

# 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 (2021 Measures No.1) Rules 2021*

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 this Act.

The *Public Governance, Performance and Accountability (Financial Reporting) Amendment (2021 Measures No. 1) Rules 2021* (the Amending Rule) amends the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR), which prescribes the financial reporting requirements for Commonwealth entities. 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 in accordance with the following legislative provisions:

- subsection 42(2) of the PGPA Act prescribes that annual financial statements must:
  - comply with accounting standards and any other requirements prescribed by the rules
  - present fairly the entity's financial position, financial performance and cash flows
- subsection 47(1) of the *High Court of Australia Act 1979* prescribes the financial statements reporting requirements of the High Court of Australia
- subsections 50B(2) and (4) of the *Defence Service Homes Act 1918* prescribe the financial statements reporting requirements of the Defence Service Homes Corporation
- subsections 43(1) and (3) of the *Natural Heritage Trust of Australia Act 1997* prescribe the financial statements reporting requirements of the Natural Heritage Trust of Australia Account
- Division 4 of Part 2-3 of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) prescribes how financial statements must be prepared for Commonwealth entities that have ceased to exist or whose functions have been transferred.

A number of FRR provisions are made for the purpose of subsection 102(1)(b) of the PGPA Act, which prescribes that provisions may be made for the Commonwealth and Commonwealth entities to ensure or promote proper accountability for the use and management of public resources.

## 2020-21 Amendments

For the 2020-21 financial reporting period, the following changes to the FRR have been made:

- inclusion of a reference to Division 4 of Part 2-3 of the PGPA Rule, which came into effect during May 2020 to address different scenarios that may arise following machinery of government changes
- requirements to ensure consistency across Commonwealth reporting entities to support the production of Consolidated Financial Statements regarding:
  - lease maturity analysis under the new accounting standard, AASB 16 *Leases*
  - a breakdown of current and non-current assets and liabilities by line item to aid in the disclosure of maturity splits
- enhanced disclosure of expenditure from special appropriations made under section 77 (Repayments by the Commonwealth) of the PGPA Act and investments made through a listed special account under section 58 (Investment by the Commonwealth) of the PGPA Act
- removal of the option for reporting entities with greater than 1,000 full-time equivalent employees to use the shorthand method to estimate long service leave liabilities
- minor changes to streamline the presentation and enhance clarity of the FRR.

## Retrospectivity and Timing

The retrospective commencement date of the Amending Rule does not adversely affect the rights of persons or otherwise impose liabilities, other than onto the Commonwealth or Commonwealth 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 commencing before 1 July 2020, these amendments to the FRR are not applicable.

## Consultation

The Department of Finance worked with the Office of Parliamentary Counsel in drafting the Amending Rule.

The Amending Rule was developed in consultation with the Australian National Audit Office, the Australian Government Actuary and all Commonwealth reporting entities.

## **Attachments**

Details of the Amending Rule for reporting periods commencing on or after 1 July 2020 are set out at Attachment A.

The Statement of Compatibility with Human Rights as required by the *Human Rights (Parliamentary Scrutiny) Act 2011* is at Attachment B.

**Details of the *Public Governance, Performance and Accountability (Financial Reporting) Amendment (2021 Measures No. 1) Rules 2021***

**Section 1 – Name of rule**

This section provides that the title of the instrument is the *Public Governance, Performance and Accountability Amendment (2021 Measures No. 1) Rules 2021* (the Amending Rule).

**Section 2 – Commencement**

This section provides that each provision of the instrument specified in column 1 of the table commences, or is taken to have commenced, in accordance with column 2 of the table.

The entire instrument commences on the day after the Amending Rule is registered.

**Section 3 – Authority**

This section states that the Amending Rule is made under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

**Section 4 – Schedules**

This section provides that each legislative instrument that is specified in a Schedule to the Amending Rule is amended or repealed as set out, and that any item in a Schedule to this instrument operates or is applied as specified in the Schedule.

**Schedule 1 – Amendments**

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

**Item 1 – Subsection 3(2)**

Item 1 amends the reporting period to commence on or after 1 July 2020.

**Item 2 – Paragraph 3(2)(d)**

Item 2 amends the formatting of this paragraph, with no substantial changes made.

**Item 3 – Paragraph 3(2)(e)**

Item 3 amends the formatting of this paragraph, with no substantial changes made.

**Item 4 – Paragraph 3(2)(f)**

Item 4 adds a new paragraph as the requirements for the preparation of financial statements set out in Division 4 of Part 2-3 of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) came into effect in May 2020.

**Item 5 – Section 5**

Item 5 expands the list of definitions to define ‘AASB’ as the ‘Australian Accounting Standards Board’.

### **Item 6 – Paragraph 6(1)(b)**

Item 6 amends the formatting of this paragraph, with no substantial changes made.

### **Item 7 – Section 12**

Item 7 deletes the reference to an AASB accounting standard in the title of this section. The guidance in this section references the relevant AASB accounting standard. The reference to the accounting standard in the section title was consequently redundant.

### **Item 8 – Section 13**

Item 8 deletes the reference to an AASB accounting standard in the title of this section. The guidance in this section references the relevant AASB accounting standard. The reference to the accounting standard in the section title was consequently redundant.

### **Item 9 – Section 14**

Item 9 deletes the reference to an AASB accounting standard in the title of this section. The guidance in this section references the relevant AASB accounting standard. The reference to the accounting standard in the section title was consequently redundant.

### **Item 10 – Section 15**

Item 10 deletes the reference to an AASB accounting standard in the title of this section. The guidance in this section references the relevant AASB accounting standard. The reference to the accounting standard in the section title was consequently redundant.

### **Item 11 – Section 16**

Item 11 deletes the reference to an AASB accounting standard in the title of this section. The guidance in this section references the relevant AASB accounting standard. The reference to the accounting standard in the section title was consequently redundant.

### **Item 12 – Section 17**

Item 12 deletes the reference to an AASB accounting standard in the title of this section. The guidance in this section references the relevant AASB accounting standard. The reference to the accounting standard in the section title was consequently redundant.

### **Item 13 – Subsection 17(1)**

Item 13 rearranges the references to the AASB accounting standards listed in this subsection for ease of reading.

### **Item 14 – Section 18**

Item 14 deletes the reference to an AASB accounting standard in the title of this section. The guidance in this section references the relevant AASB accounting standard. The reference to the accounting standard in the section title was consequently redundant.

### **Item 15 – Subsection 18(1a)**

Item 15 adds a new subsection as reporting entities are subject to subsections 18(1) to (3) of *the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) when applying AASB 1053 *Application of Tiers of Australian Accounting Standards*.

### **Item 16 – Paragraph 24(1)(b)**

Item 16 removes the option for reporting entities with greater than 1,000 FTE employees to use the shorthand method to estimate long service leave liabilities.

### **Item 17 – Subsection 24(2)**

Item 17 includes additional guidance to clarify which on-costs can be used to calculate employee benefits.

### **Item 18 – Subsection 26(1a)**

Item 18 adds a new subsection requiring relevant reporting entities to prepare annual financial statements in accordance with Division 4 of Part 2-3 of the PGPA Rule.

This subsection is a result of the *Public Governance, Performance and Accountability Amendment (2020 Measures No. 2) Rules 2020*, which amended the PGPA Rule to address different scenarios that may arise following the cessation of Commonwealth entities and the transfer of functions.

### **Item 19 – Subparagraph 27(5)(b)(ii)**

Item 19 is a minor amendment to clarify that this subparagraph is subject to the post-employment benefits outlined in section 25 of the FRR.

### **Item 20 – Section 34B and Section 34C**

#### Section 34B Disclosure of current and non-current assets and liabilities

Item 20 amends the section's title and guidance, and adds a new section requiring reporting entities to disclose current and non-current assets and liabilities by line item in the entity's Statement of Financial Position and Administered Schedule of Assets and Liabilities.

#### Section 34C Lease maturity analysis under AASB 16 *Leases*

Item 20 adds a new section to mandate that all Commonwealth reporting entities provide their lease maturity analysis in their financial statements if the reporting entity is a lessee or lessor.

This new section is applicable to both Tier 1 and Tier 2 reporting entities. Whilst paragraph AusE1 of AASB 16 exempts Tier 2 reporting entities from disclosing maturity analysis of lessee lease liabilities, the reporting requirements for the preparation of the Commonwealth's Consolidated Financial Statements require consistency across Commonwealth entities for disclosing maturity analysis of lease liabilities.

### **Item 21 – Paragraph 37(c)**

Item 21 makes a minor amendment to reflect the change to the title of section 74A of the PGPA Act.

### **Item 22 – Subsection 40(3)**

Item 22 makes a minor amendment to clarify that, unless there is a Government approved legal instrument that formally reduces or increases the appropriation, the reporting entity must still include the amount of formal reduction or exclude the amount of formal addition in their appropriation disclosure note.

### **Item 23 – Subsection 40(4)**

Item 23 is a new subsection to clarify the meaning of a ‘Government approved legal instrument’ for the purposes of section 40 of the FRR.

### **Item 24 – Paragraph 46(1)(a)**

Item 24 amends this paragraph to clarify the disclosure requirement for the authority of a special appropriation.

### **Item 25 – Subparagraph 46(1)(b)(iii)**

Item 25 is a new subparagraph to specify the disclosure requirement for special appropriations made under section 77 of the PGPA Act.

### **Item 26 – Subsection 46(2)**

Item 26 adds a note to subsection 46(2) to distinguish between investments authorised under section 58 of the PGPA Act that are made from a special account, from those that are made through the special appropriation in subsection 58(7) of the PGPA Act.

Section 58 of the PGPA Act authorises the Finance Minister and the Treasurer to invest relevant money on behalf of the Commonwealth. These powers can be delegated. The note alerts readers to the disclosure requirements for investments from special accounts.

Entities that use special appropriations to invest under section 58 of the PGPA Act are required to disclose the special appropriations in accordance with section 46 of the FRR, whereas entities that invest from special accounts under section 58 of the PGPA Act are required to disclose their investments in accordance with subsection 48(9) of the FRR.

### **Item 27 – Paragraph 48(8)(d)**

Item 27 adds a new paragraph to emphasise that entities must disclose the closing balance of a special account on trust in the assets held in the trust disclosure note.

### **Item 28 – Subsection 48(9)**

Item 28 adds a new subsection to specify the disclosure requirements for investments made from a special account under an Act of Parliament, in particular under section 58 of the PGPA Act.



## **Statement of Compatibility with Human Rights**

Prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

### ***Public Governance, Performance and Accountability (Financial Reporting) Amendment (2021 Measures No. 1) Rules 2021***

This Disallowable Legislative Instrument 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 Disallowable Legislative Instrument**

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 this Act.

The *Public Governance, Performance and Accountability (Financial Reporting) Amendment (2021 Measures No. 1) Rules 2021* 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 PGPA Act prescribes that annual financial statements must:
  - comply with accounting standards and any other requirements prescribed by the rules
  - present fairly the entity's financial position, financial performance and cash flows
- subsection 47(1) of the *High Court of Australia Act 1979* prescribes the financial statements reporting requirements of the High Court of Australia
- subsections 50B(2) and (4) of the *Defence Service Homes Act 1918* prescribe the financial statements reporting requirements of the Defence Service Homes Corporation
- subsections 43(1) and (3) of the *Natural Heritage Trust of Australia Act 1997* prescribe the financial statements reporting requirements of the Natural Heritage Trust of Australia Account
- Division 4 of Part 2-3 of the PGPA Rule prescribes how financial statements must be prepared for Commonwealth entities that have ceased to exist or whose functions have been transferred.

Some provisions of the FRR are made for the purpose of subsection 102(1)(b) of the PGPA Act, which prescribes that provisions may be made for the Commonwealth and Commonwealth entities to ensure or promote proper accountability for the use and management of public resources.

### **Human rights implications**

1. The 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 disallowable 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*.

### **Conclusion**

This Disallowable Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

**Senator the Honourable Simon Birmingham**  
**Minister for Finance**