

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 2009)

Commonwealth Authorities and Companies Act 1997

Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2009)

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 2008)*.

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 2009. Details of the main changes to reporting requirements for the reporting periods ending on or after 1 July 2009, 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 2009)

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 2009, and specifies the legislation to which it applies. It also notes that this Schedule 1 is substantively similar to Schedule 1 to the *Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2009)*.

Clause 4 of the Orders prescribes requirements for the purposes of section 48 of the FMA Act.

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 2008)*.

The Commonwealth Authorities and Companies Orders set out the financial statement reporting requirements for the reporting periods ending on or after 1 July 2009. 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.

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Retrospectivity

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, and as such, does not contravene subsection 12 (2) of the *Legislative Instruments Act 2003*.

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 2009-2010)

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 2009 for Australian Government agencies.

The main changes are:

(a) The addition of the following new policies:

- i. *Division 18 – Statement of Comprehensive Income:* entities are required to present a single statement of comprehensive income in accordance with the new requirements of AASB 101 *Presentation of Financial Statements*. Not-for-profit entities must also prepare this statement in the net cost of services format, which was introduced as part of the department's work under Operation Sunlight.
- ii. *Division 82 – Asset Additions:* entities must disclose the amount of asset additions for each class of non-financial non-current asset split into funding sources in a new schedule of asset additions.
- iii. *Division 25 – Operating Expenditure:* collection institutions are required to report operating expenditure for heritage and cultural assets.

(b) The following substantive changes to existing policies:

- i. *Division 9 – Financial Reporting Structure and Form:*
 - a. for-profit entities are required to disclose the fact that they are reporting on a for-profit basis.
 - b. entities can omit disclosing line items for appropriations and special accounts, where the balance is zero in the current and comparative financial year.
- ii. *Division 14 – Certificates:* chief financial officers of *Commonwealth Authorities and Companies Act 1997* (CAC Act) bodies are now required to sign a statement on the financial statements in addition to the chief executive officer and chair of the board or a director.
- iii. *Division 15 – Departmental and Administered Items:* CAC Act bodies not to disclose administered items in their financial statements without further approval.
- iv. *Division 37 – Heritage and Cultural Assets:* it is clarified that only heritage and cultural assets that are primarily used for purposes that relate to their cultural, environmental or historical significance are to be accounted for as heritage and cultural assets.
- v. *Division 86 – Income and Expenses Administered on Behalf of Government:* transfers of administered assets and liabilities between wholly owned Australian Government entities are to be recognised in the schedule of administered items (also impacts on Division 60 and 102).
- vi. *Division 101 – Recognition of Appropriations: Departmental:*
 - a. it is clarified that current year formal additions and reductions may be recognised as adjustments to items other than income where an alternative is permitted by Australian accounting standards.
 - b. no win/no loss appropriations recognised as formal additions/reductions in section 101.13.

- vii. *Division 102 – Recognition of Appropriations: Administered:* loan appropriations for payment to CAC Act bodies entered into from the 2008-09 financial year to be disclosed as loans receivable by the relevant portfolio department, with those entered into prior to 2008-09 only recorded as cash flows where appropriate.
- viii. *Division 104 – Disclosure of Appropriations:* emphasise that where an entity has administered appropriations it must disclose the required amount for each appropriation in the appropriations note. The required amount must be disclosed to the exact cent as required by the annual *Appropriation Acts*.
- ix. *Division 121 – Reporting of Outcomes:* Departmental income and expenses only required to be disclosed by outcome, in order to be consistent with the level of disclosures for assets and liabilities.
- x. *Division 123 – Competitive Neutrality:* competitive neutrality requirements relocated to this division. Competitive neutrality dividend as an additional disclosure item.