



Illustrative Financial Reporting frameworks

1. The five illustrative frameworks take into account key elements from the section which discusses “What should a good framework look like”. When looking at the illustrative frameworks below, the following should also be taken into account.
2. A reference to GPFs in this Paper is broader than the currently available Tier 1 and Tier 2. In this Paper, GPFs are financial statements that have been determined to meet the needs of users, and the framework for those financial statements established in Standards by the AASB. This can mean that cash financial statements can also be GPFs, and that alternatives that are quite different to the current understanding of GPFs such as an income statement presented by functions or program delivered by a government entity are also options.
3. Full discussion regarding the appropriate level of assurance will follow once the form of reporting has been determined.
4. Considering most public sector entities are already required to prepare GPFs together with sustainability and budget reporting, other forms of GPFs apart from the Tier 1 or 2 current level of reporting is considered a reduction in the cost of reporting for public sector entities, but not a reduction in the level of accountability; more targeted, concise reporting is expected to mean better oversight as it is more likely such reports would be reviewed by oversight committees.
5. All options are based on increasing the importance of whole of government (WoG) reporting, with the view that all department reporting should be considered an extract of the WoG, rather than reporting as a separate standalone entity. Departments are considered to be an administrative construct designed for internal accountability, rather than necessarily being needed for external accountability. All departments and other entities consolidated into WoG reporting would still need to internally provide information necessary to enable preparation of the WoG financial reports, however the additional costs of having that information publicly disclosed and audited to a materiality level specific to the entity would be eliminated in some of the options.
6. Government business enterprises are not considered in any options. Their reporting requirements should fall within the framework for for-profit entities to enable comparability with the GBE’s competitors.
7. All options assume that detailed accounting policies and adequate information can be obtained from WoG reporting. Accordingly some options consider accountability by program/function, might be more important to external users than accountability by department. Local government are not consolidated in state WoG financial statements, as such each local government is considered a separate standalone WoG. Therefore WoG referred in *Table 1: Five options of illustrative financial reporting framework* represents Commonwealth, state and territory, and local government.
8. All options assume key information for external users is an analysis of budget versus actual information, whether on a cash or accrual basis, with service performance reporting outcomes linked to financial reporting. No options would retain administered versus controlled distinctions. Reconciliation to GFS would occur only at WoG level.
9. While the illustrative frameworks are a basis for discussion rather than recommendations, this Paper does recommend that the financial reporting thresholds should be set in Regulation, treasurer’s instructions rather than the Legislation – Regulations, treasurer’s policy or rules enables more flexibility to amend the framework on a timely basis, as legislative amendments can often be pushed back depending on the capacity of the drafters of legislation;



Illustrative Financial Reporting Frameworks

Table 1: Five options of illustrative financial reporting framework

	Current public sector framework	Option 1 (NZ PBE model – this is applied to all levels of government, Commonwealth, States and local)	Option 2 (public interest and economic significance represented by % of total whole of government using appropriations)	Option 3 ¹	Option 4 (public interest based on function)	Option 5: public interest based on tax/rate generating entities.
Criteria underpinning thresholds	Public accountability regardless of size or economic significance	Expenditure/expense s are proxies for economic significance. All public sector entities report, but cost/benefit differentiates what is to be reported	Appropriations or total revenue are proxies for size/economic significance/public interest.	Expenditure/expense s are proxies for economic significance. Natures of activities are proxies for public interest. All public sector reports but cost/benefit differentiates what is to be reported	Nature of activities (functions) is proxies for public interest. Departments/statutory bodies/agencies are segments of WOG.	Tax/rate generating entities is proxy for public interest.

¹ This option is similar to the Canadian model; with the exception that budget versus actual information provided is on a cash basis, rather than an accrual basis.



	Current public sector framework	Option 1 (NZ PBE model – this is applied to all levels of government, Commonwealth, States and local)	Option 2 (public interest and economic significance represented by % of total whole of government using appropriations)	Option 3 ¹	Option 4 (public interest based on function)	Option 5: public interest based on tax/rate generating entities.
Thresholds	N/A	<p>1: Operating payments² <\$125,000 (0% for departments, 4% for statutory bodies)</p> <p>2: Expenses³ ≤\$2,000,000 (0% for departments, 3% for statutory bodies)</p> <p>3: Expenses ≤\$30,000,000 (13% for departments, 28% for statutory bodies)</p> <p>4: Expenses >\$30,000,000 (87% for departments, 65% for statutory bodies) or public accountability (WoGs other than local government)⁴</p>	<p>1: WOG Tier 1</p> <p>2: 50% of WOG total revenue (starting with largest entity until threshold reached)</p> <p>3: 20% of WOG total revenue</p>	<p>1: WOG Tier 1 and, significant departments⁵ based on nature and size</p> <p>2: Service performance reporting and budget v actual reporting on accrual basis for all other entities.</p>	<p>1: WOG Tier 1 with significant programs/functions based on nature and size disclosed in the WoG⁶</p> <p>2: Service performance reporting and budget v actual reporting on accrual basis for all other entities.</p>	<p>1: WOG and all tax/rate generating entities⁷</p> <p>2: Service performance reporting and budget v actual reporting for all other entities.</p>

- 2 Operating payments – defined as cash outflow for the year related to operating activities (grants/donations made, salaries and wages, utilities, fundraising costs)
- 3 Expenses – calculated in accordance with accounting standards
- 4 Any public sector entity which is publicly accountable (definition contained in B35 of Research Report x) should prepare Tier 1 even if total expenses is below \$30million.



	Current public sector framework	Option 1 (NZ PBE model – this is applied to all levels of government, Commonwealth, States and local)	Option 2 (public interest and economic significance represented by % of total whole of government using appropriations)	Option 3 ¹	Option 4 (public interest based on function)	Option 5: public interest based on tax/rate generating entities.
Type of specified financial statements for each threshold above	<p>1: Full recognition and measurement, reduced disclosure</p> <p>2: Full recognition, measurement and disclosure</p>	<p>1: Cash accounting financial statements, including a statement of outcomes and outputs⁸ (service performance report)</p> <p>2: Simplified recognition, measurement and disclosure</p> <p>3: Full recognition and measurement, reduced disclosure</p> <p>4: Full recognition, measurement and disclosure</p>	<p>1: Cash flow statement (Budget v actual), service performance report</p> <p>2: Full recognition and measurement, reduced disclosure</p> <p>3: Full recognition, measurement and disclosure</p>	<p>1: Service performance report, Budget v actual for Profit & Loss and Balance sheet (accrual based)</p> <p>2: Full recognition, measurement and disclosure</p>	<p>1: Service performance report, Budget v actual, for Profit & Loss and Balance sheet (accrual based)</p> <p>2: Full recognition, measurement and disclosure, with detailed disclosures by functions/programs</p>	<p>1: Service performance report, Budget v actual for Profit & Loss and Balance sheet (accrual based)</p> <p>2: Full recognition, measurement and disclosure</p>
Type of assurance	1: Audit	Operating expenditure for each of the previous two	To be discussed in Roundtables	To be discussed in Roundtables	To be discussed in Roundtables	To be discussed in Roundtables

5 Departments legislated to prepared Tier 1 reports such as defence, health, education, transport, infrastructure

6 Similar to segment reporting, with more detail on budget v actual and performance outcomes

7 Departments will generally not be captured in this category; these are considered to be the independent bodies such as the Art Gallery or Museums that raises revenue through ticket sales.

8 **Outcomes:** what the entity is seeking to achieve in terms of its impact on society; and

Outputs: the goods or services that the entity delivered during the year.



	Current public sector framework	Option 1 (NZ PBE model – this is applied to all levels of government, Commonwealth, States and local)	Option 2 (public interest and economic significance represented by % of total whole of government using appropriations)	Option 3 ¹	Option 4 (public interest based on function)	Option 5: public interest based on tax/rate generating entities.
engagement		accounting periods: <ul style="list-style-type: none"> • >\$500k: audit or review • \$1m: audit 				
Qualifications of assurer	1: Auditor General 2: Person approved by the Auditor-General	Qualified auditor – a qualified auditor is defined in s36 of the Financial Reporting Act 2013 (NZ) ⁹ .	1 and 2: To be discussed in Roundtables 3 Auditor General	1: To be discussed in Roundtables 2: Auditor General	1: To be discussed in Roundtables 2: Auditor General	1: To be discussed in Roundtables 2: Auditor General
Principle underpinning thresholds	Public accountability	Public accountability	Public interest	Public interest User needs	Public interest User needs	User needs Public interest
Implications (number captured and % of population)	1: GPFS – Tier 1 2. GPFS – Tier 2	1: yet to complete 2: yet to complete 3: yet to complete 4: yet to complete	1: yet to complete 2: yet to complete 3: yet to complete	1: yet to complete 2: yet to complete	1: yet to complete 2: yet to complete	1: yet to complete 2: yet to complete

9 Wider range of persons able to meet the qualification in New Zealand than Australian registered company auditor.



Advantages and disadvantages of the options

	Current Public Sector framework	Option 1 (NZ PBE model)	Option 2 (%of total WOG revenue)	Option 3	Option 4 (user-needs focus)	Option 5 (broader user-needs focus)
Advantages of each option						
Clear objective tiers of what is to be reported and when to adjust thresholds;	?	✓	x	✓	✓	✓
Expenses are more indicative of the size of public sectors' operations compared with revenue and less volatile;	x	✓	x	x	x	x
Appropriations/revenue is indicative of size of public sector's operations	x	x	✓	x	x	x
Allows for proportionate regulation;	x	✓	✓	✓	✓	✓
Lowest threshold is not required to be set using accounting standard concepts, benefits preparer	x	✓	x	x	x	x
The threshold for accrual accounting levels are set in a way to achieve a clear and balanced statistical outcome;	x	x	✓	✓	✓	✓
Better balancing of cost/benefit through multiple clear reporting tiers;	x	✓	✓	✓	✓	✓
The requirement to report on an accrual basis is based on economic significance, which is consistent with SAC 1 principles;	x	✓	✓	x	x	x
More useful information for users through service performance report in addition to reduced disclosures such as profit and loss and balance sheet;	x	✓	x	✓	✓	✓



	Current Public Sector framework	Option 1 (NZ PBE model)	Option 2 (%of total WOG revenue)	Option 3	Option 4 (user-needs focus)	Option 5 (broader user-needs focus)
Economic significance takes into account the public interest in public sector;	x	✓	✓	✓	✓	✓
Inclusion of the nature of activities as another factor, takes into account specific types of users of public sector GPFs.	x	x	x	✓	✓	✓
Inclusion of taxpayers etc., takes into account users focus;	x	x	x	x	✓	✓
Stratifies the population based on receiving public money;	x	x	x	x	x	✓
Better reflects user needs;	x	x	x	✓	✓	✓
Trans-Tasman harmonisation;	x	✓	x	x	x	x
Acknowledges RDR GPFs might be too onerous still for smaller public sector entities that should adopt accrual accounting because of their level of accountability to the public.	x	✓	x	✓	✓	✓
Criteria and Thresholds are transparent and legislator is able to clearly identify when to adjust	x	x	x	✓	✓	✓
Disadvantages of each option						
May not meet specific user needs as reporting is based on public accountability moderated by cost/benefit;		•	•			
Four tiers would be onerous to maintain by regulators /AASB;		•				
Increased education cost for stakeholders to understand the different GPFs;		•				



	Current Public Sector framework	Option 1 (NZ PBE model)	Option 2 (%of total WOG revenue)	Option 3	Option 4 (user-needs focus)	Option 5 (broader user-needs focus)
Public interest based on functions is hard to measure and can vary for the public sector (or indeed meaningless – e.g. the population of Australia – if taxpayers' funds);				•	•	•
Data is currently not collected by the public sector.				•	•	••

DRAFT