



**Australian Government**

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**Australian Accounting  
Standards Board**

# AASB Research Report No 6:

## Financial Reporting Requirements Applicable to Australian Public Sector Entities

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## Principal Authors

Maggie Man, Practice Fellow  
Shachini Dassanayake, Project Manager  
Christine Helliard, Research Director

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## Enquiries

This AASB staff publication is available on the AASB website.  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007  
AUSTRALIA  
Tel +61 3 9617 7637  
publications@asb.gov.au  
www.asb.gov.au

## AASB Research Report Series

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

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# Executive Summary

## Public sector financial reporting and assurance – why is it important?

The public sector comprises three levels of government: Commonwealth, state and local government. Each level of government has a range of departments, agencies, and government business enterprises (GBEs) that comprise the public sector.

In 2015-16 the public sector saw a total of \$639 billion in revenue and held net assets to the value of \$775 billion<sup>1</sup>.

Public sector entities make up 46.72% of Australia's total Gross Domestic Product and provide essential social services (ie, cultural, community, education, health, defence and transport) and employ nearly two million<sup>2</sup> people. Therefore, accountability for assets controlled by public sector entities – and the services they perform – is of great importance to Australians.

It is important that this sector functions efficiently; and therefore any unnecessary financial reporting red-tape that diverts funds from essential services needs to be minimised.

The financial reporting framework that governs public sector entities has not been reviewed for many years. The public sector needs to be transparent and 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.

Public sector entities however, complain of financial reporting complexity, inconsistent requirements and that the reports do not focus on the needs of stakeholders. The cost of preparation (including valuation of non-financial assets) and audit of these financial statements is estimated to be over \$1 billion<sup>3</sup> annually, a figure which represents 3,375<sup>4</sup> public sector entities.

Consequently, the key question for the Australian public sector is:

***Are the current Australian public sector financial reporting requirements – currently costing more than \$1 billion – necessary to adequately hold the public sector accountable for the use of taxpayers' monies?***

To understand the basis for public sector entities' criticism, this Research Report documents the following information to be used as a benchmark, and for input for future discussions about options for overcoming the criticisms:

- financial reporting requirements applicable to public sector entities in Australia
- financial reporting requirements in seven comparable international jurisdictions

This Research Report is part of a larger project by the AASB and the Auditing and Assurance

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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  
3 This figure is an estimate based on total audit cost for public sector entities in Australia sourced from Auditor General's financial reports and other published reports. Preparation cost was based on anecdotal evidence that three times of audit fees for states/territories and 4.5 times for Commonwealth based on feedback from the Department of Finance, and valuation cost of non-financial assets.  
4 Total number of public sector entities from Table 1: *Comparison of Financial Reporting Requirements for Public Sector Entities*

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 Research Report will be followed by an AASB Discussion Paper detailing potential options for change, and a subsequent program of extensive outreach and consultation with public sector preparers and their stakeholders.

## Key issues for public sector financial reporting

This Research Report brings to light a number of issues with the current financial reporting regime for the public sector in Australia, including:

1. The significant cost of preparing General Purpose Financial Statements when user needs are unclear
2. Inconsistency in reporting and assurance requirements across different jurisdictions in Australia
3. Complex and technical requirements
4. Linkage of financial reports with performance reports, budget accountability reporting, fiscal sustainability reporting

### **The significant cost of preparing General Purpose Financial Statements when user needs are unclear**

Broadly, Australian public sector entities are required to prepare detailed, repetitive and expensive-to-produce financial statements, despite a lack of compelling evidence that all the information provided is being used.

There is a significant lack of research on who the external users of financial reports for public sector entities below the whole-of-government (WoG) level might be, or what their information needs are.

General purpose financial statements (GPFs) are prepared at WoG level by the General Government Sector (GGS) and generally for every department, agency and government business enterprises (GBE) controlled by that government, with each entity often reporting at many levels. Such entities range from very small, such as the Biodiversity Conservation Trust of NSW (\$0 revenue), to very large entities such as the NSW Department of Education (\$13,127 million revenue).

Australian Accounting Standards require only the WoG<sup>5</sup> financial statements and GGS financial statements to use Tier 1 GPFs<sup>6</sup>, but legislation or Treasurer's instructions<sup>7</sup> require the majority of public sector entities to use Tier 1. Only South Australia, Queensland and the Commonwealth allow the use of Tier 2 for entities below WoG level.

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5 WoG refers to Commonwealth, state and territory, and local governments

6 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.

7 Treasurer's instructions are instructions issued by the Treasurer of the states and territories under the authority of their respective legislation. These instructions provide public sector entities guidance and specified reporting requirements under the legislation.

Australian Accounting Standards<sup>8</sup> then compound the problem by stating that most, if not all, departments are reporting entities, implying that all agencies and GBEs are reporting entities. In contrast, the International Public Sector Accounting Standards Board (IPSASB) Conceptual Framework makes it clear that departments and agencies should not automatically be considered reporting entities.

Of the seven international jurisdictions reviewed, five countries (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. Hong Kong, in particular, stands out for not requiring departments or agencies to prepare separate financial statements. The United Kingdom (UK) and Singapore have similar reporting levels to Australia and require GPFS for the majority of their public sector entities, although the UK consolidates local government entities in the WoG financial statements.

In almost all cases public sector entities prohibit use of the current consolidation exemption in accounting standards which means that financial information already reported at the WoG level is replicated at the government departmental level.

### **Inconsistency in reporting and assurance requirements across different jurisdictions in Australia**

As noted above, not all states and territories allow Tier 2 reporting although Australian Accounting Standards allow them. Some states and territories also have Treasurer's instructions that modify the accounting standards.

New South Wales is the only state which permits a department to use the consolidation exemption in AASB 10 *Consolidated Financial Statements*. Not all jurisdictions consolidate 100% of the public sector entities below the WoG level financial statements.

### **Complex and technical requirements**

Australia has some unique accounting requirements that add to the complexity of public sector financial reporting at all levels.

Government Finance 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 as a macro-economic assessment, as specified by the ABS (ABS).

Of the countries reviewed, Australia is the only country that requires GFS data to be presented in the WoG financial statements and that requires a reconciliation of GFS data and accounting-based information<sup>9</sup>. 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 seven jurisdictions present GFS information on their respective government official websites and do not require the preparation of general government sector financial statements.

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 items for departments is also unique to Australia. There are no International Financial Reporting Standards (IFRS Standards) or IPSASB Standards dealing specifically with administered items. There is also no academic research indicating whether users of government department financial reporting require such a distinction. Nor is it consistent with branch accounting in the private sector.

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

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.

The requirement to choose the accounting treatment most consistent with GFS means that WoG, GGS and entities within the GGS must fair value their non-financial assets annually with consideration to Treasurer's instructions. Other jurisdictions do not require public sector entities to annually fair value all their non-financial assets.

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

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

In Australia, only the Commonwealth, NSW and Tasmania are required to prepare an intergenerational report that assesses the growth of the population and how this impacts upon economic sustainability. Current accounting standards however, do not require recognition of the full social benefits obligations undertaken by the public sector.

All local governments are required to report on long-term sustainability – Queensland, NSW, Tasmania, South Australia and Western Australia prepare a long-term financial plans and asset management plans for a minimum of ten years, but Victoria and the Northern Territory prepare a long-term financial plan for a minimum of only three years. These reports are being prepared however, it is not clear what the linkage is – if any – to published financial reports.

In Australia 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 whereas local governments are not required to prepare Budget Statements in accordance with accounting standards. Other countries reviewed in this Research Report are required to prepare budget versus actual information. In Hong Kong, Singapore and UK however, budget versus actual information is not included within the financial statements.

## **What next?**

This Research Report 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 public sector financial reporting. To achieve this, we need stakeholder 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*. That Discussion Paper is intended to facilitate discussion and input from constituents with outreach to be conducted in April this year.

## **Conclusion**

By setting the scene on the current reporting framework applicable to public sector entities in Australia and comparing it internationally, this Research Report highlights some of the reporting requirements unique to Australia and the cost of those requirements.

Public sector entities make up 46.72% of Australia's total GDP, provide essential social services and employ nearly two million people.

That this sector functions efficiently is important; and therefore any unnecessary financial reporting red-tape diverts funds from essential services needs to be minimised.

Based on the findings of this Research Report, it is clear that the financial reporting framework for the public sector can be improved.

## 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
<b>Different definitions of entities</b>	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, territory authorities and territory owned corporations.  Directorate consist of administrative units, a part of, or a group of 2 or more administrative units, as specified in Administrative Arrangements and relevant instrument.	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.
<b>Number of departments</b>	19	7	At least 31	16	21	25	12	14	29
<b>Number of agencies/statutory bodies</b>	146 (and 17 Commonwealth Companies)	274	225	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	125 (14 other entities)	11 ( and 17 PFC and PNFC entities)	12 territory authorities & territory owned corporation, 3 Officers of Legislative Assembly (and 3 other territory authorities that are not consolidated)	10 ( and 4 state owned corporations)



	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
<b>Cost of auditing financial statements<sup>10</sup></b>	Total cost – \$72M Department and agencies: range - \$27k - \$4.7M	Total cost – \$26.5M <sup>11</sup> State range: \$9k - \$4.756M	Total cost - \$37.8M State range: \$9k – \$4.559M	Total cost – \$14.7M State range: \$15k - \$2.781M	Total cost – \$35.4M State range: \$118k - \$1.588M	Total cost – \$16.9M <sup>12</sup> State range: \$8k - \$488k	Total cost – \$4.8M <sup>13</sup> State range: \$11k - \$330K	Total cost – \$3.96M State range: \$8k - \$422K	Total cost – \$4.8M State range: \$10K - \$660k
<b>Average cost of preparing financial statements using factor of 3 times audit cost for state/territory, 4.5 times for Commonwealth</b>	Total cost \$324M <sup>14</sup>	Total cost \$79.8M (state & local)	Total cost \$113.5M (state & local)	\$44.1M (state) \$8.2M (local)	Total cost \$106.2M (state and local)	\$50.8M (state) \$9.5M (local)	Total cost \$14.6M	Total cost \$11.9M	\$14.4M (state) \$3.8M (local)
<b>Average Valuation Cost<sup>15</sup></b>	Information not available	\$13 million over a 5 year cycle <sup>16</sup>	Information not available	Information not available	Information not available	\$740,000 made up of actuarial service during 2016/17 for Tier 1 entities. It is estimated the cost of valuing property, plant and equipment is \$36.7m which include valuations other than for the public sector	On average \$15k depending on the number of assets revalued	On average \$759k on a rolling three year cycle (this includes most agencies)	On average \$450k depending on the number of assets revalued conducted on a 5-year rolling cycle except public housing assets and their associated lands which are revalued annually.
<b>Number of local governments (30 June 2017)</b>	N/A	79 councils, 10 regional library	152 councils	68 councils	77 councils	140 councils	29 Councils	The local government responsibilities	17 councils

- 10 The total cost of audit was sourced from the Auditor General's annual report 2016-17 relating to the revenue from performance audits and reports performed by the Auditor Generals. 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.
- 11 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 reviewed. The cost included performance audits and other audits as well as financial report audits.
- 12 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.
- 13 Audit cost of Tasmania was sourced from the Tasmanian Audit Office annual report 2016-17 of the revenue from performance audits and reports.
- 14 The range of the cost of preparing financial statements is between 4 to 5 times the audit fees. A factor of 4.5 is used for the purpose of this research report.
- 15 Due to impracticability of isolating the valuation cost, this information is only provided as an estimate where the information has been provided to the AASB
- 16 The cost is dependent upon additional valuations that may be required for entities that have land assets with significant volatility over that valuation cycle.



	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
		corporations and 16 associated entities						are divided into the Directorates	
<b>Range of audit cost of local governments<sup>17</sup></b>	N/A	Range - \$41k - \$69k  Average cost: \$58.1K	Range - \$33k - \$122k  Average cost: \$72.7k	Range - \$17k - \$55k  Average cost: \$40.4k	Range \$69k - \$270K  Average cost: \$159k	Average cost: \$22.6k	Range \$29k - \$49K  Average cost: \$42k	N/A	Range \$47k - \$102K  Average cost: \$74.4k
<b>What needs to be reported</b>									
<b>Definition of reporting entity</b>	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.								
<b>WoG</b>	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1
<b>Departments</b>	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
<b>Agencies/ Statutory bodies</b>	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
<b>Local government (councils and subsidiaries)</b>	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
<b>Government Business enterprises/ State-owned corporations</b>	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 Only one entity (a territory owned corporation) applies tier 2	Tier 1
<b>Any modifications to AASB Standards</b>	Yes – borrowing cost must be expensed.	No	No	No	No	Yes - modifies the definition of 'subsidiary' to	Yes - directed compliance with specific	No	No

17 The range and average of audit costs of council's financial statements are based on the report, [Report to the Local Government Association of South Australia](#) by Dr Sabine Schuhrer



	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
<b>by Treasurer</b>						apply to 'subsidiary bodies', regardless of the AASB 10 Consolidated Financial Statements test of control to ensure inclusion within the consolidated financial statements	accounting standards and exemptions of entities from the definitions of certain accounting standards		
<b>Other reporting requirements included in the Annual Report</b>									
<b>Service Performance Reporting</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Long term fiscal Sustainability Reporting</b>	<ul style="list-style-type: none"> <li>Intergenerational report at national level– over 40 years</li> <li>Budget statements – 3 years</li> <li>Corporate plan – 4 years</li> </ul>	<ul style="list-style-type: none"> <li>State: Budget statements – 4 years</li> <li>Local government:: Performance measures and corresponding results – 4 years, Strategic Resources Plan 4 years</li> </ul>	<ul style="list-style-type: none"> <li>State – Intergenerational report – over 40 years</li> <li>Budget statements – 3 years</li> <li>Local government community strategic plan 10 years-</li> </ul>	<ul style="list-style-type: none"> <li>State: Budget statement – 3 years</li> <li>Local government: long term financial plan 10 years, asset management plan 10 years</li> </ul>	<ul style="list-style-type: none"> <li>State: Budget statements – 3 years</li> <li>Local government:: long-term financial forecast 10 years, long-term asset management 10 years</li> </ul>	<ul style="list-style-type: none"> <li>State: Budget statements – 3 years</li> <li>Local government:: long term financial management plan 10 years, asset management plan 20 years</li> </ul>	<ul style="list-style-type: none"> <li>States: Intergenerational report – over 15 years</li> <li>Budget statements – 3 years</li> <li>Local government:: long term financial plan 10 years, asset management plan 10 years</li> </ul>	<ul style="list-style-type: none"> <li>State: Budget statements – 3 years</li> </ul>	<ul style="list-style-type: none"> <li>State: Budget statements – 3 years</li> <li>Local government: Long-term financial plan 3 years</li> </ul>
<b>Budget versus Actual Analysis</b>	Yes – based on concepts of GFS and accounting standards	States – based on accounting standards  Local – based on best practice guidance	State – based on Accounting standards  Local - accrual basis	State – Accounting standards  Local – budgeted financial statements must align with actual financial statements	State – based on accounting standards  Local – on an accrual basis	State – based on accounting standards  Local – on an accrual basis	State – Uniform Presentation Framework – Australian Accounting Standards  Local – no reference to accounting standards	State – based on accounting standards	State – GFS and Accounting standards  Local – no reference to accounting standards.



	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
<b>Presentation of budget versus actual analysis</b>	Within financial statements	Within financial statements	Within financial statements	Within financial statements	Within financial statements	Within financial statements	Within financial statements	Within financial statements	Within financial statements
<b>Disclosure on administered vs controlled items</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>GGS prepared separately?</b>	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
<b>GFS information included in the financial statements and reconciliation required</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Are all non-financial assets fair valued?</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Levels of Consolidation</b>									
<b>Are departments and agencies/statutory bodies consolidated in WoG financial statements?</b>	Yes- if they are controlled by the Commonwealth under AASB 10.	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	Departments and other entities are fully consolidated.  90.4% of statutory bodies are consolidated. Based on control.	Yes (subject to materiality)	Yes	Yes
<b>Are agencies/Statutory bodies consolidated in Departments' financial statements?</b>	Departments – only the Department of Defence consolidate statutory bodies under AASB 10	Statutory bodies are not generally consolidated (except for 7 departments) because they are not controlled by departments.	All controlled entities are consolidated	Yes	No	Only a few  Departments have generally not exerted control over Statutory Authorities in WA.  Departments lack power to enter business arrangements for other entities, as such other entities are not consolidated	Yes (subject to materiality)	All controlled entities are consolidated	No



	Commonwealth	Vic	NSW	SA	QLD	WA	TAS	ACT	NT
						into departments.			
<b>Are Local government entities consolidated in the State or WoG financial statements?</b>	No	No	No	No	No	No	No	Yes – local government functions are included in the directorate financial statements	No
<b>Parent entity exemption allowed in accordance with AASB 10?</b>	No	No	No – with one exception.	No	No	No	No	No	No
<b>Audit requirements</b>									
<b>WoG</b>	Yes – audited by Auditor General	Yes – audited by Auditor General	Yes – audited by Auditor General	No – no formal independent audit report	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
<b>Departments</b>	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			
<b>Agencies/ Statutory bodies</b>	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			
<b>Local government</b>	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- currently registered company auditor or an approved person. From 2017/18 onwards financial statements audited by Auditor General	Yes – audited by Auditor General	Yes – as reported within directorate financial statements that are audited by Auditor General	Yes – audited by Auditor General, or registered company auditor
<b>Government business</b>	Yes – audited by Auditor General	Yes – audited by Auditor	Yes – audited by Auditor	Yes – audited by Auditor	Yes- registered company	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
<b>enterprise/State owned corporation</b>		General	General	General	auditor or an appropriately qualified person	General	General	General	General

## Overview of Financial Reporting Framework in International Jurisdictions

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

	Canada	Hong Kong	New Zealand	Singapore	South Africa	The UK	The United States of America
<b>What needs to be reported</b>							
<b>Definition of reporting entity</b>	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. (Refer to Appendix B)	Public sector entities are referred to as "Public sector Public Benefit Entities" which 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.	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. (Refer to Appendix B)	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. (Refer to Appendix B)
<b>Number of Departments and 'agencies' at national level</b>	200 departments, agencies, crown corporations and special operating agencies	58 departments and agencies	37 departments and 79 Statutory bodies	16 ministries and 64 statutory boards	52 Departments	25 ministerial departments, 20 non ministerial departments and 389 agencies and other public bodies	15 executive departments, 255 offices, agencies and bureaus, 67 independent agencies and 8 executive office of the president
<b>Number of departments at state/provincial level</b>	Average of 18 departments per province	N/A	N/A	N/A	Average of 15 departments per province	N/A	Average 15-20 departments per state
<b>WoG</b>	General purpose financial statements (equivalent to Tier 1) as per Public Sector	General purpose financial statements (equivalent to Tier 1) as per HKFRS/HKAS	General purpose financial statements (equivalent to Tier 1) as per Public Sector	General purpose financial statements (equivalent to Tier 1) as per SB-FRS	General purpose financial statements (equivalent to Tier 1) as per Public	General purpose financial statements (equivalent to Tier 1) as per FReM which is	General purpose financial statements (equivalent to Tier 1) as per locally



	Canada	Hong Kong	New Zealand	Singapore	South Africa	The UK	The United States of America
	Accounting Standards (PSA) Handbook issued by PSAB based on IFRS	which is equivalent to IFRS	1 – as per Public Sector Accounting standards developed based on IPSAS with some modifications)	which is based on IFRS	Sector Accounting standards developed locally based on IPSAS with some modifications	based on IFRS	developed US GAAP
<b>State government</b>	General purpose financial statements (equivalent to Tier 1) as per Public Sector Accounting Standards (PSA) Handbook issued by PSAB based on IFRS	N/A	N/A	N/A	General purpose financial statements (equivalent to Tier 1) as per Public Sector Accounting standards developed locally based on IPSAS	N/A	General purpose financial statements (equivalent to Tier 1) as per locally developed US GAAP
<b>Department and Agencies under WoG and state government</b>	<b>National government</b> – 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 <b>State Government</b> – “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	Not required to prepare financial statements as included in consolidated financial statements of WoG.	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 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	GPFS (equivalent to Tier 1) as per FReM which is based on IFRS	<b>National government</b> - 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. <b>State Government</b> – GPFS with reduced level of reporting requirements depending on nature of activities



	Canada	Hong Kong	New Zealand	Singapore	South Africa	The UK	The United States of America
	entity definition above should only prepare an Annual Service Plan Report (includes service performance and budget versus actual analysis)						
<b>Local government (councils and subsidiaries)</b>	GPFS (equivalent to Tier 1) as per Public Sector Accounting Standards (PSA) Handbook issued by PSAB based on IFRS	N/A	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)	N/A	General purpose financial statements (equivalent to Tier 1) as per Public Sector Accounting standards developed locally based on IPSAS	GPFS prepared as per Code of Practice on Local Authority Accounting in the UK which is 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
<b>Are local government entities consolidated in the government financial statements?</b>	No	N/A	No	N/A	No	Yes	No
<b>Other reporting requirements</b>							
<b>Service Performance Reporting</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Budget versus Actual reporting</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Presentation of budget versus actual analysis</b>	Within the financial statements	Included in other government reports	Within the financial statements	Included in other government reports	Within the financial statements	Included in other government reports	Within the financial statements
<b>Long Term Fiscal Sustainability</b>	Yes (75 years)	Yes (30 years)	Yes (40 years)	Information not available	Yes (5 years)	Yes (50 years)	Yes (75 years)
<b>Disclosure on administered vs controlled items</b>	Not required	Not required	Not required	Not required	Not required	Not required	Not required
<b>GFS and GGS</b>	No	No	No	No	No	No	No



	Canada	Hong Kong	New Zealand	Singapore	South Africa	The UK	The United States of America
<b>information included in the financial statements</b>							
<b>Is IPSASB practice guide on GGS used?</b>	No	No	PBE IPSAS 22 <sup>18</sup> by XRBNZ provides guidance on including GGS information in the FS (not applied in practise)	No	No IPSAS 22 is not adopted.	No	No
<b>Are all non-financial assets fair valued?</b>	Yes ( but certain assets are carried at cost)	No	Yes. ( but certain assets are carried at cost)	Information not available	No	Yes	No
<b>Audit requirement</b>							
<b>WoG</b>	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
<b>State government</b>	Yes – audited by Auditor General	N/A	N/A	N/A	Yes – audited by Auditor General	N/A	Yes – audited by Auditor General
<b>Department and Agencies under WG and state government</b>	Yes – audited by Auditor General	No	Yes – audited Auditor General or a qualified auditor	Yes – audited by Auditor General			
<b>Local government (councils and subsidiaries)</b>	Yes – audited by Auditor General	N/A	Yes – audited by Auditor General or qualified auditor	N/A	Yes – audited by Auditor General	Yes – audited by Auditor General	No – audited as part of the consolidated financial statements of each state

18 IPSAS 22 *Disclosure of financial information about the General Government Sector*

# Financial Reporting requirements applicable to public sector entities

## Introduction

1. This Research 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 publish external financial statements on the public record
  - what needs to be reported (reporting requirements)
  - what level and scope 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 Auditor Generals (both within Australia and overseas) identified in this Research 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:
  - Canada
  - Hong Kong
  - New Zealand
  - Singapore
  - South Africa
  - UK
  - United States of America.
5. As part of the research, we surveyed the heads of treasury from the Commonwealth, states and territories to collect information and data on the number of entities in each state/territory (Appendix C). 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 cost of audit for public sector entities' financial statements was derived from the published Commonwealth, state and territory Auditor General's financial statement/WoG consolidated financial statements. For NT, WA and SA where local councils are not audited by the Auditor General, the audit cost was derived from a published document that provided the range and average cost of audit fees for local councils for 2015-16.

7. The assumption was made that the cost of preparing financial statements is three times the audit fees for state/territory public sector entities, based on anecdotal evidence from an accounting firm stating it is not an unreasonable factor to use. Ultimately the cost will be dependent on the size and complexity of the entity. It could range from as low as 50% of the audit cost, or much higher than three times the audit cost. A factor of 4.5 times was used to determine the cost of preparing financial statements for Commonwealth based on their feedback. However the cost of preparation can range from 4 to 5 times the audit fees. Together, the audit and preparation cost – including valuation cost – is estimated to be over \$1 billion.
8. This Research 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. Where readily available, the rationale given for the basis for the requirements is provided in the appendices to this Research 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 Research 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 Finance Statistics (GFS)<sup>19</sup> data published by the ABS, the total public sector<sup>20</sup> had \$639,440 million in revenue and \$670,192 million in expenses. The total public sector as at 30 June 2016 reported GFS net worth<sup>21</sup> of \$775,314 million. This represents a significant contribution to the whole of Australia, equating to 46.72%<sup>22</sup> of Australia's total Gross Domestic Product.

## Scope

13. This Research Report covers public sector entities in Australia including government owned enterprises; however universities are not within the scope of this Research Report. Universities will be part of future outreach for the Not-for-profit sector.

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19 Government Finance 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.

20 The total public sector comprises general government, public non-financial corporations and public financial corporations.

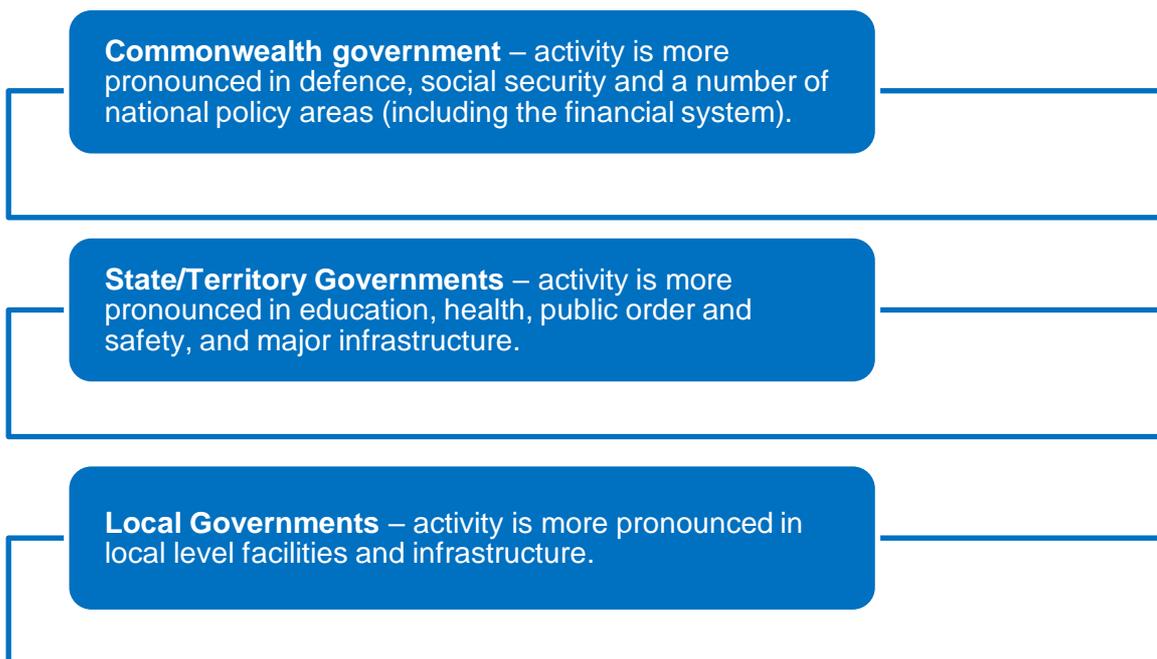
21 GFS Net worth is the total stock of assets less liabilities and shares/contributed capital. For the general government sector, net worth is assets less liabilities since shares/contributed capital is zero. This measure reflects the contribution government to the wealth of Australia.

22 The total Gross Domestic product as published by the Australian Bureau of Statistics for June 2016 was \$1,659,604 million.

14. Table 1 – *Comparison of financial reporting requirements for the Australian public sector* provides an overview of the findings of this Research Report, based on the details in Appendices A and B of this Research Report.

### **Structure of the public sector**

- 15. Australia is a federation of six states which, together with two self-governing territories, have 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.<sup>23</sup>
- 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 Research Report.



**Figure 1 – The structure of the Australian government**

23 The seven other territories are excluded from this Research 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's instructions, Australian Accounting Standards, Australian Auditing Standards and Government Finance Statistics (GFS) requirements set out by the ABS.
20. Australian Accounting Standards are based on International Financial Reporting Standards (IFRS), modified as necessary for public sector or not-for-profit specific issues.
21. 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. It is a specialised macroeconomic statistical framework, known as the GFS framework, designed to support fiscal analysis, with standards set by the ABS.
22. Each level of government defines the entities they use to deliver their service. 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 departments<sup>24</sup>. To ensure consistency, this Research Report 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. The departments however, have a similar construct to branches used by private sector entities – rather than separate stand-alone entities – since they perform functions as instructed by the relevant government.
26. Public sector entities in Australia prepare Whole of Government (WoG) financial statements which are General Purpose Financial Statements (GPFs). Even within a level of government, departments and agencies/statutory bodies prepare GPFs with limited exceptions. A department would usually provide its financial report to the minister responsible for that department. The minister then tables the financial report in parliament for scrutiny after which they will become public documents.
27. Australian Accounting Standard AASB 1053 *Applications of Tiers of Australian Accounting Standards* outlines two Tiers of reporting requirements for preparing GPFs:

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24 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.

- i. Tier 1: Australian Accounting Standards – 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.
  - ii. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements – 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.
28. The Treasurer for each level of government must prepare WoG consolidated financial statements each year, General Government Sector (GGS) financial statements, and include GFS data in the WoG financial statements, based on the ABS GFS Manual, including reconciliations to key fiscal aggregates.
29. 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 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 items***  
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).
30. 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 cover up to 40 years.
31. The audit framework in Australia is developed based on International Auditing Standards and is sector neutral. There are no public sector specific auditing standards. Auditor Generals' however, depending on their mandate, may have the ability to set their own standards. For example, the *Auditor-General Act* (Section 24) requires the Australian National Audit Office (ANAO) to set auditing standards that are to be complied with in performing the Auditor-General's functions. These standards are legislative instruments.
32. 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.

## Issues arising from the findings

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

33. In Australia, GPFSs are 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).

34. Australia has two tiers of GPFS:

1. Tier 1 complying with all recognition, measurement and disclosure requirements of accounting standards
2. Tier 2 complying with all recognition and measurement but reduced disclosures.

Despite Australian Accounting Standards requiring only the WoG<sup>25</sup> financial statements and GGS financial statements to comply with Tier 1 GPFS<sup>26</sup> requirements, the majority of public sector entities are required by legislation or Treasurer's instructions to use Tier 1. Only SA, QLD and the Commonwealth allow the use of Tier 2 for entities below WoG level.<sup>27</sup> There are also no legislative requirements for SA to prepare and audit the WoG financial statements. In practice however, the SA Department of Treasury and Finance mandates the preparation of the WoG financial statements.

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

36. Australian Accounting Standards, including SAC 1<sup>28</sup>, compound the problem by stating that most, if not all, departments are reporting entities, 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.

37. The IPSASB Conceptual Framework notes the key characteristics of a public sector reporting entity are:

- it raises resources (ability to raise taxes or charge fees/levies etc) from, or on behalf of, constituents and/or use, resources to undertake activities on behalf of those constituents
- service recipients and resources providers depend on a GPFR for information for accountability or decision-making purposes.

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25 WoG refers to Commonwealth, state and territory and local government.

26 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.

27 See paragraphs A52- A53, A117 and A37

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

38. Thus, two types of users are specified that require information for accountability and decision-making purposes:

1. service recipients
2. resources providers.

39. 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.

40. In addition, public sector entities are generally prohibited by Treasurer's instructions from applying the consolidation exemption (paragraph 50) provided in accounting standards. Departments are required to prepare consolidated financial statements, and statutory bodies may also prepare consolidated financial statements, even though both levels of information are generally already included in WoG financial statements. As a result the financial information which is consolidated into WoG financial statements is replicated at the departmental level. Whilst local governments are not consolidated into the states' WoG financial statements, ACT includes the functions of councils within the Departments' financial statements because ACT does not have a separate local government level.

### **International comparisons show we have more reporting**

41. Similar to Australia, Canada, Hong Kong, Singapore and the UK have developed local GAAP for public sector financial reporting which is based on IFRS. The United States of America has developed its own local GAAP for public sector financial reporting.

42. New Zealand and South Africa have adopted International Public Sector Accounting Standards with some modifications.

43. The seven international jurisdictions reviewed, Canada, Hong Kong, New Zealand (NZ), South Africa and the United States (US) provide varying forms of relief that would result in less public sector entities reporting than in Australia. The UK and Singapore have similar reporting levels to Australia and require 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/or state/provincial government level must prepare GPFS equivalent to Tier 1. In Canada, those not preparing Tier 1 equivalents prepare an Annual Service Plan Report<sup>29</sup> 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.<sup>30</sup>

44. In Canada, South Africa, the UK and the US, local government entities prepare GPFS and the US<sup>31</sup> allows GPFS with reduced level of reporting for certain local government entities. There are no local governments in Hong Kong and Singapore. A tiered approach is applied by local government entities in NZ. The UK stands out as having local government entities consolidated in the WoG financial statements.

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29 Annual Service Plans is not full GPFS, but consists of service performance reporting and budget versus actual expense and income information. Refer to paragraph A159 for more information (Only one state was further researched for the purpose of this report, which is British Columbia).

30 Refer to paragraph B82 and B83 for more information

31 Only one state was further researched for the purpose of this report which is Texas.

## Estimated costs

45. Total audit fees, including local government audits<sup>32</sup>, in 2016/17 were \$224.3 million.
46. 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<sup>33</sup> that of the audit fees for states/territories and four times for Commonwealth, based on the experience of accounting firms and feedback from Treasury. Accordingly, the total cost of preparing and auditing financial statements, including valuation costs<sup>34</sup> is estimated at more than \$1 billion annually.
47. 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 identify who the users are for public sector accounts especially for the departmental, agency/statutory body and local government levels, and determining what information they want and what they seek to do with that information.
48. Based on the findings above the key question is:
- Are the current Australian public sector financial reporting requirements – currently costing more than \$1 billion – necessary to adequately hold the public sector accountable for the use of taxpayers' monies?

## Inconsistency in reporting and assurance requirements across different jurisdictions in Australia

49. As shown in Table 1 – *Comparison of financial reporting requirements for the Australian public sector*, only some states and the Commonwealth currently allow Tier 2 reporting requirements to be applied by certain entities.
50. Some states and territories have Treasurer's instructions that modify the accounting standards such as in WA, the definition of 'subsidiary' is modified to apply to 'subsidiary bodies' regardless of the test of control as defined in AASB 10 *Consolidated Financial Statements*. In Tasmania the Treasurer modified the accounting standards in two separate scenarios and directed compliance with specific accounting standards and exemptions of entities (paragraph A254). In some cases<sup>35</sup> the current versions of accounting standards are not referenced.

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32 The cost of audit was sourced from the Auditors' Generals Annual Reports of the respective States /Territories and Annual report of Commonwealth. NT, WA and SA are the only jurisdictions that do not require the Auditors' general to audit local government financial reports. Hence audit fees of local governments in NT, WA and SA were sourced from a report issued by Local Government Associate of South Australia.

33 This is based on anecdote evidence from an accounting firm stating it is not an unreasonable factor to use. Ultimately the cost will depend on the size and complexity of the entity. It could range from as low as fifty percent of the audit cost, or much higher than three times the audit fees. In addition a state/territory treasury provided an estimated preparation cost of a large agency, and an average of the agencies' audit fees (ranges from \$8,000 to \$600,000) which derived a factor of 2.5 compare to the audit fees. Overall a factor of three times the audit fee is not unreasonable assumption.

34 Valuation cost may involve the valuation of property, plant and requirement and employee benefits.

35 Refer to paragraph A41 – 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.

51. In addition, NSW permit the use of the consolidation exemption<sup>36</sup> in AASB 10 *Consolidated Financial Statements* whilst no other states/territories permit the exemption. Some do not require the WoG or departments' financial statements to consolidate all entities controlled by the government in accordance with AASB 10.
52. SA is not required to have its WoG financial report audited. Statutory bodies in 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. At the local government level, up until financial year 2016/17 WA<sup>37</sup>, SA and NT local council are not audited by the Auditor General.
53. All local governments are required to report on long term sustainability reporting, QLD, NSW, TAS, SA, WA prepare a long term financial plan and asset management plans of a minimum 10 years and VIC and NT prepare a long term financial plan of a minimum 4 years.
54. 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

55. Australia has some key accounting standards that the seven international jurisdictions reviewed did not.

### Government Finance Statistics

56. Government Finance 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 ABS.
57. 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 information<sup>38</sup>. 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 seven jurisdictions present GFS information on the respective government official websites. The other countries do not require preparation of general government sector financial statements.
58. In all other jurisdictions, GFS or GGS data is not included in the annual financial statements of the government. Instead, the GFS data is available on the relevant government websites.

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36 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.

37 The Local Government Amendment (Auditing) Bill 2017 amends the Local Government Act 1995 to provide for the auditing of local governments by the Auditor General. Financial report audits will begin from 2017-18 in a staged transition process.

38 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.

59. There is no AASB 1049 equivalent accounting standard in those jurisdictions (except for NZ) specifying requirements for GPFs and GFS financial statements, based on IPSAS 22 *Disclosure of Financial Information about the General Government Sector*. IPSAS 22 provides guidance on how to reconcile GFS to accounting numbers, but this is not a mandatory standard. New Zealand has not applied IPSAS 22 in practice.

### **Administered versus controlled**

60. 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 IFRS Standards or IPSASB Standards dealing specifically with administered items. There is also no academic research to support that users of government department financial reporting require such a distinction. Nor is it consistent with branch accounting when prepared in the private sector.

61. There is no AASB 1050 equivalent accounting standard in other jurisdictions and none of the jurisdictions require disclosure in relation to administered and controlled items of government departments.

62. At an AASB Roundtable discussion for NFP held in January 2016, participants questioned whether the 'administered' versus 'controlled' items distinction was necessary and useful, and whether different levels of accountability were attached to such items. One participant noted their jurisdiction valued the distinction with 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.

### **Fair value**

63. As a result of the requirement to choose the accounting treatment most consistent with GFS, Australian Accounting Standards require WOG, GGS and entities with the GGS to annually fair value their non-financial assets. The other jurisdictions compared in this Research Report do not require public sector entities to annually fair value all their non-financial assets.

### **Accounting complications from machinery of government changes**

64. 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.

65. 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.

66. The concept of consolidation for public sector entities will be further explored in a separate AASB Research Report.

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

67. All Australian public sector entities prepare annual reports that consist of the audited financial statements as well as performance reports. Performance reports contain information about relevant statistics with respect to the agency's function and objectives, its performance management and development, including an assessment of the entity's effectiveness and efficiency. However, as there are no accounting standards for service performance reporting, there is no consistency in how financial information is linked to the service performance outcomes with differing requirements in each state,
68. In Australia, budget statements are required by all public sector entities and generally forecast up to three years. The Commonwealth and state/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 in this Research Report are required to prepare budget versus actual information. However, in Hong Kong, Singapore and the UK, budget versus actual information is not included within the financial statements.
69. 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.
70. 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 ten years. VIC and NT only prepare a long term financial plan for a minimum three years.
71. These reports are being prepared, however it is not clear what the linkage is, if any, to published financial reports.
72. All jurisdictions except for Singapore require fiscal sustainability reports to be presented as part of the annual budget review or as a separate report where a time horizon of 30-75 years is covered.

## Concluding comments on accounting standards

73. Based on the summary of findings explained in paragraphs 33-72, there is 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 threshold 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)
  - helping ensure the cost of preparation does not exceed benefits to users
  - 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 useful to users, determined and specified by the AASB after due process as being appropriate for the applicable criteria and thresholds.

## Concluding comments on auditing standards

74. Based on the summary of findings explained in paragraphs 33-72, there are inconsistent auditing requirements across the Australian jurisdictions covered in this Research Report. The auditing requirements are predominately governed by the Auditor Generals. Once the financial reporting framework has been finalised, the AUASB and the Auditor Generals could specify the appropriate level and scope of assurance to match the level and scope of financial reporting.

# 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:
- 1. 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.
  - 2. 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.
  - 3. 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
  - 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. Universities are not within the scope of this Research Report. 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.
- A5. As background to Australian requirements, it is of interest to review other countries and the IPSASB's 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. ...*

- A6. 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.*

- A7. 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.*

- A8. Financial reporting is how public entities account for their stewardship of – that is, the care they take with – public money and other assets.
- A9. 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.
- A10. 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?

- A11. 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 website<sup>39</sup>, “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”.
- A12. 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 ABS 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.

## Background to the development of specific accounting standards for Australian government

- A13. In 2002, the FRC specifically issued the strategic directive for the harmonisation of Government Finance 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. Australia however, 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.<sup>40</sup>
- A14. 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 done through stages, beginning in the 1990s with the first shift from cash-based accounting and budgeting to the accrual-based accounting system across the whole of Australian public sector.
- A15. Accounting standards were then developed based at the department level, ie AAS 31 *Financial Reporting by governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 27 *Financial Reporting by Local Government* were released applicable only to the public sector.<sup>41</sup>
- A16. First introduced in 1996, AAS 31 specified requirements for general purpose financial reporting by governments. With the adoption of IFRS Standards in 2005, and increasing pressure to address public sector accounting issues, the three public sector standards underwent a review process.

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

40 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*,

41 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

- A17. 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.)
- A18. 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 local government, government department and government financial reports 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.
- A19. As a result of the two projects, this led to the creation of AASB 1049.<sup>42</sup> *Whole of Government and General Government Sector Financial Reporting*, which required the WoG to prepare GPFS. This also resulted in three new proposed standards were subsequently created as a result which became the AASB 1050 *Administered Items*, AASB 1051 *Land under Roads* and AASB 1052 *Disaggregated Disclosures*.
- A20. Currently the Australian Accounting Standards AASB 101 *Presentation of Financial Statements* states in paragraph Aus 7.2:

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

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

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

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

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

- A21. 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.

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

- 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) of AASB 1053 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.

A22. 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 Board's 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 whole<sup>43</sup>:

- coercive power to obtain public funds
- the level of public funds they use
- their risk profile
- their level of complexity
- their financial profile.

A23. 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.

A24. 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.

A25. The Australian States and Territories adopt a similar structure with statutory authorities or administrative units replacing agencies, and directorates replacing departments<sup>44</sup>. To ensure consistency, this Research Report will refer to these entities as departments and agencies/statutory bodies.

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

44 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.

- A26. 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.
- A27. Local Governments tend to be established under a specific piece of legislation, which also prescribes their reporting requirements.

## Commonwealth

- A28. 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 entities<sup>45</sup>, 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.<sup>46</sup> A Commonwealth company is a company incorporated under the *Corporations Act 2001* that the Commonwealth controls.<sup>47</sup>
- A29. 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.
- A30. 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 2017<sup>48</sup> 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)
  - Veterans' Affairs (2)

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45 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.

46 Section 22 of the PGPA Act

47 Section 89 of the PGPA Act

48 [List of all Commonwealth entities](#)

- Parliamentary Departments (4)

A31. 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 mandates<sup>49</sup>.

### *Commonwealth entities*

A32. 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 A34 below); and present fairly the entity's financial position, financial performance and cash flow.

A33. 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.

A34. 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.

A35. 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 statements<sup>50</sup>, 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.<sup>51</sup>

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

50 Section 48 of the PGPA Act

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

A36. 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.<sup>52</sup>

A37. Section 18 of the FRR specifies a list of reporting entities<sup>53</sup> 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*<sup>54</sup> 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.”*

A38. 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*.<sup>55</sup>

A39. 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.

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52 Guide to Part 3 of the FRR.

53 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

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

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

### *Other reporting requirements*

- A40. 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.<sup>56</sup>
- A41. 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 standards<sup>57</sup>.
- A42. Section 39 of the PGPA Act requires Commonwealth entities to prepare annual performance statements that measures and assesses 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.
- A43. 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.
- A44. 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.
- A45. 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.

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<sup>56</sup> [2015 Intergenerational Report Australia in 2055](#)

<sup>57</sup> 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.

### *Commonwealth Companies/ Government Business Enterprises*

- A46. 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.
- A47. 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*.
- A48. 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 A45 above. Commonwealth companies are not required to prepare annual performance statements.

## South Australia

### *State government*

- A49. 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.<sup>58</sup> 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.
- A50. Section 23 of the *Public Finance and Audit Act 1987* (PFA) requires every public authority<sup>59</sup> (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.
- A51. 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.
- A52. 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 test<sup>60</sup>.
- A53. 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.

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

59 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)

60 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.

- A54. 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 unit<sup>61</sup> or to assist the Auditor-General.
- A55. 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*

- A56. 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.
- A57. 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 administers:
  - 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.<sup>62</sup>
- A58. Claims about the agency's performance and outcomes must be substantiated by evidence and the reports should have meaning and relevance to the community.
- A59. 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.
- A60. There is no requirement for long term planning or reporting.

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61 Administrative unit is defined in the *Public Finance and Audit Act 1987* a government department  
62 Section 7 of the *Public Sector Regulation 2010*

### *Government business enterprises*

- A61. 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.<sup>63</sup> The SA Treasury provides a list of public non-financial and public financial corporations that are 100% controlled by the government.<sup>64</sup>
- A62. 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 A49 and A52 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.
- A63. The Auditor-General must in respect of each financial year, audit the accounts and financial statements of the corporation.<sup>65</sup> 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.
- A64. 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.<sup>66</sup>

### *Local government*

- A65. 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.<sup>67</sup>
- A66. The statements must be audited by the council's auditor<sup>68</sup> in accordance with the Australian Auditing Standards and Auditing Guidance Statements published by the Auditing and Assurance Standards Boards (AUASB)<sup>69</sup>. 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.

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63 Section 6 of the *Public Corporations Act 1993*

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

65 Section 32 of the *Public Corporations Act 1993*

66 Section 13 of the *Public Corporations Act 1993*

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

68 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.

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

- A67. A council subsidiary or regional subsidiary<sup>70</sup> 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.<sup>71</sup> Similarly the financial statements of the council subsidiary or regional subsidiary must be audited by the auditor in accordance with Australian Auditing Standards.
- A68. 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 Standards<sup>72</sup>. However the councils are not included in the whole of state or department's financial statements.

### *Other reporting requirements*

- A69. 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.<sup>73</sup>
  - a budget of each council stating whether projected operating income is sufficient to meet projected operated expenses etc.<sup>74</sup> 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.
  - 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.<sup>75</sup>
- A70. 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

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70 Section 17(2) of a regional subsidiary is established by two or more councils and must be applied by the Minister.  
71 Section 10-12 of the *Local Government Act 1999*  
72 Section 11 of the *Local Government (Financial Management) Regulations 2011*  
73 Section 6 of the *Local Government (Financial Management) Regulations 2011*  
74 Section 7 of the *Local Government (Financial Management) Regulations 2011*  
75 Section 2 of the *Local Government Act 1999*

## Victoria

### *State government*

- A71. 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.
- A72. All departments and public bodies<sup>76</sup> (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.
- A73. Each department and public body, unless otherwise not required under the *Audit Act 1994* or any other Act, has to have its financial statements audited<sup>77</sup> in accordance with the standards made by the AUASB in relation to the financial statements and performance audits<sup>78</sup>.
- A74. 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 stated<sup>79</sup> 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.<sup>80</sup>
- A75. Victoria does not specify any entities that are allowed to use Tier 2 Australian Accounting Standards.

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76 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.

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

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

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

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

- A76. 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.
- A77. The Department of Treasury and Finance have endorsed the *Model Report for Victorian Government Departments* (the Model)<sup>81</sup> 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*

- A78. 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*.
- A79. 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.<sup>82</sup> 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.
- A80. 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

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81 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*.

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

- an explanation of any significant variance between the actual results and the corresponding period's performance targets and indicators.

A81. 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 Estimates<sup>83</sup>, the Treasurer indicated to the Public Accounts and Estimates Committees there are currently no plans to introduce intergenerational reporting in Victoria.

### *Government Business Enterprises*

A82. 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.

A83. 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 A75, the annual report must contain audited financial statements that are prepared in accordance with the Australian Accounting Standards and any other directions.

A84. 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.<sup>84</sup>

### *Local Government*

A85. 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.<sup>85</sup>

A86. 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.<sup>86</sup> The financial statements including notes attached are prepared in accordance with the current Australian Accounting Standards as they apply to the GPFS of local governments<sup>87</sup>, i.e. Tier 1 Australian Accounting Standards.

A87. 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.

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

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

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

86 Section 131 of the *Local Government Act 1989*

87 Section 3 of the *Local Government Act 1989*

- A88. 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”.
- A89. The audit requirements are the same as for Victoria state government as described in paragraph A73 above.
- A90. 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:
- 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.
- A91. 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.
- A92. Councils are not included in the whole of state or department’s financial statements.

## Western Australia

### *State government*

- A93. Statutory authorities listed in Schedule 1<sup>88</sup> of the *Financial Management Act 2006*, Departments, and Sub-departments (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), are required to produce, and submit and publish an annual report<sup>89</sup> in accordance with Australian Accounting Standards, Government policies as referred to in the Annual Reporting Framework<sup>90</sup> and other relevant legislation. The Annual Reporting Framework is issued by the Public Sector Commissioner under authority of the *Public Sector Management Act 1994* and most<sup>91</sup> Western Australian public sector agencies are legally required to comply with the Framework. 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.
- A94. Statutory authorities not listed in Schedule 1 of the *Financial Management Act 2006* source their requirements to produce and submit and public and annual report<sup>92</sup> in accordance with Australian Accounting Standards, Government policies as referred to in the Annual Reporting Framework (where applicable to the agency) and other relevant legislation.
- A95. The Annual Reporting Framework extends reporting requirements for agencies subject to the *Public Sector Management Act 1994*<sup>93</sup> and provides enhanced details for disclosures required in other legislative instruments. In addition to guiding agencies on the publication and tabling of Annual Reports, the Framework invokes human resources reporting requirements and other disclosures for transparency purposes.
- A96. For agencies subject to the *Financial Management Act 2006*, the Annual Report must contain financial statements, key performance indicators<sup>94</sup>; report on the operations of the agency during the financial year, and any information prescribed by the Treasurer and/or Minister. These financial statements<sup>95</sup> 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 Minister<sup>96</sup>. The annual report must be audited and tabled to Parliament including the audit opinion within 90 days of the end of the financial year.<sup>97</sup> Similar provisions apply to statutory authorities outside of the scope of the *Financial Management Act 2006*.

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88 Several GTEs source their Annual Reporting requirements from the FMA. For example, the Gold Corporation and the Insurance Commission of Western Australia

89 Division 2 subsection 61(1) of FMA.

90 [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.](#)

91 Entities not required to comply are listed in Schedule 1 of the *Public Sector Management Act 1994*

92 Division 2 subsection 61(1) of FMA

93 Entities not required to comply are listed in Schedule 1 of the *Public Sector Management Act 1994*

94 Exception to this requirement are GBE's which are exempt from the requirement to publish Key Performance Indicators

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

96 Section 62(2) of FMA

97 Section 64(2) of the FMA.

- A97. The Treasurer's instructions have the force of law and they apply to agencies within the scope of the *Financial Management Act 2006*. 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.
- A98. Treasurer's instructions 1105 also modifies the definition of 'subsidiary' to apply to 'subsidiary bodies' as defined by the *Financial Management Act 2006*, regardless of the AASB 10 test of control to ensure the inclusion of controlled entities, including related bodies, within the consolidated financial statements.
- A99. The Department of Treasury updates Model Annual Reports as a guide for agencies, covering the minimum annual reporting requirements of Australian Accounting Standards, the *Financial Management Act 2006* and Treasurer's instructions.
- A100. The financial statements of an agency must be submitted to the Auditor General for audit in accordance with the *Auditor General Act 2006*.<sup>98</sup> 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 subsidiaries<sup>99</sup> 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.<sup>100</sup>

#### *Other reporting requirements*

- A101. 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 for agencies within the scope of the *Financial Management Act 2006*. Further information can also be found in Treasurer's instructions (TI) 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.
- A102. 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.
- A103. 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.

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98 Section 63 of the FMA

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

100 Section 28 of the *Auditor General Act 2006*

A104. 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*<sup>101</sup>, 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*

A105. 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.<sup>102</sup> These government bodies are incorporated under their respective legislation, for example, statutory electricity corporations are established under the *Electricity Corporations Act 2005*.

A106. The reporting requirements are generally<sup>103</sup> 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.<sup>104</sup>

A107. 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.<sup>105</sup>

A108. The financial report must be audited by the Auditor General and obtain an auditor's report.<sup>106</sup>

### *Local Government*

A109. Local Government is required to prepare general purpose financial statements<sup>107</sup> 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.

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

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

103 Some enabling statutes for GBEs invoke the reporting requirements of the FMA

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

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

106 Section 14 of the *Electricity Corporations Act 2005*

107 Section 5A of FMR.

- A110. 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 ratios<sup>108</sup>.
- A111. 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*
- A112. A local government is required to submit to its auditor the accounts and annual financial report of the local government for audit<sup>109</sup> and the auditor needs to prepare an audit report. Section 7.3 of the LGA previously requires the local government’s auditor is to be a person who is a registered company auditor or an approved auditor<sup>110</sup>. However the *Local Government Amendment (Auditing) Bill 2017* makes legislative changes the LGA to provide the auditing of local governments by the Auditor General. There is a staged transition approach for financial audits beginning from 2017-18. The explanatory memorandum of the *Local Government Amendment (Auditing) Bill 2017* indicated that the responsibility for auditing local governments by the Auditor General will be transition fully by financial year 2020/21 regardless of whether or not the existing contracts of local governments expires. The audit is to be carried out in accordance with the Auditing Standards in Australia.<sup>111</sup>
- A113. 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.<sup>112</sup>
- A114. Councils are not included in the whole of state or department’s financial statements.

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

109 Section 7.2 of the LGA

110 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.

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

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

## Queensland

### State government

- A115. The *Financial Accountability Act 2009* (FA Act) requires agencies<sup>113</sup> and the WoG to prepare annual financial statements and the annual report to be tabled in Parliament<sup>114</sup>, and the Treasurer may make standards about the policies and principles to be observed in financial and performance reporting<sup>115</sup>. 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.
- A116. 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).<sup>116</sup>
- A117. 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 GPFS<sup>117</sup> 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.
- A118. Additionally statutory bodies are separate entities not controlled by departments and therefore not consolidated into department's financial statements.
- A119. Consolidated WoG financial statements complying with Tier 1 reporting requirements must be prepared within 6 months after the end of each financial year.<sup>118</sup>

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113 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.

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

115 Section 57 of the FA Act.

116 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.

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

118 Section 25 of the FA Act

- A120. 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 materiality<sup>119</sup>, prepare consolidated financial statements for the agency and all of its controlled entities.
- A121. Departments and statutory bodies must prepare and give to the authorised auditor, the annual financial statements for audit<sup>120</sup> whilst the Treasurer must send the financial statements for the WoG to the auditor-general for a report by the auditor-general.<sup>121</sup> 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 exempted<sup>122</sup> 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 bodies<sup>123</sup>.
- A122. 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'<sup>124</sup> and are for illustrative guidance only.

#### *Other reporting requirements*

- A123. 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.

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119 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.

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

121 Section 25(4) of the FA Act.

122 Section 30(3) of the *Auditor-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.

123 Section 58(1)(b) of the *Auditor-General Act 2009*

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

- A124. 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.<sup>125</sup>
- A125. 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.
- A126. 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.
- A127. 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*

- A128. 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 GOC<sup>126</sup> and prescribed GOC subsidiaries<sup>127</sup> 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.

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

126 Section 118 of the Government Owned Corporations Act 1993

127 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

- A129. 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-General Act 2009*<sup>128</sup>, in which case an appropriately qualified person<sup>129</sup> must be appointed to audit the company.

### *Local Government*

- A130. Local governments must prepare GPFS, a current-year financial sustainability statement and a long-term sustainability statement.<sup>130</sup>
- A131. 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.
- A132. Councils in Queensland administer the Trust for the cemeteries and therefore include the financial information relating to cemeteries within the councils' financial statements.<sup>131</sup>
- A133. 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.<sup>132</sup> Other long term reporting requirement is the long-term asset financial forecast which must cover a period of at least 10 years.
- A134. 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.<sup>133</sup>

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128 Section 30A of the *Auditor-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.

129 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.

130 Section 178 of the *Local Government Regulation 2012*

131 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](http://www.bundaberg.qld.gov.au/files/BRC_Annual_Report_PROOF6_-_Council_Meeting_21_Nov_-_Web.pdf)

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

133 Section 212 of the *Local Government Regulation 2012*

## New South Wales

### *State government*

- A135. 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.
- A136. For both departments<sup>134</sup> and statutory bodies<sup>135</sup>, 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.<sup>136</sup>
- A137. There are five cemetery reserve trusts controlled by the Minister for Primary Industries and therefore part of the NSW State Government financial statements.<sup>137</sup>
- A138. 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*

- A139. 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.

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134 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.

135 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*.

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

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

- A140. 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 arrangements 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.<sup>138</sup>
- A141. 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.<sup>139</sup>
- A142. 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;
  - 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*

- A143. 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.<sup>140</sup>

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

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

140 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.

- A144. 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.<sup>141</sup> 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*.<sup>142</sup> Currently there are no company State Owned Corporations.
- A145. A statutory State-owned corporation has the same financial reporting requirements as statutory bodies as discussed in paragraph A136 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.
- A146. 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 A136.<sup>143</sup>

### *Local Government*

- A147. 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.
- A148. 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*<sup>144</sup> 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.

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

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

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

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

- A149. 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 & Cabinet<sup>145</sup>. 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. Budgetary information is based on an accrual basis and any variance of 10% or between the budget and actual information will require an explanation.
- A150. 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.

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145 Section 428 of the *Local Government Act 1993*

## Tasmania

### *State government*

- A151. 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.<sup>146</sup> 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*.<sup>147</sup> Reconciliation between the GSF data and financial statements are disclosed within the whole of state government financial statements.
- A152. Tasmanian heads of Agencies<sup>148</sup> 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.<sup>149</sup>
- A153. 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
  - 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.<sup>150</sup>
- A154. 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*.
- A155. 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*".<sup>151</sup>
- A156. 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.

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146 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*

147 Section 16 of the *Audit Act 2008*

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

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

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

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

- A157. 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.
- A158. The Auditor-General is to audit the financial statements and any other information submitted by a Head of Agency as well as well as the statutory office or statutory authority attached to the Agency<sup>152</sup> in accordance with the requirements determined by the Australian Auditing and Assurance Standards<sup>153</sup>.
- A159. 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*

- A160. 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
- A161. 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*<sup>154</sup> 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.
- A162. 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 Framework<sup>155</sup> on an accrual basis.<sup>156</sup>

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152 Section 18 of the *Audit Act 2008*

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

154 [Tasmanian Government Sustainability Report 2016](#)

155 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.

156 [Accrual Budgeting Framework](#)

### *Government Business Enterprises*

- A163. 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.
- A164. 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 A151. 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.<sup>157</sup> 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*.
- A165. 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.<sup>158</sup>
- A166. 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.<sup>159</sup> 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.<sup>160</sup>

### *Local Government*

- A167. 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.
- A168. 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*.
- A169. 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. .

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157 Section 52 of the *Government Business Enterprises Act 1995*  
158 Section 55 of the *Government Business Enterprises Act 1995*  
159 Department of Treasury and Finance – *Governance Framework Guide*.  
160 Section 19 and 20 of the *Audit Act 2008*

A170. Councils are also responsible for managing cemeteries and include financial information in the council's financial statements.

A171. 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.

A172. 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*.

A173. 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)

A174. 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.<sup>161</sup>

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

## Australian Capital Territory

### *Territory government*

- A175. The ACT government structure consists of the Territory, directorates<sup>162</sup>, territory authorities<sup>163</sup> and territory-owned corporations. This includes public cemeteries and crematoria which are independent statutory authority.
- A176. 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 Standards<sup>164</sup> and include the financial statements as required under the *Financial Management (Periodic and Annual Financial Statements) Guidelines 2016*<sup>165</sup>; 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.<sup>166</sup> 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.
- A177. 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.<sup>167</sup> 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.
- 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*.<sup>168</sup> 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*.
- A178. 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 an audit opinion about the statements.

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162 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.

163 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.

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

165 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 cash flow statement for the Territory and a statement of appropriation.

166 Section 22 of the *Financial Management Act 1996*

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

168 Section 27 of the *Financial Management Act 1996*

- A179. 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.
- A180. ACT does not have local governments and the responsibilities are administered by a department of the territory government.<sup>169</sup>
- A181. 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*

- A182. 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 year<sup>170</sup>. 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.<sup>171</sup>
- A183. 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.
- A184. 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*<sup>172</sup> 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.

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169 <https://www.australia.gov.au/about-government/how-government-works/local-government>  
170 Section 68 of the *Financial Management Act 1996*  
171 Section 71 of the *Financial Management Act 1996*  
172 [Population Ageing in the ACT – Issues and Analysis report](#)

### *Government business enterprises*

- A185. 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.<sup>173</sup> The auditor of the territory-owned corporation or its subsidiary must be the auditor-general.<sup>174</sup>
- A186. The financial statements of territory-owned corporation apply Tier 1 reporting requirement except for one territory owned corporation which applies Tier 2 reporting.
- A187. 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.

### *Local Government*

- A188. 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

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173 Section 22 of the *Territory-owned Corporations Act 1990*  
174 Section 18 of the *Territory-owned Corporations Act 1990*

## Northern Territory

### *Territory Government*

- A189. Section 9, 10 and 11 of the Northern Territory (NT) Financial Management Act requires the Treasurer, Agencies<sup>175</sup> that are required under section 28 of the Public Sector Employment and Management Act, and Government Business Divisions<sup>176</sup>, 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 Audit-General's report for both the Treasurer's and Government Business Divisions financial statements.<sup>177</sup> The Treasurer may direct the Accountable Officer<sup>178</sup> of an Agency to submit its financial statements to the Auditor-General for audit which must also be tabled to the Legislative Assembly.<sup>179</sup> 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.
- A190. 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.<sup>180</sup>
- A191. 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 WoG<sup>181</sup>, Agencies<sup>182</sup> and Government Business Divisions<sup>183</sup>
- A192. The WoG financial statements consolidate all departments, statutory bodies and state owned corporations, however departments do not consolidate statutory bodies in their financial statements.<sup>184</sup>

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175 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.

176 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.

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

178 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.

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

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

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

182 Section R2.1: Agency Financial Statements

183 Section R3.1: Government Business Division Financial Statements

184 Response collected from questionnaire to the NT Treasury

- The Treasurer's annual financial statements take into account the requirements of the Uniform Reporting Standards<sup>185</sup> 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.<sup>186</sup>

A193. 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*

A194. 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 mean the concepts and classification set out in GFS Australia and the Australian accounting standards.

A195. There is no other requirement for any other long term intergenerational reporting requirements.

#### *Government Business Enterprises*

A196. 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 A191.

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185 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.

186 Treasurer's directions Section A1.1: *Accrual Accounting*.

- A197. 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
- A198. 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.<sup>187</sup>
- A199. 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.<sup>188</sup>

### *Local Government*

- A200. 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 regulations<sup>189</sup> 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 council<sup>190</sup>, in which the financial information is included in the council's financial statements.
- A201. 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.<sup>191</sup> Councils are not included in the whole of state or department's financial statements.
- A202. 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.<sup>192</sup> 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.

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187 Section 43 and 44 of the *Government Owned Corporations Act*  
188 Section 40 and 41 of the *Government Owned Corporations Act*  
189 Part 7 of the *Local Government (Accounting) Regulations*  
190 Section 184 of the *Local Government Act*  
191 Part 10.7 of the *Local Government Act*  
192 Section 199 of the *Local Government Act*

A203. 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.

# Other financial reporting considerations

## Cost of preparing and auditing financial statements

- A204. 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.
- A205. The total audit cost derived in this Research Report was sourced from the Auditor General's annual report from each state and territory. The total cost of audit for the Commonwealth was sourced from the Commonwealth WoG consolidated financial statements. The audit cost for the states/territories was sourced from Auditor General's annual report of each state. The audit cost (except for WA, NT and SA) also includes audits of local governments for the financial year 2016/17. The audit cost of local governments of WA, NT and SA (based on data for the 2014/15 financial year) was sourced from a report issued by the Local Government Associate of South Australia<sup>193</sup>. This resulted in the total cost of auditing financial statements of \$224.3 million.
- A206. To derive at the preparation cost, a factor of three times was used for states/territories. This is based on anecdote evidence from an accounting firm and feedback from some states, stating it is not an unreasonable factor to use. Ultimately the cost will be dependent on the size and complexity of the entity. It could range from as low as fifty percent of the audit cost, or much higher than three times the audit fees. In addition a state/territory treasury provided an estimated preparation cost of a large agency where an average of the agencies' audit fees (ranges from \$8,000 to \$600,000), derived a factor of 2.5 times compare to the audit fees. As such an overall factor of three times the audit fee is not an unreasonable assumption. A factor of 4.5 times was used to determine the cost of preparing financial statements for Commonwealth based on their feedback. However the cost of preparation can range from 4 to 5 times the audit fees.
- A207. TAS also provided additional information that, for an entity to prepare and audit financial statements, including valuation cost would on average amount to \$450,000. ACT also provided that on average the preparation cost for a large agency is \$396,000<sup>194</sup>.

## Levels of consolidation

- A208. 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.

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193 [Report on "Who should audit local governments in South Australia"](#)

194 High level estimate of a large agency which includes preparation of End Of Financial Year journals, annual financial statements, workbook, consolidation packs. Agencies within the ACT uses Shared Service Finance, the cost excludes the work done by the Shared Services.

A209. 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 level<sup>195</sup>.

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)?
Commonwealth	Yes if they are controlled by the Commonwealth under AASB 10.	Only the Department of Defence determined by AASB 10.	Based on legislation, some departments and 90 % of agencies are permitted to apply Tier 2 requirements.
VIC	Yes	Statutory bodies are not generally consolidated as they generally are not controlled by departments <sup>196</sup> . Only 7 departments consolidate all statutory bodies	Yes (however, some are included within the Departments or other entities.
QLD	<ul style="list-style-type: none"> <li>▪ <i>Departments</i> are fully consolidated.</li> <li>▪ <i>Statutory bodies</i> are consolidated if it either has net operating result &gt;\$5m or net assets &gt;\$75m. 61 of 135 statutory bodies were consolidated in 2016/17.</li> </ul>	No (Statutory bodies are separate entities not controlled by the departments. However, controlled entities such as companies are consolidated subject to materiality.	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"> <li>▪ <i>Departments</i> are fully consolidated.</li> <li>▪ <i>All controlled entities</i> are consolidated except for 36 general</li> </ul>	All controlled entities are consolidated as per Public Finance and Audit Act except in Department of Transport <sup>197</sup> .	Yes <sup>198</sup>

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

196 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

197 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	Yes. Other entities not controlled by the state are not consolidated.	Yes (Each entity publishes their own financial statements, however they are grouped by portfolio)	Yes if there a separate reporting entity for the purpose of FMA
NT	Yes	No	Yes
WA	<ul style="list-style-type: none"> <li>▪ <i>Departments</i> and other entities are fully consolidated.</li> <li>▪ 90.4% of statutory bodies are consolidated.</li> </ul> Based on control. Universities, Employee Superannuation Boards and the funds under administration by the Public Trustee are excluded from consolidation.	Only a few  Departments have generally not exerted control over Statutory Authorities in WA. Departments lack power to enter business arrangements for other entities, as such other entities are not consolidated into departments.	Yes – WA is rolling out Tier 2 reporting options in 2018-19. Discretion will be at Under Treasurer/Treasury's discretion, not agencies.
SA	Yes	Yes <sup>199</sup>	Yes
TAS	Yes (subject to materiality thresholds based on assets and revenue)	Yes (subject to materiality thresholds based on assets and revenue and control)	Yes

198 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

199 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.

- A210. 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 Standards<sup>200</sup> may exempt a parent entity from preparing consolidated financial statements, however the legislation specially excludes this exemption.
- A211. Internationally departments are required to prepare consolidated financial statements but countries such as Canada, South Africa 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.
- A212. 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.
- A213. 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.<sup>201</sup>
- A214. As such there is an argument that the whole of state government or departments should consolidate financial information of local governments.
- A215. The concept of consolidation for public sector entities will be further explored in a separate AASB Research Report.

## Machinery of Government

- A216. 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.
- A217. 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.

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200 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.

201 [About Local Government in Australia](#)

- A218. Over the past 20 years, the Australian Public Sector (APS) has undergone more than 200 MoG changes<sup>202</sup>—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.
- A219. Frequent changes in the APS will have implications on preparing consolidated financial statements and the assessment control.
- A220. 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, cash flow and changes in equity statement.

## Sustainability reporting

- A221. Sustainability reporting is important in public sector in Australia<sup>203</sup> 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.
- A222. 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'.
- A223. 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.
- A224. All levels of government (as shown in Appendix A) currently prepare Budget Papers and provides a forecast of up to 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.

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202 Paper on *Machinery of Government Changes* issued by Australian National Audit Office in August 2016  
203 as set out in *Public sector sustainability reporting:: Remove the clutter, reduce the burden* issued by Fiscal point Australia in September 2012

- A225. 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 A110) or NSW (see paragraph A150) requiring projections up to 10 years or more.
- A226. 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 Finance Statistics Reporting

- A227. Government Finance 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.
- A228. 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.
- A229. 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 primarily 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.<sup>204</sup>
- A230. The International Monetary Fund (IMF) responsible for issuing the GFS Manual which the ABS 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.
- A231. 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.
- The Australian GFS system is based on two important international statistical standards:

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204 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 framework<sup>205</sup>;

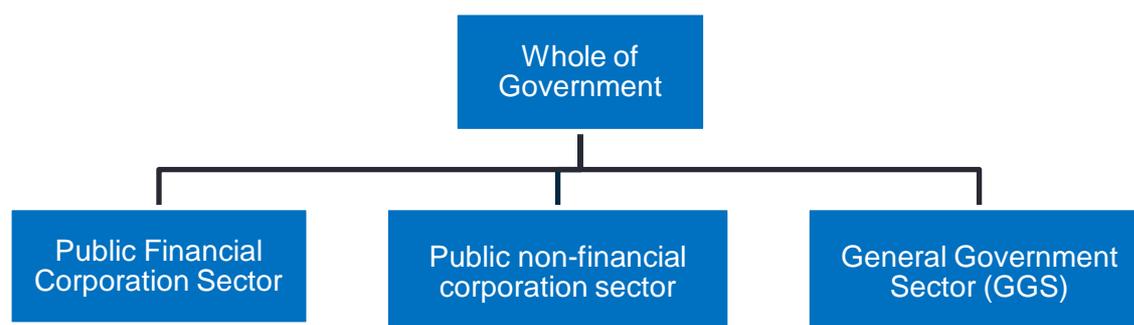


Figure 2 - Structure of Australian GFS framework

## 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.

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

1. Transactions and other economic flows are recorded- as distinct from profit and OCI in accounting. The main difference between the two approaches is in asset and liability valuation changes.
  - Transactions that do not have a counterparty are excluded- for example, provisions for doubtful debts and provisions for environmental remediation ('make good') are ignored.

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

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 al<sup>206</sup>, 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.

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206 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

- A239. A subsequent study<sup>207</sup> 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 assts. 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.
- A240. Internationally, other jurisdictions such as Canada, New Zealand and the UK 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 Entities<sup>208</sup> 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.
- 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.

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

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

- 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.
- 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 items (AASB 1050)

A244. 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.

A245. 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.

A246. 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

A247. 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.

A248. 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.

A249. 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.

A250. 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.

A251. 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.

A252. 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

A253. 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 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

A254. 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.

Name of the State	Details of modification to AASB standards
Commonwealth	Borrowing cost must be expensed.
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 <i>Financial Instruments: Presentation</i>; and of a liability under AASB 132 <i>Financial Instruments: Presentation</i>.</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	<p>The Treasurer's instruction currently modifies the definition of 'subsidiary' to apply to 'subsidiary bodies' as defined by the <i>Financial Management Act 2006</i>, regardless of the AASB 10 test of control to ensure the inclusion of controlled entities, including related bodies, within the consolidated financial statements</p> <p>There is no modification of measurement of accounting standards.</p>
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 Canada, Hong Kong, New Zealand (NZ), Singapore, South Africa, the UK (UK) and the United States of America (USA). 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.
- 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 resources (ability to raise taxes or charge fees/levies etc.) from, or on behalf of, constituents and/or use resources 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 recipients<sup>209</sup> and resources providers<sup>210</sup>.
- 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
  - 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.

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209 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.

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

- 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.
- 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.
- B10. 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 GPFRs 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.
- B11. 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

- B12. 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*.
- B13. 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.
- B14. Thus the public sector entities will prepare financial statements based on the 4 tires 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 B79-B85) which results in an appropriate balance of cost of preparing/auditing financial statements and the benefit to the users of the financial statements.
- B15. In the United States of America, the FReM manual lists the criteria for an entity to be a reporting entity. As per section 29 to the FASAB Handbook, for any entity to be a reporting entity, as defined by Statement of Federal Financial Accounting Concepts, it would need to meet all of the following criteria.
- There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.
  - The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.

- There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.

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.

## Canada

B17. In Canada, the CPA Canada Public Sector Accounting Board (PSAB)<sup>211</sup> develops accounting standards that apply to all public sector entities (governments, government components, government organisations and certain government partnerships).

B18. The Public Sector Accounting Standards (PSA) Handbook issued by PSAB is based on IFRS and defines the public sector as the federal, provincial, local governments and government organisations.

B19. 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.

B20. As per Treasury Board Accounting Standards<sup>212</sup>, 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 handbook<sup>213</sup> and is the same for all levels of government everywhere in Canada.

### *National government*

B21. 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.

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

212 [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.](#)

213 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

- 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 Canada<sup>214</sup>.
- 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 administration<sup>215</sup>
  - 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,
  - 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

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214 [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.](#)

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

- 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

B22. There are 200 departments, agencies, crown corporations and special operating agencies at WoG level in Canada as at 26 January 2018<sup>216</sup>.

B23. 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.

B24. 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.

- As an example the Portfolio – Health<sup>217</sup>:

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	

B25. Based on the analysis of public account for 2016/17, the budget amounts are included in the Consolidated Statement of Operations and Accumulated Deficit and the Consolidated Statement of Change in Net Debt which are derived from the amounts that were budgeted for 2016–2017 in the March 2016 Budget Plan.

### *State / provincial government*

B26. 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.

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

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

B27. 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.

B28. 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)

B29. This report researched has further explored only one state which is British Columbia, set out below.

B30. 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).

B31. 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.

B32. There are 20 ministries, 11 central agencies<sup>218</sup>, 28 crown corporations<sup>219</sup> and 196 agencies (excluding universities and colleges)<sup>220</sup> within in British Columbia State.

B33. Government reporting entities as defined in the BTAA included following entities;

- the government as reported through the consolidated revenue fund
- education and health sector organisations<sup>221</sup>, 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
  - 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)<sup>222</sup>;

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218 [List of Central Agencies](#)

219 [List of Crown Corporations](#)

220 [List of agencies](#)

221 Include the organizations defined in Collage and institute Act, School Act, Health Authorities Act and Hospital Act  
222 the Lieutenant Governor in Council may make regulations as follows: on the recommendation of the minister after consultation with the Auditor General,

- B34. 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.
- B35. 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.
- B36. The ministries and remaining entities are only required to prepare Annual Service Plan to satisfy the requirements of public accountability. 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.
- B37. 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
- B38. 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*

- B39. 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).
- B40. 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.
- B41. 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:

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(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.

- 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

B42. 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.

B43. 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*

B44. The Auditing and Assurance Standards Board (AASB)<sup>223</sup> of Canada establishes standards for assurance and related services engagements in both for-profit sector and public sector.

B45. 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.

B46. 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*

B47. 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*

B48. 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).

B49. 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.

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

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223 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.

### *Disclosure on administered items*

B50. Disclosures on administered and controlled items are not required in Canada.

### *Long term fiscal sustainability*

B51. 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 years<sup>224</sup>.

### *Fair value of non-financial assets*

B52. As per the accounting policies for the financial statements, Land and buildings are recorded at fair value and other Classes of PPE are also carried at fair valued except for certain other plant and equipment.

## Hong Kong

B53. 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.

B54. Based on the search conducted on 5 March 2018 from the Hong Kong government website there are 58 departments and agencies.<sup>225</sup>

B55. 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.

B56. 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 Funds<sup>226</sup> 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 statements<sup>227</sup>.

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224 [Fiscal Sustainability Report 2017](#)

225 Government and related organisations listed by organisational structure

226 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

227 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

### *Auditing requirements*

- B57. As per the Audit Ordinance (Cap.122)<sup>228</sup>, the Director of Accounting Services is required to submit the accounting statements to the Director of Audit<sup>229</sup> within 5 months after the close of each financial year.
- 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.
- B58. 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.
- B59. 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.
- B60. Based on our analysis of the financial statements, the budget amounts are not included in the financial statements of the Hong Kong government.

### *Levels of consolidation*

- B61. All departments and agencies are consolidated to the WoG accounts and there is no other level of government exists.

### *Government Finance Statistics*

- B62. In Hong Kong, GFS or GGS data is not included in the annual financial statements of the government.

### *Disclosure on administered items*

- B63. Disclosure in relation to administered and controlled items by government departments is not required in Hong Kong.

### *Long term fiscal sustainability*

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

229 Under the Audit Ordinance (Cap. 122)<sup>229</sup>, 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.

- B64. 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.
- B65. The Working Group has completed a fiscal sustainability appraisal<sup>230</sup> on the public finances in Hong Kong and released its report on 3 March 2014 covering a period of 30 years.

#### *Fair Value of non-financial assets*

- B66. Fixed assets are stated at cost less accumulated depreciation. Cost comprises expenditure incurred in acquiring or bringing a fixed asset to its condition and location intended at the time of acquisition, construction or development. Subsequent expenditure relating to an existing fixed asset is added to the carrying amount of the fixed asset if it is probable that future economic benefits in excess of the originally assessed standard of performance of the asset will be obtained<sup>231</sup>.

## New Zealand

- B67. NZ Public sector is structured as follows:

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

Local Government

#### *National Government*

- B68. 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.<sup>232</sup>
- B69. New Zealand has the following public sector entities as at 19 February 2017<sup>233</sup> (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

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

231 [Accounting Policies](#)

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

233 [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

B70. 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 website<sup>234</sup>. The financial reporting requirements for these entities are not explained in this paper.

B71. Central and local government in New Zealand are independent of one another politically, financially and administratively<sup>235</sup>. Thus local authorities are not included in the financial statements of the Government because they are not considered controlled by the Government.

B72. 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).

B73. 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 versus actual analysis with explanations for significant variances a statement of trust money, and
- service performance reporting.

B74. 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).

B75. 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).

B76. 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

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

- a statement of service performance prepared in accordance with GAAP
- annual financial statements prepared in accordance with GAAP
- budget versus actual analysis – Based on our analysis of the financial statements, the annual forecasts are included and compared with the actual amounts. The forecast amounts are based on the Annual Economic and Fiscal Update of the government.
- the accounting policies underlying the preparation of forecasts are the same as the specific accounting
- policies set out above.
- a statement of responsibility, and
- an audit report.

### *Local Government*

B77. *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.

B78. 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 versus actual analysis with explanations for significant variances

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*

B79. 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.

B80. 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.

B81. 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 2001<sup>236</sup> and all Offices of Parliament”.

B82. 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"> <li>■ Has public accountability (as defined), or</li> <li>■ Has total expenses (including grants) &gt; \$30 million</li> </ul>	IPSAS-based PBE Standards
Tier 2	<ul style="list-style-type: none"> <li>■ Has no public accountability (as defined)</li> <li>■ Has total expenses (including grants) ≤ \$30 million but &gt;\$2million</li> </ul> <p>And elects to be in Tier 2 rather than Tier 1.</p>	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> <li>■ Has no public accountability (as defined)</li> <li>■ Has expenses ≤ \$2 million</li> </ul> <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"> <li>■ Has no public accountability (as defined)</li> <li>■ Has total operating payments of less than \$125,000 in each of the previous two reporting periods</li> <li>■ Is permitted by an enactment to comply with a ‘non-GAAP Standard’ or cash accounting</li> </ul> <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)

B83. 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.

236 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.

B84. 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.*

B85. 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 intended<sup>237</sup>. 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.

Since they are publicly accountable, all public sector entities are required by law or regulation to have an audit. The Auditor-General is the auditor of all public sector entities, but may appoint other auditors to act on their behalf. Section 32 of the Public Audit Act 2001 requires that this is either an employee of the Auditor-General or a qualified auditor<sup>238</sup>.

#### *Rationale given for the requirements – what should be reported*

B86. 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.

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237 [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.](#)

238 [Statutory Assurance Requirements in New Zealand](#)

- B87. 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.
- B88. 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).
- B89. 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).
- B90. 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.
- B91. 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*

- B92. *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<sup>239</sup> set out the basis for the legislative changes that are currently applied.
- B93. Public accountability arises when an entity receives money directly from the public<sup>240</sup>. The entities that are publicly accountable are:
- 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);
  - Issuers<sup>241</sup> – 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

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239 [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](#)

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

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.

B94. 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*

B95. Based on the analysis of financial statements of the New Zealand Government, local government entities are not consolidated to the WoG financial statements<sup>242</sup>.

### *Government Finance Statistics (GFS)*

B96. 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:

- a. all levels of government (both central and local government in New Zealand)
- b. 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.

B97. 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. This is not a mandatory standard.

B98. 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 Government<sup>243</sup>.

B99. Our review of financial statements of the New Zealand Government as at 31 January 2018<sup>242</sup> 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*

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241 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.

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

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

B100. 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*

B101. The NZ government is required to prepare Statement of Responsibility on Fiscal Sustainability<sup>244</sup>. 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.

B102. 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*

B103. As per the accounting policies for the financial statements of the Government of New Zealand<sup>245</sup>, Land and buildings are recorded at fair value and, for buildings, less depreciation accumulated since the assets were last revalued and Classes of PPE are also carried at fair valued except for electricity distributions and other plant and equipment.

## Singapore

B104. Based on the Singapore government website<sup>246</sup> 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)

B105. In Singapore, the Accounting Standards Act 2007<sup>247</sup> ("Act") appointed the Accountant-General as the legal authority to prescribe accounting standards for Statutory Boards.

B106. 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.

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

245 [Accounting Policies for the financial statements of the Government of NZ](#)

246 [Singapore Government Directory](#)

247 [Accounting Standards Act 2007](#)

B107. 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.

B108. 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.
- 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

B109. *The Statutory Board Financial Reporting Standards (SB-FRS)*<sup>248</sup> 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.

B110. 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.

B111. Departments and Statutory boards controlled by WoG must prepare individual financial statements in accordance with SB-FRS.

B112. There is no local government in Singapore.

B113. 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*

B114. All departments and agencies are consolidated to the WoG accounts and there is no other level of government exists.

### *Government Finance Statistics*

B115. In Singapore, GFS or GGS data is not included in the annual financial statements of the government.

### *Disclosure on administered items*

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248 [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.](#)

B116. Disclosure in relation to administered and controlled items by government departments is not required in Singapore.

B117. There was no information available on fair value of non-financial assets and fiscal sustainability reporting online.

## South Africa

B118. In South Africa, public sector entities can generally be categorised as follows:

- Central Government
- Provincial Governments
- Local government

B119. Based on the South African Government website<sup>249</sup>, 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 Presentation and Security Cluster (8 departments)

B120. There are 9 provincial government 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)
- North West (13 Departments)
- Western Cape (15 Departments)

B121. The Accounting Standards Board (ASB)<sup>250</sup> 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.

B122. The Conceptual Framework for General Purpose Financial Reporting (the Conceptual Framework) establishes the concepts that are to be applied in developing Standards of Generally Recognised Accounting Practice (GRAP) applicable to the preparation and presentation of general purpose financial statements (GPFSS) of public sector entities.

B123. The conceptual framework indicates users of the GPFSS 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;

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

250 [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.](#)

- 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.

B124. 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).

### *Central government*

B125. 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.

B126. 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.

B127. 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.

B128. However, the Minister of Finance has authority to grant exemption in terms of Section 92<sup>251</sup> of the PFMA to the National Treasury from the provisions of section 8, 19 and 40 of the PFMA.

B129. Entities are required to comply with GRAP 24 *Presentation of Budget Information in Financial Statements*, which requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable.

### *Provincial government*

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251 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

B130. 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

B131. 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*

B132. 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.

B133. 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.

B134. 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

B135. However, further information on these gazettes was not available online.

#### *Local government and municipalities*

B136. 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.

B137. 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*

B138. 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.

- B139. The Independent Regulator Board for Auditors (IRBA)<sup>252</sup> and the Auditor-General South Africa (the AGSA<sup>253</sup>) 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.
- B140. 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.
- B141. 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)<sup>254</sup> 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.
- B142. 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
- B143. 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.

#### *Levels of consolidation*

- B144. Based on our review of the annual financial statements, local government entities are not consolidated in the financial statements of the provincial or central government.

#### *Government Finance Statistics*

- B145. 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.
- B146. There is no AASB 1049 equivalent accounting standard in South Africa specifying requirements for GPFs and GFS financial statements of each level of government.

#### *Disclosure on administered items*

- B147. Disclosure in relation to administered and controlled items by government departments is not required in South Africa.

#### *Long term fiscal sustainability*

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252 [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.](#)

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

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

B148. Long term fiscal sustainability information is presented to the Parliament as part of the Budget Review every year covering a period of 5 years.

#### *Fair value of non-financial assets*

- Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Subsequent to initial recognition, certain classes of property, plant and equipment are measured using the revaluation model. Application of the revaluation model results in carrying classes of property, plant and equipment at re-valued amounts<sup>255</sup>.

## UK

B149. The UK (UK) comprises four countries: England, Scotland, Wales and Northern Ireland. The UK is a unitary sovereign state, but Northern Ireland, Scotland and Wales have gained a degree of some autonomy through the process of devolution.

B150. In the UK, public sector entities can generally be categorised into two groups;

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

B151. Based on a search conducted on 5 February 2018 from the UK government website<sup>256</sup> 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

#### *Central Government*

B152. *The Government Financial Reporting Manual (FReM)*<sup>257</sup> 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)<sup>258</sup> and is based on IFRSs.

B153. 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.

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255 As per accounting policies of consolidated financial statements

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

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

258 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.

B154. As per section 5 of the FReM, the annual report and accounts comprise:

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

B155. As per section 2.2 of the FReM, most entities covered by the requirements of this Manual prepare general purpose financial statements<sup>259</sup> that are sufficient for the needs of the key users.

B156. 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.

B157. Entities defined in the FReM prepare annual reports and consolidated financial statements as follows:

- a) Departments prepare annual reports and consolidated financial statements (as defined in Chapter 5 of FReM) covering all entities designated for consolidation;
- b) Executive agencies prepare annual reports and consolidated financial statements in accordance with the requirements of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, 'the Group Accounting Standards' 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.

B158. The Treasury prepares Whole of Government Accounts (WGA) for the whole of the UK public sector under section 9 of the Government Resources and Accounts Act 2000. WGA is prepared under generally accepted accounting practice as defined in chapter 2 of the FReM.

B159. In the UK, budget amounts are not included in the WGA accounts. They are included in the budget reports issued by the Office for Budget Responsibility.

### *Local government*

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

- a) the accounting and disclosure requirements of the Companies Act 2006 (the Companies Act);
- b) pronouncements by or endorsed by the International Accounting Standards Board (IASB), including the Framework for the Preparation and Presentation of Financial Statements, the accounting standards – international accounting 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);

- B160. Local authorities in the UK 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 UK* (the Code).
- B161. The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts that gives a true and fair view of the financial position and transactions of a local authority based on International Financial Reporting Standards<sup>260</sup>. This code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC).
- B162. 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 UK 2016/17 (the Code).
- B163. 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
- B164. In relation to the Public or Government sector the two main accounting principles are:
- Accountability and stewardship
  - Decision-usefulness

### *Auditing requirements*

- B165. The National Audit Office (NAO)<sup>261</sup> 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.
- B166. The NAO reports the results to Parliament and performs other work such as value for money studies, local audits, and investigations.
- B167. 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.
- B168. The NAO provides an independent opinion ensuring the accounts are:
- 'true and fair'

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260 [The Code of Practice on Local Authority Accounting in the UK 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.](#)

261 [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.](#)

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

B169. 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*

B170. 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 accounts<sup>262</sup>.

B171. 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)*

B172. In the UK, 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<sup>263</sup>.

B173. 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*

B174. Disclosure in relation to administered and controlled items by government departments is not required in the UK. There is no AASB 1050 equivalent accounting standard in the UK specifying disclosure requirements for administered and controlled items.

#### *Long term fiscal sustainability*

B175. 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*<sup>264</sup>.

#### *Fair value of non-financial assets*

B176. As per FReM Manual, entities should fair value their PPE using the most appropriate valuation process. Such processes might include;

- a quinquennial valuation supplemented by either annual indexation or regular desktop valuation update
- a quinquennial valuation supplemented by an interim professional valuation in year 3
- annual valuations;
- a rolling programme of valuations or

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262 [WoG Accounts: year ended 31 March 2016 by HM Treasury](#)  
263 [Office for National Statistics](#)  
264 [Section 4 of the Act](#)

- for non-property assets only, appropriate indices

## United States of America

B177. The structure of public sector entities in the USA can be categorized as follows:

- Federal Government
- State Government
- Local Government

B178. According to the USA government website<sup>265</sup> 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
- The Federal Accounting Standards Advisory Board (FASAB)<sup>266</sup> issues federal financial accounting standards and provides guidance considering the needs of external and internal users of federal financial information. FASAB<sup>267</sup> sets U.S. generally accepted accounting principles (GAAP) for the United States Government and its component entities, referred to as federal financial reporting entities.

### *Federal Government*

B179. 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 Treasury<sup>268</sup>, the Director of the Office of Management and Budget (OMB), and the Comptroller General<sup>269</sup> 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.

B180. 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.

B181. 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.

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

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

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

268 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

269 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

B182. 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.

B183. 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.

B184. 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.

B185. As per section 901, Agencies<sup>270</sup> 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

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

- 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

B186. 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*.

B187. Under the *31 U.S. Code 3515 Financial Statements of agencies*<sup>271</sup> the head of each covered executive agency<sup>272</sup> 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:

- the total amount of budget authority available to the agency does not exceed \$25,000,000; and
- 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.

B188. The financial statements of the whole of government include a reconciliation of net operating cost & unified budget deficit and statements of changes in cash balance from unified budget & other activities. In addition to the above comparison between budget and the financial report is included in the Management Discussion and Analysis which is presented outside the financial report.

### *State and local government*

B189. The Governmental Accounting Standards Board (GASB)<sup>273</sup> 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.

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271 [31 U.S code 3515 Financial Statements of agencies](#)

272 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.

273 [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.](#)

- B190. 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.
- B191. 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
- B192. 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.
- B193. Section 2101.011 (b) of Government Code Title 10. General Government<sup>274</sup> states that a state agency<sup>275</sup> 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.
- B194. 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.
- B195. 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.
- B196. Disclosure in relation to administered and controlled items by government departments is not required in the United States of America.

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

275 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 create d by the constitution or a statue of the state of Texas; the Supreme Court of Texas and other counts 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.

### *Auditing requirements*

- B197. 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.
- B198. 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 agency<sup>276</sup>.
- B199. 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 States<sup>277</sup> may review any audit of a financial statement by an Inspector General or an external auditor.
- B200. The Comprehensive Annual Financial Reports prepared by each state must be audited by an independent state auditor using generally accepted government auditing standards. The financial reports of agencies, departments with the state government and local government entities are considered for audit by the State Auditor as part of the audit of the State’s Comprehensive Annual Financial Report; therefore, an opinion is not given on the financial statements of local governments and related information contained in this their reports.

### *Levels of consolidation*

- B201. 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*

- B202. 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 website<sup>278</sup>.
- B203. 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*

- B204. Disclosure in relation to administered and controlled items by government departments is not required.

### *Long term fiscal sustainability*

- B205. 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 horizon<sup>279</sup>.

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276 As stated in section 304. Financial audits of Chief Financial Officers Act of 1990  
277 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  
278 [United States Census Bureau](#)  
279 [Financial Statements of the United states Government](#)

- B206. 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.
- B207. 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.

*Fair value of non-financial assets*

- B208. As per accounting policies of the whole of government accounts, Property, plant & Equipment used in government operations are carried at acquisition cost.

## Appendix C – Questionnaire to heads of treasury

C1. For the purpose of this Research Report, staff collected information from the heads of treasury with the assistance from the Heads of Treasury Accounting and Reporting Advisory Committee. 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/TAS/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 is 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 <i>all</i> 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):	
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:	