

EXPLANATORY STATEMENT

Issued by the Authority of the Minister for Finance

Public Governance, Performance and Accountability Act 2013

Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) consolidates into a single piece of legislation the governance, performance and accountability requirements of the Commonwealth, setting out a framework for regulating resource management by the Commonwealth and relevant entities. The PGPA Act replaced the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

Section 101 of the PGPA Act provides that the Finance Minister may make rules by legislative instrument to prescribe matters giving effect to the Act.

The *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) is a legislative instrument for the purpose of the *Legislative Instruments Act 2003*.

Other Legislative Provisions

The FRR sets out the requirements for preparation of financial statements under the following legislative provisions:

- subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013*;
- subsection 47(1) of the *High Court of Australia Act 1979* in relation to how financial statements must be prepared by the High Court of Australia;
- section 193H of the *Aboriginal and Torres Strait Islander Act 2005* in relation to how the accounts and financial statements must be prepared for the Land Account;
- subsections 50B(2) and (4) of the *Defence Service Homes Act 1918* in relation to how financial statements must be prepared by the Defence Service Homes Corporation; and
- subsections 43(1) and (3) of the *Natural Heritage Trust of Australia Act 1997* in relation to how financial statements must be prepared for the Natural Heritage Trust of Australia Account.

Some provisions of the FRR are also made under subsection 102(1)(b) of the PGPA Act.

Purpose and Operation

The FRR applies to all Commonwealth entities that need to prepare financial statements for reporting periods commencing on or after 1 July 2014. The FRR sets out the financial reporting requirements for the preparation of financial statements and provides consistent financial reporting across the Commonwealth to facilitate comparison between entities' financial statements. This allows for the consolidation of Commonwealth reporting entity financial statements to prepare the Australian Government consolidated financial statements.

Under the FRR, financial statements are not required to be prepared for a company for the purposes of the *Corporations Act 2001* or the subsidiary of a Commonwealth entity as these are not Commonwealth entities. Financial statements for these bodies are prepared under the *Corporations Act 2001* or other relevant legislation.

The FRR focuses on simplifying disclosure requirements, providing appropriate accountability and transparency for government reporting, and reducing ‘red tape’ in the preparation of financial statements.

A number of changes have been incorporated into the FRR compared to the former 2013-14 Finance Minister’s Orders for Financial Reporting (FMOs). Major changes are:

- (a) streamlining the director/senior management personnel (executive) remuneration disclosure to generally match up with AASB 124: *Related Party Disclosures* that is applicable to the private sector;
- (b) simplifying the Assets held in trust disclosure so entities no longer have to estimate the value of non-financial assets held in trust, but instead provide a general description of the assets held;
- (c) removing the requirement for Collection Institutions to separately disclose their operating expenditure on heritage and cultural assets as this duplicates information already reported in the financial statements;
- (d) streamlining the reporting requirements for special accounts removing the requirement to report on investments;
- (e) removing the ‘Compensation and debt relief in special circumstances’ note. This information will now be collected outside of the financial statements process; and
- (f) removing the need for a schedule for contingencies as the schedule duplicated information included in the notes to the financial statements.

The FRR is divided into six parts as follows:

- Part 1 provides an introduction to and preliminary information in regard to the FRR;
- Part 2 sets out the principal financial reporting requirements that entities must follow in preparing financial statements;
- Part 3 acts to restrict the accounting treatment available under specific Australian Accounting Standards (AAS) to ensure a consistent approach to financial reporting across the Commonwealth. The AAS can be found at <http://www.aasb.gov.au/>;
- Part 4 provides consistency in financial reporting across the Commonwealth by interpreting the AAS for public sector application;
- Part 5 sets out all additional financial reporting and disclosure requirements (excluding appropriations) required by Government to discharge their accountability and transparency requirements; and
- Part 6 sets out the reporting and disclosure requirements for appropriations.

Details of the FRR are set out at Attachment A. A statement of compatibility with human rights is at Attachment B.

Timing

The commencement date of the FRR (1 July 2014) does not adversely affect the rights of persons or otherwise liabilities, other than onto the Commonwealth or Australian Government entities, and as such, does not contravene subsection 12 (2) of the *Legislative Instruments Act 2003*.

A retrospective commencement date has previously been used for the FMOs as this ensures that financial reporting requirements are applicable to the same period in which the FRR is made.

Consultation

In accordance with section 17 of the *Legislative Instruments Act 2003*, all Commonwealth reporting entities required to apply the FRR in preparing their financial statements, including the Australian National Audit Office, were consulted and participated in various workshops and information sessions on the FRR and provided with the opportunity to submit comments.

Details of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

Part 1 – Introduction and preliminary

Division 1—Preliminary

Section 1—Name of rule

This section provides that the title of the rule is the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR).

Section 2—Commencement

This section sets out the timetable for the commencement of the provisions of the FRR.

Section 3—Authority

This section states that the FRR is made under the *Public Governance, Performance and Accountability Act 2013*.

For reporting periods on or after 1 July 2014, the FRR sets out the requirements for the preparation of financial statements under:

- (a) subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013*;
- (b) subsection 47(1) of the *High Court of Australia Act 1979* in relation to how financial statements must be prepared by the High Court of Australia;
- (c) section 193H of the *Aboriginal and Torres Strait Islander Act 2005* in relation to how the accounts and financial statements must be prepared for the Land Account;
- (d) subsections 50B(2) and (4) of the *Defence Service Homes Act 1918* in relation to how financial statements must be prepared by the Defence Service Homes Corporation; and
- (e) subsections 43(1) and (3) of the *Natural Heritage Trust of Australia Act 1997* in relation to how financial statements must be prepared for the Natural Heritage Trust of Australia Account.

Some provisions of the FRR are made under paragraph 102(1)(b) of the *Public Governance, Performance and Accountability Act 2013*.

Section 4 — Guide to this rule

The FRR sets out the minimum financial reporting requirements for all Commonwealth reporting entities in the preparation of their financial statements. This will enable consistent financial reporting across the Commonwealth to facilitate comparison between entities' financial statements and allow for the preparation of consolidated financial statements.

Financial statements are to be prepared in accordance with the requirements of the Australian Accounting Standards (AAS). There are also additional reporting and disclosure requirements for Commonwealth reporting entities so the Government can discharge its accountability and transparency obligations.

Division 2 — Definitions

Section 5 — Definitions

The purpose of this section is to provide a list of every term that is defined in this rule. Terms not included in this section can be found in section 8 of the PGPA Act. Key accounting definitions can be found in the ‘*AASB glossary of Defined Terms*’ maintained and updated by the Australian Accounting Standards Board (AASB).

Division 3 — Applicable entities

Section 6 — Applicable entities

The purpose of this section is to set out which Commonwealth entities need to prepare financial statements in accordance with this rule.

Part 2 - General Commonwealth entity financial reporting requirements

The purpose of this Part is to mandate the principles of financial reporting requirements for reporting entities. Subsection 42(2) of the PGPA Act states that “the annual financial statements [of Commonwealth entities] must comply with the accounting standards [i.e. AAS] and any other requirements prescribed by the rules”.

This rule prescribes the requirements that reporting entities must comply with in preparing their annual financial statements so as to present fairly the entity’s financial position, financial performance and cash flows.

Section 8 — Departmental and administered: classification and reporting

The purpose of this section is to state that this rule applies to both departmental and administered reporting.

Section 9 — Administered reporting

The purpose of this section is to set out the reporting and disclosure requirements for administered items. In accordance with AASB 1050 *Administered Items*, reporting entities need to disclose all outcomes and activities that the department does not control but where they administer those activities on behalf of the Government.

Administered items refer to items that the reporting entity does not control but administers on behalf of the Government. Examples of administered items include taxes, subsidies, grants and personal benefits payments.

Section 10 — Certificates and assurance

The purpose of this section is to set out what official signed assurances must be submitted or attached with a reporting entity’s financial statements.

These assurances include a signed audit report and a signed statement by the accountable authority and the Chief Financial/Finance Officer (CFO) (or equivalent, whomever is responsible for the preparation of the financial statements) of the entity.

Section 11 — Exemptions from requirements in this rule

The purpose of this section is to set out how reporting entities may be granted an exemption from specific requirements within this rule when producing their financial statements and what requirements go with any exemption.

Part 3 – Consistency of treatment – restricting choice available under the AAS

The purpose of this Part is to provide consistency in financial reporting across all reporting entities.

Some AAS offer choices of accounting treatment. To enable a consistent approach in financial reporting across the Commonwealth, this Part restricts the choice of accounting treatments available for Commonwealth entities under certain AAS listed below and prescribes the accounting treatment to be applied for those standards:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*
- AASB 123 *Borrowing Costs*
- Financial instruments (AASB 7 *Financial Instruments: Disclosures*, AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*)
- Valuation of non-financial assets (AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* or AASB 140 *Investment Property*)
- AASB 1053 *Application of Tiers of Australian Accounting Standards*

Part 4 – Interpretation and application of the AAS for the public sector

The purpose of this Part is to provide consistency in financial reporting across all reporting entities including how reporting entities should interpret the AAS for public sector application. This will assist in the preparation consolidated financial statements.

Section 24 — Employee benefits

The purpose of this section is to establish consistent requirements for reporting entities when calculating and reporting their employee benefits.

Section 25 — Measurement and disclosure of post employment plans

The purpose of this section is to specify the reporting requirements for superannuation or similar obligations.

Section 26 — Restructures of administrative arrangements

The purpose of this section is to set out the reporting and disclosure requirements for when a restructure of administrative arrangements has occurred. Reporting entities need to report on the change in structure of the entity when the Government changes the functions, outcomes and activities of a reporting entity.

Section 27 — Senior management personnel remuneration

The purpose of this section is to set out minimum requirements for reporting entities financial reporting disclosures for senior management personnel remuneration. The intention is to report the cost to the Commonwealth of employing senior management personnel for the reporting period, but not reporting the individual benefits received by those persons.

Part 5 – Additional disclosure required by Government

The purpose of this Part is to set out all financial reporting and disclosure requirements for reporting entities that are required by Government to satisfy accountability and transparency requirements.

Section 28 — Commitments

The purpose of this section is to set out the reporting and disclosure requirements for commitments, that is, future agreements the reporting entity has the intention of entering into (for example future contracts that will involve future outflows from, or inflows to, the entity).

Section 29 — Contingencies

The purpose of this section is to set out additional reporting requirements for contingent assets and liabilities beyond the disclosures required in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Section 30 — Heritage and cultural assets

The purpose of this section is to set out the disclosure requirements for reporting entities that have control of heritage and cultural assets. These assets are of national significance and require additional disclosure on how they are being managed and maintained by the Government for the national interest.

Section 31 — Assets held in trust

The purpose of this section is to set out the disclosure requirements for assets held in trust by the reporting entity. Assets held in trust are money and property that are not held on account of the Australian Government or for the use or benefit of the Australian Government. These funds are held by the Australian Government in a trustee capacity and are generally subject to

trust law. Disclosure is required to discharge the Government's accountability for these assets.

Section 32 — Administered investments

The purpose of this section is to set out the accounting requirements for administered investments (eg. an interest by the Australian Government in a subsidiary, associate, joint arrangement or entity that is reported in the financial statements of a reporting entity) held on behalf of the Commonwealth.

Section 33 — Administered investments held for sale

The purpose of this section is to set out the accounting requirements for administered investments held for sale on behalf of the Commonwealth.

Section 34 — Reporting of outcomes

The purpose of this section is to specify how reporting entities are to discharge their accountability in reporting their objectives and activities as per AASB 1052 *Disaggregated Disclosures*.

Part 6 – Accounting and reporting for appropriations

Division 1 — Guide to this Part

The purpose of this Part is to set out how reporting entities are to report appropriations in their financial statements.

Appropriations are deemed to be material in nature for government financial reporting purposes as they are the legal instrument by which the Commonwealth provides funding to Commonwealth entities to undertake the outcomes and activities of the Government. As such to discharge its accountability requirements there is a need for adequate disclosure around all appropriation amounts available to Commonwealth entities.

Division 2 — General requirements

Section 36 — Quarantining of appropriations by the Department of Finance

The purpose of this section is to advise that appropriations quarantined by the Department of Finance do not result in a loss of control of the appropriation by an entity. Furthermore, this section states that, under Section 51 of the PGPA Act, the Finance Minister has the ability and power to quarantine available appropriations to Commonwealth entities.

Section 37 — Adjustments to appropriations

The purpose of this section is to specify different ways a legally appropriated amount to a reporting entity can be adjusted in the reporting period. Adjustments must be disclosed in relevant appropriation disclosure note tables and be correctly accounted for in the financial statements.

Division 3 — Departmental appropriations

The purpose of this Division is to set out recognition and reporting requirements for departmental appropriations. Departmental appropriations are appropriations that the reporting entity has control over to spend for the ordinary operating costs of the entity and typically include salaries, accruing employee entitlements and operational expenditure such as the purchase of goods and services.

Section 39 — Equity returns and adjustments

The purpose of this section is to set out the required recognition and accounting for returns of departmental equity. Departmental equity includes surplus revenue received by the reporting entity in a previous reporting period that is now accounted for as equity (or net assets) of the entity in the current reporting period.

Section 40 — Formal additions or reductions

The purpose of this section is to establish what qualifies as a formal reduction or addition to appropriation revenue. This is determined by an entity losing or gaining control of an appropriation during the reporting period.

Reporting entities have to report all appropriations recognised in the reporting period in their primary financial statements. Reporting entities also have to disclose actual appropriations received and applied in the reporting period in the appropriation disclosure notes.

Division 4 — Administered appropriations

The purpose of this Division is to outline the required recognition and reporting for administered appropriations. Administered appropriations are for items over which the entity does not have control and is managing on behalf of the Commonwealth. These administered expenses are generally controlled by legislation or government policy and include items such as grants, subsidies and personal benefits.

Section 42 — Payments to corporate Commonwealth entities

The purpose of this section is to set out the reporting and disclosure requirements for appropriations received by non-corporate Commonwealth entities on behalf of, and to be paid to, corporate Commonwealth entities.

Appropriations may be provided directly to some corporate Commonwealth entities. However, other corporate Commonwealth entities are not able to directly access the Consolidated Revenue Fund resulting in any appropriations being paid to the portfolio department of the corporate Commonwealth entity and then paid to the corporate Commonwealth entity.

Division 5 — Disclosure of Appropriations

The purpose of this Division is to mandate what information is to be captured in Appropriations disclosure tables as listed below:

- Table A - Annual appropriations
- Table B - Departmental and administered capital budgets
- Table C - Unspent annual appropriations
- Table D - Special appropriations
- Table E - Disclosures by agent in relation to annual and special appropriations

Division 6 — Special accounts

The purpose of this Division is to specify the reporting and disclosure requirements for special accounts. A special account is an appropriation mechanism that notionally sets aside an amount within the CRF to be expended for specific purposes. The type of appropriation provided by a special account is a special appropriation.

Statement of compatibility with human rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011, section 9

Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

The *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the legislative instrument

The FRR applies to all Commonwealth reporting entities and sets out the financial reporting requirements for the preparation of financial statements. This provides a consistent financial reporting across the Commonwealth to facilitate comparison between entities' financial statements and allows for the consolidation of Commonwealth reporting entity financial statements to prepare the Australian Government consolidated financial statements.

Human rights implications

The legislative instrument does not engage any of the applicable rights or freedoms.

Conclusion

The legislative instrument is compatible with human rights as it does not raise any human rights issues.

**Senator the Hon Mathias Cormann
Minister for Finance**