



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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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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Executive Summary

What is the issue with public sector financial reporting and assurance and why is it important?

Accountability for the assets these public sector entities control and the services they perform is clearly important. In 2015-16 the total Public Sector contributed \$639,440 million in revenue and had net assets of \$775,314 million¹. The public sector comprises three levels of government, being the Commonwealth, the states and local government. Each level of government has a range of departments, agencies, and government business enterprises (GBEs) that they control. Representing 46.72% of Australia's total Gross Domestic Product, public sector entities provide essential social, cultural, community, education, health, defence, transport and other social services, as well as employing 1956.8 million².

The efficient functioning of the sector matters: any unnecessary financial reporting red-tape diverts funds from those services.

The financial reporting framework governing public sector entities has not been reviewed for many years. Public sector entities complain of financial reporting complexity, inconsistent requirements and financial reports that are not focused on the needs of their stakeholders. The associated cost in the preparation (including valuation of non-financial assets) and auditing these financial statements, based on very rough estimates, is costing more than \$1 billion annually.

To understand more about the basis for these criticisms, the Australian Accounting Standards Board (AASB) has documented in this Report financial reporting requirements applicable to public sector entities in Australia. The Report also documents the requirements in some international jurisdictions. That information can be used as a benchmark and as input for future discussions about options for overcoming the criticisms.

This Report is part of a larger project by the AASB and the Auditing and Assurance Standards Board (AUASB) to assist in reviewing 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 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.

1 Based on the 2015-16 GFS data published by the Australian Bureau of Statistics,

2 Based on the Employment and Earnings, Public Sector, Australia, 2016-17 published by the Australian Bureau of Statistics

What did we find?

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

Significant costs of having every entity in the public sector prepare General Purpose Financial Statements (GPFS) when uncertain there are users

General Purpose Financial Statements (GPFS) are being prepared at a whole of government (WoG) level, the General Government Sector (GGS) and generally for every department, agency and general business entity (GBE) controlled by that government, with each entity often being reported at many levels. Such entities range from very small (eg the Biodiversity Conservation Trust of NSW - \$0 revenue) to very large entities (eg the NSW Department of Education - \$13,127 million revenue).

Australia has two tiers of GPFS – Tier 1 complying with all recognition, measurement and disclosure requirements of accounting standards and Tier 2 complying with all recognition and measurement but reduced disclosures. Despite Australian Accounting Standards requiring only the WoG financial statements and GGS financial statements to use Tier 1 GPFS³, the majority of public sector entities are required by legislation or Treasurer Instructions to use Tier 1. Only South Australia, Queensland and the Commonwealth allow the use of Tier 2 for entities below WoG level.⁴

There is currently a lack of academic research to show whether there are external users for public sector entities below the WoG level and what their needs are.

The Australian Accounting Standards, including SAC 1⁵, compound the problem by stating that most if not all, departments are reporting entities and implying that all agencies and GBEs are reporting entities. The International Public Sector Accounting Standards Board (IPSASB) issued its Conceptual Framework in 2014 and makes clear that departments and agencies should not automatically be considered reporting entities.

From the six international jurisdictions reviewed, Canada, Hong Kong, New Zealand, South Africa and the United States provide varying forms of relief that would result in less public sector entity reporting than in Australia. The UK and Singapore have similar reporting levels to Australia and requires GPFS for the majority of their public sector entities. Hong Kong stands out for not requiring departments or agencies to prepare separate financial statements. In Canada, New Zealand, South Africa and the United States, only certain departments and agencies below national and provincial government level must prepare GPFS equivalent to Tier 1⁶. In Canada, South Africa and the United States not all departments need prepare financial reports.

In Canada, those not preparing Tier 1 equivalents prepare an Annual Service Plan Report⁷ which includes a service performance report and budget versus actual analysis. New Zealand has four tiers of reporting available to public sector entities, ranging from cash accounting to a Tier 1 equivalent. Local governments do not need to use a Tier 1 equivalent.

³ As per paragraph 11(b) of the AASB 1053 *Application of Tiers of Australian Accounting Standards*, Tier 1 reporting requirements apply to the GPFS of the Australian Government, States/Territories and local governments. Paragraph 12 of AASB 1053 also states that subject to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, GGSs of the Australian Government, and State and Territory governments apply Tier 1 reporting requirements.

⁴ See paragraphs A50 - A51, A114 and A35

⁵ Statement of Accounting Concept (SAC) 1 *Definition of the Reporting Entity* under the Public Finance Administration Act

⁷ Annual Service Plans is not a full GPFS, but consist of a service performance reporting and budget vs actual expense and income information. Refer to paragraph B156 for more information.

The United Kingdom stands out as having local government entities consolidated in the national WoG financial statements.

Consequently, the key question for Australia is:

- whether the extent of the Australian public sector financial reporting requirements at a cost of more than \$1 billion justifies the level of reporting, and
- whether the current level of reporting is necessary to adequately hold the public sector accountable for the use of taxpayers' monies.

Inconsistency in reporting and assurance requirements

As noted above, only some states and the Commonwealth currently allow Tier 2 reporting requirements to be applied by certain entities.

Some states and territories have Treasurer Instructions that modify the accounting standards and in some cases⁸.

In addition, some state/territories permit use of the consolidation exemption in AASB 10 *Consolidated Financial Statements* and some do not. Some do not require the WoG or departments' financial statements to consolidate all entities controlled by the government in accordance with AASB 10.

One state, South Australia is not required to have its WoG financial report audited and Northern Territory statutory bodies are not required to be audited unless directed by the Treasurer.

Complex and technical requirements

Australian public sector standards are based on International Financial Reporting Standards (IFRS). Of the six international jurisdictions, Canada, Hong Kong, Singapore and UK are also based on IFRS. New Zealand and South Africa are based on International Public Sector Accounting Board (IPSASB) Standards and the US is based on its own unique set of accounting standards.

Australia has some unique accounting standards as follows:

Government Financial Statistics (GFS)

Government Financial Statistics (GFS) reporting is a measurement of the financial activities of governments and reflects the impact of those activities on other sectors of the economy (a macro-economic assessment) with requirements specified by the Australian Bureau of Statistics. There are similarities between GFS and Australian Accounting Standards. Australia is the only country of the countries reviewed that requires GFS data to be present within the WoG financial statements and requires a reconciliation of GFS data and accounting based information⁹. Australia is also the only country to mandate that where an accounting standard has options, the option most consistent with GFS must be used. The other six jurisdictions present GFS information on the respective government official websites. Further the other countries do not require preparation of general government sector financial statements.

⁸ Refer to paragraph A39 – the Charter of Budget Honesty Act 1998 refers to the definition of external reporting standard to mean the concepts and classification set out in GFS Australia; and the public sector accounting standards developed by the Public Sector Accounting Standards Board which is no longer in existence.

⁹ Paragraph 41(a)(b) of AASB 1049 requires disclosures shall be made for the WoG and the GGS, a reconciliation of two measures of key fiscal aggregates and an explanation of the difference.

Administered versus controlled

The requirement to distinguish administered (ie transactions managed on behalf of another entity of government, such as the ATO collecting tax on behalf of Treasury) versus controlled transaction items for departments is also a unique financial reporting disclosure to Australia. Furthermore, there are no International Financial Reporting Standards or IPSASB standards dealing specifically with administered items. There is also no academic research indicating users, if any, of government department financial reporting require such a distinction. Nor is it consistent with branch accounting when prepared in the private sector.

Fair value

Australian Accounting Standards requires WOG, GGS and entities with the GGS to annually fair value their non-financial assets as a result of the requirement to choose the accounting treatment most consistent with GFS.

Commented [KP1]: need to check exactly what is required by other countries

Linkage of financial reports with performance reports, budget accountability reporting, fiscal sustainability reporting

All Australian public sector entities prepare annual reports which consist of the audited financial statements as well as performance reports. However as there are no accounting standards for service performance reporting, differing requirements in each state, and no consistency in how financial information is linked to the service performance outcomes.

In Australia budget statements are required by all public sector entities and generally forecast up to three years. The Commonwealth and state and territory WoG, GGS and entities within the GGS are required to prepare or restate budgets in accordance with accounting standards. Local governments are not required to prepare Budget Statements in accordance with accounting standards. Other countries reviewed are required to prepare budget versus actual information but not necessarily in the financial statements.

Commented [KP2]: need to check further where its done

In Australia, only the Commonwealth, NSW and TAS are required to prepare an intergenerational report that assesses the growth of the population and how this impacts economic sustainability. However current accounting standards do not require recognition of the full social benefits obligations undertaken by the public sector. Fiscal sustainability reports provide some information regarding the extent of the public sector's obligations and resources available to meet such obligations.

All local governments are required to report on long term sustainability. QLD, NSW, TAS, SA, WA prepare a long term financial plan and asset management plans for a minimum of 10 years. VIC and NT only prepare a long term financial plan for a minimum 4 years.

These reports are being prepared however it is not clear what the linkage is, if any, to published financial reports.

Inconsistent auditor requirements

Almost all financial statements of public sector entities are required to be audited by the Auditor-General. Statutory authorities in the NT are not required to submit financial statements to the Auditor-General for auditing unless requested by the Treasurer. QLD, WA, NT and SA 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.

What happens next?

This research is the beginning of a process through which the AASB will work with the public sector, to reach a clear, effective and broadly accepted framework for financial reporting in the public sector. For us to achieve that aim, we need your input.

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 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, 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.
Number of departments¹⁰	19	7	8	38	21	Information not available	12	12	29
Number of agencies/statutory bodies <small>Error! Bookmark not defined.</small>	146 (and 17 Commonwealth Companies)	1805 (made up of employer bodies, other small advisory/management entities without employees, most a statutory bodies)	248	105 (and 3 other entities)	135 statutory bodies and 150 Other entities (Government Owned Corporations (GOCs) and controlled entities of GOCs, Statutory Bodies and Departments	Information not available	11 (and 17 PFC and PNFC entities)	14 (and 8 other entities)	10 (and 4 state owned corporations)

Commented [KP3]: where information is not available, still seeking input from the states

	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
Average cost of preparing financial statements ^{Error!} <small>bookmark not defined.</small>	Information not available	Information not available	Information not available	Information not available	Information not available	Information not available	On average \$450,000 which includes audit fees and valuation cost	Information not available	Information not available
Cost of auditing financial statements ¹¹	Total cost – \$74.7M Range - \$27k - \$4.7M	Total cost – \$18.7m ¹² Range - \$9k - \$4.756M	Total cost \$27M Range - \$9k – \$4.559M	Total cost – \$14.7M Range - \$15k - \$2.781M	Total cost – \$20M Range - \$118k - \$1.588M	Total cost – \$16.9M ¹³ Range - \$8k - \$488k	Total cost – \$1.7M ¹⁴ Range - \$11k - \$330K	Total cost – \$3.5M Range - \$8k - \$1.892M	Total cost – \$4.8M Range - \$16K - \$850k
Average Valuation Cost ^{Error!} <small>bookmark not defined.</small>	Information not available	Information not available	Information not available	Information not available	Information not available	Information not available	On average 15,000 depending on the number of assets revalued	Information not available	Information not available
Number of local governments (30 June 2017)	N/A	79 councils, 10 regional library corporations and 16 associated entities	152 councils	68 councils	77 councils	140 councils	29 Councils	The local government responsibilities are divided into the Directorates	17 councils
Average cost of auditing financial statements of local governments ¹⁵	Information not available	Range - \$29k - \$255k	Range - \$20k - \$198k	Range - \$15k - \$170k	Range \$44k - \$578K	Range \$17k - \$47K	Range \$29k - \$138K	N/A	Range \$30k - \$64K
What needs to be reported									

11 This information is derived from a questionnaire and data request template completed by HoTARAC representatives of Commonwealth and State Governments. x, x, x and x provided directly the cost of audit of financial statements. While for the Commonwealth, WA and Tasmania, a cost of audit for the whole of state was sourced from published documents; ie audit cost of Tasmania was sourced from the Tasmanian Audit Office annual report 2016-17 of the revenue from performance audits and reports. The range of the cost of audit was sourced from the sample of published audited financial statements of departments and statutory bodies to derive the lowest and highest audit cost.

12 The cost is representative of the audit fees captured by the consolidated group system (SRIM) in Victoria. Consolidated group audit fees are not reported, as such the data is not used or review.

13 Audit cost of WA was sourced from the WA Audit Office annual report 2016/17 note 9 of user charges and fees disclosed as audit fees of \$16,945,000.

14 Audit cost of Tasmania was sourced from the Tasmanian Audit Office annual report 2016-17 of the revenue from performance audits and reports.

15 Audit costs of council's financial statements are sourced from a sample of published audited financial report. Sample selection was based on the highest total assets or revenue compare to smallest assets and revenue for Victoria. For NSW and QLD, selection was based on highest and lowest revenue sourced from the financial information compiled by the relevant State Department responsible for local governments. For WA selection is based on highest and lowest population in regional and metropolitan areas and the remainder states/territory is based on a random selection of councils.



	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
Definition of reporting entity	Australian Accounting Standards AASB 101 <i>Presentation of Financial Statements</i> 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.								
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 55% of 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 operated by councils	Tier 1	Tier 1	Tier 1	Tier 1	N/A - reported within the Department's financial statements	Tier 1
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 1/2	Tier 1
Any modifications to AASB Standards by Treasurer	No	No	No	No	No	Yes - modifies the definition of 'subsidiary' to apply to 'subsidiary bodies', regardless of the AASB 10 Consolidated Financial Statements test of control to ensure inclusion within the consolidated financial statements	Yes - directed compliance with specific accounting standards and exemptions of entities from the definitions of certain accounting standards	No	No

	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
Other reporting requirements included in the Annual Report									
Service Performance Reporting	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Long term fiscal Sustainability Reporting	<ul style="list-style-type: none"> Intergenerational report at national level – over 40 years Budget statements – 3 years Corporate plan – 4 years 	<ul style="list-style-type: none"> State: Budget statements – 4 years Local government: Performance measures and corresponding results – 4 years, Strategic Resources Plan 4 years 	<ul style="list-style-type: none"> State – Intergenerational report – over 40 years Budget statements – 3 years Local government community strategic plan 10 years- 	<ul style="list-style-type: none"> State: Budget statement – 3 years Local government: long term financial plan 10 years, asset management plan 10 years 	<ul style="list-style-type: none"> State: Budget statements – 3 years Local government: long-term financial forecast 10 years, long-term asset management 10 years 	<ul style="list-style-type: none"> State: Budget statements – 3 years Local government: long term financial plan 10 years, asset management plan 20 years 	<ul style="list-style-type: none"> States: Intergenerational report – over 15 years Budget statements – 3 years Local government: long term financial plan 10 years,, asset management plan 10 years 	<ul style="list-style-type: none"> State: Fiscal projections published in report up to 2036 Budget statements – 3 years 	<ul style="list-style-type: none"> State: Budget statements – 3 years Local government: Long-term financial plan 3 years
Budget vs Actual Analysis	Yes – based on concepts of GFS and accounting standards	States – based on AASB 1055 Local – based on best practice guidance	State – based on Accounting standards Local - no reference to accounting standards	State – Accounting standards Local – no reference to accounting standards but budgeted financial statements must align with actual financial statements	Yes – based on ASAB 1055 Local government – on an accrual basis but does not reference AASB 1055-	Yes – based on AASB 1055 Local government – on an accrual basis but does not reference AASB 1055	Yes - Uniform Presentation Framework – Australian Accounting Standards Local government – no reference to accounting standards	Yes – Australian accounting standards	Yes- GFS and Australian Accounting standards Local government – no reference to accounting standards.
Disclosure on administered vs controlled items	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
GGS prepared separately?	No, but also prepared within Budget Statement	No, but also prepared within Budget Statement	No, but also prepared within Budget Statement	No, but also prepared within Budget Statement	No, but also prepared within Budget Statement	No, but also prepared within Budget Statement	No, but also prepared within Budget Statement	No, but also prepared within Budget Statement	No, but also prepared within Budget Statement
GFS information included in the	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
financial statements and reconciliation required									
Are all non-financial assets fair valued?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Levels of Consolidation									
Are departments and agencies/statutory bodies consolidated in WoG financial statements?	Yes	Yes	Departments are fully consolidated. Statutory bodies and 84% of other entities are consolidated subject to materiality	Yes	Departments are fully consolidated. Statutory bodies are consolidated subject to thresholds	Information not available	Yes (subject to materiality)	Yes	Yes
Are agencies/Statutory bodies consolidated in Departments' financial statements?	Departments – consolidates controlled agencies and prepares individual statements Agencies – consolidates controlled entities	Statutory bodies are not generally consolidated (except for 7 departments) because they are not controlled by departments.	All controlled entities are consolidated	Yes	No	Information not available	Yes (subject to materiality)	Yes	No
Are Local government entities consolidated in the State or WoG financial statements?	No	No	No	No	No	No	No	Yes – local government functions are included in the state department's financial statements	No
Parent entity exemption allowed in accordance with AASB 10?	No	No	No – with one exception.	No	No	No	No	No	No
Audit requirements									
WoG	Yes – audited by Auditor General	Yes – audited by Auditor	Yes – audited by Auditor	No – no formal independent	Yes – audited by Auditor	Yes – audited by Auditor	Yes – audited by Auditor	Yes – audited by Auditor	Yes – audited by Auditor

	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
		General	General	audit report	General	General	General	General	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 – end of year review and compliance audits
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	No – unless requested by Treasurer to be audited by the Auditor General -end of year review and compliance audits
Local government	N/A	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes- registered company auditor or a firm comprising at least one registered company auditor	Yes- audited by Auditor General unless approved by authorised person	Yes- registered company auditor or an approved person	Yes – audited by Auditor General	Yes – as reported within department's financial statements that are audited by Auditor General	Yes – audited by Auditor General, or registered 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 – audit opinion

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							
Definition of reporting entity	Public sector entities are referred to as "Public sector Public Benefit Entities" which are	Government reporting entities are defined in the acts and legislations relevant for each level of government. (Refer to	Government reporting entities are defined in the acts and legislations relevant for each	Government reporting entities are defined in the acts and legislations relevant for each level of	Government reporting entities are defined in the acts and legislations relevant for each level of	Government reporting entities are defined in the acts and legislations relevant for each level of government. (Refer to Appendix B)	Government reporting entities are defined in the acts and legislations relevant for each level of government.



	New Zealand	United Kingdom	Hong Kong	Singapore	South Africa	Canada	United States of America
	defined in XRB A1 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.	Appendix B)	level of government. (Refer to Appendix B)	government. (Refer to Appendix B)	government. (Refer to Appendix B)		(Refer to Appendix B)
Number of Departments and 'agencies' at national level	37 departments and 79 Statutory bodies	25 ministerial departments, 20 non ministerial departments and 389 agencies and other public bodies	58 departments and agencies	16 ministries and 64 statutory boards	52 Departments	200 departments, agencies, crown corporations and special operating agencies	15 executive departments, 255 offices, agencies and bureaus, 67 independent agencies and 8 executive office of the president
Number of departments at state/provincial level	N/A	N/A	N/A	N/A	Average of 15 departments per province	Average of 18 departments per province	Average 15-20 departments per state
WoG	General purpose financial statements (equivalent to Tier 1 – as per Public Sector Accounting standards developed based on IPSAS with some modifications)	General purpose financial statements (equivalent to Tier 1) as per FReM which is based on IFRS	General purpose financial statements (equivalent to Tier 1) as per HKFRS/HKAS which is equivalent to IFRS	General purpose financial statements (equivalent to Tier 1) as per SB-FRS which is based on IFRS	General purpose financial statements (equivalent to Tier 1) as per Public Sector Accounting standards developed locally based on IPSAS with some modifications	General purpose financial statements (equivalent to Tier 1) as per Public Sector Accounting Standards (PSA) Handbook issued by PSAB based on IFRS	General purpose financial statements (equivalent to Tier 1) as per locally developed US GAAP
State government	N/A	N/A	N/A	N/A	General purpose financial statements (equivalent to Tier 1) as per Public Sector Accounting standards	General purpose financial statements (equivalent to Tier 1) as per Public Sector Accounting Standards (PSA) Handbook issued by PSAB based on IFRS	General purpose financial statements (equivalent to Tier 1) as per locally developed US GAAP



	New Zealand	United Kingdom	Hong Kong	Singapore	South Africa	Canada	United States of America
					developed locally based on IPSAS		
Department and Agencies under WoG and state government	Option to select one of the accounting approaches from Tier 1 -4 based on the stipulated criteria and thresholds (as per Public Sector Accounting standards developed based on IPSAS)	GPFS (equivalent to Tier 1) as per FReM which is based on IFRS	Not required to prepare financial statements as included in consolidated financial statements of WoG.	GPFS (equivalent to Tier 1) as per SB-FRS which is based on IFRS	Departments and agencies at both WoG and State government level must prepare GPFS (equivalent to Tier 1) as per Public Sector Accounting standards developed locally based on IPSAS subject to exemptions granted to certain departments and agencies by section 92 of PFM Act	WoG – Only the departments, corporations and agencies listed in the Financial Administration Act 1985 must prepare GPFS (equivalent to Tier 1) as per Public Sector Accounting Standards (PSA) Handbook issued by PSAB based on IFRS State Government – “Government Reporting Entities” which include health and education sector organisation, corporations and certain other listed entities should prepare GPFS (equivalent to Tier 1) as per Public Sector Accounting Standards (PSA) Handbook issued by PSAB based on IFRS Ministries/departments and other organisation not included in the government reporting entity definition above should only prepare an Annual Service Plan Report (includes service performance and budget vs actual analysis)	WoG - Departments and agencies as listed in the <i>Chief Financial Officer Act</i> and statutory bodies which meet the thresholds set out in US code 3515 must prepare GPFS. State Government – GPFS with reduced level of reporting requirements depending on nature of activities
Local government (councils and subsidiaries)	Option to select one of the accounting approaches from Tier 1 -4 based on the stipulated criteria and thresholds (as per Public Sector Accounting standards developed based on IPSAS)	GPFS prepared as per Code of Practice on Local Authority Accounting in the United Kingdom which is based on IFRS	N/A	N/A	General purpose financial statements (equivalent to Tier 1) as per Public Sector Accounting standards developed locally based on IPSAS	GPFS (equivalent to Tier 1) as per Public Sector Accounting Standards (PSA) Handbook issued by PSAB based on IFRS	General purpose financial statements (equivalent to Tier 1). Other entities below local government level can prepare financial statements with reduced level of reporting requirements depending on nature of activities
Are local government	No	Yes	N/A	N/A	Information not available	No	No



	New Zealand	United Kingdom	Hong Kong	Singapore	South Africa	Canada	United States of America
entities are consolidated in the government financial statements?							
Other reporting requirements							
Service Performance Reporting	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Budget vs Actual reporting	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Long Term Fiscal Sustainability	Yes (40 years)	Yes (50 years)	Yes (30 years)	Information not available	Yes (5 years)	Yes (75 years)	Yes (75 years)
Disclosure on administered vs controlled items	Not required	Not required	Not required	Not required	Not required	Not required	Not required
GFS and GGS information included in the financial statements	No	No	No	No	No	No	No
Is IPSASB practise guide on GGS used?	PBE IPSAS 22 ¹⁶ by XRBNZ provides guidance on including GGS information in the FS (not applied in practise)	No	No	No	No IPSAS 22 is not adopted.	No	No
Are all non-financial assets fair valued?	No	Information not available	Information not available	Information not available	Information not available	Information not available	Information not available
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	No	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General
Local government	Yes – audited or	Yes – audited by	There are no local	There are no local	Yes – audited by	Yes – audited by Auditor	No – audited as part

16 Disclosure of financial information about the General Government Sector



AASB Research Paper:
Financial Reporting Requirements Applicable to Australian Public Sector Entities

	New Zealand	United Kingdom	Hong Kong	Singapore	South Africa	Canada	United States of America
(councils and subsidiaries)	reviewed by Auditor General based on stipulated threshold	Auditor General	governments	governments	Auditor General	General	of the consolidated financial statements of each state

DRAFT

Financial Reporting requirements applicable to public sector entities

Introduction

- 1 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)
- 2 To achieve this objective the AASB is working in conjunction with Australian policymakers and legislators.
- 3 The specific financial reporting requirements of various heads of government and Auditors General (both within Australia and overseas) identified in this Report are provided for comparative and informational purposes only.
- 4 Financial reporting requirements for public sector entities differ across jurisdictions, and indeed, even within Australia. For this reason, the Australian Commonwealth and all states and territories are benchmarked first, followed by international comparisons for the following jurisdictions:
 - (a) Canada;
 - (b) Hong Kong;
 - (c) New Zealand;
 - (d) Singapore;
 - (e) South Africa;
 - (f) the United Kingdom; and
 - (g) the United States of America.
- 5 As part of the research, we also conducted a survey (see Appendix C) with the heads of treasury from the Commonwealth, states and territories to collect information and data on the number of entities in each state/territory. The total number of local councils was derived from a published report QLD *Forecasting long-term sustainability of local government Report 2: 2016-17*.
- 6 The audit cost of preparing financial statements for all entities at the Commonwealth and state and territory level was derived from the published Commonwealth, state and territory Whole of Government (WoG) financial statements. The lowest and highest audit cost was extracted from a selected sample of local councils' financial statements to derive the average cost of audit per local council.

- 7 An assumption was made that the cost of preparing financial statements is three times the audit fees which was used to calculate the total cost of preparing and auditing financial statements quoted in this Research Paper. This estimate excludes any valuation cost associated with preparing financial statements and cost of preparing WoG.
- 8 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.
- 9 However where readily available, the rationale given for the basis for the requirements is provided in the appendices 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 Discussion Paper *Possible Options for Improving the Financial Reporting Framework Applicable to Public sector entities*.
- 10 This Research Report identifies the reporting requirements from a number of international jurisdictions to facilitate a 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.

Why is the public sector important?

- 11 The public sector of Australia is a large and disparate conglomeration of various public sector entities including the Commonwealth, states and territories and local governments, along with statutory bodies, departments, controlled entities (for example, companies) and government-owned enterprises.
- 12 The Public sector is important to the Australian economy. Based on the 2015-16 General Financial Statistics (GFS)¹⁷ data published by the Australian Bureau of Statistics, the total Public Sector¹⁸ contributes \$639,440 million in revenue and \$670,192 million in expenses. The total public sector as at 30 June 2016 reported GFS net worth¹⁹ of \$775,314 million. This represents a significant contribution to the whole of Australia, equating to 46.72%²⁰ of Australia's total Gross Domestic Product.

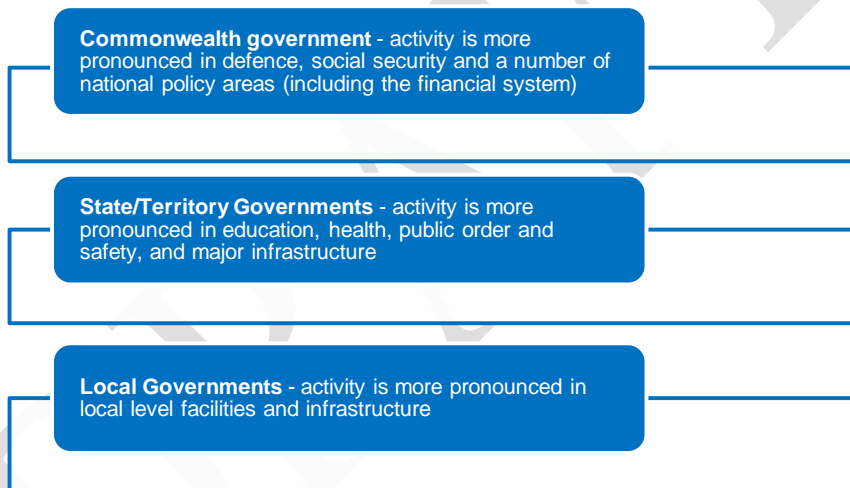
Scope

- 13 This report covers public sector entities in Australia including government owned enterprises; however universities are not within the scope of this Research Paper.
- 14 Universities will be part of the future outreach for the Not-for-profit sector. **Error! Reference source not found.** provides an overview of the findings of this Report, based on the details in Appendices A and B of this Report.

Structure of the public sector

- 17 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. 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.
- 18 The total public sector comprises general government, public non-financial corporations and public financial corporations.
- 19 GFS Net worth is the total stock of assets less liabilities and shares/contributed capital. For the general government sector, net worth is assets less liabilities since shares/contributed capital is zero. This measure reflects the contribution government to the wealth of Australia.
- 20 The total Gross Domestic product as published by the Australian Bureau of Statistics for June 2016 was \$1,659,604 million.

- 15 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.
- 16 The Australian Commonwealth Government is regarded as the first tier or level of government. The Commonwealth constitution and each respective state constitution establish the basis for the exercise of power.
- 17 The second tier of Australian government consists of six states and two territories, namely: Western Australia (WA); South Australia (SA); New South Wales (NSW); Tasmania (TAS); Victoria (VIC); Queensland (QLD); Northern Territory (NT); and the Australian Capital Territory (ACT). The ACT and the NT have been granted limited right of self-government by the federal government.²¹
- 18 Local government, while not part of these constitutional arrangements, forms the 'third tier' of government. The structure of the public sector is explained in more detail in Appendix A of this Report.



What are the current Australian Financial Reporting requirements for the public sector?

- 19 The reporting requirements for the public sector are set by a combination of Legislation, Treasurer Instructions, Australian Accounting Standards, Australian Auditing Standards and Government Financial Statistics (GFS) requirements set out by the Australian Bureau of Statistics (ABS).
- 20 Australian Accounting Standards are based on IFRS, modified as necessary for public sector or not-for-profit specific issues.

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

- 21 GFS 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 GFS framework, designed to support fiscal analysis.
- 22 Each level of government defines the entities it uses to deliver its service and be accountable for 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, 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.
- 23 The Australian States and Territories adopt a similar structure with statutory authorities or administrative units replacing agencies, and directorates replacing departments²². To ensure consistency, this Research Paper will refer to these entities as departments and agencies/statutory bodies.
- 24 The three levels of government (Commonwealth, State/Territory and local) consist of corporate entities and non-corporate entities. 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. All of these entities are considered as separate reporting entities.
- 25 However, the departments have a similar construct to branches rather than separate standalone entities as in a private sector, since they perform certain functions as instructed by the WoG.
- 26 The public sector entities in Australia prepare WoG financial statements which are General Purpose Financial Statements (GPFS). Even within a level of government, departments and agencies/statutory bodies prepare GPFSs with limited exceptions. A department would usually provide its financial report to a minister that is responsible for that department. The minister then tables the financial report in parliament for scrutiny after which they will become public documents.
- 27 The Australian Accounting Standards AASB 1053 *Applications of Tiers of Australian Accounting Standards* outlines two Tiers of reporting requirements for preparing GPFS, Tier 1: Australian Accounting Standards and Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.
- 28 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 Governments. 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 Governments.
- 29 The Treasurer for each level of the Government must prepare WoG consolidated financial statements each year, General Government Sector (GGS) financial statements of each government, and GFS based on the ABS GSF Manual including reconciliations to key fiscal aggregates.

22 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.

- 30 The public sector needs to consider a number of key public sector specific accounting standards including the following:
- AASB 1049 *Whole of Government and General Government Sectors*
 - A specific standard for WoG financial statements, requiring preparation of GGS financial statements, reconciliation to key GFS fiscal aggregates within the financial statements and mandating option choices within accounting standards be the ones most consistent with GFS.
 - AASB 1055 *Budgetary Reporting*
 - budgetary disclosure requirements for the WoG, GGS and not for profit entities within the GGS of each government, requiring reconciliation of budget to actual results when budgets have been tabled in parliament.
 - AASB 1050 *Administered vs Controlled*
 - requires departmental financial statements to distinguish between those transactions and balances that are “controlled” by the department and those that are “administered” by it on behalf of the state (eg an entity treats taxes collected as administered unless it is responsible for setting the tax policy).
- 31 In addition to financial reporting, public sector entities are also required to prepare non-financial information in the form of performance reporting, budget statements and sometimes intergenerational reports or other fiscal sustainability reports which are up to 40 years.
- 32 The audit framework in Australia is developed based on International Auditing Standards and is sector neutral. There are no public sector specific auditing standards. However, Auditor Generals’ depending on their mandate may have the ability to set their own standards. For example Australian National Audit Office²³.

23 The Auditor-General Act (Section 24) requires the Auditor-General to set auditing standards that are to be complied with in performing the Auditor-General’s functions. These standards are legislative instruments. The intention is that audits conducted by the ANAO should be conducted to the same standards required of the auditing profession, to the extent that they are not inconsistent with the provisions of the Auditor-General Act and other legislation relevant to the ANAO’s work. The ANAO auditing standards incorporate the standards issued by Australian Auditing and Assurance Standards Board.

Other reporting requirements

- 33 Budget vs actual information and service performance reporting are required by legislation in all jurisdictions.
- 34 All jurisdictions except for Singapore require a fiscal sustainability report to be presented as part of the annual budget review or as a separate report which ranges from a time horizon of 30 to 75 years.
- 35 There is no AASB 1050 equivalent accounting standard in other jurisdictions and none of the jurisdictions require disclosures in relation to administered and controlled items of government departments.
- 36 In all jurisdictions GFS data or GGS financial statements are not included in the annual financial statements. Instead GFS data is available on the relevant government websites.
- 37 There is no AASB 1049 equivalent accounting standard in those jurisdictions except for New Zealand specifying requirements for GPFSS and GFS financial statements of each level of government.
- 38 New Zealand has adopted IPSAS 22 *Disclosure of Financial Information about the General Government Sector* which is not a mandatory standard and New Zealand has not applied this standard in practice.

Auditing requirements

- 39 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 is not expressed on the financial statements of local governments and related information contained in their reports.

Findings

Who adopts IFRS or IPSAS Standards?

- 40 Similar to Australia, the United Kingdom, Canada, Singapore, Hong Kong have 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.
- 41 New Zealand and South Africa have adopted International Public Sector Accounting Standards with some modifications.

Significant costs of having every entity in the public sector prepare General Purpose Financial Statements (GPFS) when uncertain there are users

- 42 General Purpose Financial Statements (GPFS) are being prepared at a WoG level, the General Government Sector (GGS) and generally for every department, agency and GBE controlled by that government, with each entity often being reported at many levels. Such entities range from very small (eg the Biodiversity Conservation Trust of NSW - \$0 revenue) to very large entities (eg the NSW Department of Education - \$13,127 million revenue).
- 43 Australia has two tiers of GPFS – Tier 1 complying with all recognition, measurement and disclosure requirements of accounting standards and Tier 2 complying with all recognition and measurement but reduced disclosures. Despite Australian Accounting Standards requiring only the WoG financial statements and GGS financial statements to comply with Tier 1 GPFS²⁴ requirements, the majority of public sector entities are required by legislation or Treasurer Instructions to use Tier 1. Only South Australia, Queensland and the Commonwealth allow the use of Tier 2 for entities below WoG level.²⁵
- 44 There is currently a lack of academic research to show whether there are external users are for public sector entities below the WoG level and what their needs are.
- 45 The Australian Accounting Standards, including SAC 1²⁶, compound the problem by stating that most if not all, departments are reporting entities and implying that all agencies and GBEs are reporting entities. The International Public Sector Accounting Standards Board (IPSASB) issued its Conceptual Framework in 2014 and makes clear that departments and agencies should not automatically be considered reporting entities.
- 46 The IPSASB conceptual framework notes that the key characteristics of a public sector reporting entity are that:
- it raises recourse (ability to raise taxes or charge fees/levies etc.) from, or on behalf of, constituents and/or use recourse to undertake activities on behalf of those constituents; and
 - service recipients and resources providers depend on GPFR for information for accountability or decision-making purposes.
- 47 Thus two types of users are specified that requires information for accountability and decision-making purposes, service recipients and resources providers.
- 48 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 state public bodies (such as immaterial statutory bodies) and local government entities may not be defined as reporting entities.

24 As per paragraph 11(b) of the AASB 1053 *Application of Tiers of Australian Accounting Standards*, Tier 1 reporting requirements apply to the GPFS of the Australian Government, States/Territories and local governments. Paragraph 12 of AASB 1053 also states that subject to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, GGSs of the Australian Government, and State and Territory governments apply Tier 1 reporting requirements.

25 See paragraphs A50 - A51, A114 and A35

26 Statement of Accounting Concept (SAC) 1 *Definition of the Reporting Entity*

49 From the six international jurisdictions, the United States, Canada, South Africa and New Zealand, provide varying forms of relief that would result in less public sector entity reporting than in Australia. The UK and Singapore have similar reporting levels to Australia and requires GPFS. Hong Kong stands out for not requiring departments, or agencies, to prepare separate financial statements. The United Kingdom stands out as having local government entities consolidated in the WoG financial statements.

International comparison shows we have more reporting

50 From the six international jurisdictions reviewed, Canada, Hong Kong, New Zealand, South Africa and the United States provide varying forms of relief that would result in less public sector entity reporting than in Australia. The UK and Singapore have similar reporting levels to Australia and requires GPFS for the majority of their public sector entities. Hong Kong stands out for not requiring departments or agencies to prepare separate financial statements. In Canada, New Zealand, South Africa and the United States, only certain departments and agencies below national and provincial government level must prepare GPFS equivalent to Tier 1²⁷. In Canada, South Africa and the United States not all departments need prepare financial reports.

51 In Canada, those not preparing Tier 1 equivalents prepare an Annual Service Plan Report²⁸ which includes a service performance report and budget versus actual analysis. New Zealand has four tiers of reporting available to public sector entities, ranging from cash accounting to a Tier 1 equivalent. Local governments do not need to use a Tier 1 equivalent.

52 The United Kingdom stands out as having local government entities consolidated in the national WoG financial statements.

Estimated costs

53 Total audit fees including local government audits (except for NT and WA) in 2016/17 is \$216.8million.

54 Given the difficulties of obtaining accurate costs of preparation, we have used total audit costs which are known, as a base and assumed that the cost of preparing financial statements is three times that of the audit fees, based on experience of accounting firms. Accordingly, the total cost of preparing and auditing financial statements is estimated at being at least \$1 billion annually.

55 The feedback from the AASB Roundtable held in January 2016 confirmed the level of financial reporting required by NFP public sector entities is an issue. 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. Further investigation is required to identifying who the users are for public sector accounts especially for the departmental and agency/statutory body level, and determining what information they want and what they seek to do with that information.

56 Based on the findings above the key questions are:

²⁷ under the Public Finance Administration Act

²⁸ Annual Service Plans is not a full GPFS, but consist of a service performance reporting and budget vs actual expense and income information. Refer to paragraph B156 for more information.

Commented [KP4]: to be confirmed more

- whether the extent of the Australian public sector financial reporting requirements at a cost of more than \$1 billion justifies the level of reporting, and
- whether the current level of reporting is necessary to adequately hold the public sector accountable for the use of taxpayers' monies.

Inconsistency in reporting and assurance requirements

- 57 As shown in the Table overview, only some states and the Commonwealth currently allow Tier 2 reporting requirements to be applied by certain entities.
- 58 Some states and territories have Treasurer Instructions that modify the accounting standards and in some cases²⁹ do not reference the most current versions of accounting standards.
- 59 In addition, some state/territories permit use of the consolidation exemption in AASB 10 *Consolidated Financial Statements* and some do not. Some do not require the WoG or departments' financial statements to consolidate all entities controlled by the government in accordance with AASB 10.
- 60 SA is not required to have its WoG financial report audited and NT statutory bodies are not required to be audited unless directed by the Treasurer.
- 61 Almost all financial statements of public sector entities are required to be audited by the Auditor-General. Statutory authorities in but NT statutory authorities are not required to submit financial statements to the Auditor-General for auditing unless requested by the Treasurer. QLD, WA, NT and SA 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. At the local government level, WA and NT local council are not currently audited by the Auditor General.
- 62 All local governments are required to report on long term sustainability reporting, QLD, NSW, TAS, SA, WA prepares a long term financial plan and assets management plans of minimum years but VIC and NT only prepares a long term financial plan of minimum 4 years.
- 63 Currently only the Commonwealth, NSW and TAS are required to prepare an intergenerational report that assesses the growth of the population and how this impacts economic sustainability.

Complex and technical requirements

- 64 Australia has some key accounting standards that the six international jurisdictions reviewed did not.

Government Financial Statistics (GFS)

29 The Commonwealth A39 Refer to paragraph A39 – the Charter of Budget Honesty Act 1998 refers to the definition of external reporting standard to mean the concepts and classification set out in GFS Australia; and the public sector accounting standards developed by the Public Sector Accounting Standards Board which is no longer in existence.

65 Government Financial Statistics (GFS) reporting is a measurement of the financial activities of governments and reflects the impact of those activities on other sectors of the economy (a macro-economic assessment) with requirements specified by the Australian Bureau of Statistics. There are similarities between GFS and Australian Accounting Standards. Australia is the only country of the countries reviewed that requires GFS data to be present within the WoG financial statements and requires a reconciliation of GFS data and accounting based information³⁰. Australia is also the only country to mandate that where an accounting standard has options, the option most consistent with GFS must be used. The other six jurisdictions present GFS information on the respective government official websites. Further the other countries do not require preparation of general government sector financial statements.

66 *Administered versus controlled*

67 The requirement to distinguish administered (ie transactions managed on behalf of another entity of government, such as the ATO collecting tax on behalf of Treasury) versus controlled transaction items for departments is also a unique financial reporting disclosure to Australia. Furthermore, there are no International Financial Reporting Standards or IPSASB standards dealing specifically with administered items. There is also no academic research indicating users, if any, of government department financial reporting require such a distinction. Nor is it consistent with branch accounting when prepared in the private sector.

68 *Fair value*

69 Australian Accounting Standards requires WOG, GGS and entities with the GGS to annually fair value their non-financial assets as a result of the requirement to choose the accounting treatment most consistent with GFS.

Accounting complications from machinery of government changes

70 A Machinery of Government (MoG) change occurs when the Government decides to change the way Commonwealth responsibilities are managed. It can involve the movement of functions, resources and people from one agency to another. Frequent changes in the Australian public sector have implications on how the movements are treated in the receiving and distributing entities.

71 This raises the question of whether a department should be seen as an individual reporting entity or as a segment or function at the WoG level (ie are departments an internal construct for management similar to branches in the private sector), or are they separate reporting entities? The treatment of appropriations in departments and/or agencies/statutory bodies as revenue is also impacted by the view of whether a department is a separate reporting entity.

The concept of consolidation for public sector entities will be further explored in a separate AASB research paper.

Linkage of financial reports with performance reports, budget accountability, fiscal sustainability reporting

³⁰ Paragraph 41(a)(b) of AASB 1049 requires disclosures shall be made for the WoG and the GGS, a reconciliation of two measures of key fiscal aggregates and an explanation of the difference.

Commented [KP5]: need to check exactly what is required by other countries

- 72 All Australian public sector entities prepare annual reports which consist of the audited financial statements as well as performance reports. However as there are no accounting standards for service performance reporting, differing requirements in each state, and no consistency in how financial information is linked to the service performance outcomes.
- 73 In Australia budget statements are required by all public sector entities and generally forecast up to three years. The Commonwealth and state and territory WoG, GGS and entities within the GGS are required to prepare or restate budgets in accordance with accounting standards. Local governments are not required to prepare Budget Statements in accordance with accounting standards. Other countries reviewed are required to prepare budget versus actual information but not necessarily in the financial statements.
- 74 In Australia, only the Commonwealth, NSW and TAS are required to prepare an intergenerational report that assesses the growth of the population and how this impacts economic sustainability. However current accounting standards do not require recognition of the full social benefits obligations undertaken by the public sector. Fiscal sustainability reports provide some information regarding the extent of the public sector's obligations and resources available to meet such obligations.
- 75 All local governments are required to report on long term sustainability. QLD, NSW, TAS, SA, WA prepare a long term financial plan and asset management plans for a minimum of 10 years. VIC and NT only prepare a long term financial plan for a minimum 4 years.
- 76 These reports are being prepared however it is not clear what the linkage is, if any, to published financial reports.

Commented [KP6]: need to check further where its done

Inconsistent auditor requirements

- 77 Almost all financial statements of public sector entities are required to be audited by the Auditor-General. Statutory authorities in the NT are not required to submit financial statements to the Auditor-General for auditing unless requested by the Treasurer. QLD, WA, NT and SA 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.

Concluding comments on accounting standards

- 78 Based on the summary of findings explained in paragraph 27-43, there is a further potential to simplify and clarify the financial reporting framework applicable to public sector entities. Options to achieve a simpler, cost effective, user focused and more consistent framework to make best use of public money will be considered in the forthcoming separate AASB Discussion Paper. That Paper will consider, for example, the merits of:
- setting the criteria and thresholds for publicly lodging financial statements to ensure the requirement is a form of GPFs (which could be something other than the current choice between full GPFs and RDR GPFs) and help ensure costs of preparation do not exceed benefits to users; and
 - introducing more, targeted/proportionate, GPFs Tiers – GPFs need not be limited only to the current Tier 1 and Tier 2, but should be whatever form of reporting is; determined and specified by the AASB after due process as being appropriate for the applicable criteria and thresholds.

Concluding comments on auditing standards

- 79 Similarly to the concluding comments on accounting standards in paragraph 110, the analysis of the assurance requirements set out above indicates there is further potential to simplify and clarify the reporting framework applicable to Public Sector entities. The forthcoming separate AASB Discussion Paper will consider, for example, the merits of:
- clarifying assurance requirements to align with the use of consistent criteria and thresholds when the assurance practitioner is providing an opinion or conclusion on a financial report;
 - providing targeted assurance procedures providing reasonable or limited assurance on a subject matter other than a financial report (e.g. assurance over service performance information, compliance with a regulatory requirement or assurance over specific financial information);
 - using Agreed-Upon Procedures that provides a report of factual findings (rather than independent assurance) upon which the intended users may draw their own conclusions with respect to the subject matter; and
 - an engagement that covers a combination of different subject matters or levels of assurance, each considered as a separate section of the engagement. This type of engagement is commonly known as a multi-scope engagement.

Appendix A: Australian public sector financial reporting requirements

What is the public sector in Australia?

- A1. The Australian public sector comprises three levels of government:
- 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.

The federal government has broad national powers. Among other things, it administers (puts in to action) laws in relation to defence, immigration, foreign affairs, trade, postal services and taxation;
 - 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.

State/territory governments have the power to look after laws not covered by the federal government; for instance, hospitals, schools, police and housing services: and
 - 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 rubbish collection, building regulations, local roads and pet control). Their establishment, powers and responsibilities are defined in state-based legislation.
- A2. All levels of government raise money, through collecting taxes, to pay for services provided to Australians. State/territory and local governments also receive some money from the federal government, and states may fund local councils:
- The federal government raises money to run the country by collecting taxes on incomes, goods and services and company profits and spends it on national matters;
 - State/territory governments also raise money from taxes but receive more than half their money from the federal government and spend it on state/territory matters; and
 - Local councils collect taxes (rates) from all local property owners and receive grants from federal and state/territory governments and spend this on local matters
- A3. However, universities are not within the scope of this Research Paper. Universities will be part of the future outreach for the Not-for-profit sector.
- A4. 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.

As background to Australian requirements, it is of interest to review other countries and the International Public Sector Accounting Standards Board's (IPSASB) approach to public sector reporting.

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. ...

- A5. 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.

- A6. 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.

- A7. Financial reporting is how public entities account for their stewardship of – that is, the care they take with – public money and other assets.
- A8. Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services will also require information as input for decision-making purposes.
- A9. The public sector clearly has an obligation to report on its activities to the public. However, some important questions arise from this:
- To what level of granularity should public sector financial reporting be required? And is financial reporting the only means of providing public accountability or can other form of information serve this purpose?
 - Should all elements of the public sector be held to the same level of accountability?

- A10. 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 website³¹, “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”.
- A11. 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 International Monetary Fund (IMF) as part of an international system of data collection, with some local Australian material. International comparisons between governments are based on GFS.
- A12. In 2002, the FRC has specifically issue the strategic directive for the harmonisation of General Financial Statistics (GFS) and Australian Accounting Standards. This led to the development of the AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in September 2006, operative from 1 July, 2008. However Australia is the only country that has developed and implemented an accounting standard to integrate GFS and Australian Accounting Standards. Other countries have kept these two systems separate.³²
- A13. Still the AASB has long been involved with developing specific accounting standards for the Australian Government. The introduction of accrual accounting to the public sector has been through stages beginning with the first shift from cash-based accounting and budgeting to the accrual-based accounting system across the whole of Australian public sector in the 1990s.. Since then the development of Australian Accounting Standards AAS 31 *Financial Reporting by governments*, AAS 29 and AASB 27 were released applicable only to the public sector.³³ This means that that reporting requirements initially were based at the individual departmental level.

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

32 S. Schuhrer, *The harmonisation of GAAP and GFS financial reporting in the Australian public sector: Why and how did it happen? An agenda setting perspective.*

33 R. Kober, J. Lee, J. Ng, *Mind your accruals: Perceived Usefulness of financial information in the Australian public sector under different accounting systems*, Accounting and Business Research, Vol. 42, No. 5, Dec 2012

- A14. AAS 31 was first introduced in 1996 and specified requirements for general purpose financial reporting by governments. With the adoption of international financial reporting standards in 2005, and the increasing pressure to address public sector accounting issues, the three public sector standards underwent a review process. Two projects were subsequently carried out which included the General Accepted Accounting Principles (GAAP)/GFS Harmonisation project and the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31 with the issues of an Exposure Draft to move the materials of these standards to existing topic based standards. Paragraph BC3 of [Exposure Draft 156 Proposals Arising from the Short-Term Review of the Requirements in AAS 27, AAS 29 and AAS 31](#) summarises the Board's consideration in reaching the main conclusion. The Board considered it timely to review these industry specific standards and to remove the requirement to treat local governments, government departments and governments that differ from other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. The Board decided that, given the improvements in the quality of financial report by local governments, government departments and governments since the issue of these industry standards, it was timely to amend the Australian Accounting Standards to pick up any issues not currently addressed and create public sector specific topic-based standards.
- A15. Three new proposed standards were subsequently created as a result which now became the AASB 1050 *Administered Items*, AASB 1051 *Land under Roads* and AASB 1052 *Disaggregated Disclosures*. As a result of the two projects, this led to the creation of AASB 1049.³⁴ Only with the introduction of AASB 1049 which required financial reporting at the WoG level.
- A16. Nevertheless the financial reporting and audit requirements being applied by government especially to smaller public sector entities such as agencies/statutory bodies and local government can be costly. As shown from the discussion above, there is a view that public sector entities are 'publicly accountable' and therefore necessary to prepare and lodge financial statements. However the Research Report will highlight the issues of the current financial reporting framework being applied by public sectors can be costly and benefits may not outweigh the cost. The upcoming Discussion Paper will provide alternative options of financial reporting, possible principles that make a public sector publicly accountable, and matching the needs of users to the appropriate level of reporting to satisfy 'public accountability'.
- A17. 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.

³⁴ Paragraph BC21 AASB 1049 Whole of Government and General Government Sector Financial Reporting

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.

- A18. 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.
- A19. 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.
- A20. 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 Department of Treasury responsible for setting reporting policies 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 whole³⁵:
- coercive power to obtain public funds;
 - the level of public funds they use;
 - their risk profile;
 - their level of complexity; and
 - their financial profile.
- A21. 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.
- A22. 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.

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

- A23. The Australian States and Territories adopt a similar structure with statutory authorities or administrative units replacing agencies, and directorates replacing departments³⁶. To ensure consistency, this Research Paper will refer to these entities as departments and agencies/statutory bodies.
- A24. 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.
- A25. Local Governments tend to be established under a specific piece of legislation, which also prescribes their reporting requirements.

³⁶ 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.

Commonwealth

- A26. 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 entities³⁷, 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.³⁸ A Commonwealth company is a company incorporated under the *Corporations Act 2001* that the Commonwealth controls.³⁹
- A27. 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.
- A28. Since 1 October 2014, following the federal election, the Commonwealth public sector has consisted of 18 departments of state 16 portfolios. As at 21 December 2017⁴⁰ there were 182 commonwealth entities (including departments) and companies within the following portfolios. (The number of agencies are included within brackets)
- Agriculture and water resources (9)
 - Attorney- general's (12)
 - Communications and the arts(18)
 - Defence (11)
 - Education and training (8)
 - Environment and energy (9)
 - Finance (7)
 - Foreign Affairs and Trade (6)
 - Health (19)
 - Home affairs (5)
 - Human services (2)
 - Industry Innovation and science (8)
 - Infrastructure, regional development and cities (12)
 - Jobs and small business (10)
 - Prime minister and cabinet (19)
 - Social service (3)
 - Treasury (18)

37 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.

38 Section 22 of the PGPA Act

39 Section 89 of the PGPA Act

40 [List of all Commonwealth entities](#)

- Veterans' Affairs (2)
- Parliamentary Departments (4)

A29. Within the 16 portfolios, there are three high-level groupings of bodies:

- non-corporate Commonwealth entities (e.g. Australian National Audit Office, the Australian Taxation Office and the Australian Accounting Standards Board),
- corporate Commonwealth entities (e.g. Australian Postal Corporation, the National Gallery of Australia and the National Museum of Australia); and
- Commonwealth companies (e.g. The Australian Sports Foundation Limited and the NBN Co Limited).

A Commonwealth entity or company maybe further classified 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 mandates⁴¹.

Commonwealth entities

A30. 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 A32 below); and present fairly the entity's financial position, financial performance and cash flow.

A31. 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 both houses of parliament (Representatives and Senate). General Government Sector financial statements are included in the whole of Commonwealth government financial statements as well the Budget Papers.

A32. 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. They also require the preparation of the Australian Government's consolidated financial statements. Reconciliation between the GSF data and financial statements are disclosed within the whole of Commonwealth government financial statements.

A33. 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 statements⁴², 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 PGPA Rule as they are not Commonwealth entities.⁴³

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

42 Section 48 of the PGPA Act

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

A34. The FRR restricts 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 WoG.⁴⁴

A35. Section 18 of the FRR specifies a list of reporting entities⁴⁵ that are required to prepare Tier 1 requirements whilst allowing those not listed to apply Tier 2 requirements as a minimum. The explanatory statement to the *Public Governance, Performance and Accountability (Financial Reporting) Amendment (Tiered Reporting and Other Measures) Rule 2017*⁴⁶ which amends the FRR provides the rationale for section 18 as follow:

“Those Commonwealth entities required to prepare disclosure notes above Tier 2 minimum disclosure requirements, under the relevant accounting standards, are listed in subsection 2 and 3. The entities are broadly based on primary criteria of those with complex financial arrangements.

The Australian accounting standards explain that entities which are able to apply Tier 2 reporting requirements, may elect to apply Tier 1 reporting requirements or include additional disclosures using Tier 1 reporting requirements as a guide if, in their judgement, such additional disclosure are consistent with the objective of general purpose financial statements.

The previous subsection 2 has now been included as subsection 4. This requires that, for the purpose of preparing the Australian Government consolidated financial statements, which are prepared under Tier 1 reporting requirements, entities may need to provide additional financial information to the Departments of Finance, if that information is not available in their entity financial statements.”

A36. As such entities may voluntarily disclose more information than required by Tier 2 where the additional disclosure would enhance the usefulness of the financial statements. The FRR also lists eight reporting entities that must, in preparation of their entity’s financial statements; apply Tier 1 reporting requirements to the accounting standards listed specifically within the FRR, and any other accounting standards related to the listed accounting standards. For example, the Airservice Australia is a listed reporting entity that must apply Tier 1 reporting requirements to AASB 7 *Financial Instruments: Disclosure*, AASB 13 *Fair Value Measurement* and AASB 119 *Employee Benefits*.⁴⁷

A37. The Department of Finance produces two sets of Primary Reporting and Information Management Aid Forms of Financial Statements (PRIMA Forms Tier 1 and Tier 2) 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 WoG 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.

Other reporting requirements

44 Guide to Part 3 of the FRR.

45 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

46 [Explanatory statement of the Public Governance, Performance and Accountability \(Financial Reporting\) Amendment \(Tiers Reporting and Other Measures\) Rule 2017](#)

47 For full list of requirements, see subsection 18(3) of FRR.

- A38. Every five years, the Australian Government is required to produce an Intergenerational Report which assesses the long-term sustainability of current Government policies and how changes to Australia's population size and age profile may impact economic growth, workforce and public finances over the following 40 years. The report consists of the projections for the economy, the Australian Government's budget and how this will adjust and the options for responding to challenges and opportunities in the next 40 years.⁴⁸
- A39. The Treasurer is required to prepare and provide a Budget of Australia's forecast financial performance and the government's fiscal policy. The budget economic and fiscal outlook report is tabled at the time of each budget overlooking a period of 3 years and must be prepared based on external reporting standards⁴⁹.
- A40. Section 39 of the PGPA Act requires Commonwealth entities to prepare annual performance statements that measure and assess the performance of the entity in achieving its purposes; and comply with any other requirements prescribed by the rules. As stated in the Resource Management Guide No. 130 *Overview of the enhanced Commonwealth performance framework*, the public sector has a responsibility to support the government of the day in meeting its obligation to the parliament (and the Australian public more broadly) to report on its performance and impact of its activities. Non-financial reporting allows entities to report on their achievements against the purposes that they pursue, including government policy objectives.
- A41. Section 16F of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) sets out the matters that entities must include in their annual performance statements. The annual performance statement measures and assesses the entity's performance in achieving the entity's purposes that was set out in the entity's corporate plan, and in any Portfolio Budget Statement, Portfolio Additional Estimates Statements or other portfolio estimates statements. The Resource Management Guide No. 134 *Annual performance statements for Commonwealth entities* provide some guidance on preparing annual performance statements which will be a direct acquittal of the performance measures and reporting intentions identified in the entity's corporate plan and Portfolio Budget Statements at the beginning of the reporting period. Section 40 of the PGPA Act allows the ANAO to conduct audits of the annual performance statements. Such audits may be initiated at the discretion of the Auditor General or at the request of the Minister for Finance or responsible Minister.
- A42. Key strategic information relevant to entities appears in their responsible Minister's Portfolio Budget Statements that accompany the annual appropriation acts. The Portfolio Budget Statements are publications presented to parliament by responsible portfolio Minister. The statement explains the estimates for the purposes of the Budget.
- A43. Section 16 E of the PGPA Rule requires a Commonwealth to publish a corporate plan which is the primary planning document of an entity. It sets the purposes and activities that the entity will pursue and the results it expects to achieve, including planning the environment and context in which it operates, and its planned performance measures, risk profile and capabilities. Each plan, unless otherwise prescribed by the entity's enabling legislation, is required to cover a minimum of four reporting periods.

Commonwealth Companies/ Government Business Enterprises

⁴⁸ [2015 Intergenerational Report Australia in 2055](#)

⁴⁹ The Charter of Budget Honesty Act 1998 provides the definition of the external reporting standard means the concepts and classification set out in GFS Australia; and the public sector accounting standards developed by the Public Sector Accounting Standards Board.

- A44. 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 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.
- A45. 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 which requires a copy of the company's financial report, directors' report and auditor's report that the company is required by the *Corporations Act 2001* (or would be required by that Act to have it the company were a public company). 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*.
- A46. Commonwealth companies are also required to prepare corporate plans as required by section 95 of the PGPA Act. Section 27A of the PGPA Rule provides that the corporate plan of a company must address the minimum requirements set out in section 16E of the PGPA Rule which includes reporting on their actual performance results achieved against the performance criteria published in their corporate plans discussed in [paragraph A43](#) above. Commonwealth companies are not required to prepare annual performance statements.

South Australia

State government

- A47. There is no legislative requirement in South Australia that mandates the preparation WoG financial statements. Rather the Consolidated Financial Report (CFR) of the Government of South Australia requirements are prepared pursuant to generally accepted accounting principles, and prepared in accordance with the Australian Accounting Standards. As such the Auditor-General has reviewed the CFR but has not provided a formal independent audit report, as there is no legislative requirement for the preparation, audit or presentation of a WoG financial report.⁵⁰ GGS financial statements are presented within the whole of state financial statements as well as the Budget Papers. Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A48. Section 23 of the *Public Finance and Audit Act 1987* (PFA) requires every public authority⁵¹ (this includes cemeteries authorities) 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.

50 [Overview of the Consolidated Financial Report 2016-17](#)

51 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)

- A49. Public authorities are also required to prepare a statement of estimated and actual receipts to and payments from the Consolidated Accounts and a statement of the sources of application of money recorded in the public accounts.
- A50. 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 PFA. 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:
- 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 test⁵².
- A51. The Department of Treasury and Finance APS2.6.2 provides a list of approved public authorities that can prepare Tier 2 reporting which includes the Auditor-General's Department, Defence SA and Electoral Commission of South Australia. APS 2.5 *Contents of General Purpose Financial Statements* states that where a specific disclosure requirement is contained within the Accounting Policy Framework, materiality does not apply.
- A52. Section 31 of the PFA 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 an administrative unit⁵³ or to assist the Auditor-General.
- A53. 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.

Other reporting requirements

- A54. The Treasurer produces the state budget each year and published with the consolidated financial report. The Accounting Policy Framework for GPFS requires disclosure of certain original budget information including explanation of major various. The budget report against 3 fiscal targets;
- achieving a net operating surplus in the general government sector each year;
 - limit operating expenditure growth to trend growth in household income;
 - achieve a level of general government net debt that remains affordable over the forward estimates – a maximum ratio of net debt to revenue of 35 per cent.

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

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

A55. In addition a public sector agency's annual report to the Minister must contain amongst other information, (including relevant statistics) , in respect of the agency's:

- functions and objectives;
- legislation administered;
- the organisation of the agency;
- the relationship to other agencies within the Minister's area of responsibilities; and
- the operations and initiatives including assessment of their effectiveness and efficiency.⁵⁴

A56. Claims about the agency's performance and outcomes must be substantiated by evidence and the reports should have meaning and relevance to the community.

A57. Treasurer's instructions 19 specifies that the chief executive must ensure that the public authority's budget reconciled to the appropriations approved by Parliament (where relevant) and the supporting budget and program estimates, at least on an annual basis and reviewing the performance against budget on a regular basis to ensure that appropriate action is taken.

A58. There is no requirement for long term planning or reporting.

Government business enterprises

A59. 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.⁵⁵ The SA Treasury provides a list of public non-financial and public financial corporations that are 100% controlled by the government.⁵⁶

A60. 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 A47 and A50](#) 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.

A61. The Auditor-General must in respect of each financial year, audit the accounts and financial statements of the corporation.⁵⁷ 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.

A62. 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.⁵⁸

Local government

54 Section 7 of the *Public Sector Regulation 2010*

55 Section 6 of the *Public Corporations Act 1993*

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

57 Section 32 of the *Public Corporations Act 1993*

58 Section 13 of the *Public Corporations Act 1993*

- A63. 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.⁵⁹
- A64. The statements must be audited by the council's auditor⁶⁰ in accordance with the Australian Auditing Standards and Auditing Guidance Statements published by the Auditing and Assurance Standards Boards (AUASB)⁶¹. 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.
- A65. A council subsidiary or regional subsidiary⁶² 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.⁶³ Similarly the financial statements of the council subsidiary or regional subsidiary must be audited by the auditor in accordance with Australian Auditing Standards.
- A66. 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 Standards⁶⁴. However the councils are not included in the whole of state or department's financial statements.

Other reporting requirements

- A67. In addition to the audited financial statements, the annual report of a council must include:
- an annual business plan which include information on matters such as but not limited to:
 - i. reason why the council has adopted its valuation method of rating purposes, and
 - ii. the use and level of any separate rate, service rate or service charge, including the reasons for the rate or charge.⁶⁵
 - a budget of each council stating whether projected operating income is sufficient to meet projected operated expenses etc.⁶⁶ The budgeted financial statements must be presented in a manner consistent with the uniform presentation framework based on AASB 1049 and the Uniform Presentation Framework.

⁵⁹ Section 6 and 127 of the *Local Government Act 1999*

⁶⁰ 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.

⁶¹ Section 19 of the *Local Government (Financial Management) Regulations 2011*

⁶² Section 17(2) of a regional subsidiary is established by two or more councils and must be applied by the Minister.

⁶³ Section 10-12 of the *Local Government Act 1999*

⁶⁴ Section 11 of the *Local Government (Financial Management) Regulations 2011*

⁶⁵ Section 6 of the *Local Government (Financial Management) Regulations 2011*

⁶⁶ Section 7 of the *Local Government (Financial Management) Regulations 2011*

- the council's performance in implementation its strategic management plans during the relevant financial year, and the council's projects and targets under its plans for the next financial year and its performance against its annual business plan.⁶⁷

A68. A council must also develop and adopt the following long term plans as required by the *Local Government Act 1999*:

- a long-term financial plan for a period of at least 10 years and an infrastructure;
- a assets management plan, relating to the management and development of infrastructure and major assets by the council for a period of at least 10 years;
- strategic community plan for a period of 10 years minimum
- business plan for a period of 4 years minimum

67 Section 2 of the *Local Government Act 1999*

Victoria

State government

- A69. 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 WoG.
- A70. All departments and public bodies⁶⁸ (such as cemeteries which are governed by the Department of Health and Human Services) 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. The tabling requirements are stated in section 46 of the FMA which requires departments and public bodies to table audited financial statements in the House of Parliament when expenses and obligations exceed \$5,000,000. Otherwise unless requested, the relevant Minister can report their receipt of the audited financial statements to the House of Parliament instead. GGS financial statements are presented within the consolidated financial statements and again in the Budget Papers. Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A71. Each department and public body, unless otherwise not required under the *Audit Act 1994* or any other Act, has to have its financial statements audited⁶⁹ in accordance with the standards made by the AUASB in relation to the financial statements and performance audits⁷⁰.
- A72. 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 Financial Reporting Directions (FRD) and guidance applicable to all entities defined as either a public body or a department, unless otherwise stated⁷¹ such as class B cemetery trust. Compliance with the FRD 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.⁷²
- A73. Victoria does not specify any entities that are allowed to use Tier 2 Australian Accounting Standards.
- A74. 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 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.

68 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.

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

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

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

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

A75. The Department of Treasury and Finance have endorsed the *Model Report for Victorian Government Departments* (the Model)⁷³ which are consistent with Australian Accounting Standards including Interpretations and FRD. All Victorian government departments are required to comply with the Model.

Other reporting requirements

- A76. The Minister must prepare estimated financial statements for each financial year in association with the budget for that financial year. Estimated financial statements must be laid to each House of Parliament. The estimated financial statements comprises of the current year and the following 3 financial years in respect of an estimated financial performances, estimated financial position and estimated cash flows of the Victoria general government sector. Accompanying statements must also be prepared such as a statement of the risks, quantified where feasible, that may have material effect on the estimated financial statements concluding contingent liabilities and any publicly announced Government commitments that are not yet included in the estimated financial statements. FRD 8D requires that Budget Papers for the relevant years must be consistent between budget and actual results as required by AASB 1055 *Budgetary Reporting*.
- A77. In addition to financial reporting requirements, there are several FRDs in relation to the reporting of Performance Information, FRD 8D, 22G and 27C. The Directions 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.⁷⁴ The effectiveness of outputs in contributing to achieving government priorities is measured through departmental objective indicators, which establish an evidence base for the link between outputs and longer-term impact. Agencies must disclose its reports on their key initiatives and projects. The key initiatives and projects include significant changes in the previous years and expectations for the future.
- A78. Departments and applicable entities are required to report the financial and non-financial performance of their portfolio measured against the information published in the Budget Papers for the corresponding financial year. The statement of performance must include:
- the relevant performance targets and indicators as determined by the responsible portfolio Minister;
 - the actual results achieved for that reporting period against the corresponding period's per-determined performance targets and indicators; and
 - an explanation of any significant variance between the actual results and the corresponding period's performance targets and indicators.
- A79. Victorian Government does not undertake intergenerational reporting to identify and respond to long-term fiscal challenges and financial pressures. In its Report on the 2017-18 Budget Estimates⁷⁵, the Treasurer indicated to the Public Accounts and Estimates Committees there are currently no plans to introduce intergenerational reporting in Victoria.

Government Business Enterprises

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

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

75 [See Report on the 2017-18 Budget Estimates](#)

- A80. 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.
- A81. 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 A73, the annual report must contain audited financial statements that are prepared in accordance with the Australian Accounting Standards and any other directions.
- A82. 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.⁷⁶

Local Government

- A83. 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.⁷⁷
- A84. A Council must prepare an annual report in respect of each year which contains, amongst other statements, audited financial statements and a copy of the auditor's report on the financial statements.⁷⁸ The financial statements including notes attached are prepared in accordance with the current Australian Accounting Standards as they apply to the GPFS of local governments⁷⁹, i.e. Tier 1 Australian Accounting Standards.
- A85. In addition, section 20 the *Local Government (Planning and Reporting) Regulations 2014* prescribes 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.
- A86. The principles that guide the presentation of the financial statements as documented in the Local Government Model Financial Report are "to promote transparency and accountability of local governments and stakeholders".
- A87. The audit requirements are the same as for Victoria state government as described in paragraph A71 above.
- A88. In addition local governments are required to prepare a Strategic Resource Plan in respect of a least the next 4 financial years. In addition a report on performance under section 131 of the *Local Government Act 1989*. The Regulations prescribed indicators of service performance and the measure relating to those indicators including but not limited to the following:

76 Section 75 of the *State Owned Enterprise Act 1992*
77 Section 1A Local Government Charter of the *Local Government Act 1989*
78 Section 131 of the *Local Government Act 1989*
79 Section 3 of the *Local Government Act 1989*

- the results achieved in relation to the performance indicators and measures and corresponding results for the preceding 3 financial years;
- description of the operations of the Council during the financial year;
- statement reviewing the strategic indicators included in the Council Plans and any other economic or other factors that have impacted on the Councils Performance.

A89. There is a Victorian City council Model Budget best practice guide for reporting local government budgets in Victoria which is a guide based on the standards that apply to annual reports, however it does not reference application of AASB 1055.

A90. Councils are not included in the whole of state or department's financial statements.

Western Australia

State government

- A91. Public sector entities as defined under the *Public Sector Management Act* means agencies⁸⁰ (this includes the Trust or Boards including the Metropolitan Cemeteries Board which is a statutory body that manages six cemetery and memorial park sites in metropolitan Perth), ministerial offices and the non-SES organisations⁸¹. They are required to produce, and submit and publish an annual report⁸² in accordance with relevant legislation and Government policies as referred to in the Annual Reporting Framework⁸³. GGS financial statements are presented within the whole of state consolidated financial statements and again in the Budget Papers. Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A92. There are some exceptions for organisations in complying with the Annual Reporting Framework which are listed in the *Public Sector Management Act 1994*⁸⁴ 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.
- A93. 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 statements⁸⁵ 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 Minister⁸⁶. The annual report must be audited and tabled to Parliament including the audit opinion within 90 days of the end of the financial year.⁸⁷
- A94. The Treasurer's Instructions have the force of law and they apply to all agencies. Treasurer's Instructions prescribe the minimum requirements on accounting for 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. The instruction also disallows parent entity to be exempted from presenting consolidated financial statements as allowed by the accounting standards.
- A95. 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.
- A96. 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 is in accordance with Australian Accounting Standards.

80 Agencies means departments, sub-department or a statutory body listed in Schedule 1 of the Financial Management Act 2006 (FMA)

81 Non-SES organisations means an entity which consist of a body, whether corporate or unincorporated, or the holder of an office, post or position, being a body or office, post or position that is established or continue for a public purpose under a written law.

82 Division 2 subsection 61(1) of FMA.

83 [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.](#)

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

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

86 Section 62(2) of FMA.

87 Section 64(2) of the FMA.

A97. The financial statements of an agency must be submitted to the Auditor General for audit in accordance with the *Auditor General Act 2006*.⁸⁸ 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 subsidiaries⁸⁹ 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.⁹⁰

Other reporting requirements

A98. 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. The Outcome Based Management also provides a list of examples of outcomes, services and KPIs.

A99. The annual report must comprise of the report on operations including a comparison of actual results against budget targets for the key performance indicators of effectiveness and efficiency and agreed financial targets. The targets are those set for the agency and any subsidiary and or/related bodies in the Budget Statement, a resource management agreement, a statement of corporate intent or other publicly issued strategic plan or equivalent document.

A100. The Treasurer releases a Government Financial Projections Statement must be tabled to the Legislative Assembly which must include financial projections for the Government for the budget year and 3 following financial years. Each general government sector agency are required to prepare Annual estimates in accordance with AASB 1055.

A101. There is no requirement for long term sustainability reporting for the government of Western Australia however there was a previous report, *Economic Implications of the Ageing Australia*⁹¹, a submission by the Western Australian Government in Oct 2004 to the Productivity Commission. This report provided some fiscal projections for Western Australia.

Government Business Enterprise

A102. 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.⁹² These government bodies are incorporated under their respective legislation, for example, statutory electricity corporations are established under the *Electricity Corporations Act 2005*.

A103. 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.⁹³

88 Section 63 of the FMA

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

90 Section 28 of the *Auditor General Act 2006*

91 [Report on Economic Implications of the Ageing Australia](#)

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

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

A104. 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.⁹⁴

A105. The financial report must be audited by the Auditor General and obtain an auditor's report.⁹⁵

Local Government

A106. Local Government is required to prepare general purpose financial statements⁹⁶ 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.

A107. In addition to the requirements to preparing financial statements, section 36 of FMR also details other reporting and disclosure requirements, including a Strategic Community Plan and a Corporate Business Plan. The Integrated Planning and Reporting – Framework and Guidelines set the minimum requirements. The core components of the Strategic Community Plan must contain the entity's strategic vision and the medium and long term priorities and resourcing implications with a horizon of 10 years or more. The Corporate Business Plan must contain a four year delivery program with financial projections. Information on the long term financial position must also be provided. The annual report also needs to include ratios such as current ratios, asset consumption ratios, debt service over ratios⁹⁷.

A108. Other long-term reporting include:

- a Strategic Community Plan (10 years)
- Financial management plan (10 years) according to the *Long Term Financial Planning Framework and Guidelines*
- Asset management plan (20 years) according to the *Asset Management Framework and Guidelines*

A109. A local government is required to submit to its auditor the accounts and annual financial report of the local government for audit⁹⁸ 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 auditor⁹⁹ and the audit is to be carried out in accordance with the Auditing Standards in Australia.¹⁰⁰

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

95 Section 14 of the *Electricity Corporations Act 2005*

96 Section 5A of FMR.

97 For a full list of ratios, refer to section 50 of the *Local Government (Financial Management) Regulations 1996*

98 Section 7.2 of the LGA

99 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.

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

- A110. The annual report must also be published on the local government's official website within 14 days after the report has been accepted by the local government. The annual report must include an annual budget of a local government in which the financial information disclosed in the annual budget other than the cash flow statement, is to be compiled on an accrual accounting basis.¹⁰¹
- A111. Councils are not included in the whole of state or department's financial statements.

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101 Section 22 of *Local Government (Financial Management) Regulations 1996*

Queensland

State government

- A112. The *Financial Accountability Act 2009* (FA Act) requires agencies¹⁰² and the WoG to prepare annual financial statements and the annual report to be tabled in Parliament¹⁰³, and the Treasurer may make standards about the policies and principles to be observed in financial and performance reporting¹⁰⁴. The WoG must prepare financial statements for the general government sector which forms the consolidated WoG financial statements. 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. GGS financial statements are presented in the whole of state consolidated financial statements and again in the Budget Papers. Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A113. 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).¹⁰⁵
- A114. Each department must comply with the Minimum Reporting Requirements (MRRs) of the FPMS when preparing annual financial statements, whilst statutory bodies need to have regard to these requirements and apply them where they are considered relevant in the circumstances. All departments and those statutory bodies consolidated into the WoG financial statements are required to prepare GPFS¹⁰⁶ applying Tier 1 reporting requirements. 55% of statutory bodies are not consolidated into the WoG financial statements may apply Tier 2 reporting requirements. Currently a 'materiality threshold' is applied to determine when an entity is consolidated, if either it has net operating results > \$5M or net assets > \$75M. The materiality thresholds are determined by the entity in consultation with the audit office.
- A115. Additionally statutory bodies are separate entities not controlled by departments and therefore not consolidated into department's financial statements.
- A116. Consolidated WoG financial statements complying with Tier 1 reporting requirements must be prepared within 6 months after the end of each financial year.¹⁰⁷

102 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.

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

104 Section 57 of the FA Act.

105 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.

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

107 Section 25 of the FA Act

- A117. 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 materiality¹⁰⁸, prepare consolidated financial statements for the agency and all of its controlled entities.
- A118. Departments and statutory bodies must prepare and give to the authorised auditor, the annual financial statements for audit¹⁰⁹ whilst the Treasurer must send the financial statements for the WoG to the auditor-general for a report by the auditor-general.¹¹⁰ 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 exempted¹¹¹ 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 bodies¹¹².
- A119. 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'¹¹³ and are for illustrative guidance only.

Other reporting requirements

- A120. The FA Act requires the Treasurer to table in Parliament a Charter of Fiscal Responsibility which provides details of the Government's fiscal objectives and the fiscal principles that support objectives. The Treasurer must report regularly to Parliament on the outcomes the Government has achieved against the objectives. A State Budget is produced annually and the Auditor-General audit the appropriations as part of the annual financial statements audit process. FRR 5C *Budgetary Reporting Disclosures* requires agencies to comply with AASB 1055.

108 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.

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

110 Section 25(4) of the FA Act.

111 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.

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

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

- A121. The Mid Year Fiscal and Economic Review is prepared presenting revised fiscal estimates for current Budget year and the three following years. These revised estimates take into account fiscal and economic developments since the preparation of the Budget. There are 7 fiscal principles, for example principle 5 is to target full funding of long-term liabilities such as superannuation and WorkCover Queensland (WorkCover) in accordance with actuarial advice.¹¹⁴
- A122. 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 by the Departments of the Premier and Cabinet '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. Where there are long-term performance targets which will not be achieved in the reporting period of the annual report, the most recent available data should be reported, with an explanatory note.
- A123. The information on performance is also subject to audit by the Auditor General under the *Auditor-General Act 2009*. The WoG 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.
- A124. Accountable officers of departments must also prepare a budget of the department for each financial year. According to the FRR 5C *Budgetary Reporting Disclosures* statutory bodies eligible to adopt Tier 2 reporting requirements are those that do not have their financial information consolidated into WoG financial statements generally do not need to have budgeted financial statements included in their Service Delivery Statement and their outside the scope of AASB 1055

Government Business Enterprises

- A125. 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 GOC¹¹⁵ and prescribed GOC subsidiaries¹¹⁶ 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.
- A126. 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*¹¹⁷, in which case an appropriately qualified person¹¹⁸ must be appointed to audit the company.

114 [The 7 Principles of Government fiscal strategy](#)

115 Section 118 of the Government Owned Corporations Act 1993

116 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

117 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.

Local Government

- A127. Local governments must prepare GPFS, a current-year financial sustainability statement and a long-term sustainability statement.¹¹⁹
- A128. In relation to the GPFS it must be prepared in accordance with the Australian Accounting Standards, Statements of Accounting Concepts, Interpretations and Framework for the Preparation and Presentation of Financial Statements. Councils are not included in the whole of state or department's financial statements. The Annual budget must be prepared on an accrual basis and include statements for the financial year and the next 2 financial years.
- A129. Councils in Queensland administer the Trust for the cemeteries and therefore include the financial information relating to cemeteries within the councils' financial statements.¹²⁰
- A130. In addition to financial reporting, there are requirements to report on short term financial sustainability statements must contain relevant measures of financial sustainability for the financial year while the long term sustainability must state the relevant measures for the 9 financial years following which the statement relates. In addition a community financial report must be prepares containing a summary and analysis of the local government's financial performance and position for the financial year and consistent with the GPFS. The community financial report must also be written in a way that is easily understood by the community.¹²¹ Other long term reporting requirement is the long-term asset financial forecast which must cover a period of at least 10 years.
- A131. The auditor-general must audit the GPFS and the current year financial sustainability statement. The auditor-general does not need to audit the long term financial sustainability but they must be given to the auditor for information.¹²²

New South Wales

State government

- A132. 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 WoG 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. These can be presented in a single report. GGS financial statements are presented within the whole of state consolidated financial statements and again in the Budget Papers. Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A133. For both departments¹²³ and statutory bodies¹²⁴, 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.¹²⁵

118 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.

119 Section 178 of the *Local Government Regulation 2012*

120 For example Bundaberg Regional Council administers nine cemeteries through their region and include information such as cemetery fees within their financial statements, http://www.bundaberg.qld.gov.au/files/BRC_Annual_Report_PROOF6_-_Council_Meeting_21_Nov_-_Web.pdf

121 Section 176, 177 and 179 of the *Local Government Regulation 2012*

122 Section 212 of the *Local Government Regulation 2012*

- A134. There are five cemetery reserve trusts controlled by the Minister for Primary Industries and therefore part of the NSW State Government financial statements.¹²⁶
- A135. 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.
- Other reporting requirements*
- A136. The Treasurer must release monthly, half-yearly reviews on the budget. The Budget Papers are to be presented on the basis that covers the general government sector and prepared in accordance with the Australian Accounting Standards. The budget aggregates relating to the general government sector are to be for a 6 year period comprising the Budget year, the 2 prior years and the 3 forward years. The statement must include matters as required by section 8 of the *Fiscal Responsibility Act 2012* (FRA), and 4 year projections (being for the Budget year and 3 forward years) of all economic and financial variables.
- A137. The FRA requires the NSW government to produce a long-term fiscal pressures and re-assessment of the state's long-term fiscal gap every five years. The projections provide how the NSW's economy and fiscal position could evolve over the next 40 years, unless the government intervenes. It examines trends in the population, workforce participation, living arraignments and productivity and projected them over the next 40 years. The key metric under the FRA measures the state's long term fiscal sustainability, via the projected change in revenue less expenditures – including net capital expenditure but excluding interest – as a percentage of Gross State Product.¹²⁷
- A138. 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.¹²⁸
- A139. In summary the non-financial information must include (amongst other listed in the Department and Statutory regulations):
- the entities' charter;
 - aims and objects;
 - access, management and structure;
 - summary review of operations;

123 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.

124 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*.

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

126 [Refer to NSW Auditor-General's Report to Parliament on Industry 2017](#)

127 [Budget Paper No. 5 Intergenerational Report](#)

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

- fund granted to non-government community organisations;
- economic or other factors affecting the achievement of the operational objectives of the Department during the reporting year;
- the nature and range of activities undertaken including qualitative and quantitative measures and indicators of performance showing the level of efficiency and effectiveness

Government Business Enterprises

- A140. 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 has 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.¹²⁹
- A141. 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.¹³⁰ 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*.¹³¹ Currently there are no company State Owned Corporations.
- A142. A statutory State-owned corporation has the same financial reporting requirements as statutory bodies as discussed in paragraph A133 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.
- A143. 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 A133.¹³²

Local Government

- A144. Currently NSW 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.

¹²⁹ 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.

¹³⁰ Section 24 of the *State Owned Corporations Act 1989 No 134*

¹³¹ Section 24(9) of the *State Owned Corporations Act 1989 No 134*

¹³² Part 2 of *State Insurance and Care Governance Act 2015 No 19* and Section 4 of the *Treasury Corporation Act 1983 No 75*

- A145. 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*¹³³ states that the Auditor-General is the auditor unless a council, in writing asks to appoint a firm to be the auditor. Councils are not included in the whole of state or department's financial statements.
- A146. 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 & Cabinet¹³⁴. Annual statement of council's revenue policy for a year is required to be included in an operational plan which includes a statement containing a detailed estimate of the council's income and expenditure, and statement on charges and rates proposed to be levied etc. The basis of the budgetary information does not reference the requirement to comply with AASB 1055.
- A147. Each local government must also have a community strategic plan that identifies the main priorities and aspirations for the future of the local government that covers the period of at least 10 years that address civic leadership, social, environmental and economic issues. A council must also have a long-term strategy for the provision of implementing the community strategies and establish a delivery program covering the principle activities for a 4 year period.

Tasmania

State government

- A148. The Tasmanian Treasurer is required to prepare an annual financial report for the WoG for each financial year and the Treasurer's annual financial report is to be laid before each House of Parliament.¹³⁵ 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*.¹³⁶ Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A149. Tasmanian heads of Agencies¹³⁷ 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.¹³⁸
- A150. The financial statements are prepared and certified in accordance as specified in the Treasurer's Instructions so as to present fairly:
- the financial transactions of the Agency during the financial year; and

133 The reporting requirements are based on research conducted at 8 March 2018

134 Section 428 of the *Local Government Act 1993*

135 The reporting requirements are based on research conducted at 8 March 2018 and does not take into account amending legislation, the *Financial Management Act 2016* which will replace the *Financial Management and Audit Act 1990*. Section 26E and 26F of the *Financial Management and Audit Act 1990*

136 Section 16 of the *Audit Act 2008*

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

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

- 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.¹³⁹

- A151. 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*.
- A152. 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*".¹⁴⁰
- A153. 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.
- A154. 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.
- A155. 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 Agency¹⁴¹ in accordance with the requirements determined by the Australian Auditing and Assurance Standards¹⁴².
- A156. The Treasurer issues copies of the annual financial report to be tabled before each House of Parliament before 31 October each year.

Other Reporting requirements

- A157. The Treasurer is to table in both House of Parliament a report that relates to the long-term sustainability of the State's finances every 5 years, with specific regard to –
- the policies of the Government; and
 - financial impact of anticipated changes to the demographics of Tasmania

139 Section 27 of the *Financial Management and Audit Act 1990*
140 [TI 205 Certification of Annual Financial Statements](#)
141 Section 18 of the *Audit Act 2008*
142 Section 19(1) of the *Audit Act 2008*

- A158. The Charter of *Budget Responsibility Act 2007* provides a framework on long-term sustainability reporting is to improve fiscal policy outcomes requiring a fiscal strategy statement, regular reports to provide assessment of the Government's fiscal performance; and the publication of a pre-election financial outlook report. The *Tasmanian Government Fiscal Sustainability Report 2016*¹⁴³ states that report assess the sustainability of the Tasmania Government's finances by examining a range of possible outcomes, at the General Government Sector level of the State's economic growth until 2029-30 based on population, labour market participation and productivity.
- A159. The Charter also requires a fiscal strategy statement is to be prepared to specify the fiscal objectives and targets for the budget year and the following 3 years. The Budget presentation will be based on the Uniform Presentation Framework¹⁴⁴ on an accrual basis.¹⁴⁵

Government Business Enterprises

- A160. 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.
- A161. 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 discussed in paragraph A148. 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.¹⁴⁶ 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*.
- A162. The audited financial statements and other information and statements including the report on the performance of the Government Business Enterprises and its subsidiaries make up the annual report.¹⁴⁷
- A163. 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.¹⁴⁸ 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.¹⁴⁹

Local Government

143 [Tasmanian Government Sustainability Report 2016](#)

144 Uniform Presentation Framework (UPF) is based on accounting standard AASB 1049. The Fiscal Integrity and Transparency Act require that fiscal outlook reports be prepared in accordance with external reporting standards, including the Australian Accounting Standards or the UPF.

145 [Accrual Budgeting Framework](#)

146 Section 52 of the *Government Business Enterprises Act 1995*

147 Section 55 of the *Government Business Enterprises Act 1995*

148 Department of Treasury and Finance – *Governance Framework Guide*.

149 Section 19 and 20 of the *Audit Act 2008*

- A164. 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.
- A165. 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*.
- A166. Thus the financial statements are prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Local Government Act 1993*. Councils are not included in the whole of state or department's financial statements. .
- A167. Councils are also responsible for managing cemeteries and include financial information in the council's financial statements.
- A168. The act lists out specific information and statements that must include the following:
- (a) interests of any councillors' major financial dealings, if any;
- a comparison of the council's actual and estimated revenue and expenditure;
 - a statement of any revenue and expenditure of a council committee, a special committee or a controlling authority;
 - 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.
- A169. 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. A budget containing financial statements as set in the *Local Government Model Financial Report*. There is no requirements specified in the Act or regulations but the statement also includes projections for the three years following the budget year and aligns with the actual financial statements so that they are directly comparable as documented in the *Local Government Better Practice Guide*.
- A170. The Act also requires the following long-term documents to be developed and implemented:
- strategic assets management plans (10 years), for each of the council's major asset classes
 - a long-term financial management plan (10 years);
 - strategic plan (10 years)
- A171. 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.¹⁵⁰

¹⁵⁰ Section 18 and 19 of the *Audit Act 2008*

Australian Capital Territory

State government

- A172. The ACT government structure consists of the Territory, directorates¹⁵¹, territory authorities¹⁵² and territory-owned corporations. This includes public cemeteries and crematoria which are independent statutory authority.
- A173. The Under Treasurer must prepare annual financial statements for the Territory including all directorates, territory authorities and all territory-owned corporations for that year. The statements must be prepared in accordance with the Australian Accounting Standards¹⁵³ and include the financial statements as required under the *Financial Management (Periodic and Annual Financial Statements) Guidelines 2016*¹⁵⁴; 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.¹⁵⁵ 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. GGS financial statements are presented within the consolidated whole of state financial statements as well as the Budget Papers. Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A174. The Under 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.¹⁵⁶ The *Annual Reports (Government Agencies) Act 2004* requires the responsible Minister annual reports must present the report to the Legislative Assembly within 15 weeks after the end of the reporting year.
- A175. Directorates and territory authorities 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 2016.¹⁵⁷ 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.
- A176. The director-general of a directorate and the chief executive of a territory authority must give the Auditor-General the financial statements of their relevant entity for a financial year and the Auditor-General must give and audit opinion about the statements.
- A177. ACT Treasury has also developed model financial statements guidelines for agencies which contain the minimum disclosure requirements for their 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.

151 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.

152 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.

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

154 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.

155 Section 22 of the *Financial Management Act 1996*

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

157 Section 27 of the *Financial Management Act 1996*

- A178. ACT does not have local governments and the responsibilities are administered by a department of the territory government.¹⁵⁸
- A179. The whole of state consolidates all departments and statutory bodies into their consolidated financial statements and 50% of other entities. Those entities that are not consolidated are funded from industry revenue (industry funds) and not under the control of government decision making in their operations.

Other reporting requirements

- A180. 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 year¹⁵⁹. A report prepared under the *Annual Reports (Government Agencies 2004)* for a territory authority for a financial year includes the authority's statement of performance for the year and the auditor-general's report about the statement of performance.¹⁶⁰
- A181. The WoG must present to the Legislative Assembly the proposed budget including a financial policy objectives and strategies statements, statement of the economic or other assumptions, statement about the sensitivity of the budget estimates, and the financial statements with proposes budget forecast of the next 3 years as required under the *Financial Management Act 1996*. In addition to the budget forecast, a budget review must be conducted for each financial year.
- A182. There is no legislative requirements to prepare long-term sustainability report however ACT have previously produced a report, *Population Ageing in the ACT – issues and analysis*¹⁶¹ collating information on the effects of ageing in the ACT and explores some of the policy issues arising from these effects. The economic and fiscal projections were generated using the State Intergenerational Model developed by Access Economics which produces 40-year projections based on actual data to 2006-07 up to the year 2036.

Government business enterprises

- A183. 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.¹⁶² The auditor of the territory-owned corporation or its subsidiary must be the auditor-general.¹⁶³
- A184. The financial statements of territory-owned corporation apply Tier 1 reporting requirement except for one territory owned corporation which applies Tier 2 reporting.
- A185. 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.

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

159 Section 68 of the *Financial Management Act 1996*

160 Section 71 of the *Financial Management Act 1996*

161 [Population Ageing in the ACT – Issues and Analysis report](#)

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

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

Local Government

- A186. The responsibility for local governments is handled by the department of the territory government. To manage these responsibilities, the ACT Public Service is divided into the various Directorates which manage functions such as roads, libraries and waste collection. As such the financial information related to the local government responsibilities are reported within the directorates' financial statements

Northern Territory

- A187. Section 9, 10 and 11 of the Northern Territory (NT) Financial Management Act requires the Treasurer, Agencies¹⁶⁴ that are required under section 28 of the Public Sector Employment and Management Act, and Government Business Divisions¹⁶⁵ 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.¹⁶⁶ The Treasurer may direct the Accountable Officer¹⁶⁷ of an Agency to submit its financial statements to the Auditor-General for audit which must also be tabled to the Legislative Assembly.¹⁶⁸ GGS financial statements are presented within the consolidated financial statements and the Budget Papers. Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A188. 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.¹⁶⁹
- A189. 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 WoG¹⁷⁰ Agencies¹⁷¹ and Government Business Divisions¹⁷²
- A190. The WoG financial statements consolidate all departments, statutory bodies and state owned corporations, however departments do not consolidate statutory bodies in their financial statements.¹⁷³

164 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.

165 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.

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

167 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.

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

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

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

171 Section R2.1: Agency Financial Statements

172 Section R3.1: Government Business Division Financial Statements

173 Response collected from questionnaire to the NT Treasury

A191. The Treasurer's annual financial statements take into account the requirements of the Uniform Reporting Standards¹⁷⁴ 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.¹⁷⁵

A192. 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.

Other reporting requirements

A193. The *Fiscal Integrity and Transparency Act* require the reporting of the budget and forward estimates in accordance with external reporting requirements. Each fiscal outlook report contains the updated financial projections for the budget year and the following three financial years for the general government and non-financial public sectors. The Treasurer must publicly release and table the first fiscal statement for a particular Government at or before the time of the Government's first budget. A fiscal strategy statement is to:

- specify the Government's medium-term fiscal objectives;
- explain the broad strategy priorities on which the budget is based on,
- specify the key fiscal indicators
- specify for the budget year and the following 3 financial years the Government's fiscal objectives and targets, and the expected outcomes for the specified key fiscal indicators
- specify the Government's fiscal objectives and targets; and the expected outcome for specific key fiscal indicators, the budget year and the following financial years.

Each report is to be based on external reporting standards which means the concepts and classification set out in GFS Australia and the Australian accounting standards.

A194. There is no other requirement for any other long term intergenerational reporting requirements.

Government Business Enterprises

A195. 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 A189.

174 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.

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

- A196. 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
- A197. 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.¹⁷⁶
- A198. 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.¹⁷⁷

Local Government

- A199. 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 financial statements must conform to Australian Accounting Standards and other requirements in the regulations¹⁷⁸ and any guidelines that the Minister may make. This includes details of rates levied for the financial year, the nature and amounts of grants and subsidies received during the year, reserves set aside for specific purposes and the nature and function to which the council's income and expenses for the financial year is attributed. Public cemetery situated in a council's area is under the care, control and management of the council¹⁷⁹, in which the financial information is included in the council's financial statements.
- A200. 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.¹⁸⁰ Councils are not included in the whole of state or department's financial statements.
- A201. 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.¹⁸¹ In addition a council must prepare a budget for each financial year that must contain estimates of revenue and expenditure for the financial year and other information listed in section 127 of the *Local Government Act* however it does not reference that the Budget be prepared in accordance with the accounting standards.
- A202. A council must also prepare and keep up-to-date a long-term financial plan relating to at least 4 financial years. It must contain a statement of the major initiatives the council proposes to undertake during the period to which the plan relates projections of income and expenditure for each financial year of the period and the council's proposals for the repair, maintenance, management and development of infrastructure for each financial year.

176 Section 43 and 44 of the *Government Owned Corporations Act*
177 Section 40 and 41 of the *Government Owned Corporations Act*
178 Part 7 of the *Local Government (Accounting) Regulations*
179 Section 184 of the *Local Government Act*
180 Part 10.7 of the *Local Government Act*
181 Section 199 of the *Local Government Act*

Other financial reporting considerations

Cost of preparing and auditing financial statements

- A203. Public sectors spend time and money when trying to meet the reporting requirements as required by their legislation, treasurer's instructions and the accounting standards. To derive at this conclusion the AASB conducted a cost analysis of a high level estimate of how much it cost each state and territory and the Commonwealth in audit cost, valuation cost (where that information is provided to us) and cost of preparing financial statements (where that information is made available to us). Samples of audited financial statements were selected for the Commonwealth, state/territory and local government to derive the range of the cost of audits that could apply.
- A204. For local governments, the sample selection was based on the highest total assets or revenue compared to smallest assets and revenue for Victoria. For NSW and QLD, selection was based on highest and lowest revenue sourced from the financial information compiled by the relevant State Department responsible for local governments. For WA selection is based on highest and lowest population in regional and metropolitan areas and the remainder states/territory is based on a random selection of councils.
- A205. Based on the analysis and information collected from various heads of Treasury, there are a total of 108 departments (excluding SA and WA) and 2369 agencies/statutory bodies (excluding SA and WA). For local government, based on the QLD Forecasting long-term sustainability of local government Report 2: 2016-17, there are a total of 562 councils for all states/territories (excluding ACT where the functions of local councils are within state departments). A sample of financial statements selected from local government indicated the audit cost for the smallest council was \$15,000 and largest council was \$578,000. Thus the average audit cost per local government entity is approximately \$300,000. The total cost of auditing financial statements for Australia (excluding local governments) was \$182M¹⁸² for the 2016/17 financial year. As a result, Australia spends a total of \$350.6 million audit fees.
- A206. Assuming that the cost of preparing financial statements is three times of the audit fees, the total cost of preparing and auditing financial statements is estimated as over a \$1 billion. This estimate excludes any valuation cost associated with preparing financial statements and cost of preparing WoG financial statements.

Levels of consolidation

- A207. Entities are required to comply with the Australian Accounting Standards including AASB 10 *Consolidated financial statements* that require consolidated financial statements to be prepared for the parent public sectors entity if they control another entity. This is also a requirement stated in the various governments' legislation as well as the requirement to prepare separate individual entities' financial statements.

182 Information is sourced from the published WoG financial statements. For Victoria, the information was provided by the head of treasury. The information used for SA audit fees was based on the 2015/16 financial year.

A208. As such the same information is duplicated in the separate financial statements of individual entities as well as in the consolidated financial statements. The below table explains the levels of consolidation at commonwealth and each state level¹⁸³.

Level of Government	Are departments and agencies/statutory bodies are consolidated to WoG financial statements?	Are agencies/Statutory bodies are consolidated to Departments' financial statements?	Do agencies/ statutory bodies prepare GPFS (Tier 1)?
Commonwealth	Not provided	Not provided	Based on legislation, some departments and entities are permitted to apply Tier 2 requirements however this has not been verified in practice.
VIC	<ul style="list-style-type: none"> • Yes 	<ul style="list-style-type: none"> • Statutory bodies are not generally consolidated as they generally are not controlled by departments¹⁸⁴. Only 7 departments consolidate all statutory bodies 	<ul style="list-style-type: none"> • Yes (however, some are included within the Departments or other entities.
QLD	<ul style="list-style-type: none"> • Departments are fully consolidated. • Statutory bodies are consolidated if either has net operating result >\$5m or net assets >\$75m. 61 of 135 statutory bodies were consolidated in 2016/17. 	<ul style="list-style-type: none"> • No (Statutory bodies are separate entities not controlled by the departments. However, controlled entities such as companies are consolidated subject to materiality. 	<ul style="list-style-type: none"> • Yes. Statutory bodies consolidated to WoG should prepare Tier 1 and other unconsolidated statutory bodies are permitted to prepare Tier 2.
NSW	<ul style="list-style-type: none"> • Departments are fully consolidated. • All controlled entities are consolidated except for 36 general 	<ul style="list-style-type: none"> • All controlled entities are consolidated as per Public Finance and Audit Act except in Department of Transport¹⁸⁵. 	<ul style="list-style-type: none"> • Yes¹⁸⁶

183 The information in the table is based on data obtained by each level of government by way of a questionnaire.

184 All statutory bodies are consolidated to WoG financial statements except for entities which have been consolidated to Department's financial statements pursuant to section 53(1)(b) of the Financial Management Act 1994

185 Department of Transport has been granted an exemptions from preparing consolidated financial statements as the results of each entity within its controlled group are also consolidated in to the GGS and Total State Sector accounts.

Level of Government	Are departments and agencies/statutory bodies consolidated to WoG financial statements?	Are agencies/Statutory bodies consolidated to Departments' financial statements?	Do agencies/ statutory bodies prepare GPFS (Tier 1)?
	government entities and 4 non-financial corporations which are not individually or collectively material.		
ACT	<ul style="list-style-type: none"> • Yes. Other entities not controlled by the state are not consolidated, 	<ul style="list-style-type: none"> • Yes (Each entity publishes their own financial statements, however they are grouped by portfolio) 	<ul style="list-style-type: none"> • Yes if there a separate reporting entity for the purpose of FMA
NT	<ul style="list-style-type: none"> • Yes 	<ul style="list-style-type: none"> • No 	<ul style="list-style-type: none"> • Yes
WA	Not provided	Not provided	Not provided
SA	Yes	Yes ¹⁸⁷	Yes
TAS	<ul style="list-style-type: none"> • Yes (subject to materiality thresholds based on assets and revenue) 	<ul style="list-style-type: none"> • Yes (subject to materiality thresholds based on assets and revenue and control) 	Yes

186 The PFAA requires that all entities controlled by the Government must prepare a separate financial report. Those entities include a) Statutory Bodies listed in PFAA Schedule 2 (b) entities controlled by those statutory bodies (c) Departments listed in PFAA Schedule 3 (d) entities controlled by those departments € entities controlled by particular government minister or ministers

187 Per SA Accounting Policy Framework, all public authorities that have control over another entity, must, subject to materiality, prepare consolidated general purpose financial statements for the public authority and all of its controlled entities. There is no materiality threshold set in the framework.

- A209. For example a department prepares consolidated financial statements including the statutory bodies (except for NT, VIC and QLD) that they control whilst the statutory body itself prepares its own separate financial statements. The Whole of state government then consolidates the departments and statutory bodies again as required by the Australian Accounting Standards and their respective state legislations. This means that the information may be duplicated at two separate levels. Although the Australian Accounting Standards¹⁸⁸ may exempt a parent entity from preparing consolidated financial statements, however the legislation specially excludes this exemption.
- A210. Internationally departments are required to prepare consolidated financial statements but countries such as South Africa, Canada, and US provide exemptions for agencies to prepare separate financial statements. This removes the information being duplicated at different levels of government compare to Australia.
- A211. One contributing factor for the number of consolidation required is because the accounting standards AASB 1049 for the WoG was developed after the departments financial statements. As such departments may have retained the requirement to prepare consolidated financial statements even after where the WoG is also required to prepared and submit consolidated financial statements.
- A212. For financial reporting purposes, state and territory governments do not consolidate local governments in their financial reports. The view taken by the state/territory government is that the local government does not meet the definition of control under AASB 10. However the constitutional responsibility for local governments lies with the state and territory governments such as defining the powers and geographical areas those governments are responsible for.¹⁸⁹
- A213. As such there is an argument that the whole of state government or departments should consolidate financial information of local governments. This is similar to the case in the ACT where the local government responsibilities are divided into the directorates and financial reporting of those responsibilities are reported in the Directorates' financial statements. Specific information such as fees and fines related to roads and public places are disclosed in the notes within the Directorates' financial statements.¹⁹⁰
- A214. The concept of consolidation for public sector entities will be further explored in a separate AASB research paper.

Machinery of Government

- A215. A Machinery of Government (MoG) change occurs when the Government decides to change the way Commonwealth responsibilities are managed. It can involve the movement of functions, resources and people from one agency to another.
- A216. A MoG change can lead to creation of a new government agency, closure of an existing government agency; and/or movement of functions and responsibilities.

188 Paragraph 4 of AASB 10 Consolidated financial Statements allows parent entity not to prepare consolidated financial statements where the ultimate parent entity has prepared consolidated financial statements available for public use as well as meeting 3 other specific conditions.

189 [About Local Government in Australia](#)

190 Note 7 of the Annual Report for Transport Canberra and City Services Directorate

- A217. Over the past 20 years, the Australian Public Sector (APS) has undergone more than 200 MoG changes¹⁹¹—an average of more than 10 per year. MoG changes vary greatly in scope and complexity and can involve: the abolition or creation of new government entities; the merger or absorption of entities; and small or large transfers of policy, program or service delivery responsibilities to other entities.
- A218. Frequent changes in the APS will have implications on preparing consolidated financial statements and the assessment control.
- A219. The question is whether a department at commonwealth or state government level should be a reporting entity or a function at the WoG level given that they can be moved among the portfolios. In other words, should financial information of the departments be presented in the consolidated financial statements of the state or commonwealth government by way of segment reporting or extract of reporting such as presenting only the comprehensive income, balance sheet, cashflow and changes in equity statements.

Sustainability reporting

- A220. Sustainability reporting is important in public sector in Australia¹⁹² mainly due to following reasons;
- Agencies have a civic responsibility to properly manage public goods, resources and/or facilities in a way that supports sustainable development objectives and promotes the public interest to ensure that there are sufficient funds to pay ; and
 - Offering transparency and accountability benefits by requiring the reporting of the organisation's key performance information.
- A221. In its June 2006 report, the Parliamentary Joint Committee on Corporations and Financial Services concluded sustainability reporting should remain voluntary. There were concerns that mandating reporting would promote 'form over substance' whilst the committee believed it would be more beneficial for 'companies to be encouraged strongly to engage voluntarily in sustainability reporting rather than being forced to do so'.
- A222. When compared to international jurisdictions, South Africa has had a Code of Corporate Practices and Conduct for companies (both private and public), which requires entities to issue an annual sustainability report, since 2003 and the Department for Environment, Food and Rural Affairs has also published Environmental Key Performance Indicators: Reporting Guidelines for UK Business in the UK
- A223. All levels of government (as shown in Appendix A) currently prepares Budget Papers and provides a forecast of upto 3 years. For the Commonwealth and states/territories, there is a requirement that these Papers are prepared in accordance with the Australian Accounting Standards and AASB 1055 *Budgetary Reporting* provides the basis for when preparing budgetary information which allows for a consistent. Generally speaking the budget forecast must be prepared to align with the line items presented for the GGS statements. Local government are required to prepare budgeted reports however it does not required compliance with the Australian accounting standards, however some states require that an accrual basis of reporting.

191 Paper on *Machinery of Government Changes* issued by Australian National Audit Office in August 2016

192 as set out in *Public sector sustainability reporting: Remove the clutter, reduce the burden* issued by Fiscal point Australia in September 2012

- A224. Further at all levels of government, entities are required to prepare some form of performance reporting containing information about relevant statistics in respect of the agency's functions and objectives, its performance management and development including an assessment of their effectiveness and efficiency. In particular local governments are required to report on long term sustainability reporting on long term priorities and resourcing implications with some states such as WA (see paragraph A107) or NSW (see paragraph A147) requiring projections up to 10 years or more.
- A225. Currently there is no accounting standard for reporting social benefits and there is no mandatory requirement that is consistently applied by any jurisdiction. However the whole of Commonwealth, New South Wales and Tasmania are the only jurisdiction required to prepare an Intergenerational Report that assess the growth of the population and how this impacts on the economic and sustainability.

Government Financial Statistics Reporting

- A226. 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.
- A227. 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.
- A228. Many other governments in other countries such as UK, US and New Zealand apply fully accrual based system or a modified version based on IFRS and IPSAS. The international statistics standards are primary used for national accounts to facilitate macro-economic analysis. Prior literature suggests there has been strong support to converge or reduce the difference between government accounting and national accounting in Europe, It was also argued that the use of GFS in departments has the benefit of achieving a consistent reporting framework at both the departmental and national level, and could facilitate benchmarking to increase national and international comparability of government reports.¹⁹³
- A229. The International Monetary Fund (IMF) responsible for issuing the GFS Manual which the Australian Bureau of Statistics have based their GFS on, recognises the need to increase the availability of key economic indicators to improve reliability and timely statistics of internationally comparable data of general government and public sectors. This will enable early detection of vulnerability to allow corrective measures to be taken.
- A230. 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.
- A231. The Australian GFS system is based on two important international statistical standards:

193 R. Kober, J. Lee, J. Ng, *Mind your accruals: Perceived Usefulness of financial information in the Australian public sector under different accounting systems*, Accounting and Business Research, Vol. 42, No. 5, Dec 2012

- a system of national accounts embodied in *System of National Accounts 2008 (2008 SNA)*, issued jointly by the United Nations (UN), the 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)

A232. Public sector entities are categorised as follows in the Australian GFS framework¹⁹⁴;

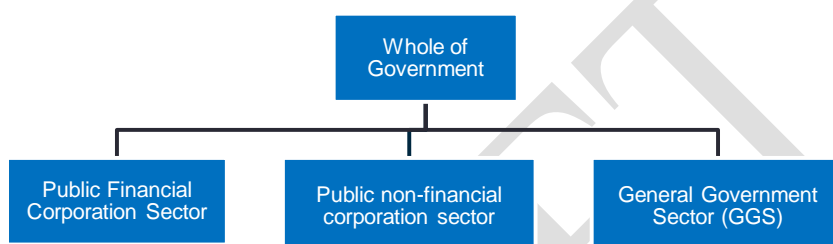


Figure 1 - Structure of Australian GFS framework

How is GFS different from Australian Accounting Standards?

A233. 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 if GFS provides a specific method of treatment. 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.

A234. 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.

Statistical bases of reporting require all assets and liabilities to be revalued to market value at each reporting date. AASBs include different measurement requirements and require or permit cost and current values for certain classes of assets and liabilities. They do not require all assets and liabilities to be revalued to market value. Therefore, the measurement of assets and liabilities in the GGS disclosures in the financial statements, including the investment in the PFC and PNFC sectors, may differ from the measurement basis adopted in statistical bases of reporting.

- 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.

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

- 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.

A235. GGS financial statements are presented within the whole of state/Commonwealth financial statements as well as the Budget Papers. 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*. Reconciliation must be prepared between the GGS financial statements prepared for the purpose of the ABS GFS Manual and the WoG financial statements.

A236. In one academic review by R. Kober et al¹⁹⁵, their study examined the usefulness of the various accounting systems employed by the public sector in 12 decision situations affecting individual government departments as well as users' understandability of financial reports relating to:

- cash-based accounting information;
- GAAP accrual-based information; and
- GFS accrual-based information.

A237. The study found that the usefulness of GAAP accrual-based information was statistically significantly more useful information than both cash-based accounting or GFS accrual-based information accounting for both internal preparers and external users, in relation assessing department performance, assessing program performance and departmental resource allocation decisions.

A238. Nevertheless GFS based information was perceived to be useful for external users compared to internal users especially where those who had a better understanding of GFS-accrual-based information found it useful.

A239. A subsequent study¹⁹⁶ was conducted which explored the question on the appropriateness for public sector decisions needs of the convergence of GAAP and GFS accounting treatment into AASB 1049. Respondents to the survey conducted showed mix preferences for GAAP or GFS treatment depending on underlying financial items. GAAP treatments were statistically significant for items such as allowances for doubtful debts, valuations of assets and gains or losses on disposal of assets. However respondents preferred the GFS treatment that was inconsistent with AASB 1049 which were; goods and services tax be recognised as Commonwealth tax and grants to other states, development costs be written off as expense.

¹⁹⁵ R. Kober, J. Lee, J. Ng, *Mind your accruals: Perceived Usefulness of financial information in the Australian public sector under different accounting systems*, Accounting and Business Research, Vol. 42, No. 5, Dec 2012

¹⁹⁶ R. Kober, J. Lee, J. Ng, *GAAP, GFS and AASB 1409: perceptions of public sector stakeholders*. Accounting and Finance (2013) 417-496

- A240. Internationally, other jurisdictions such as United Kingdom, Canada and New Zealand do not have separate accounting standard specifying requirements for GPFSs and GFS financial statements of each level of government. The GFS data is presented in the respective government official websites and not within the financial statements. Further the WoG or state government financial statements of those countries do not include reconciliation between their accounting based information and GFS.
- A241. IPSASB also recognises that the IPSAS and GFS reports have much in common, both of which are concern with financial, accrual based information and governments' assets liabilities, revenue and expenses. However IPSASB also supports the view that IPSAS reporting guidelines have different objectives where financial reporting is to provide information that is useful for GPFR for accountability purposes and decision making. Whereas GSF reports are used; to analyse fiscal policy options, make policy and evaluate the impact of fiscal policies, determine the impact on the economy and compare fiscal outcomes nationally and internationally. This means that the different objectives would lead to different treatments of transactions and events.

AASB Round table discussion

- A242. The roundtable discussion on the Financial Reporting Framework for Public Sector Entities¹⁹⁷ was held in January 2016 with external counterparties including representatives from State and Commonwealth Treasuries/Finance and audit firms.
- A243. 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.
- A244. 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/ WoG. 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/ WoG (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.

197 [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 WoG consolidated financial statements, rather than GPFS.
- Participants noted that Tier 2 GPFS – RDR were 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.
- 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 WoG 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)

A245. 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.

A246. The current requirements is that 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.

A247. 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:

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

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

- Administered assets showing separately each major class of assets
- Administered liabilities, showing separately each major class of liability

- A248. The AASB collected information from heads of treasury and generally the feedback received was that the distinction provided transparency and department's accountability and one jurisdiction noted that the classification changes the way the items is disclosed for budgeting and reporting process. One jurisdiction noted that the classification changes the way the items is disclosed for budgeting and reporting process and also is a 'grey area' and open to interpretation.
- A249. Whilst the information is useful for preparers of financial statements, there is a lack of information to demonstrate that this is also useful for external users.
- A250. At the AASB Roundtable discussion, participants discussed whether the 'administered' versus 'controlled' items distinction was necessary and useful, and whether different levels of accountability were attached to such items.
- A251. One participant noted that their 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.
- A252. As explained in Appendix B, a similar disclosure requirement was not required in other international jurisdictions. Thus this is a unique financial reporting disclosure required only in Australia. Furthermore, there is no IFRS or IPSASB standard dealing specifically with administered items.
- A253. This raises the question on how this information is needed by users in making decisions, and whether the benefits of preparing the information outweigh the cost. On the other hand, is this information required by the preparers or the users of the financial statements and whether this leads to better decision making by the external users.

Other Australian Specific Accounting Standards for the public sector

- A254. Other Australian specific accounting standards that Government entities must take into consideration relevant to this Paper are listed in :

Table 3 - *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 WoG 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

AASB standards	Overview of standard
	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 WoG.
AASB 1052 Disaggregated Disclosure	<p>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.</p> <p>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.</p>
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 WoG, GGS and not for profit entities within the GGS of each government.
AASB 1058 Income from Not-for-profit	This Standard clarifies and simplifies the income recognition requirements that apply to NFP entities, in conjunction with AASB 15 <i>Revenue from Contracts with Customers</i> .

Modifications to AASB standards

A255. The table below explains the modifications to AASB standards by Treasurer's instructions. The information in the table is based on data obtained by each level of government by way of a questionnaire.

<i>Name of the State</i>	<i>Details of modification to AASB standards</i>
VIC	None
NSW	None
QLD	None
NT	None
SA	None
TAS	<p>In 2016-17, a Treasurer's instruction directed Tascorp to comply with AASB 1004 Contributions and present the transfer as an equity contribution and exempted it from the definition of a liability under AASB 132 Financial Instruments: Presentation; and of a liability under AASB 132 Financial Instruments: Presentation.</p> <p>In 2016-17, a specific Treasurer's instruction (GBE-08-52-08P Exemption from IFRS 5 for Forestry Tasmania's 2016-17 Financial Statements) was issued to Forestry to provide an exemption to the requirements of Australian Accounting Standard AASB 5 Non-current Assets Held for Sale and Discontinued Operations. This resulted in the inclusion of an emphasis of matter paragraph in the audit opinion.</p>
WA	Not provided, however the Treasurer's Instruction currently modifies 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
ACT	None

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. 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.

Definition of public sector reporting entities - International jurisdictions

- B3. The Australian Accounting Standards currently specifies the WoG, local 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

- B4. 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.
- B5. Section 4.3 of the conceptual framework notes that the key characteristics of a public sector reporting entity are that:
- it raises recourse (ability to raise taxes or charge fees/levies etc.) from, or on behalf of, constituents and/or use recourse to undertake activities on behalf of those constituents; and
 - service recipients and resources providers depend on GPFR for information for accountability or decision-making purposes.
- B6. As per IPSASB conceptual framework, two types of users are specified that requires information for accountability and decision-making purposes, service recipients¹⁹⁸ and resources providers¹⁹⁹.
- B7. Service recipients' need information on;
- whether an entity's resources are used economically, efficiently and effectively;
 - whether current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided; and

¹⁹⁸ Service recipients include taxpayers and other members of the community that benefit from the services provided by the government or other public sector entity, whether as a result of exchange or non-exchange transactions.

¹⁹⁹ Resource providers include "involuntary resource providers" such as taxpayers, and "voluntary resource providers" such as lenders, donors, suppliers, fee-for-service consumers and employees.

- other non-financial information about the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities. This is similar to what is currently required by public sector entities requirements to report on sustainability across Commonwealth, State and local governments in Australia.

B8. Whereas resources providers need information on:

- whether the entity is achieving its objective to justify for the resources raised;
- whether there is likelihood that additional resources are needs in the future and the sources of those resources.

B9. This infers that 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 GPFRs for information about it for accountability and decision-making purposes.

B10. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist which is different to the reporting entity concept applied for public sector entities Australia as explained in **Error! Reference source not found..**

B11. 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 state public bodies (such as immaterial statutory bodies) and local government entities 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 currently specifies those public sector entities, local governments, governments and most, if not all, government departments as reporting entities.

B12. Given the preparation of GPFRs are not a cost-free process and the imposition of financial reporting requirements needs to be efficient and effective. Therefore it is important that only those public sector entities for which such users exist should be required to prepare GPFRs to ensure the best use of taxpayers' money.

Other international jurisdictions

B13. In New Zealand, the determination of 'who' should be reported is established in legislations. The financial reporting obligations are established for particular types of entities in their governing legislation such as the public Finance Act 1989 and Local Government Regulations of 2014 (explained further in paragraph **B5-B13**).

B14. The External Reporting Board Standard A1 (XRB A1) *Application of the Accounting Standards Framework* discuss the requirements on 'what' should be reported. In New Zealand, Public Benefit Entities (PBEs) are defined in XRB A1 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.

B15. Thus the public sector entities will prepare financial statements based on the 4 tiers set out in the framework and certain entities below a particular threshold will only prepare cash based simple format of financial statements (explained further in paragraph B14-B20) which results in an appropriate balance of cost of preparing/auditing financial statements and the benefit to the users of the financial statements..

2. 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.

- o 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.
- o The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
- o 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.

B16. As such the above definitions do not include local governments, governments and most, if not all, government departments as reporting entities as stated in Australian Accounting Standards and all public sector entities are not required to prepare Tier 1 GPFs. In addition to the above, reduced levels of reporting or exemptions are granted to agencies below federal and state government level in Canada, South Africa and in the United States as summarized in Appendix B of this report.

New Zealand

B17. NZ Public sector is structured as follows:

- I. National government/ State Sector
 - a) State services departments
 - b) State-owned enterprises
- II. Local Government

Whole of Government

B18. 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 37 departments and Ministries.²⁰⁰

B19. New Zealand has the following public sector entities as at 19 February 2017²⁰¹ (excluding school board trustees and universities):

Type of entity	Number of entities
Public service departments and departmental Agency	32
Non-public service departments	5
Crown entities (statutory entities)	79
Crown entity corporations	11
Public sector Act schedule organisations and companies	56

²⁰⁰ Section 27(3) of the *Public Finance Act*

²⁰¹ [State Services Commission website](#)

Type of entity	Number of entities
Reserve Bank of New Zealand, office of parliament, mixed ownership model companies	7
State-owned enterprises	13

- B20. However, there is a range of other types of public sector entities in NZ which are not covered above, such as Crown entities, tertiary education institutions (e.g. universities), State Owned Enterprises (SOEs) and other agencies as noted in State Services Commission website²⁰². The financial reporting requirements for these entities are not explained in this paper.
- B21. Central and local government in New Zealand are independent of one another politically, financially and administratively²⁰³. Thus local authorities are not included in the financial statements of the Government because they are not considered controlled by the Government.
- B22. 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).
- B23. 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:
- a statement of borrowings;
 - a statement of unappropriated expenses and capital expenditure;
 - a statement of emergency expenses and capital expenditure;
 - budget vs actual analysis with explanations for significant variances a statement of trust money, and
 - service performance reporting.
- B24. 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).
- B25. 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).
- B26. 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

202 [official website of State Services Commission of NZ](#)
203 [Commonwealth Local Government Forum](#)

- a statement of service performance prepared in accordance with GAAP
- annual financial statements prepared in accordance with GAAP
- Budget vs actual analysis
- a statement of responsibility, and
- an audit report.

Local Government

- B27. *Local Government (Financial Reporting and Prudence) Regulations 2014* govern the financial reporting requirements of local governments, council controlled organisations and entities listed in section 6(4) of the above Act.
- B28. NZ regulations require all levels of government entities to prepare financial statements in accordance with PBE standards explained below. 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.
 - Budget vs actual analysis with explanations for significant variances
- B29. The government has also established performance benchmarks for local government's infrastructure services, namely the three waters (treated, waste and storm) roads and flood banks. In addition the government has prescribed a number of fiscal prudence benchmarks covering, for example, debt servicing costs, balanced budgets and affordability.

NZ reporting framework

- B30. As explained in External Reporting Board Standard A1 (XRB A1) *Application of the Accounting Standards Framework*, NZ financial reporting framework contains a multi-standards, multi-tiered framework. There are essentially two suites of standards – standards applying to for-profit entities (including for-profit public sector entities, such as state-owned enterprises) and standards applying to Public Benefit entities (PBEs). Hence, each public sector entity first needs to determine whether it meets the definition of a PBE and then apply the appropriate tier of reporting.

- B31. 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 XRB A1 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.
- B32. 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 2001²⁰⁴ and all Offices of Parliament”.
- B33. 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
Tier 2	<ul style="list-style-type: none"> ▪ Has no public accountability (as defined) ▪ Has total expenses (including grants) ≤ \$30 million but >\$2million <p>And elects to be in Tier 2 rather than Tier 1.</p>	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> ▪ Has no public accountability (as defined) ▪ Has expenses ≤\$2 million <p>And elects to be in Tier 3 rather than Tiers 1 or 2.</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 ▪ Is permitted by an enactment to comply with a ‘non-GAAP Standard’ or cash accounting <p>And elects to be in Tier 4 rather than Tiers 1, 2 or 3.</p>	PBE Simple Format Reporting Standard – Cash (Public Sector) - PBE SFR–C (PS)

B34. 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. There is a single standard specifying simple format reporting (accrual) requirements tier 3 entities.

204 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).

- 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. There is a single standard specifying simple format reporting (cash) requirements tier 4 entities mainly including entity information, statement of service performance, receipts & payments, and statement of resource & commitments along with certain other information such as related party disclosure and events after the reporting date.

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

B35. 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.*

B36. 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”

Auditing requirements

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 intended²⁰⁵. 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.

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

205 [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.](#)

Rationale given for the requirements – what should be reported

- B37. 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 a 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.
- B38. 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.
- B39. 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).
- B40. 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).
- B41. 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.
- B42. 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.

Rationale given for the requirements – who should report

- B43. *The Statutory Framework for Financial Reporting* issued by the Ministry of Economic Development (MED, now part of the Ministry of Business, Innovation and Employment) in September 2009²⁰⁶ set out the basis for the legislative changes that are currently applied.
- B44. Public accountability arises when an entity receives money directly from the public²⁰⁷. The entities that are publicly accountable are:

²⁰⁶ [Consultation paper on the Statutory Framework for Financial Reporting issued by the Ministry of Economic Development \(MED, now part of the Ministry of Business, Innovation and Employment\) in September 2009](#)

²⁰⁷ As per paragraph 49 of Part 4 of *The Statutory Framework for Financial Reporting* issued by the MED

- Non-profit public sector entities – Taxpayers and ratepayers provide the only or the predominant source of funding for the great majority of non-profit public sector entities (e.g. the government itself, government departments, crown entities and local authorities);
- Issuers²⁰⁸ – Some entities seek funding through debt or equity instruments that are offered to the public. In addition banks, insurance companies, mutual funds and other entities take deposits from the public and/or hold assets in a fiduciary capacity for broad groups of outsiders. All money obtained in these ways is the public's money; and
- Charities – Charities are publicly accountable because they received donations and bequests directly from the public.

B45. The definition of public accountability used in this consultation paper is slightly different from the definition of public accountability in XRB A1. The definition of "public accountability" for who should report in the MED document is much broader, and leads to the conclusion that public sector entities should be required to prepare GPFR. In contrast, the definition of "public accountability" in XRB A1 is narrower, and leads to the conclusion that not all public sector entities should report under Tier 1.

Levels of consolidation

B46. Based on the analysis of financial statements of the New Zealand Government, local government entities are not consolidated to the WoG financial statements²⁰⁹.

Government Finance Statistics (GFS)

B47. New Zealand follows Government Finance Statistics (GFS) developed by the International Monetary Fund (IMF) specifically for measuring government financial activity at following levels of governments:

- all levels of government (both central and local government in New Zealand)
- all sectors of government (general government, public non-financial corporations, and public financial corporations). In New Zealand, general government is the consolidation of both local and central government.

B48. PBE IPSAS 22 *Disclosure of Financial Information about General Government Sector* prescribes disclosure requirements for governments that elect to present information about the general government sector (GGS) in their consolidated financial statements. This Standard only applies to the New Zealand central Government.

B49. PBE IPSAS 22 will apply only in the event that the New Zealand Government elects to present information on the general government sector in its consolidated financial statements. At the time that PBE IPSAS 22 was issued, the New Zealand Government made information on the general government sector available in a variety of ways, but that information was not included in the consolidated financial statements of the New Zealand Government²¹⁰.

B50. Our review of financial statements of the New Zealand Government as at 31 January 2018²⁰⁹ indicates, GFS data was not included in the annual financial statements of the central government. Instead the GFS data is available on the Government of New Zealand or Stats.NZ websites.

Disclosure on administered items

208 Comprising all registered banks, unit trusts, insurers, retirement villages, credit unions, participatory securities and other entities that issue securities as defined in the Securities Act.

209 [Financial statements of the Government of New Zealand 31 Jan 2018](#)

210 [Basis of Conclusion 2 of PBE IPSAS 22](#)

- B51. Disclosure in relation to administered and controlled items of government departments is not required in New Zealand. There is no AASB 1050 equivalent accounting standard in New Zealand specifying requirements for administered and controlled items.

Long term fiscal sustainability

- B52. The NZ government is required to prepare Statement of Responsibility on Fiscal Sustainability²¹¹. The purpose of this Statement is to increase the quality and depth of public information and understanding about the long-term consequences of spending and revenue decisions. This will assist governments in making fiscally-sound decisions in the decades ahead.
- B53. The Treasury has used its best professional judgements about the risks and the outlook in preparing this Statement on the New Zealand Government's long-term fiscal position. This Statement on the New Zealand Government's long-term fiscal position relates to a period of at least 40 consecutive financial years prepared in intervals not exceeding 4 years.

Fair value of non-financial assets

- B54. Certain non-derivative financial assets such as Trade and other receivables, loans & deposits, liabilities such as accounts payable, Treasury bills and deposits are measured at amortized cost. Certain non-financial assets such as inventory are measured at cost or net realizable value whichever is lower. Land and building are initially recognized at cost and subsequently measured at fair value as per PBE standards.²¹².

United Kingdom

- B55. 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.
- B56. In the UK, public sector entities can generally be categorised into two groups;
- Central government (including departments and the National Health Service)
 - Local Government
- B57. Based on a search conducted on 5 February 2018 from the UK government website²¹³ the total number of departments and agencies are:
- 25 Ministerial departments and 20 non ministerial departments
 - 389 agencies and other public bodies
 - 77 high profile groups
 - 12 public corporations
 - 3 devolved administrations

Whole of Government

211 [Section 26N of the Public Finance Act 1989](#)

212 [Section 3.5 of Treasures' Instruction 2016 issued under Section 80 of the Public Finance Act 1989](#)

213 [Departments, agencies and public bodies from the UK government websites](#)

- B58. *The Government Financial Reporting Manual (FReM)*²¹⁴ 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)²¹⁵ and is based on IFRSs.
- B59. 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 WoG 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.
- B60. As per section 5 of the FReM, the annual report and accounts comprise:
- 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.
 - 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.
 - 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 and budget vs actual analysis.
- B61. As per section 2.2 of the FReM, most entities covered by the requirements of this Manual prepare general purpose financial statements²¹⁶ that are sufficient for the needs of the key users.
- B62. 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.
- B63. Entities defined in the FReM prepare annual reports and consolidated financial statements as follows:

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

215 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.

216 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:

- the accounting and disclosure requirements of the Companies Act 2006 (the Companies Act);
- 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 statements (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);

- 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' in so far 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.

B64. The Treasury prepares WoG 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

- B65. 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).
- B66. 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 Standards²¹⁷. This code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC).
- B67. 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).
- B68. 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
- B69. In relation to the Public or Government sector the two main accounting principles are::
- Accountability and stewardship
 - Decision-usefulness

217 [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.](#)

Auditing requirements

- B70. The National Audit Office (NAO)²¹⁸ 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.
- B71. The NAO reports the results to Parliament and performs other work such as value for money studies, local audits, and investigations.
- B72. 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.
- B73. 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
- B74. 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.

Levels of consolidation

- B2. Based on our review, the audited accounts of over 6,000 organisations across the UK public sector entities including central government departments, local authorities, devolved administrations, the NHS, academy schools and public corporations are consolidated to the WoG accounts²¹⁹.
- B3. The WoG accounts further states that it is a uniquely comprehensive product as it is the only set of consolidated public sector accounts in the world that includes both central and local government.

Government Finance Statistics (GFS)

- B75. In the United Kingdom, GFS or GGS data is not included in the annual financial statements of the government. Instead the GFS data is available on the Government of UK website.
- B76. There is no AASB 1049 equivalent accounting standard in the UK specifying requirements for GPFSs and GFS financial statements of each level of government.

Disclosure on administered items

- B77. Disclosure in relation to administered and controlled items by government departments is not required in the United Kingdom. There is no AASB 1050 equivalent accounting standard in the UK specifying disclosure requirements for administered and controlled items.

Long term fiscal sustainability

²¹⁸ [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.](#)

²¹⁹ [WoG Accounts: year ended 31 March 2016 by HM Treasury](#)

B78. The Office for Budget Responsibility (OBR) was created in 2010 to provide independent and authoritative analysis of the UK's public finances. An analysis of the sustainability of the public finances covering a period of 50 consecutive financial years is prepared as per the *Budget Responsibility and National Audit Act 2011*²²⁰.

Hong Kong

B79. Hong Kong does not require departments, or agencies, to prepare separate financial statements thus Hong Kong only prepares WoG financial statements as no other level of government exists.

B80. Based on the search conducted on 5 March 2018 from the Hong Kong government website there are 58 departments and agencies.²²¹

B81. 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.

B82. 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 Funds²²² 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 including service performance reporting.
- 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 statements²²³.

B83. As per the Audit Ordinance (Cap.122)²²⁴, the Director of Accounting Services is required to submit the accounting statements to the Director of Audit²²⁵ within 5 months after the close of each financial year.

220 [Section 4 of the Act](#)

221 Government and related organisations listed by organisational structure

222 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

223 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

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

225 Under the Audit Ordinance (Cap. 122)225, 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.

B84. 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.

B85. 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.

B86. 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.

Levels of consolidation

B87. All departments and agencies are consolidated to the WoG accounts and there is no other level of government exists.

Government Finance Statistics

B88. In Hong Kong, GFS or GGS data is not included in the annual financial statements of the government.

Disclosure on administered items

B89. Disclosure in relation to administered and controlled items by government departments is not required in Hong Kong.

Long term fiscal sustainability

The Financial Secretary announced in the 2013-14 Budget Speech to set up a working group to explore ways to make more comprehensive planning for Hong Kong's public finances to cope with the ageing population and the Government's other long-term commitments.

The Working Group has completed a fiscal sustainability appraisal²²⁶ on the public finances in Hong Kong and released its report on 3 March 2014 covering a period of 30 years.

Singapore

B90. Based on the Singapore government website²²⁷ searched on 5 March 2018, the public sector entities comprises of:

- 16 Ministries
- 64 Statutory boards
- 10 organs of state
- 13 types of organisations (such as universities, police stations etc)

226 [Report of the Working Group on Long-Term Fiscal Planning 2013](#)

227 [Singapore Government Directory](#)

- B91. In Singapore, the Accounting Standards Act 2007²²⁸ ("Act") appointed the Accountant-General as the legal authority to prescribe accounting standards for Statutory Boards.
- B92. 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.
- B93. 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.
- B94. 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.
- B95. 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
- B96. *The Statutory Board Financial Reporting Standards (SB-FRS)*²²⁹ 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.
- B97. The WoG 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.
- B98. Departments and Statutory boards controlled by WoG must prepare individual financial statements in accordance with SB-FRS.
- B99. There is no local government in Singapore.
- B100. Disclosure in relation to administered and controlled items by government departments is not required in Singapore.

228

[Accounting Standards Act 2007](#)

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[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.](#)

B101. The Auditor-General's (AGO) authority to audit and report is provided for in 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 administering 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.

Levels of consolidation

B102. All departments and agencies are consolidated to the WoG accounts and there is no other level of government exists.

Government Finance Statistics

B103. In Singapore, GFS or GGS data is not included in the annual financial statements of the government.

Disclosure on administered items

B104. Disclosure in relation to administered and controlled items by government departments is not required in Singapore.

South Africa

B105. In South Africa, public sector entities can generally be categorised as follows:

- Central Government
- Provincial Governments
- Local government

B106. Based on the South African Government website²³⁰, departments are grouped by clusters which coordinate and align the government's priorities. At the Central government level, there are 5 clusters which is made up by various departments (some departments may fit under one or more clusters) as follows:

- Economic Sectors, Employment, Infrastructure Development Cluster (21 departments)
- Governance and Administration Cluster (7 departments)
- Social Protection, Community and Human Development Cluster (17 departments)
- International Cooperation, Trade and Security Cluster (9 departments)
- Justice, Crime Prevention and Security Cluster (8 departments)

B107. There are 9 provincial governments in South Africa:

- Eastern Cape (14 Departments)
- Free State (15 Departments)
- Gauteng (15 Departments)
- KwaZulu-Natal (17 Departments)
- Limpopo (12 Departments)
- Mpumalanga (14 Departments)
- Northern Cape (13 Departments)

230 [Structure and functions of the South African Government](#)

- North West (13 Departments)
- Western Cape (15 Departments)

B108. The Accounting Standards Board (ASB)²³¹ 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.

B109. 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 (GPFs) of public sector entities.

B110. The conceptual framework indicates users of the GPFs 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.

B111. 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

B112. 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.

B113. 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; and
- Parliament.

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

B114. As per subsection 2 of section 8, 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.

B115. However, the Minister of Finance has authority to grant exemption in terms of Section 92²³² of the PFMA to the National Treasury from the provisions of section 8, 19 and 40 of the PFMA.

Provincial government

B116. 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;

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

B117. As noted in paragraph B77, provincial treasury obtains audited financial statements from the department and other institutions within the province in order to prepare consolidated financial statements.

Departments and constitutional institutions under National and provincial government

B118. 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 (subject to provisions in B109) and must submit those financial statements within two months after the end of the financial year to:

- the Auditor-General for auditing; and
- the relevant treasury to enable that treasury to prepare consolidated financial statements in terms of section 8 and 19.

B119. As per section 92, 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. Thus, 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.

B120. The section 92 further states that following government gazettes include the exemptions referred to above;

- Exemption of public entities has been published under general notices no 502 and 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

232 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

B121. However, further information on these gazettes was not available online.

Local government and municipalities

B122. 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.

B123. 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

B124. 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.

B125. The Independent Regulator Board for Auditors (IRBA)²³³ and the Auditor-General South Africa (the AGSA²³⁴) has 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.

B126. 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.

B127. 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)²³⁵ 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.

B128. 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

233 [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.](#)

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

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

B129. 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.

Government Finance Statistics

B130. Based on the review of the annual financial statements, GFS or GGS data is not included. Instead the GFS data is available on the Government of South Africa website.

B131. There is no AASB 1049 equivalent accounting standard in South Africa specifying requirements for GPFSSs and GFS financial statements of each level of government.

Disclosure on administered items

B132. Disclosure in relation to administered and controlled items by government departments is not required in South Africa.

Long term fiscal sustainability

B133. Long term fiscal sustainability information is presented to the Parliament as part of the Budget Review every year covering a period of 5 years.

Canada

B134. In Canada, the CPA Canada Public Sector Accounting Board (PSAB)²³⁶ develops accounting standards that apply to all public sector entities (governments, government components, government organisations and certain government partnerships).

B135. 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 organisations.

B136. As further defined in the Introduction to PSA handbook, public sector entities may be classified as:

- Governments and government components;
- Government organisations; and
- Government partnerships.

B137. As per Treasury Board Accounting Standards²³⁷, 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 handbook²³⁸ and is the same for all levels of government everywhere in Canada.

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

237 [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.](#)

238 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

B138. Disclosure in relation to administered and controlled items by government departments is not required in Canada.

Whole of government

B139. 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.

B140. In respect of departmental financial statements, the Treasury Board Accounting Standards directive applies to the organisations listed in section 6 of the Policy on Financial Management as per section 6 Directive on Accounting Standards by the Government of Canada²³⁹.

B141. As per section 6.1 of the Policy on Financial Management, it applies to "Departments" as defined in section 2 of the Financial Administration Act, unless otherwise excluded by other acts, regulations or orders in council:

a. Schedule I (19 departments)

- 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

b. Schedule I.1

- 56 divisions of branches of the federal public administration²⁴⁰

c. a commission under the Inquiries Act that is designated by order of the Governor in Council as a department for the purposes of this Act,

239 [Directive of Accounting Standards outlines the accounting; reporting and recording framework for the Government's consolidated financial statements, departmental financial statements, and departmental quarterly financial reports.](#)

240 [List of 56 divisions of branches as per Schedule I.1](#)

d. the staffs of the Senate, House of Commons, Library of Parliament, office of the Senate Ethics Officer, office of the Conflict of Interest and Ethics Commissioner, Parliamentary Protective Service and office of the Parliamentary Budget Officer, and

e. departmental corporations set out Schedule II;

- Canada Border Services Agency
- Canada Emission Reduction Incentives Agency
- Canada Employment Insurance Commission
- Canada Revenue Agency
- Canada School of Public Service
- Canadian Centre for Occupational Health and Safety
- Canadian Food Inspection Agency
- Canadian High Arctic Research Station
- Canadian Institutes of Health Research
- Canadian Nuclear Safety Commission
- Canadian Transportation Accident Investigation and Safety Board
- Law Commission of Canada
- The National Battlefields Commission
- National Research Council of Canada
- Natural Sciences and Engineering Research Council
- Parks Canada Agency
- Social Sciences and Humanities Research Council

B142. There are 200 departments, agencies, crown corporations and special operating agencies at WoG level in Canada as at 26 January 2018²⁴¹.

B143. Crown corporations are also required to prepare financial statements in accordance with Treasury Board Accounting Standards. These corporations are similar to the GBSs in the context of Australia.

B144. Section 6.2 of the Policy on Financial Management states that the other departments, agencies and organisations in the Government of Canada (which are not listed in B114 above) are encouraged to adopt this policy and its supporting instruments to the extent possible. In other words, only the departments, agencies and departmental corporations listed in B114 are required to prepare financial statements as per Treasury Board Accounting standards.

B145. As an example the Portfolio – Health²⁴²:

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

²⁴¹ [List of departments, agencies, crown corporations and special operating agencies at WoG l level](#)

²⁴² [List of agencies in health portfolio](#)

State / provincial government

B146. 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.

B147. There are 10 provinces/states in Canada as shown below:

- Ontario (30 Ministries)
- Quebec (22 Ministries)
- Nova Scotia (19 Ministries)
- New Brunswick (20 Ministries)
- Manitoba (15 Ministries)
- British Columbia (20 Ministries)
- Princes Edward Island (11 Ministries)
- Saskatchewan (14 Ministries)
- Alberta (23 Ministries)
- Newfoundland and Labrador (13 Ministries)

B148. This report researched has further explored only one state which is British Columbia, set out below.

B149. In British Columbia, the whole of province consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles (Public Sector Accounting Standards and Public Sector Guidelines - together known as PSA handbook) as required by the section 9 of Budget Transparency and Accountability Act (BTAA).

B150. Tax payer supported crown corporations and agencies (government organisations) are consolidated in the financial statements of the whole of provincial government financial statements. Trusts administered by government are not consolidated.

B151. There are 20 ministries, 11 central agencies²⁴³, 28 crown corporations²⁴⁴ and 196 agencies (excluding universities and colleges)²⁴⁵ within in British Columbia State.

B152. Government reporting entities as defined in the BTAA included following entities;

- the government as reported through the consolidated revenue fund
- education and health sector organisations²⁴⁶, and
- government corporations other than those that are government corporations solely by reason of being under an Act agents of the government and includes
 - each of the corporations or organisations that, under generally accepted accounting principles, is considered to be controlled by a government organisation, and

243 [List of Central Agencies](#)

244 [List of Crown Corporations](#)

245 [List of agencies](#)

246 Include the organizations defined in Collage and institute Act, School Act, Health Authorities Act and Hospital Act

- o corporations and organisations that are included within the government reporting entity by regulation under section 24 (2) (d) (i),

but does not include corporations and organisations that are excluded from the government reporting entity by regulation under section 24 (2) (d) (i)²⁴⁷;

B153. The crown corporations are required to prepare financial statements as per Generally Accepted Accounting Principles (Public Sector Accounting Standards and Public Sector Guidelines - together known as PSA handbook. These corporations are similar to the GBEs in Australia.

B154. Annual public accounts should be prepared by the whole of province and each government reporting entity listed in B125 above as section 9 of BTAA. The Annual Public Accounts should be prepared in accordance with Generally Accepted Accounting Principles (Public Sector Accounting Standards and Public Sector Guidelines - together known as PSA handbook). Thus this provision will be applicable for only certain agencies out of 196 agencies mentioned in B124.

B155. The ministries and remaining entities are only required to prepare Annual Service Plan. As per section 13 of BTAA, Annual Service Plans should be prepared by each ministry and each government organisation other than education and health sector organisations & other entities set out in B125 and the report must be made public.

B156. As per section 13(4), Annual Service Plan Report should include following information:

- a statement of goals
- specific objectives and performance measures
- in relation to major capital project plans include the information required under section 14 such as the objectives of the project, the costs and benefits for the project, and the risks associated with those costs and benefits
- In the case of an annual service plan report for a ministry, the report must
 - (a) cover the ministry and other appropriations of the responsible minister,
 - (b) compare actual results for the preceding fiscal year with the expected results identified in the service plan under section 13 for that fiscal year,
 - (c) be made public by the responsible minister no later than August 31 in each year,
 - (d) include a statement that the responsible minister is accountable for those actual results
- In the case of an annual service plan report for a government organisation, the report must compare actual results for the preceding fiscal year with the expected results identified in the service plan under section 13 for that fiscal year

Local government

B157. 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).

²⁴⁷ the Lieutenant Governor in Council may make regulations as follows: on the recommendation of the minister after consultation with the Auditor General,

(i) including within, or excluding from, the government reporting entity
(A) specified corporations and organizations, or (B) classes of corporations and organizations, or
(ii) including in, or excluding from, the definition of "education and health sector organization"
(A) specified corporations and organizations, or (B) classes of corporations and organizations.

B158. 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.

B159. 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

B160. 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.

B161. 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

B162. The Auditing and Assurance Standards Board (AASB)²⁴⁸ of Canada establishes standards for assurance and related services engagements in both for-profit sector and public sector.

B163. 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.

B164. 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.\

Levels of consolidation

B165. Based on our review of the annual financial statements of the British Columbia state government, local government entities such as regional and metropolitan municipalities, cities, townships and rural municipalities are not consolidated in the financial statements of the state government.

Government Finance Statistics

248 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.

B166. The Canadian federal government, the provincial, territorial, and local governments, Government Business Enterprises, health and education institutions and the Canada and Quebec pension plans are required to publish Canadian General Finance Statistics (CGFS).

B167. In Canada, GFS data is not included in the annual financial statements of the federal, provincial or local government. Instead the GFS data is available on the Government of Canada website.

B168. There is no AASB 1049 equivalent accounting standard in Canada specifying requirements for GPFSs and GFS financial statements of each level of government.

Disclosure on administered items

B169. Disclosures on administered and controlled items are not required in Canada.

Long term fiscal sustainability

B4. In Canada, the Parliamentary Budget Officer (PBO) prepares Annual Fiscal Sustainability report and presents to the Parliament by providing analysis, including analysis of macro-economic and fiscal policy, for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability covering 75 years²⁴⁹.

United States of America

B170. The structure of public sector entities in the USA can be categorized as follows:

- Federal Government
- State Government
- Local Government

B171. According to the USA government website²⁵⁰ search on 5 March 2018, the federal government comprises of:

- 15 executive departments that are primary units of the executive branch
- 255 offices, agencies and bureaus that support the mission of their parent departments.
- 67 independent agencies
- 8 executive office of the president

B172. The Federal Accounting Standards Advisory Board (FASAB)²⁵¹ issues federal financial accounting standards and provides guidance considering the needs of external and internal users of federal financial information. FASAB²⁵² sets U.S. generally accepted accounting principles (GAAP) for the United States Government and its component entities, referred to as federal financial reporting entities.

249 [Fiscal Sustainability Report 2017](#)

250 [Executive departments in US federal government](#)

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

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

Whole of Government

- B173. 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 Treasury²⁵³, the Director of the Office of Management and Budget (OMB), and the Comptroller General²⁵⁴ 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.
- B174. The consolidated financial statements of the United States Government (Government) were prepared using U.S. Generally Accepted Accounting Principles (GAAP) accepted in the US for Federal entities, issued by FASAB. The consolidated financial statements include the accrual-based financial statements and the sustainability financial statements.
- B175. All departments and certain CFO Act agencies (24 all together), 15 additional significant entities and 115 additional entities/funds are consolidated as per SFFAC 02 *Entity and Display*. However, certain entities are excluded as they do not meet the criteria sets out in SFFAC 02.
- B176. As per FASAB Handbook, the four objectives of Federal Financial Reporting are:
- *Budgetary Integrity* – to establish the government's budget for a particular fiscal year and related laws and regulations
 - *Operating Performance* – evaluating and the manner of the service efforts, cost and accomplishments of the reporting entity and the management of their assets and liabilities
 - *Stewardship* – impact on the government's operations and investments for the period and how the results of the financial condition have or may change in the future.
 - *Systems and Control* – adequacy of financial management systems and internal accounting and administrative controls.
- B177. 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.

253 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

254 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

B178. 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.

B179. As per section 901, Agencies²⁵⁵ that are referred to in section 303 include only the following department and agencies based on the search as at 05 March 2018.:

- 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

B180. The agencies within the portfolio of each department are included in the consolidated financial statements of each department as per SFFAC 02 *Entity and Display*.

²⁵⁵ Agencies are defined in 31 U.S. Code 101 to mean a department, agency, or instrumentality of the United States Government.

B181. Under the *31 U.S. Code 3515 Financial Statements of agencies*²⁵⁶ the head of each covered executive agency²⁵⁷ shall prepare audited financial statements reflecting the financial position of the office, bureaus and activities and the results of their operations consistent with applicable accounting and financial reporting principles, standards and requirements. However the Director of the Office of Management and Budget may exempt these covered executive agency from preparing financial statements if:

- a. the total amount of budget authority available to the agency does not exceed \$25,000,000; and
- b. the Director determines that requiring an annual audited financial statements for the agency is not warranted due to the absence of risks associated with the agency's operations, demonstrated performance or other factors that the Director considers relevant.

State and local government

B182. The Governmental Accounting Standards Board (GASB)²⁵⁸ 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.

B183. 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.

B184. 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

B185. For financial reporting purposes, the state includes all agencies, boards, commissions, authorities, institutions of higher education and other organisations that compose its legal entity. The reporting entity for the state is in accordance with the criteria established by GASB.

²⁵⁶ [31 U.S code 3515 Financial Statements of agencies](#)

²⁵⁷ defined in section f of 31 U.S.Code 3515 as an agency that is not required by another provision of Federal law to prepare and submit to the Congress and the Director of Office of Management and Budget an audited financial statements, covering all accounts and associated activities of each office, bureau, and activity of the agency and does not include corporation, agency or instrumentality subject of chapter 91 of the title.

²⁵⁸ [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.](#)

- B186. Section 2101.011 (b) of Government Code Title 10. General Government²⁵⁹ states that a state agency²⁶⁰ shall submit an annual financial report regarding the agency's use of appropriated money during the year to; the governor, the comptroller, the Legislative Reference Library, the state auditor and the Legislative Budget Board. The comptroller prescribes uniform accounting and financial reporting procedures that each state agency shall use in preparing their audited financial statements which must comply with the generally accepted accounting principles established by GASB and include the requirements for compliance with the federal *Single Audit Act 1984* and Office Management and Budget Circular A-133 and any subsequent changes and amendments to the audit requirements.
- B187. 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.
- B188. 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.
- B189. Disclosure in relation to administered and controlled items by government departments is not required in the United States of America.

Auditing requirements

- B190. 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.
- B191. 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 agency²⁶¹.

²⁵⁹ *Government Code Title 10. General Government Subtitle C. State Accounting, Fiscal Management, and Productivity, Chapter 2101. Accounting procedures*

²⁶⁰ State agency is defined in section 403.013 of Title 4. Executive Branch as any department, commission, board, office, for other agency in the executive, or legislative branch of state government created by the constitution or a statute of the state of Texas; the Supreme Court of Texas and other courts etc; a university system or institution of higher education; or another government organisation that the comptroller determines to be a component unit of the state government.

²⁶¹ As stated in section 304. Financial audits of Chief Financial Officers Act of 1990

B192. 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 States²⁶² may review any audit of a financial statement by an Inspector General or an external auditor.

B193. 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 their reports.

Levels of consolidation

B194. Based on our review of the annual financial statements of the Texas state government, local government entities are not consolidated in the State government's financial statements in the United States.

Government Finance Statistics

B195. Based on the review of the annual financial statements, GFS or GGS data is not included. Instead the GFS data is available on the Government of United States website²⁶³.

B196. There is no AASB 1049 equivalent accounting standard in the USA specifying requirements for GPFs and GFS financial statements of each level of government.

Disclosure on administered items

B197. Disclosure in relation to administered and controlled items by government departments is not required.

Long term fiscal sustainability

B198. The Statement of Long-Term Fiscal Projections is prepared pursuant to SFFAS No. 36, Comprehensive Long-Term Projections for the U.S. Government, as amended covering 75 year time horizon²⁶⁴.

B199. The financial statement and related unaudited required supplementary information (RSI) provide information to aid users in assessing whether current policies for Federal spending and taxation can be sustained and the extent to which the cost of public services received by current taxpayers will be shifted to future taxpayers under sustainable policies.

B200. This assessment requires prospective information about receipts and spending, the resulting debt, and how these amounts relate to the economy. A sustainable policy is defined as one where the ratio of Federal debt held by the public to GDP (the debt-to-GDP ratio) is ultimately stable or declining.

262 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

263 [United States Census Bureau](#)

264 [Financial Statements of the United States Government](#)

Appendix C – Questionnaire to head of treasury

- C1. For the purpose of this Research Paper, staff collected information from the heads of treasury with the assistance from the HOTARAC group. The following questions and data were requested from each of the various states/territories. The information was requested via a Questionnaire and an excel spreadsheet to collect specific financial data.

Questionnaire

Number	Question	Answer selection/data requested
1	Select your state	ACT/NSW/NT/QLD/SA/TA S/VIC/WA
2	How many entities (departments, statutory bodies and/or other entities) are there in your state/territory? (<i>Provide exact numbers where possible.</i>)	Departments Statutory/bodies Other entities
3	Are all entities consolidated into the 'whole of state/territory financial statements'?	Yes/No
3.1	What percentage of the following entities are consolidated into the 'whole of state/territory' financial statements?	Departments Statutory bodies Other entities
4	Please outline how you determine which entities should be consolidated in the 'whole of state/territory' financial statements (eg materiality threshold):	
5	How many departments consolidate <u>all</u> statutory bodies and/or other entities they control into their financial statements?	
6	Please outline how you determine which statutory bodies should be consolidated in the departments' financial statements (eg materiality threshold):	
7	Do you require all statutory authorities/bodies to prepare financial statements?	Yes/No
7.1	Please outline how you determine how they are required to prepare financial statements:	
8	Do you see any benefits in differentiating 'administered' and 'control' items within the financial statements?	Yes/No
8.1	Please explain why you do/don't see any benefits:	
9	Please outline what activities/functions make up the majority (approximately 80%) of the whole of state/territory's expenditure (ie health, education, social services):	

Number	Question	Answer selection/data requested
10	Do you permit statutory bodies to apply General Purpose Financial Statements – Tier 2 Reduced Disclosure Requirements?	Yes – what percentage is permitted? No
11	Does your state/territory have any Treasurer’s Instructions/Directions that modify the definitions or recognition/measurement criteria of any Australian Accounting Standards?	Yes/No
11.1	Please provide examples of these modifications:	

Data requested for each Department

Total income – administered
Total income – controlled
Total appropriations
Total expenses – administered
Total expenses – controlled
Total assets
Total liabilities

Data requested for each statutory bodies

Total revenue
Total appropriations
Total expenses
Total Assets
Total liabilities
Relevant department/portfolio