

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 Rules 2019*

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 (2019 Measures No. 1) Rules 2019* 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 for the purpose of Subsection 102(1)(b) of the PGPA Act.

2018-19 Amendments

An amendment is required to Subsection 3(2) of the FRR to enable the amendments to the FRR to apply for reporting periods ending on or after 1 July 2018.

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

- application of Australian Accounting Standards, AASB 9 *Financial Instruments*;
- recommendations in the Joint Committee of Public Accounts and Audit's *Report 463: Commonwealth Financial Statements*;
- amendments to the list of entities who are required to prepare additional disclosures notes at Tier 1 level for the listed matter;
- minor changes to clarify the requirements of special account disclosures; and
- changes of an editorial nature, including the removal of provisions that are no longer required.

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 historically 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 2018, 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 2018 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 2018 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 2018.

A minor amendment has been made to subsection (3) to omit “under” and substitute “for the purposes of”.

2. Part 1, Division 1 - Section 5 Definitions

A minor amendment has been made to the definition of *AAS* to keep the definition consistent with the PGPA Act.

3. Part 3 – Section 16 Financial instruments (AASB 7 Financial Instruments: Disclosures, AASB 9 Financial Instruments and AASB 132 Financial Instruments: Presentation)

The Australian Accounting Standard Board (AASB) issued a new standard AASB 9 Financial Instruments (AASB 9 or the standard), which applies to accounting periods commencing on or after 1 January 2018. The standard replaced AASB 139 Financial Instruments: Recognition and Measurement (AASB 139). Therefore, various subsections under Section 16 are amended to reflect the accounting requirements under the AASB 9. The amendments required reflect policy choices available in AASB 9, that are outlined in a Department of Finance position paper published in May 2018. These include:

- Change Section 16 heading to refer to AASB 9 instead of AASB 139;
- Repeal the subsections 16(2) to 16(4) and substitute new subsections (2) to (4) to reflect the classification requirements and the expected credit loss impairment model under AASB 9.
- Repeal the subsection 16(6) as qualifying criteria for hedge accounting are covered under AASB 9.

4. Part 3, Section 18 AASB 1053 Application of Tiers of Australian Accounting Standards

Three entities have been added to the schedule in subsection (3). These entities will be required to prepare disclosures at Tier 1 level for the listed matter. This amendment will ensure those entities present a fuller disclosure of the risks and valuation techniques associated with Administered loans, advances or investments to support the amounts presented in their statement of financial position.

Subsection (4) is repealed and a new section 18A is added to require an equivalent management assurance process to the entity's financial statements to be applied to supplementary information provided to Finance, which is not part of an entity's financial statements but is required for the Australian Government consolidated financial statements.

5. Part 5, Section 29 Contingencies and Section 32 Administered investments

Minor amendment to reflect the reporting requirements under AASB 9.

6. Part 5 - Section 34B Aggregate assets and liabilities

In responding to recommendation 7 in the Joint Committee of Public Accounts and Audit's Report No. 463, Finance advised it will continue to identify the most suitable financial metrics to help understand the financial sustainability of an entity.

A new Section 34B is added to require reporting entities to include in their financial statements a note disclosing total assets and total liabilities, broken down into:

- (a) the total of
 - (i) any amounts expected to be recovered from assets within 12 months after the end of the reporting period; and
 - (ii) cash;
- (b) the total of any other amounts recoverable from assets;
- (c) the total of any amounts expected to be settled for liabilities within 12 months after the end of the reporting period;
- (d) the total of any amounts that are expected to be settled for liabilities more than 12 months after the end of the reporting period.

7. Part 6, Division 6, Section 48 Special accounts

A new subsection (8) is added to require a footnote disclosure for trust monies included in a special account balance where these amounts are not controlled by the reporting entity. Although these trust amounts are included as part of the special account balance, the amount held in trust will not be included in the entity's Statement of Financial Position nor in the entity's financial instrument disclosure note.

Explanatory Statement – Attachment B

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 2018

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