

# 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. 2) 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. 2) 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 *Legislation 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.

## 2021-22 Amendments

For the 2021-22 financial reporting period, the following changes to the FRR have been made:

- Additional disclosure requirements regarding leases and contracts with customers to ensure that the integrity of the whole of government financial reporting process is maintained following reduced disclosure requirements introduced by AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.
- Removal of specific listed Tier 1 reporting requirements for one entity (Department of Agriculture, Water and the Environment).
- Clarification of the methodologies that can be used when estimating an entity's long service leave liability (for entities with less than or equal to 1,000 full-time equivalent employees).
- A new disclosure requirement regarding regulatory charging activities to ensure consistency with the requirements of the Australian Government Charging Framework.
- Clarification of disclosures required for adjustments made to current and prior years annual appropriations under sections 74 and 75 of the PGPA Act.
- Clarification of disclosures required for current and prior years annual appropriations withheld under section 51 of the PGPA Act or quarantined for administrative reasons.

The accounting standards referred to are incorporated as in force from time to time as per the definition in the PGPA Act. Accounting standards can be found at [www.aasb.gov.au](http://www.aasb.gov.au).

## 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 *Legislation 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 2021, 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 and all Commonwealth reporting entities.

## **Attachments**

Details of the Amending Rule for reporting periods commencing on or after 1 July 2021 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. 2) Rules 2021***

**Section 1 – Name of rule**

This section provides that the title of the instrument is the *Public Governance, Performance and Accountability (Financial Reporting) Amendment (2021 Measures No. 2) 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 2021.

**Item 2 – Subsection 18(1A)**

Item 2 amends the subsection to include an additional subsection that reporting entities are subject to when applying AASB 1053 *Application of Tiers of Australian Accounting Standards*.

**Item 3 – Subsection 18(1)**

Item 3 amends the subsection to include an additional subsection that reporting entities are subject to when applying AASB 1053 *Application of Tiers of Australian Accounting Standards*.

**Item 4 – Subsection 18(2)**

Item 4 adds a new subsection requiring all reporting entities to apply Tier 1 reporting requirements when applying AASB 16 *Leases*. This is required to ensure the integrity of the whole of government financial reporting process following reduced lease disclosure

requirements introduced by AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

**Item 5 – Subsection 18(2)**

Item 5 amends the numbering of the subsection, with no substantial changes made.

**Item 6 – Subsection 18(3)**

Item 6 amends the numbering of the subsection, with no substantial changes made.

**Item 7 – Subsection 18(3)(table item 2A)**

Item 7 removes one reporting entity from the table (Department of Agriculture, Water and the Environment). This entity is no longer subject to Tier 1 reporting requirements for the listed matters.

**Item 8 – Paragraphs 24(1)(a) and (b)**

Item 8 reorders the paragraphs and requires that reporting entities with less than or equal to 1,000 full-time equivalent employees must use either the shorthand method (as per the Commonwealth Entities Financial Statements Guide), an actuarial assessment, or a detailed calculation basis (e.g. employee by employee) when calculating the entity's long service leave liability.

**Item 9 – Paragraph 34A(2)(aa)**

Item 9 adds a new paragraph before paragraph 34A(2)(a) requiring reporting entities to disclose a list of the regulatory charging activities in the regulatory charging note included in the entity's financial statements.

**Item 10 – Section 34C**

Item 10 deletes the reference to 'Lease maturity analysis under AASB 16 Leases' in the title of this section and substitutes the title of the section for 'Contracts with customers'.

Item 10 removes requirements relating to lease maturity analysis. These requirements are now redundant due to changes detailed in Item 4 requiring all reporting entities to apply Tier 1 reporting requirements when applying AASB 16 *Leases*.

Item 10 amends the section to add disclosure requirements to ensure the integrity of the whole of government financial reporting process is maintained following reduced disclosure requirements introduced by AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

**Item 11 – Paragraph 43(2)(b)**

Item 11 amends the paragraph to clarify the requirement for reporting entities to disclose PGPA Act section 74 adjustments made to current year annual appropriations in the annual appropriations note.

**Item 12 – Paragraph 43(4)(a)**

Item 12 amends the paragraph to clarify that the requirements are for current year annual appropriations.

**Item 13 – Section 45**

Item 14 adds five new subsections to clarify disclosure requirements for prior year unspent annual appropriations.

## **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. 2) 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. 2) Rules 2021* amends the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR). Both rules are legislative instruments for the purpose of the *Legislation 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**