on the XRB website regarding the NZ reporting framework, an entity has public accountability if:

- a) *“its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or*
- b) *it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.*

B9. The XRB website also makes the following comments:

“Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity.

However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.”

Whole of Government

- B10. The Public Finance Act 1989 (amended in 2004) requires that the Government prepares monthly and annual consolidated financial statements for the Government reporting entity (commonly referred to as the financial statements of the Government). The Government’s financial year runs from 1 July to 30 June. The Government of New Zealand has three branches: the legislative, executive and judicial branches. The executive branch includes around 40 departments and Ministries.¹⁴¹
- B11. Local authorities are not included in the financial statements of the Government because they are not controlled by the Government.
- B12. The financial statements of the Government are to demonstrate its accountability for its actual financial performance against its forecasts. The Act requires that the Government produce both forecast financial statements (Part 2) and monthly and annual financial statements. The financial statements of the government should comply with the Public Benefit Entity Accounting Standards (PBE Standards).
- B13. In addition to the financial statements required by NZ GAAP, the annual financial statements of the Government include additional statements that reflect the nature of the environment in which Government operates (section 27(2)(c)). These Non-GAAP statements are:
- 104 a statement of borrowings
 - 105 a statement of unappropriated expenses and capital expenditure
 - 106 a statement of emergency expenses and capital expenditure
 - 107 a statement of trust money, and
 - 108 any additional information and explanations needed to fairly reflect the financial operations and position of the Government reporting entity.
- B14. The Public Finance Act 1989 states that the chief executive of a department is responsible for the financial management and financial performance of the department, for complying with lawful directions made by the Minister (section 34), and for ensuring that the department complies with any legislative reporting requirements (section 35).
- B15. The Act requires a department to provide a report on its operations at the end of each financial year (section 43). The annual report must be completed and audited within three months of the end of the financial year (section 45D) and then presented to the House of Representatives and published (section 44). The financial statements of government departments should comply with the Public Benefit Entity Accounting Standards (PBE Standards).
- B16. A department’s annual report must be dated and signed by the chief executive (section 45(3)) and include the following:
- general information on the department’s performance during the financial year, including an assessment of actual performance against the intentions, measures and standards set out at the start of the year (section 45(2))

¹⁴¹ Section 27(3) of the *Public Finance Act*

- a statement of service performance prepared in accordance with GAAP (section 45A)
- annual financial statements prepared in accordance with GAAP (section 45B)
- a statement of responsibility (section 45C), and
- an audit report (section 45D).

Local Government

B17. Local Government (Financial Reporting and Prudence) Regulations 2014 govern the financial reporting requirements of local governments, council controlled organizations and entities listed in section 6(4) of the above Act.

B18. NZ regulations require all levels of government entities to prepare financial statements in accordance with PBE standards explained above. However, there are additional financial reporting requirements specified in the Public Finance Act 1989 and section 5 of Local Government (Financial Reporting and Prudence) Regulations 2014 such as;

- A local authority's statement of comprehensive income must disclose separately the amount of income received or to be received from each of the following sources:
 - Rates
 - Development and financial contributions
 - Subsidies and grants
- A local authority's statement of financial position must specify the sum of the amounts of the authority's investments in council-controlled organisations and in entities listed in section 6(4) of the Act.
- The notes to a local authority's financial statements must specify, in relation to each group of activities, the combined depreciation and amortisation expense for assets used directly in providing the group of activities.
- The notes to a local authority's financial statements must specify the amount of income received or to be received from targeted rates for metered water supply.

Auditing requirements

B19. Every public sector entity in New Zealand is subject to annual audit by the Auditor-General. The annual audit is required by law to assure Parliament that each public entity is fairly reporting its performance and that public money is being spent as intended¹⁴². The Auditor-General's role under the Public Audit Act 2001 ensures that the annual audits and the assurance given to Parliament and the public are independent of government. Table B2 summarises the auditing requirements applicable to public sector PBEs in NZ. 3

142

[Every public sector entity in New Zealand is subject to annual audit by the Auditor-General. The annual audit is required by law to assure Parliament that each public entity is fairly reporting its performance and that public money is being spent as intended as per Controller and Auditor-General in New Zealand.](#)

Table B2 Summary of auditing requirements of public sector PBEs in NZ

Criteria	Standards
Total operating expenditure for each of the previous two accounting periods was: over \$1 million (large)	Financial statements must be audited by a qualified auditor
Total operating expenditure for each of the previous two accounting periods was: over \$500,000 (medium)	Financial statements must be either audited or reviewed by a qualified auditor

Rationale given for the requirements

- B20. The NZ Accounting Standards Framework (2012) lists the reasons for the current reporting thresholds relating to what should be reported. The XRB uses entity size as the general cost-benefit proxy. This is because the smaller the entity the smaller the likely number of users, and therefore the fewer the benefits that are likely to accrue from general purpose financial reporting.
- B21. Entity size is particularly useful in the PBE context where there are entities that vary enormously in terms of size. The XRB uses the size criterion with four tiers. PBE Tier 3 entities are required by the XRB to prepare their financial reports in accordance with a simple format reporting approach. This reflects the small size and reduced level of expertise within entities in this tier. The fourth tier caters for those entities that prepare financial reports on a cash accounting basis.
- B22. The use of expenses as the criterion to define entity size is considered a more appropriate proxy for cost and benefit in the PBE context than revenue because PBE financial performance is typically driven by expenses rather than revenue. Expenses are considered more reflective of the underlying activity of PBEs (XRB 2012).
- B23. The \$30m expense threshold was based on the \$30m revenue threshold that is used for statutory reporting purposes in the for profit sector. In particular, under the Companies Act 1993, companies with revenue over \$30m (or assets over \$60m) are considered 'large' and are required to prepare GPFR (assuming that they are NZ owned/controlled, as there are lower thresholds for companies that are subsidiaries of overseas companies or with more than 25% overseas ownership).
- B24. The lowest threshold of \$125K for Tier 4 PBEs also comes from the statutory reporting framework, which does not require GAAP compliant financial statements below this threshold. The exposure draft originally proposed a much lower threshold of \$20K but respondents from the public sector considered this threshold to be too low. The original Financial Reporting Bill when it was first introduced into Parliament increased the threshold to \$40,000 in its first reading. It ended up being set at \$125,000 by the end of the legislative process.
- B25. The \$2m threshold for determining whether an entity is 'small' and can report in Tier 3, appears to come from an existing statutory threshold for what were called 'exempt companies' under the old statutory reporting framework (which were permitted to prepare simple accounts using a template, rather than apply GAAP). The predecessor body to the XRB, the Accounting Standards Review Board (ASRB), used this as the basis for proposing a \$2m expenditure threshold for public sector PBEs, with a lower \$1m threshold for private sector NFPs. The ASRB used data it had at the time to determine how many entities would be affected by this threshold.

United Kingdom

- B26. The United Kingdom (UK) comprises four countries: England, Scotland, Wales and Northern Ireland. The United Kingdom is a unitary sovereign state, but Northern Ireland, Scotland and Wales have gained a degree of some autonomy through the process of devolution.

B27. In the UK, public sector entities can generally be categorised into two groups;

- Central government (including departments and the National Health Service)
- Local Government

The accounting requirements for public sector entities are driven by relevant legislation as noted below.

Whole of Government

B28. The Government Financial Reporting Manual (FReM)¹⁴³ is the technical accounting guide for the preparation of financial statements issued by the UK Treasury. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales (HM Treasury and the Welsh Assembly Government respectively), Scotland (the Scottish Government) and Northern Ireland (the Executive Committee of the Northern Ireland Assembly). The FReM is prepared following consultation with the HM Treasury - Financial Reporting Advisory Board (FRAB)¹⁴⁴ and is based on IFRSs.

B29. The FReM applies to “all entities, and to funds, flows of income and expenditure and any other accounts that are prepared on an accruals basis and consolidated within Whole of Government Accounts (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction)”. It does not apply to Local Government, Public Corporations that are not Trading Funds, and NHS Trusts, NHS Foundation Trusts and Clinical Commissioning Groups.

B30. As per section 5 of the FReM, the annual report and accounts comprise:

- a) The Performance Report (section 5.2 of the FReM) - that provides information on the entity, its main objectives and strategies and the principal risks that it faces. The requirements of the performance report are based on the matters required to be dealt with in a Strategic Report as set out in Chapter 4A of Part 15 of the Companies Act 2006.
- b) The Accountability Report (section 5.3 of the FReM) is to outline its key accountability requirements to Parliament. The requirements of the accountability report are based on the matters required to be dealt with in a Directors' Report, as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410, and in a Remuneration Report, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981.
- c) The Financial Statements (section 5.4 of the FReM) provides guidance to reporting entities on the format and content of the (Consolidated) Statement of Comprehensive Net Expenditure, the (Consolidated) Statement of Financial Position, the (Consolidated) Statement of Changes in Taxpayers' Equity and the (Consolidated) Statement of Cash Flows, together with the relevant notes.

143 As per The Financial Reporting Manual 2016-17 issued by HM Treasury

144 The board was set up in 1996 by HM Treasury following the publication of the July 1995 White Paper 'Better Accounting for Taxpayer's Money' where the government announced its plan to establish the Financial Reporting Advisory Board. The role of the Financial Reporting Advisory Board, or FRAB, is to ensure that government financial reporting meets the best possible standards of financial reporting by following Generally Accepted Accounting Practice (GAAP) as far as possible.

- B31. As per section 2.2 of the FReM, most entities covered by the requirements of this Manual prepare general purpose financial statements¹⁴⁵ that are sufficient for the needs of the key users. However, where departments are required by the relevant legislation to demonstrate accountability to Parliament, they prepare a statement on parliamentary accountability, which, within the meaning of the IASB's Conceptual Framework, can be regarded as a special purpose financial report.
- B32. Section 6 of the FReM lists out the applicable EU adopted IFRS together with a record of whether they have been adapted or interpreted for the public sector context in the manual.
- B33. Entities defined in the FReM prepare annual reports and consolidated financial statements as follows:
- a) Departments prepare annual reports and consolidated financial statements (as defined in Chapter 5 of FReM) covering all entities designated for consolidation;
 - b) Executive agencies prepare annual reports and consolidated financial statements in accordance with the requirements of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, 'the Group Accounting Standards' insofar as those subsidiaries and investments are within the controlling department's consolidation boundary;
 - c) Arm's length bodies prepare consolidated financial statements in accordance with the requirements of FReM, without adaptation and interpretation.
- B34. The Treasury prepares Whole of Government Accounts (WGA) for the whole of the UK public sector under section 9 of the Government Resources and Accounts Act 2000. WGA is prepared under generally accepted accounting practice as defined in chapter 2 of the FReM.

Local government

- B35. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
- B36. The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts that gives a true and fair view of the financial position and transactions of a local authority based on International Financial Reporting Standards (IFRSs)¹⁴⁶. This code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

¹⁴⁵ As per section 2.1.1 of FReM, The accounting policies contained in this Manual follow generally accepted accounting practice (GAAP) to the extent that it is meaningful and appropriate in the public sector context. Although the term 'GAAP' has no statutory or regulatory authority, for the purposes of this Manual, GAAP is taken to be:

- a) the accounting and disclosure requirements of the Companies Act 2006 (the Companies Act);
- b) pronouncements by or endorsed by the International Accounting Standards Board (IASB), including the Framework for the Preparation and Presentation of Financial Statements, the accounting standards – international accounting standards (IAS) and international financial reporting standards (IFRS) – and interpretations thereof issued by the Standards Interpretations Committee (SIC) or its successor, the International Financial Reporting Interpretations Committee (IFRIC);

¹⁴⁶ [The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 issued by The Chartered Institute of Public Finance & Accountancy which is the professional body for people in public finance that is based in UK.](#)

B37. For the purpose of this research, one annual financial statement, that of the Greater London Authority (one of the local government entities in England), was reviewed. The Group financial statements of the Greater London Authority note that the Executive Director of Resources is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

B38. In the UK public sector, accounting practices are also determined by guidance issued by the relevant supervisory Government department or agency. Some examples of this are as follows:

- NHS: Manual for Accounts issued by Department of Health
- Higher Education Institutions: Manual of Accounts issued by HEFCE
- Central Government Departments: Government Financial Accounting Manual issued by HM Treasury

B39. In relation to the Public or Government sector the two main accounting principles are::

- Accountability and stewardship
- Decision-usefulness

Auditing requirements

B40. The National Audit Office (NAO)¹⁴⁷ established under the Budget Responsibility and National Audit Act 2011 scrutinises public spending for Parliament. The public audit perspective helps Parliament hold government to account and improve public services. The NAO is responsible for auditing central government departments, government agencies and non-departmental public bodies.

B41. The NAO reports the results to Parliament and performs other work such as value for money studies, local audits, and investigations.

B42. The NAO approach is a risk based approach that complies with International Standards on Auditing (ISAs) and focuses on material matters, i.e. matters which could alter the user's understanding of a set of financial statements.

B43. The NAO provides an independent opinion ensuring the accounts are:

- 'true and fair'
- properly prepared – in accordance with the relevant Accounting Framework
- regular – income or expenditure, or both, in line with Parliamentary intention

B44. As per section 4 of the Local Audit and Accountability Act 2014, the financial statements of local authorities must be audited in accordance with the Act by an auditor (a "local auditor") appointed in accordance with the Act or provision made under it.

147 [The National Audit Office \(NAO\) led by the Comptroller and Auditor General leads the NAO audits the financial statements of all central government departments, agencies and other public bodies, and report the results to Parliament in the UK.](#)

Hong Kong

- B45. Hong Kong does not require departments, or agencies, to prepare separate financial statements thus Hong Kong only prepares whole-of-government financial statements as no other level of government exists.
- B46. A public sector entity in Hong Kong is required to use full HKFRS/HKAS (equivalent to IFRS) issued by the Hong Kong Institute of Certified Public Accountants.
- B47. The accounts of the Government comprise three sections as follows;
- a) Cash based accounts - These Accounts of the Government comprise the financial statements of the Government's General Revenue Account (GRA) and Funds¹⁴⁸ established or deemed to have been established under section 29 of the Public Finance Ordinance (Chapter 2 of the Laws of Hong Kong).
 - b) Accrual based accounts - The accrual-based financial statements are prepared in addition to the annual cash-based accounts and present the overall financial performance and position of the Government which are based on HKFRS/HKAS.
 - c) A Stewardship statement - This statement provides non-financial information of Government-owned buildings, infrastructure assets and land in order to supplement the financial information given on these types of assets in the accrual-based consolidated financial statements¹⁴⁹.
- B48. As per the Audit Ordinance (Cap.122)¹⁵⁰, the Director of Accounting Services is required to submit the accounting statements to the Director of Audit¹⁵¹ within 5 months after the close of each financial year.
- B49. The regulatory audits are carried out under the terms of the Audit Ordinance, which provides for the appointment, tenure of office, duties and powers of the Director of Audit, for the submission of annual statements by the Director of Accounting Services, and for the submission of the report to the President of the Legislative Council.
- B50. The Director of Audit submits three reports each year to the President of the Legislative Council:
- The Accounts of the Government of Hong Kong Special Administrative Region under section 12 of the Audit Ordinance in October; and the results of value for money audits in April
 - The results of the Value for money audit in October.

148 Namely Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund, Lotteries Fund and Bond Fund

149 As defined in the stewardship statement as at 31 March 2017 issued as part of the Accounts of the Hong Kong Special Administrative Region Government published in the Gazette

150 [The Audit Ordinance in Hong Kong](#)

151 Under the Audit Ordinance (Cap. 122)¹⁵¹, the Director of Audit;

- is the external auditor of the accounts of the Government of Hong Kong Special Administrative Region;
- has wide powers of access to the records of departments;
- can require any public officer to give an explanation and to furnish such information as he thinks fit to enable him to discharge his duties; and
- is not subject to the direction or control of any other person or authority in performing his duties and when exercising his powers under the Ordinance.

B51. The Director's reports are considered by the Public Accounts Committee of the Legislative Council in accordance with the provisions of section 12 of the Audit Ordinance and Rule 72 of the Rules of Procedure of the Legislative Council.

Singapore

B52. In Singapore, the Accounting Standards Act 2007¹⁵² ("Act") appointed the Accountant-General as the legal authority to prescribe accounting standards for Statutory Boards.

B53. As per part IV – section 11(1) of the Act, the Accountant General may establish one or more accounting standards about the following;

- the statements of standard accounting practice applicable to statutory boards; and
- the content of financial statements and annual reports required to be prepared by statutory boards.

B54. Every Statutory Board as defined in the Act (as defined below) and specified in the Schedule of the Act prepares their financial statements in compliance with the accounting standards established by the Accountant-General.

B55. As per the first schedule of the Accounting Standard Act, a "statutory body" means a body;

- established or constituted by or under a public Act;
- that has a public function; and
- whose annual report and audited financial statements are required by written law to be presented to Parliament.

B56. As per part IV – section 11(1) of the Act, the Accountant-General establishes one or more accounting standards about the following:

- the statements of statutory accounting practice applicable to statutory bodies
- the content of financial statements and annual reports required to be prepared by statutory bodies

B57. The Statutory Board Financial Reporting Standards (SB-FRS)¹⁵³ stipulate the key guiding framework for accounting standards for Statutory Bodies in Singapore which are issued by the Accountant-General and are based on IFRSs.

B58. The Whole of Government financial statements are prepared by the Minister of Finance in accordance with Article 147 (5) of the constitution of the Republic of Singapore, section 18 of the Financial Procedures Act and SB FRS.

B59. Departments and Statutory boards controlled by whole of Government must prepare individual financial statements in accordance with SB-FRS.

152 See sso.agc.gov.sg for the Accounting Standards Act 2007

153 [The Accounting Standards for Statutory Boards \(ASSB\) issues the Statutory Board Financial Reporting Standards \(SB-FRS\) are issued by the Accountant-General for Statutory Boards via their website.](#)

B60. There is no local government in Singapore.

B61. The Auditor-General's (AGO) authority to audit and report is provided for f the republic of Singapore (1999 revised edition) and the Audit Act (Cap 17, 1999 revised edition). The AGO audits the accounts of all Government departments and offices. The AGO also audits public authorities and bodies administrating public funds as prescribed by law, upon request and with the approval of Minister of Finance. In General the AGO carries out two types of audit, financial Statement audits and selective audits

South Africa

B62. In South Africa, public sector entities can generally be categorised as follows:

- Central Government
- Public corporations
- Local government

B63. The Accounting Standards Board (ASB)¹⁵⁴ is the national public entity charged with the responsibility of developing and maintaining financial reporting standards that lead to proficient performance in the public sector and is critical to good corporate governance in national, provincial and local government.

B64. The Conceptual Framework for General Purpose Financial Reporting (the Conceptual Framework) establishes the concepts that are to be applied in developing Standards of Generally Recognised Accounting Practice (GRAP) applicable to the preparation and presentation of general purpose financial statements (GPFSS) of public sector entities.

B65. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows. GPFRs provide information to users for accountability and decision-making purposes. Therefore, users of the GPFRs of public sector entities need information to support assessments of such matters as:

- whether the entity provided its services to constituents in an efficient and effective manner;
- the resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
- to what extent the burden on future-year taxpayers of paying for current services has changed; and
- whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

154 [The Accounting Standards Board sets Standards of Generally Recognised Accounting Practice \(GRAP\) and provide guidance for financial and other performance information reported by the public sector in South Africa.](#)

B66. The Board serves the public interest by setting Standards of Generally Recognised Accounting Practice (GRAP) and providing guidance for financial and other performance information reported by the public sector which is based on the International Public Sector Accounting Standards Board (IPSASB).

Whole of government

B67. Section 8(1) (a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), requires that the National Treasury (NT) prepares and tables the Consolidated Financial Statements (CFS) of the national government in accordance with Generally recognised accounting practice (GRAP) for:

- National departments
- Public entities under the ownership control of the national executive
- Constitutional institutions
- The South African Reserve Bank
- The Auditor-General
- Parliament.

B68. As defined in section 1 of the PFMA Act, “Generally Recognised Accounting Practice (GRAP)” means an accounting practice complying in material respects with standards issued by the Accounting Standards Board (ASB). As per GRAP 1, The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999 (PFMA), to determine generally recognised accounting practice referred to as GRAP.

B69. The ASB must determine GRAP for:

- departments (national and provincial)
- public entities
- constitutional institutions
- municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality (Local Governments)
- Parliament and the provincial legislatures.

B70. However, the Minister of Finance has authority to grant exemption in terms of Section 92¹⁵⁵ of the PFMA to the National Treasury from the provisions of section 8, 19 and 40 of the PFMA.

Provincial government

B71. As per section 19(a) of the PFMA Act, a provincial treasury must prepare consolidated financial statements, in accordance with GRAP, for each financial year in respect of;

155

The Minister, by notice in the national Government Gazette, may exempt any institution to which this Act applies, or any category of those institutions, from any specific provisions of this Act for a period determined in the notice. [General Note: Exemption of public entities has been published under General Notices No. 502 and No. 503 in Government Gazette 22337 of 8 June, 2001. Exemption of an institution has been published under Government Notice No. 1097 in Government Gazette 22801 of 9 November, 2001 and Government Notice No. 886 in Government Gazette 26602 of 30 July, 2004

- provincial departments in the province
- public entities under the ownership control of the provincial executive of the province
- the provincial legislature in the province

Departments and constitutional institutions under National and provincial government

- B72. As per section 40(1)(b) of the PFMA Act, the accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice and must submit those financial statements within two months after the end of the financial year to
- the Auditor-General for auditing
 - the relevant treasury to enable that treasury to prepare consolidated financial statements in terms of section 8 and 19
- B73. However, the Minister of Finance has authority to grant exemption in terms of Section 92 of the PFMA to the National Treasury from the provisions of section 8, 19 and 40 of the PFMA

Local government and municipalities

- B74. As per section 121 of the Municipal Financial Management Act No 56 of 2003, every municipality and every municipality entity must for each financial year prepares annual financial statements and every municipality must prepare consolidated financial statements.
- B75. As per section 122 of the Municipal Financial Management Act No 56 of 2003, both annual and consolidated financial statements must be prepared in accordance with GRAP prescribed in terms of the PFMA.

Auditing requirements

- B76. The Independent Regulator Board for Auditors provides guidance that will assist Registered Auditors in understanding the public sector environment within which public sector audits are conducted and includes information that will assist Registered Auditors in performing regulatory audit engagements, including the audit of financial statements, predetermined objectives and compliance with laws and regulations of public entities. The Independent Regulator Board for Auditors (IRBA)¹⁵⁶ and the Auditor-General South Africa (the AGSA¹⁵⁷) have issued joint guidance for auditors in the public sector, in order to enhance the quality of public sector auditing in South Africa. The AGSA issues a Directive annually to clarify:
- the nature of the audit functions performed in the public sector;
 - the standards, criteria and processes for performing audits in the public sector; and
 - the responsibilities of private practitioners and the manner in which such private practitioners are required to perform audits in the public sector.

156 [The Independent Regulatory Board for Auditors \(IRBA\) is the statutory body controlling that part of the accountancy profession involved with public accountancy in South Africa.](#)

157 [The South African Auditor-General produces audit reports on all government departments, public entities, municipalities and public institutions.](#)

- B77. As per section 8(2) of the PFM Act, the Auditor-General must audit the consolidated financial statements and submit an audit report on the statements to the National Treasury within three months of receipt of the statements. The Minister must submit the consolidated financial statements and the audit report on those statements within one month of receiving the report from the Auditor-General, to Parliament for tabling in both Houses.
- B78. As per section 19(2) of the PFM Act, the Auditor-General must audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of the statements. The Member of an Executive Council (MEC)¹⁵⁸ for finance in a province must submit the consolidated financial statements and the audit report, within one month of receiving the report from the Auditor-General, to the provincial legislature for tabling in the legislature.
- B79. As per section 40(2) of PFM Act, the Auditor-General must audit the financial statements referred to in subsection 40(1)(b) (i.e. Departments and constitutional institutions under National and provincial government) and submit an audit report on those statements to the head of department, known as the accounting officer within two months of receipt of the statements
- B80. As per section 126 of Municipal Financial Management Act No 56 of 2003, the auditor general must audit the financial statements referred to in section 121 and 122 prepared by the accounting officer within three months of the receipt of the statements.

Canada

- B81. In Canada, the CPA Canada Public Sector Accounting Board (PSAB)¹⁵⁹ develops accounting standards that apply to all public sector entities (governments, government components, government organizations and certain government partnerships).
- B82. The Public Sector Accounting Standards (PSA) Handbook issued by PSAB is based on IFRS and defines the public sector as the federal, provincial, territorial and local governments and government organizations.
- B83. As further defined in the Introduction to PSA handbook, public sector entities may be classified as:
- Governments and government components
 - Government organisations
 - Government partnerships
- B84. As per Treasury Board Accounting Standards¹⁶⁰, the Chief Financial Officer of each public sector entity is responsible for preparing the financial statements in accordance with the requirements outlined in the PSA handbook¹⁶¹.

158 means the member of an Executive Council of a province responsible for finance in the province

159 [The Canada's financial reporting and assurance standards board and oversight councils](#)

160 [The Treasury Board of Canada Secretariat provides advice and makes recommendations to the Treasury Board committee of ministers on how the government spends money on programs and services, how it regulates and how it is managed.](#)

161 As per section 4 to the Treasury Board Accounting Standards chief financial officer is responsible for Ensuring that departmental accounting policies are in accordance with the following:

- Public Sector Accounting Standards and Public Sector Guidelines (PSAS) (together known as PSA handbook) issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada; and
- The Government of Canada Accounting Handbook (GCAH), which is referred to for supplementary information on:
 - a. the government's accounting choices, where options exist, under PSAS;
 - b. the government's accounting policies in the absence of specific PSAS; and

B85. The financial statements must be prepared by public sector entities in accordance with generally accepted accounting principles for local government. These principles are established by the Public Sector Accounting Board (PSAB), and are the same for all levels of government everywhere in Canada.

Whole of government

B86. Treasury Board Accounting Standards (also known as Government of Canada Accounting Handbook – GCAH) outlines the accounting; reporting and recording framework for the Government’s consolidated financial statements (i.e. WoG financial statements), departmental financial statements, and departmental quarterly financial reports.

B87. In respect of departmental financial statements, the Treasury Board Accounting Standards directive applies to the organizations listed in section 6 of the Policy on Financial Management.

B88. As per section 6.1 of the Policy on Financial Management, it applies to departments as defined in section 2 (Schedule I) of the Financial Administration Act, unless otherwise excluded by other acts, regulations or orders in council, as:

- Department of Agriculture and Agri-Food
- Department of Citizenship and Immigration
- Department of Canadian Heritage
- Department of Employment and Social
- Department of Finance
- Department of Justice
- Department of Indian Affairs and Northern Development
- Department of Foreign Affairs, Trade and Development
- Department of Natural Resources
- Department of Public Works and Government Services
- Department of Transport
- Department of Fisheries and Oceans
- Department of Health
- Department of Industry
- Department of National Defence
- Department of Public Safety and Emergency Preparedness
- Department of the Environment
- Treasury Board
- Department of Western Economic Diversification

B89. Section 6.2 of the Policy on Financial Management Departments, agencies and organizations in the Government of Canada encourages the adoption of this policy and its supporting instruments to the extent possible. In other words, only the departments (as shown above) responsible for the portfolio of the ministry are required to prepare financial statements as per Treasury Board Accounting standards. The other departments, agencies and organization are not required comply with the requirements of Treasury Board Accounting standards.

B90. As an example the Portfolio – Health body is as follows:

c. specific policies relevant to departmental financial statements or quarterly financial reports.

Entities required to comply with the Treasury Board Accounting Standards	Entities not required to comply with the Treasury Board Accounting Standards
Department of Health	Canadian Food Inspection Agency
	Canadian Institutes of Health Research
	Patented Medicine Prices Review Board
	Public Health Agency of Canada

State / provincial government

- B91. In Canada, as in Australia, state government has a key representational and regulatory role. State government in Canada also provides a range of property services including transport and communications, planning and development and recreational and cultural services. The financial reporting framework for each state and local government in each state is defined by respective state regulation. However, all the state regulations are based on the PSA handbook with minimal additional reporting requirements. There are 10 provinces/states in Canada, and this report researched one state that of. British Columbia, to provide an explanation as in the paragraphs below.
- B92. In British Columbia, the province consolidates its financial statement in accordance with the Budget Transparency and Accountability Act which requires Generally Accepted Accounting Principles (Public Sector Accounting Standards and Public Sector Guidelines - together known as PSA handbook).

Local government

- B93. In British Columbia, the Local Government Act (section 814(3)) and the Community Charter (Part 6) require that every local government department and councils prepare consolidated financial statements each fiscal year. Thus entities below local government, such as libraries, are not required to prepare individual financial statements.
- B94. For example, segment information is presented in the in the annual report of the City of Abbotsford where the functions of the local government are segmented into:
- Water
 - Capital
 - Sewer
 - Airport
 - Reserve Funds (includes investment income)
 - Operating – further categorized as general government services (Municipal taxation and fees), planning and development services, policy services, fire rescue services, other protective services, parks recreation & culture services, library services and solid waste services
- B95. However, the Cemetery Care Trust Fund which is also a part of the services provided by the Abbotsford city council are excluded from the Consolidated Financial Statements and report very limited information and are audited separately.

B96. The consolidated financial statements prepared by a local government's financial officer are in accordance with generally accepted accounting principles for local government. These principles are established by the Public Sector Accounting Board (PSAB).

Auditing requirements

B97. The Auditing and Assurance Standards Board (AASB)¹⁶² of Canada establishes standards for assurance and related services engagements in both for-profit sector and public sector.

B98. The consolidated financial statements of the Government of Canada and departmental financial statements must be audited by the Auditor General of Canada as per section 6 of the Auditor General Act.

B99. The statements of local government must be audited by a qualified auditor – an independent accountant authorized to be an auditor under section 205 of the Business Corporations Act. The audited statements must be presented to council and be available for public viewing.

United States of America

B100. The structure of public sector entities in the USA can be categorized as follows:

- Federal Government
- State Government
- Local Government

B101. The Federal Accounting Standards Advisory Board (FASAB)¹⁶³ issues federal financial accounting standards and provides guidance considering the needs of external and internal users of federal financial information. FASAB¹⁶⁴ sets U.S. generally accepted accounting principles (GAAP) for the United States Government and its component entities, referred to as federal financial reporting entities.

Whole of Government

B102. The Chief Financial Officers Act of 1990 requires annual, audited financial statements for the United States Government (i.e. WoG financial statements) and its federal reporting entities. In order to apply the statutes of the CFO Act of 1990, the Secretary of the Treasury¹⁶⁵, the Director of the Office of Management and Budget (OMB), and the Comptroller General¹⁶⁶ established the FASAB to develop "applicable accounting principles". FASAB issues the Statement of Federal Financial Accounting Standards (SFFAS), Interpretations, Technical Bulletins, Technical Releases, and Staff Implementation Guidance which are included in the FASAB Handbook.

B103. As per FASAB Handbook, the four objectives of Federal Financial Reporting are:

162 The AASB contributes to the development of International Standards on Auditing (ISAs), which it adopts as Canadian Auditing Standards (CASs), by participating in consultations and activities of the International Auditing and Assurance Standards Board (IAASB) to ensure Canadian entities' auditing needs are considered.

163 [The Federal Accounting Standards Advisory Board \(FASAB\) issues financial accounting standards and provides guidance for federal government.](#)

164 The American Institute of Certified Public Accountants (AICPA) Council designated FASAB as the body that establishes GAAP for federal entities in 1999

165 is the head of the U.S. Department of the Treasury[4] which is concerned with financial and monetary matters, and, until 2003, also included several federal law enforcement agencies

166 Is the director of the Government Accountability Office (GAO, formerly known as the General Accounting Office), a legislative branch agency established by Congress in 1921 to ensure the fiscal and managerial accountability of the federal government

- Budgetary Integrity
- Operating Performance
- Stewardship
- Systems and Control

B104. As per section 29 to the FASAB Handbook, for an entity to be a reporting entity, as defined in Statement of Federal Financial Accounting Concepts, it needs to meet all of the following criteria:

- There is management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion of the budget (assuming that the entity is included in the budget), and is accountable for the entity's performance.
- The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
- There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.

B105. With regard to financial reporting by Departments under WoG level, as per Section 303, financial management of Agencies, each consolidated financial statement of an executive agency includes:

- the overall financial position of the trust funds, offices, bureaus, and activities covered by the statement, including assets and liabilities;
- results of operations of those revolving funds, trust funds, offices, bureaus, and activities;
- cash flows or changes in financial position of those revolving funds, trust funds, offices, bureaus, and activities; and
- a reconciliation to the budget reports of the executive agency for those revolving funds, trust funds, offices, bureaus, and activities.

B106. As per section 901, Agencies that are referred to in section 303 include only the following department and agencies:

- The Department of Agriculture
- The Department of Defence
- The Department of Energy
- The Department of Housing and Urban Development
- The Department of Justice
- The Department of State
- The Department of the Treasury
- The Environmental Protection Agency
- The Agency for International Development
- The General Services Administration
- The Department of Commerce
- The Department of Education
- The Department of Health and Human Services
- The Department of the Interior

- The Department of Labour
- The Department of Transportation
- The Small Business Administration
- The Nuclear Regulatory Commission
- The Department of Veterans Affairs
- The National Aeronautics and Space Administration
- The Federal Emergency Management Agency
- The National Science Foundation
- The Office of Personnel Management

State and local government

- B107. The Governmental Accounting Standards Board (GASB)¹⁶⁷ establishes accounting and financial reporting standards for US state and local governments that follow Generally Accepted Accounting Principles. All 52 states are required to follow the GASB Standards as stipulated by state government regulations. However, for the purpose of this research only the Comprehensive Annual Financial Report of the state of Texas has been analysed.
- B108. With regard to financial reporting by state governments, a State's Comprehensive Annual Financial Report (CAFR) is its set of financial statements covering the state, municipality or other local governmental entity that complies with the accounting requirements of GASB.
- B109. The CAFR consists of three sections:
- Introductory — orients and guides the reader through the report;
 - Financial — presents the entity's financial statements as well as notes to the statements and the independent auditors' report;
 - Statistical — provides additional financial and statistical data, including data about financial trends that may better inform the reader about the government's activities
- B110. For financial reporting purposes, the state includes all agencies, boards, commissions, authorities, institutions of higher education and other organizations that compose its legal entity. The reporting entity for the state is in accordance with the criteria established by GASB.
- B111. Due to the state-wide requirements embedded in *Governmental Accounting Standards Board Statement No 34. Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report of agencies and departments in State Government and local government entities to comply with all the requirements of GASB. In summary the government agencies and departments below the state government level and local government entities prepare financial statement for the public with a reduced level of financial reporting requirements.

167 [The Governmental Accounting Standards Board \(GASB\) is the independent private-sector organisation based in Norwalk, Connecticut, that establishes accounting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles.](#)

B112. GASB 34 states that special-purpose government entities that are engaged in only governmental activities (such as some library districts) or that are engaged in both governmental and business-type activities (such as some school districts) generally should be reported in the same manner as general purpose governments. Special-purpose government entities engaged only in business-type activities (such as utilities) should present their financial statements as required for enterprise funds, including MD&A and other Required supplementary information (RSI) such as Statement requires budgetary comparison schedules.

Auditing requirements

- B113. Government Auditing Standards (“GAS”), promulgated by the Government Accountability Office (“GAO”), are used in the audits of governmental entities in addition to other auditing standards applicable to the engagement.
- B114. The financial statements prepared under Chief Financial Officers Act of 1990 should be audited by an Inspector general in the case of an entity having an Inspector General appointed under the Inspector General Act of 1978 (5 U.S.C. App.), or by an independent external auditor, as determined by the Inspector General of the entity or in any other case, by an independent external auditor, as determined by the head of the agency¹⁶⁸.
- B115. An audit report on the financial statements prepared under section 304 is prepared in accordance with generally accepted government auditing standards issued by GAO. The Comptroller General of the United States¹⁶⁹ may review any audit of a financial statement by an Inspector General or an external auditor.
- B116. The Comprehensive Annual Financial Reports prepared by each state must be audited by an independent state auditor using generally accepted government auditing standards. The financial reports of agencies, departments with the state government and local government entities are considered for audit by the State Auditor as part of the audit of the State’s Comprehensive Annual Financial Report; therefore, an opinion is not given on the financial statements of local governments and related information contained in this their reports.

¹⁶⁸ As stated in section 304. Financial audits of Chief Financial Officers Act of 1990

¹⁶⁹ Is the director of the Government Accountability Office (GAO, formerly known as the General Accounting Office), a legislative branch agency established by Congress in 1921 to ensure the fiscal and managerial accountability of the federal government