

## EXPLANATORY STATEMENT

Issued by the authority of the Minister for Finance and Administration

### ***Financial Management and Accountability Act 1997***

*Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2006)*

### ***Commonwealth Authorities and Companies Act 1997***

*Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2006)*

#### ***Financial Management and Accountability Act 1997 (FMA Act)***

Subsection 63(1) of the FMA Act provides that Orders may be made on any matter on which the FMA Act requires or permits Orders to be made and on any matter on which regulations under the FMA Act may be made. Section 49 of the FMA Act provides that the Chief Executive of an Australian Government Agency must prepare financial statements in accordance with Finance Minister's Orders. These requirements are currently specified in Schedule 1 to the *Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2005)*.

The Financial Management and Accountability Orders set out the financial statement reporting requirements for Australian Government Agencies for reporting periods ending on or after 1 July 2006. Details of the main changes to reporting requirements for the reporting periods ending on or after 1 July 2006, as compared to the requirements that were previously in force are provided in Attachment A. While there have been limited technical changes to the Orders currently in force the manner in which the information is presented has been changed to improve readability and to provide easy access to additional information. Item numbers do not run continuously, to allow for future expansion without changing existing item numbers.

Specifics in relation to the Orders are as follows:

*Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2006)*

Clause 1 of the Orders deals with naming of the Orders.

Clause 2 of the Orders deals with commencement of the Orders.

Clause 3 inserts Schedule 1, which sets out requirements for the preparation of annual financial statements for reporting periods ending on or after 1 July 2006, and specifies the legislation to which it applies. It also notes that this Schedule 1 is identical to Schedule 1 to the *Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2006)*.

#### ***Commonwealth Authorities and Companies Act 1997 (CAC Act)***

Subsection 48(1) of the CAC Act provides that Orders may be made on any matter on which the CAC Act requires or permits Orders to be made. Section 9 of the CAC Act requires the directors of a Commonwealth Authority to prepare an annual report in accordance with Schedule 1 to the CAC Act. Part 1 of Schedule 1 to the CAC Act provides that the annual report must include financial statements prepared by the directors in accordance with the Finance Minister's Orders. These requirements are currently specified in Schedule 1 to the

*Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2005).*

The Commonwealth Authorities and Companies Orders set out the financial statement reporting requirements for the reporting periods ending on or after 1 July 2006. Details of the main changes to the requirements for reporting periods that were previously in force are provided in Attachment A. While there have been limited technical changes to the Orders currently in force the manner in which the information is presented has been changed to improve readability and to provide easy access to additional information. Item numbers do not run continuously, to allow for future expansion without changing existing item numbers.

The form and content of the Schedule 1 financial reporting requirements for a particular year is the same for both the abovementioned Orders.

Specifics in relation to the Orders are as follows:

*Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2006)*

Clause 1 deals with the naming of the Orders.

Clause 2 deals with the commencement of the Orders.

Clause 3 inserts Schedule 1, which sets out requirements for the preparation of annual financial statements for reporting periods ending on or after 1 July 2006, and specifies the legislation to which it applies. It also notes that this Schedule 1 is identical to Schedule 1 to the *Financial Management and Accountability Orders (Financial Statements for reporting periods on or after 1 July 2006)*.

## **Consultation**

All Commonwealth entities required to apply the Orders have been consulted, with the opportunity to provide comments on the draft version, in their preparation. The Australian National Audit Office has been consulted and provided detailed comments on the Orders. All feedback has been considered and amendments made where appropriate.

## Attachment A to the Explanatory Statement

This attachment summarises the main changes in relation to the Finance Minister's Orders requiring the preparation of financial statements for reporting periods ending on or after 1 July 2006 for:

- each Australian Government Agency and Commonwealth Authority;
- each economic entity, comprising the Australian Government Agency or Commonwealth Authority and its subsidiaries;
- the activity or activities of an Australian Government Agency which is/are determined to be a Business Operation pursuant to *Financial Management and Accountability Orders 6.2.1*.

### **The main changes are:**

#### **(1) A restructure of the document.**

This was done primarily to make the document easier to read and use for agencies. The new structure compares to the old as per the following table:

<b>2006-07</b>	<b>2005-06</b>
1. Legislative authority	New item
2. Structure of this schedule	New item
3. Further information	New item
4. Dictionary	Definition of terms
5. Abbreviations	Definition of terms
6. Commencement	1A
7. Applicable entities	1B
8. Authoritative requirements	1B
9. Financial reporting structure and form	1B
10. Simplified reporting	1F
11. Early adoption of accounting pronouncements	1B.6
12. Materiality and information disclosure	1B.7
13. Rounding off	1B.7
14. Certificates	1C
15. Departmental and administered items	2B
16. Exemptions from this schedule	1D
17. Approved exemptions	New item
18. Income generally (excluding appropriations)	New item
19. Expenses generally	New item
20. Borrowing costs	3A.10
21. Operating leases	New item
22. Director/executive remuneration	7B
23. Remuneration of auditors	7C
24. Competitive neutrality	1B.4
30. Financial assets generally	New item
31. Receivables for statutory charges	New item
32. Investment of surplus money by authorities	7D
33. Valuation of non-financial assets	3A
34. Impairment of non-financial assets	3A
35. Analysis of non-financial assets	3A
36. Restricted assets	3B

<b>2006-07</b>	<b>2005-06</b>
37. Heritage and cultural assets	3D
38. Assets held in trust	3C
40. Liabilities generally	New item
41. Liabilities relating to dividends	New item
42. Provisions	New item
43. Employee benefits	4C
44. Measurement and disclosure of post employment plans	New item
45. Financial instruments	8
50. Statement of changes in equity	Appendix A
60. Cash flow statement	Appendix A
75. Schedule of administered items	Appendix A
80. Contingencies	4A
81. Commitments	4B
85. Administered reporting generally	New item
86. Income and expenses administered on behalf of Government	New item
87. Administered investments	6B
88. Administered investments held for sale	6B
89. Impairment of administered assets	New item
90. Liabilities administered on behalf of Government	New item
92. Restructures	5A
100. Recognition of appropriations – general	2A, 2B
101. Appropriation recognition – departmental	2A, 2B
102. Appropriation recognition – administered	2A, 2B
103. Appropriation recognition – CAC entities	2A, 2B
104. Appropriation disclosure	2C
120. Special accounts	2E
121. Reporting of outcomes and outputs	2D
122. Compensation and debt relief in special circumstances	7A
Annexure A – PRIMA	Appendix A

**(2) The addition of the following new policies:**

*Part A (items 1-3)*

General introduction and explanation of format of Schedule 1 (including explanation of additional policy and guidance material associated with but not included in Schedule 1. Note, this additional material is not part of the legislative instrument but is available on the Department of Finance and Administration website, [www.finance.gov.au](http://www.finance.gov.au)).

*Item 17 Approved exemptions*

In prior years a small number of exemptions have been provided regularly on an annual basis. These have now been incorporated in Schedule 1 for administrative simplicity.

*Items 18, 19, 30, 40, 50, 60, 75, 85, 86, 89, 90*

These set out general reporting requirements that are unchanged from prior years but which were implied rather than stated, or were contained in Appendix A.

As part of the redrafting of Schedule 1, these have been included as new items for completeness.

*Item 21 Operating leases*

This item sets out accounting requirements for operating leases and in particular which lease payments should be expensed over the term of the lease in accordance with accounting standard AASB117 Accounting for Leases.

*Item 31 Receivables for statutory charges*

This item clarifies procedures for assessing impairment of statutory charges under AASB 136 Impairment of assets.

*Item 41 Liabilities relating to dividends*

This specifies when a liability may be recognised by an entity for dividends payable to general government.

*Item 42 Provisions*

This item is included so that the Department of Finance and Administration can provide policy and guidance in related documents on provisions recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. Schedule 1 itself does not contain any detail in item 42.

*Item 44 Measurement and disclosure of post employment plans*

This item clarifies reporting requirements for agencies with respect to post employment, or superannuation, plans. This was partly addressed in section 4C in 2005-06 but further explanation was considered warranted.

**(3) The following substantive changes to existing policies:**

*Item 12 Materiality and information disclosure*

Materiality has been transformed from a single paragraph in Application in the 2005-06 orders into a discrete area in its own right. Further to 2005-06, these orders also specify that:

- entities must prepare financial statements and notes to consider materiality of information pursuant to the Schedule at the individual entity level;
- entities must maintain proper accounting records to support all disclosures required; and
- if there is more than one change in the application of accounting policies for departmental or administered items defined in 15B of the Schedule, entities are required to make a separate disclosure for each accounting policy application.

*Item 22 Director/Executive remuneration*

The disclosure requirements for the remuneration of senior executives and directors who have been seconded have been clarified.

The disclosure requirements for the remuneration of star ranked military officers have been clarified.

*Item 87 Administered investments*

Administered investments, other than those held for sale, can no longer be carried at cost or deemed cost. This was allowed in 2005-06 as part of the transition to Australian Equivalents to International Financial Reporting Standards. However, the 2006-07 orders require that they be measured at fair value.

*Annexure A PRIMA*

The disclosure requirements in the notes to the accounts have been clarified to achieve greater consistency between the financial reports of Australian Government entities.