

EXPLANATORY STATEMENT

Issued by the authority of the Minister for Finance and Deregulation

Financial Management and Accountability Act 1997

Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2007)

Commonwealth Authorities and Companies Act 1997

Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2007)

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 2006)*.

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 2007. Details of the main changes to reporting requirements for the reporting periods ending on or after 1 July 2007, as compared to the requirements that were previously in force are provided in Attachment A.

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 2007)

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 2007, 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 2007)*.

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 2006)*.

The Commonwealth Authorities and Companies Orders set out the financial statement reporting requirements for the reporting periods ending on or after 1 July 2007. Details of the main changes to the requirements for reporting periods that were previously in force are provided in Attachment A.

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 2007)

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 2007, 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 2007)*.

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

(Proposed Changes to the Finance Minister's Orders for 2007-08)

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 2007 for agencies and authorities.

The main changes are:

(1) The addition of the following new policies:

- i. *Division 11 – Early adoption of accounting pronouncements:* making it explicit that the Secretary of the Department of Finance and Deregulation can instruct entities to early adopt changes in accounting standards.
- ii. *Division 18 – Income:* removes options on accounting for grants that were re-introduced by accounting standard AASB 2007-4. Entities must continue to account as per the requirements in 2006-07. This maintains comparability with information presented in previous years.
- iii. *Division 39 – Joint ventures:* removes options on the recognition of interests in jointly controlled entities that were re-introduced by accounting standard AASB 2007-4. Entities must apply the equity method to facilitate the Whole of Government consolidation.

(2) The following substantive changes to existing policies:

- i. *Division 15 – Departmental and administered items:* significant changes to this Division to reflect the new regime whereby Cabinet will determine whether items are departmental or administered as part of the policy/costing process.
- ii. *Division 17 – Approved exemptions:*
 - The exemption allowing the Future Fund to present its financial statements in a format consistent with that used in the funds management industry has been clarified so that it is clear the exemption is from otherwise reporting in accordance with the FMOs (which exemption was previously issued separately from the FMOs); and
 - The Aboriginal and Torres Strait Islander Land Account and Aboriginals Benefit Account are exempt from the administered disclosure requirements of the FMOs. They are also exempt from appropriations and outcomes reporting to the extent that they have none (previous exemption was issued separately from the FMOs). Both the Land Account and the ABA consist entirely of administered items but will present accounts in the more comprehensive departmental format. There is no reduction in disclosure as a result.
- iii. *Division 22 – Director/executive remuneration:* this Division has been redrafted to improve clarity. Sections have been moved between black letter, policy and guidance and sections on policy and guidance have been added.
- iv. *Division 33 – Valuation of non-financial assets:* the requirement for a formal revaluation of non-financial assets every five years has been removed as this has proved confusing for agencies. Agencies must still comply with more

general requirements contained in the accounting standards that most assets should be carried at “fair value” each year.

- v. *Division 38 – Assets held in trust*: unidentified receipts are not to be treated as assets held in trust but instead treated as administered revenue and deposited to the Official Public Account. This more easily facilitates a refund if the amount is subsequently identified.
- vi. *Division 45 – Financial instruments*: amendment clarifying the subsequent measurement of financial liabilities (this was the subject of an exemption from the FMOs in 2006-07).
- vii. *Division 60 – Cash flow statement*: removes options regarding cash flow statements that were re-introduced by accounting standard AASB 2007-4. Entities must use the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed, rather than the indirect method under which the profit or loss is adjusted for items of a non-cash nature. Entities must present dividends as a component of financing activities.
- viii. *Division 100 – Recognition of Appropriations – General*: inclusion of an overview of the *Financial Framework Legislation Amendment Act (No. 1) 2007* (FFLA Act) and its implications, particularly in relation to section 31 ‘net appropriations’.
- ix. *Division 101 – Recognition of appropriations – departmental*: investments made under sections other than section 39 of the *FMA Act* must be disclosed in the same format as those made under section 39.
- x. *Division 104 – Disclosure of appropriations*: revisions of disclosure tables to improve presentation.
- xi. *Division 120 – Special Accounts*: revisions of disclosure tables to improve presentation and inclusion of an overview of the FFLA Act and its implications, particularly in relation to subsections 20(1) and 21(1) which relate to the establishment of special accounts.