



**Australian Government**  
**Department of Finance**

**Department of Finance**

**Submission to the**  
**Joint Committee of Public Accounts and Audit**

**Inquiry into Commonwealth Financial Statements 2019–20**

**August 2021**

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## 1. Introduction

- 1.1 The Department of Finance (Finance) welcomes the opportunity to contribute to the Joint Committee of Public Accounts and Audit's Inquiry into the following Auditor-General's reports:
- No.25 (2020-21) Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020; and
  - No. 40 (2020-21) Interim Report on Key Financial Controls of Major Entities.
- 1.2 This submission provides contextual information, addressing a number of areas relevant to the inquiry's terms of reference, on the following:
- preparing financial statements;
  - supporting Australian Government entity financial reporting;
  - government financing through loans and equity;
  - financial sustainability;
  - the Public Governance, Performance and Accountability framework; and
  - managing cyber threats and information technology (IT) controls.

## 2. Preparing financial statements

- 2.1 All Australian Government financial statements, including those prepared for Budget, comply with Australian Accounting Standards (AAS) and the Australian System of Government Finance Statistics (GFS).
- 2.2 The *Public Governance, Performance and Accountability Act 2013*<sup>1</sup> and the *Corporations Act 2001*<sup>2</sup> mandate the application of AAS for annual financial statements and the *Charter of Budget Honesty Act 1998*<sup>3</sup> requires the application of GFS and AAS for budget reports. AAS and GFS standards have been largely aligned or 'harmonised' at the whole of government and general government sector (GGS) levels since 2009, through the application of AAS, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*<sup>4</sup>. Where there are material differences between AAS and GFS, AASB 1049 requires that these differences be disclosed in notes to the financial statements.
- 2.3 Both AAS and GFS are set independently of the government. The Australian Accounting Standards Board develops the AAS based on the standards set by the International Accounting Standards Board. The Australian Bureau of Statistics sets the GFS standards based on the international system of Government Finance Statistics, set by the International Monetary Fund.

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<sup>1</sup> Sections 48 and 42 <https://www.legislation.gov.au/Details/C2017C00269/Download> - for the Consolidated Financial Statements and financial statements of individual Commonwealth entities

<sup>2</sup> Section 296 <https://www.legislation.gov.au/Details/C2017C00269/Download> (volume 2) – for Commonwealth-controlled companies

<sup>3</sup> *Charter of Budget Honesty Act 1998* Section 12(3) <https://www.legislation.gov.au/Details/C2020C00126>  
Refer page 325-327 in Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>4</sup> AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, AASB Website: [aasb.gov.au](https://aasb.gov.au)

- 2.4 In addition to these external standards, the financial statements format is consistent with the Uniform Presentation Framework (UPF)<sup>5</sup>. The UPF is a national agreement designed to provide consistent presentation of government financial information by the Australian, state and territory governments on a basis broadly consistent with AASB 1049.
- 2.5 The Auditor-General examines compliance with AAS as part of the financial statement audits of ex-post reporting, including entity financial statements and the Australian Government's Consolidated Financial Statements (CFS).

### 3. Supporting Australian Government entity financial reporting

- 3.1 Finance supports Australian Government entities in the quality and timely preparation of financial statements by providing guidance and advice relevant to the challenges the reporting year presents. This includes issuing guidance in the form of Resource Management Guides (RMGs) and regularly convening the Australian Government Chief Financial Officers forum for information sharing.
- 3.2 Finance annually updates and publishes the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*<sup>6</sup> (FRR), *Commonwealth Entities' Financial Statements Guide*<sup>7</sup> (RMG 125) and the Primary Reporting and Information Management Aid (PRIMA). These updates include suggested disclosures for new accounting standards and a summary of changes made since the previous year. In addition, annual updates are made to standard parameters used by entities in preparing their financial statements.
- 3.3 RMG 125 applies to all Australian Government reporting entities responsible for preparing financial statements under the FRR. This guide:
- assists reporting entities to comply with AAS and the FRR;
  - provides information relevant to the preparation of annual financial statements;
  - provides information relevant to the specific requirements of the FRR, including additional disclosures not covered by AAS; and
  - explains accounting treatments mandated by the FRR where AAS allow a choice.
- 3.4 Guidance updates are informed by the experience of prior year annual financial reporting processes, including the Auditor-General's financial statement audit findings, as well as current year issues being managed.
- 3.5 In 2020, in addition to a range of other guidance, Finance issued 'Frequently asked questions – Accounting for COVID-19 and the 2019-20 bushfires and floods'<sup>8</sup> to address potential reporting challenges associated with the pandemic and bushfires. This provided targeted advice to entities on accounting issues they may encounter during financial statement preparation.

<sup>5</sup> [https://treasury.gov.au/sites/default/files/2019-06/190618\\_Uniform\\_Presentation\\_Framework\\_2.pdf](https://treasury.gov.au/sites/default/files/2019-06/190618_Uniform_Presentation_Framework_2.pdf)

<sup>6</sup> [Public Governance, Performance and Accountability \(Financial Reporting\) Rule 2015](#)

<sup>7</sup> [Commonwealth Entities Financial Statements Guide \(RMG 125\)](#)

<sup>8</sup> [Frequently asked questions – Accounting for COVID-19 and the 2019-20 bushfires and floods](#)

- 3.6 In 2021, Finance established the Australian Public Service (APS) Accounting and Finance Profession Working Group. The Working Group is providing a strong foundation for the ongoing collaboration, support and development of accounting and finance professionals within the APS. The priorities of the Working Group aim to grow capacity and capability, in alignment with the APS Workforce Strategy 2025<sup>9</sup>. Establishing the Working Group recognises that having a qualified, capable and collaborative accounting and finance profession within the APS is critical to ensuring strong public sector financial management.

## 4. Government financing through loans and equity

- 4.1 Finance notes that the Auditor-General has proposed at paragraph 1.26 of report, No.25 (2020-21), Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020, that there may be benefit in segregating the commercial and non-commercial portions of investments made for policy purposes. This acknowledges that investments made for policy purposes have elements of economic and social benefits. The Auditor-General's proposal is novel and complex, and goes beyond financial reporting requirements.
- 4.2 Investments for policy purposes are reflected in Australian Government financial statements, consistent with AAS requirements. The Auditor-General examines compliance with AAS through financial statement audits.
- 4.3 For expenditure to be classified as equity, it is necessary that the investment be expected to be recovered in real terms, by generating a return at least equal to the projected long-term inflation rate. Where this criterion is not met, the expenditure would be classified as a grant. Equity investments are fully disclosed in the financial statements of the portfolio entity that has policy responsibility, within the entity's Annual Report. When financial information is consolidated at the whole of government level, related equity transactions are netted out (eliminated), in the same way as other types of transactions between entities within government.
- 4.4 For expenditure to be classified as a loan there must be a contract requiring repayment and an expectation that payment consistent with the contractual terms will be received. A loan is concessional where the government provides more favourable loan terms than the borrower could obtain in the marketplace (typically, interest at less than the market rate). If there is no reasonable expectation a loan will be repaid, it is accounted for as if it were a grant. Loan programs are fully disclosed in the financial statements of the portfolio entity that has policy responsibility, within the entity's Annual Report. In addition to financial reporting disclosures, portfolio entities report program details in their corporate publications, including key performance indicators (KPIs) and achievements against these KPIs. Information on major loan programs is also included in the Statement of Risks published at Budget<sup>10</sup> and the Mid-Year Economic and Fiscal Outlook<sup>11</sup> (MYEFO).

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<sup>9</sup> APS Workforce Strategy 2025

<sup>10</sup> Refer page 245 in Budget Paper No 1 2021-22 [https://budget.gov.au/2021-22/content/bp1/download/bp1\\_2021-22.pdf](https://budget.gov.au/2021-22/content/bp1/download/bp1_2021-22.pdf)

<sup>11</sup> Refer page 69, <https://archive.budget.gov.au/2020-21/myefo/download/myefo-2020-21.pdf>



- 4.5 Further information regarding the impact of expenditure including through loans and equity investments on the key budget aggregates, such as net operating balance, fiscal balance, net debt, headline cash balance and underlying cash balance is available in *General Principles for Recognition of Expenditure in Budget Aggregates (RMG 117)*<sup>12</sup>.

## 5. Financial sustainability

- 5.1 Finance publishes financial sustainability metrics, drawing on data from Australian Government entity Annual Reports, on the Transparency Portal at [www.transparency.gov.au](http://www.transparency.gov.au).
- 5.2 The Transparency Portal provides information on four financial ratios, which provide an indication of the financial sustainability of government entities:
- Financial assets ratio = Financial assets / Total liabilities
  - Current ratio = Current assets / Current liabilities
  - Liabilities to assets ratio = Total liabilities / Total assets
  - Capital turnover ratio = Depreciation and amortisation expense / Purchases of property, plant and equipment (PP&E) and intangibles.
- 5.3 These metrics provide a desktop assessment of an entity's ability to pay liabilities as and when they fall due, replace assets in order to maintain services, and to demonstrate longer-term sustainability.
- 5.4 Data on entities' financial ratios from the 2019-20 reporting period are currently available on the Transparency Portal. The Transparency Portal holds ratios from 2017-18 (3 years' worth of data). Data for future financial years will be added to the portal by Finance, as it becomes available.
- 5.5 Traditionally, financial ratio analysis is private sector-focused. Care needs to be taken when applying private sector benchmarks or performance targets to public sector entities. In particular, the Australian Government financial framework operates such that entities generally receive appropriations to meet their cash requirements for a given financial year, and entities most commonly hold limited assets and cash reserves.

## 6. The Public Governance, Performance and Accountability framework

- 6.1 *The Public Governance, Performance and Accountability Act 2013*<sup>13</sup> (PGPA Act) and *Public Governance, Performance and Accountability Rule 2014*<sup>14</sup> (PGPA Rule) establish a single principles-based system of governance and accountability, and a performance framework for the Commonwealth.
- 6.2 The Independent Review into the operation of the PGPA Act and PGPA Rule (the Review) undertaken in 2018 endorsed this principles-based approach.

<sup>12</sup> <https://www.finance.gov.au/general-principles-recognition-expenditure-budget-aggregates-rmg-117> *General principles for the recognition of expenditure in budget aggregates (RMG 117)*

<sup>13</sup> [Public Governance, Performance and Accountability Act 2013](#)

<sup>14</sup> [Public Governance, Performance and Accountability Rule 2014](#)

- 6.3 The Review found that practice in relation to individual aspects of the PGPA Act had matured differentially and made a number of recommendations, including recommendations to enhance the effectiveness of audit committees. This included disclosing the audit committee charter and information on individual members in entities' annual reports, and increasing the independence of audit committees.
- 6.4 Under subsection 46(4) of the PGPA Act, the JCPAA must approve the rules prescribing annual report requirements. The amendments to the PGPA Rule relating to audit committees were approved by the JCPAA on 7 February 2020 and the PGPA Rule was subsequently amended on 27 February 2020.
- 6.5 Finance notes that not all Australian Government entities and companies were able to meet the new requirements for disclosure of audit committee information in their 2019-20 annual reports.
- 6.6 Finance remains committed to continuing to review and refine the PGPA Rule and enhance the interactive web-based guidance available on the Finance website to support Australian Government entities and companies to meet their obligations. This will be undertaken consistent with the core foundation of the PGPA framework of a principles-based framework within which all entities and companies have the flexibility to develop their own systems and processes to support their operations.
- 6.7 The PGPA Rule instrument will sunset in 2024. Consideration will be given to the matters raised by the ANAO as part of the instrument review.

## 7. Managing cyber threats and IT controls

- 7.1 Accountable authorities have principal responsibility for managing cyber threats and IT controls within their entity. Operational oversight of these controls may be delegated to key senior management personnel. An entity's Audit Committee will often provide assurance regarding the adequacy of internal controls, including cyber threats and IT controls.
- 7.2 Support and better practice guidance around managing cyber threats is provided to entities by the Attorney-General's Department through the Protective Security Policy Framework (PSPF). The PSPF contains the four mandatory strategies within the Essential Eight mitigation strategies<sup>15</sup> as developed and prioritised by the Australian Signals Directorate's Australian Cyber Security Centre.
- 7.3 There is no whole of government controls regime, as effective controls require tailoring to the circumstances of each entity. For example, the size of an entity, the nature of its business and the systems it has in place, impact on the design of the entity's control framework.
- 7.4 General guidance regarding controls is also available in Finance's Model Accountable Authority instructions<sup>16</sup>, and the Fraud Control Framework published by the Attorney-General's Department<sup>17</sup>.

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<sup>15</sup> Australian Cyber Security Centre (ACSC) - [Strategies to Mitigate Cyber Security Incidents](#)

<sup>16</sup> [RMG 206 - Accountable Authority Instructions \(AAIs\)](#)

<sup>17</sup> Attorney General's Department website: [ag.gov.au](http://ag.gov.au).

- 7.5 Finance supports entities in their responsibility for implementing and monitoring comprehensive internal controls for all of their systems, including IT systems. These controls enhance the quality of financial and other relevant information. Finance's support is provided by regular engagement with Chief Financial Officers (through forums and on individual entity basis), and with Audit Committees via the Audit Committee Chairs Forum, which is jointly presented by Finance and the ANAO.
- 7.6 Finance also provides information to assist entities to develop their existing risk management frameworks, including with more detailed risk oversight arrangements<sup>18</sup>.

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<sup>18</sup> Department of Finance website : [Risk & Internal Controls](#)