

## 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 2010)*

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

*Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2010)*

#### ***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 2009)*.

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 2010. Details of the main changes to reporting requirements for the reporting periods ending on or after 1 July 2010, as compared to the requirements that were previously in force, are provided in Attachment A to the Explanatory Statement.

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 2010)*

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 2010, and specifies the legislation to which it applies.

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 2009)*.

The Commonwealth Authorities and Companies Orders set out the financial statement reporting requirements for the reporting periods ending on or after 1 July 2010. 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 2010)*

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 2010, and specifies the legislation to which it applies.

### **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**

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 2010 for Australian Government entities.

### **New Policy**

1. *Division 7 Applicable Entities*: The parent entity (either an agency or authority) in an economic entity can elect to disclose parent entity information as a note to the financial statements of the economic entity (in place of preparing separate financial statements for the parent entity). This is consistent with recent changes for entities subject to the *Corporations Act 2001*.

### **Amendments to Existing Policies**

1. *Division 23 Director/Executive Remuneration*: Entities must disclose the fixed components of remuneration packages for senior executives, with the methodology for variable components disclosed by way of footnote. In addition, entities must disclose the average performance bonus paid to substantive senior executives with a remuneration package less than \$150,000, and each successive \$30,000 band. Entities must also report the number of employees whose salary plus performance bonus are equal to or in excess of \$150,000 (who are not in a senior executive or director role). These changes increase accountability and transparency in relation to the remuneration of senior executives and other highly paid employees. As there is already a requirement to disclose the number of senior executives by remuneration package band, entities are no longer required to separately disclose the number of senior executives by remuneration band.
2. *Division 37 Heritage and Cultural Assets*: Entities with heritage and cultural assets must disclose their curatorial and preservation policies or a cross-reference where this information is publicly available. Disclosure of these policies increases transparency around the acquisition, preservation, management and disposal of heritage and cultural assets.
3. *Division 104 Disclosure of Appropriations*: Entities are required to disclose annual and special appropriations on a recoverable GST exclusive basis, and are not required to prepare a reconciliation of the components of the closing balance. In addition, the disclosures for annual and special appropriations have been reviewed to emphasise current year funding and spending, as well as the variances between them. There is a new requirement to disclose unspent balances of departmental appropriations from previous financial years. Disclosures were reviewed to provide better information and enable comparison with budgeted appropriation amounts published in Portfolio Budget Statements.
4. *Division 120 Special Accounts*: Consistent with the changes for annual appropriations and other special appropriations, entities must disclose special accounts on a recoverable GST exclusive basis and are not required to prepare a reconciliation of the closing balance.