

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) Amendment (Tiered Reporting and Other Measures) Rule 2017*

Section 101 of the *Public Governance, Performance and Accountability Act 2013* (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) Amendment (Tiered Reporting and Other Measures) Rule 2017* amends the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR). Both rules are legislative instruments 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.

The amendments to the FRR apply for reporting periods ending on or after 1 July 2016. Details of the amendments are at [Attachment A](#).

2016-17 Amendments

The proposed amendments represent changes to financial reporting policy that arise from the following main sources:

- application of Australian Accounting Standards effective from 1 July 2016;
- consistent with these standards, adoption of tiered reporting for entity annual financial statements;
- minor changes to improve the understanding of disclosures; and

- changes of an editorial nature, including the removal of provisions that are no longer applicable.

Retrospectivity and Timing

The retrospective commencement date of this legislative instrument does not adversely affect the rights of persons or otherwise impose 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 always been used for financial reporting purposes as this ensures that changes are applicable in the same reporting period in which the amendments are made.

For reporting periods ending before 1 July 2016, these amendments to the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* are not applicable.

Consultation

In accordance with section 17 of the *Legislative Instruments Act 2003*, all Australian Government entities required to apply the amendments to the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, including the Australian National Audit Office, have been consulted on the exposure draft and provided with the opportunity to submit comments.

Attachments

Details of the amendments to reporting requirements for the reporting periods ending on or after 1 July 2016 are provided in [Attachment A](#).

The Statement of Compatibility with Human Rights as required by the *Human Rights (Parliamentary Scrutiny) Act 2011* is provided in [Attachment B](#).

Explanatory Statement – Attachment A

This attachment summarises the amendments to the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* required in the preparation of financial statements for reporting periods ending on or after 1 July 2016 for Commonwealth entities.

1. Part 1, Division 1 - Section 3 Authority

The applicable reporting period has been amended to reflect reporting requirements applying on or after 1 July 2016.

2. Part 1, Division 1 - Section 4 Guide to this rule

The guide to this rule has been amended to better describe the objective of financial statements, which is outlined in the Australian Accounting Standards Board (AASB) document, *Framework for the Preparation and Presentation of Financial Statements* (the Framework) as:

“To provide information about the financial position, financial performance and cash flows of the entity that is useful to a wide range of users in making economic decisions.”

The Framework and Statement of Accounting Concepts note that rendering of accountability by reporting entities is encompassed in the broader objective of financial statements described above.

Outside of the FRR, there may be broader accountability and transparency requirements that are not required in financial statements but are important for the efficient and effective use of scarce resources. For example, publishing details of contracts on Austender.

Whilst the purpose of financial statements has been clarified in the *guide* to the rule, there is no change to any rule arising from this change.

3. Part 1, Division 2 - Section 5 Definitions

The definition of ‘key management personnel’ as per AASB 124 *Related Party Disclosures* has been added to enable reporting under Section 27 of the FRR.

4. Part 2 – Section 9 Administered reporting – Guide to this section

The final paragraph of the guide to this section has been deleted as it is not relevant in the context of what is required under this section.

5. Part 2 – Section 9 Administered reporting

An amendment is required to clarify that entities must comply with all accounting standards in the preparation of disclosure notes for administered items.

6. Part 2 – Section 10 Certificates and Assurance

Minor amendments clarify the requirement for the signatory for the certificate and assurance statement.

A minor amendment has been made to subsection (e) to avoid any potential duplication of the disclosure of exemptions from any requirements of the rule. The exemption must now be disclosed in the certificate by the accountable authority rather than in the notes to the financial statements.

7. Part 2 – Section 11 Exemptions from requirements in this rule

Subsection 4 has been deleted. This avoids duplication of the requirement to disclose details of exemptions to the rule. This disclosure is already required by section 10 (e) of the rule.

8. Part 3 – Section 18 AASB 1053 Application of Tiers of Australian Accounting Standards

Section 18, subsection 1 has been made to enable Commonwealth entities not listed in subsections 2 and 3, to prepare financial statement disclosures that meet the minimum requirements for disclosure under the relevant accounting standards.

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

The Australian accounting standards (AAS) 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 disclosures 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 purposes 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 Department of Finance, if that information is not available in their entity financial statements.

9. Part 4 – Section 27 Key management personnel remuneration

The section has been amended to require disclosure of remuneration of key management personnel (KMP) as defined in AASB 124 *Related Party Disclosures*. This disclosure is a requirement of the standard for public sector financial statements; the amendment clarifies the requirement for this group. Subsections 4 and 5 continue disclosures under the previous version of this rule, but are now applied to KMPs.

10. Part 5 – Guide to this Part

The guide to this part is amended to better reflect that disclosures required under this part are to assist with understanding of the financial position of the entity.

11. Part 5 – Section 32 Administered Investments

There is a minor amendment to subsection 3(d) in relation to administered investments.

Part 5 – Section 34 Reporting of Outcomes

The section has been repealed. Outcomes reporting is not required in the financial statements for entities preparing Tier 2 disclosures. All other entities will report in accordance with accounting standard *AASB 1052 Disaggregated Disclosures*. The outcomes disclosure note in the financial statements previously duplicated some disclosures in the annual report. The annual report requirements will retain disclosures for expenses by outcome, which compare to the relevant portfolio budget statements.

12. Part 6, Division 3 – Section 39 Equity returns and adjustments - Guide to this Section

Minor editorial amendments have been made.

Part 6 Division 3 – Section 39 Equity returns and adjustments

Subsection 39(2)(a)(i) has been amended to include return of contributed equity.

Subsection 39(2)(b)(iii) has been amended to refer to transfer of funds to the OPA instead of payments, which may have implied an exchange for goods and services.

13. Part 6, Division 5 – Section 43 Annual Appropriations

Subsection 43(2) has been amended to allow entities to aggregate appropriation adjustments rather than being separately listed.

14. Part 6, Division 6 – Section 46 Special appropriations

Minor editorial amendments have been made.

15. Part 6, Division 6 – Special accounts – Guide to this Division

Minor editorial amendments have been made to reflect appropriate terminology.

16. Part 6, Division 6 – Section 48 Special Accounts

Subsection 4 has been deleted. The requirement to disclose amounts held in trust is already covered in section 31 of the rule.

Subsection 48(6) has been added to require entities to disclose special account balances as cash held by the entity or held in the Official Public Account. Minor editorial amendments have also been made to other subsections.

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) Amendment Rule (Miscellaneous) 2016

1. The proposed amendments do not engage any of the applicable rights or freedoms outlined in the *Human Rights (Parliamentary Scrutiny) Act 2011*, such as encompassed in the *International Covenant on Civil and Political Rights*.
2. The proposed amendments do not limit any human rights, nor propose any offences or penalties.
3. This legislative instrument is therefore compatible with the human rights and freedoms recognised or declared in the international instruments listed in subsection 3(1) of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Senator the Honourable Mathias Cormann, Minister for Finance