



**Australian Government**  

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**Department of Finance**

Our Ref: IS24-000002

Mr Julian Hill MP  
Chair  
Joint Committee of Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2602

Dear Chair

**Joint Committee of Public Accounts and Audit Inquiry into Commonwealth  
Financial Statements 2022-23**

In response to your Inquiry Secretary's letter of 12 February 2024, please find attached a Department of Finance submission to the Joint Committee of Public Accounts and Audit *Inquiry into Commonwealth Financial Statements 2022-23*, addressing a number of areas relevant to the Inquiry's terms of reference.

Thank you for the opportunity to provide this submission. I trust that this information will assist the Committee's Inquiry.

Yours sincerely



Nathan Williamson  
Deputy Secretary  
Governance and Resource Management

28 March 2024



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



**Department of Finance**

**Submission to the Joint Committee of Public  
Accounts and Audit  
Inquiry into Commonwealth Financial Statements 2022-23**

**March 2024**

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# 1 Introduction

The Department of Finance (Finance) welcomes the opportunity to contribute to the Joint Committee of Public Accounts and Audit's (JCPAA's) Inquiry into the Auditor-General's Report No. 9 of 2023-24: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2023* (the Report).

Finance notes there were no significant or moderate audit issues identified in the audit of the 2022–23 Consolidated Financial Statements (CFS).

This submission provides information on Australian Government financial reporting and other matters, which addresses a number of areas relevant to the inquiry's terms of reference, including:

- Guidance and support;
- Timeliness and consideration of legal matters when preparing financial statements;
- Government financing through loans and equity;
- Key areas of financial statement risk; and
- Internal control and internal audit.

## 2 Australian Government financial reporting

### 2.1 PGPA Framework

The *Public Governance, Performance and Accountability Act 2013*<sup>1</sup> (PGPA Act) and *Public Governance, Performance and Accountability Rule 2014*<sup>2</sup> (PGPA Rule) establish a single, principles based system of governance and accountability, and a performance framework for the Commonwealth.

### 2.2 Financial Framework

The Commonwealth Resource Management Framework establishes a system of governance and accountability for public resources, with an emphasis on planning, performance and reporting. This framework is set out in the PGPA Act and associated rules.

All Australian Government financial statements, including those prepared for the Budget, are required to comply with Australian Accounting Standards<sup>3</sup> (AAS) and the Australian System of Government Finance Statistics (GFS)<sup>4</sup>. In addition to these external standards, the financial statements format is consistent with the Uniform Presentation Framework<sup>5</sup>, a national framework which is designed to provide the consistent presentation of government financial information across the Commonwealth, state and territory governments.

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<sup>1</sup> <https://www.legislation.gov.au/Series/C2013A00123>

<sup>2</sup> <https://www.legislation.gov.au/Details/F2014L00911>

<sup>3</sup> <http://www.aasb.gov.au/Pronouncements.aspx>

<sup>4</sup> <https://www.abs.gov.au/ausstats/abs@.nsf/mf/5514.0>

<sup>5</sup> <https://treasury.gov.au/publication/p2019-t365789>

The *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*<sup>6</sup> (FRR) applies to all Commonwealth entities (non-corporate Commonwealth entities and corporate Commonwealth entities) that are required to produce financial statements under section 42 of the PGPA Act. The FRR sets out the financial reporting requirements for the preparation of entity financial statements and provides for consistent reporting across the Commonwealth to allow comparison between entities' financial statements. Information reported by entities in accordance with the FRR also facilitates the preparation of the Australian Government's CFS.

Commonwealth companies are not subject to the FRR. These entities are subject to the financial reporting requirements set out in Chapter 2M of the *Corporations Act 2001*<sup>7</sup>, including compliance with the AAS (section 296 of the *Corporations Act 2001*).

## 2.3 Guidance and support

Finance supports entities' preparation of their financial statements by issuing guidance and providing advice on how entities can comply with the AAS and the FRR. This guidance includes:

- Resource Management Guides (RMG), such as RMG 125 *Commonwealth Entities Financial Statements Guide*<sup>8</sup>, which sets out key reporting requirements and provides linkages to the FRR and AAS, as well as other resource management framework requirements;
- the Financial Statements Better Practice Guide (BPG)<sup>9</sup>, which provides examples of better practice in financial statements preparation and processes;
- the Primary Reporting and Information Management Aid (PRIMA) forms<sup>10</sup>, which provides example financial statements and associated disclosures which comply with the FRR requirements; and
- a broad range of detailed guidance on specific technical topics<sup>11</sup>.

Finance regularly updates the guidance and support that is available, including to ensure it reflects entity experiences from the previous year's financial statements preparation and audit processes, observations made by the Auditor-General, as well as current year issues being managed.

Finance convenes numerous committees, forums, communities of practice and networks for entities, including for Chief Financial Officers (CFOs) of Commonwealth entities and their staff. These provide an opportunity for sharing information on current accounting, financial management (including cash and appropriations management) and financial reporting requirements, issues and emerging trends; facilitate discussion of common issues; and support the development of the accounting and finance profession in the Australian Public Service (APS). Regular technical training sessions are offered by Finance to further support entities to meet their financial reporting obligations and ensure requirements are met.

In 2023, Finance partnered with the APS Academy to deliver Accounting and Finance Month, convened the inaugural APS Accounting and Finance Conference, launched agency

<sup>6</sup> <https://www.legislation.gov.au/Series/F2015L00131>

<sup>7</sup> <https://www.legislation.gov.au/Details/C2019C00216>

<sup>8</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/commonwealth-entities-financial-statements-guide-rmg-125>

<sup>9</sup> <https://www.finance.gov.au/government/financial-reporting-and-accounting-policy>

<sup>10</sup> <https://www.finance.gov.au/government/financial-reporting-and-accounting-policy/financial-reporting-commonwealth-entities#primary-reporting-and-information-management-aid-prima-documents>

<sup>11</sup> <https://www.finance.gov.au/government/financial-reporting-accounting-policy/financial-statements-better-practice-guide>

outreach training on the appropriations framework, and supported the creation of two new communities of practice: financial statements and internal budgeting / management accounting. Where possible, close engagement occurs with the Australian National Audit Office (ANAO) to ensure observations and learnings from ANAO audits are incorporated into these fora and communications.

Relevant to observations made by the Auditor-General in the Report, Finance has ensured that targeted training is made available to entities to support the management of identified risks. For example:

- Appropriations, to support better understanding and application of the appropriations framework including RMG 100 *Guide to Appropriations*<sup>12</sup>, and RMG 116 *Accounting for annual appropriations*<sup>13</sup>.
- Related parties, to support the understanding of, and compliance with, disclosure requirements under accounting standard *AASB 124 Related Party Disclosures*<sup>14</sup>.
- Cloud computing and software as a service, to support the application of RMG 109 *Accounting for internally developed software and cloud computing arrangements*<sup>15</sup> and RMG 124 *Capital budgeting by Commonwealth entities in the general government sector*<sup>16</sup>. This guidance is consistent with decisions of the International Financial Reporting Standards Interpretations Committee<sup>17</sup>.
- Sustainability reporting, whereby Finance continues to monitor developments in sustainability reporting and actively engages with standard-setters. Regular updates are provided to entities to ensure they remain aware of these developments.
- Risk and internal controls<sup>18</sup>, including the importance of CFO awareness of legal matters, and oversight of information technology and cyber risk and controls, particularly as they relate to financial reporting and financial statements preparation.

## 2.4 Timeliness and consideration of legal matters when preparing financial statements

Finance supports Commonwealth entities in the quality and timely preparation of financial statements by providing guidance and advice, including in the form of RMGs and the Financial Statements BPG.

- Part 3.6 of the Financial Statements BPG includes guidance on gathering certifications from business areas within the entity about the effective and ethical use of resources and legal compliance, specifically targeting high risk issues that may have a material effect on the financial statements. An example business area certification template is provided to assist entities in part 9.4.4 of the BPG.
- Part 4.2.3 of the Financial Statements BPG recommends entities ‘identify the need for and where required, engage specialist expertise and knowledge...for example, legal opinions on legislation, legislative instruments or agreements’.

<sup>12</sup> <https://www.finance.gov.au/publications/resource-management-guides/guide-appropriations-rmg-100>

<sup>13</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/accounting-annual-appropriations-rmg-116>

<sup>14</sup> <https://aasb.gov.au/pronouncements/accounting-standards/>

<sup>15</sup> <https://www.finance.gov.au/publications/resource-management-guides/accounting-internally-developed-software-and-cloud-computing-arrangements-rmg-109>

<sup>16</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/capital-budgeting-commonwealth-entities-general-government-sector-rmg-124>

<sup>17</sup> <https://www.ifrs.org/news-and-events/updates/ifric/>

<sup>18</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/managing-risk-and-internal-accountability/duties/risk-internal-controls>

## 2.5 Government financing through loans and equity

Investments made for policy purposes are accounted for in the Australian Government's financial statements in accordance with AAS and GFS requirements, as required by the PGPA Act and the *Charter of Budget Honesty Act 1998*.

For expenditure to be fully classified as equity investments in the Australian Government's General Government Sector (GGS) financial statements, the investment must be expected to generate a rate of return above the projected long term inflation rate. The portion of contributions not expected to achieve a real rate of return are recognised as grant expenses.

In the Australian Government whole-of-government financial statements, investments in controlled entities are netted out and the investee entities' assets and liabilities are fully consolidated, consistent with accounting standards.

## 2.6 Key areas of financial statement risk

In the Report, the Auditor-General identified a number of areas of financial statement risk.

### 2.6.1 Legislative risk

Section 83 of the *Commonwealth of Australia Constitution Act* (the Constitution) provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law.

Commonwealth entities are required to monitor compliance with section 83 of the Constitution across all legislation for which they have legislative responsibility.

Managing section 83 risks is part of an accountable authority's obligations under section 16 of the PGPA Act in relation to establishing and maintaining systems in relation to risk and control. Part 6 of RMG 100 *Guide to Appropriations* contains guidance for Commonwealth entities on how they may determine the risk of a section 83 breach occurring and how they can seek to manage such risks.

Should a potential breach be identified, Part 8 of RMG 125 *Commonwealth Entities Financial Statements Guide*, Part 3 of RMG 116 *Accounting for Annual Appropriations* and the PRIMA forms contain guidance on how such potential breaches should be disclosed, including impacts on the entity's financial statements and actions taken to manage the section 83 risks.

### 2.6.2 Entity administration of remuneration arrangements

Finance administers the executive remuneration reporting requirements in Commonwealth entity and Commonwealth company annual reports, as set out in the PGPA Rule.

This requires Commonwealth entities to report:

- Key Management Personnel (KMP) remuneration detail at an individual level;
- Senior Executive remuneration detail at an aggregate level by remuneration bands; and
- Other highly paid staff (OHPS) remuneration detail at an aggregate level by remuneration bands.

Commonwealth companies report KMP remuneration details at an individual level. Commonwealth companies are not required to report Senior Executive or OHPS remuneration detail. Reporting is done on an accrual basis.

The PGPA Rule requires Commonwealth entities and companies to report remuneration policies and practices regarding:

- the governance arrangements under which the policies and practices operate; and
- the basis on which the remuneration has been determined.

Finance is not responsible for determining remuneration policies and practices. This is done through various mechanisms depending on the type of entity, employment arrangements (for example employing under the *Public Service Act 1999*) and Remuneration Tribunal Determinations.

### 2.6.3 Information technology

In the Report, the Auditor-General identified an increase in the number of significant findings, in particular in relation to weaknesses in Information Technology (IT) control environments, including in relation to cyber security.

While Finance is not responsible for IT and cyber security policy, it will continue to provide support to CFOs including to draw their attention to these matters. In the recent past, this has included convening specific seminars and panel discussions, including with representatives of the ANAO, regarding the importance of strong and effective IT controls and impacts on financial reporting.

## 3 Internal control

Accountable authorities of Commonwealth entities have a duty, under section 16 of the PGPA Act, to establish and maintain an appropriate system of internal control. At a minimum, this requires entities to establish policies and business processes for identifying, measuring, managing and reporting material risks. Complementing sound risk management practices is an effective system of internal control. Control systems should be commensurate with the risk involved. This includes ensuring that there are internal processes to deal with issues, such as, approving the use of public resources, recording the commitment of public resources, and ensuring compliance with finance law and other legislative requirements.

Relevant guidance includes:

- RMG 200 *Duties of Accountable Authorities*<sup>19</sup>, which supports the accountable authority (Secretaries, Chief Executives and governing board), to fulfil the important role of governing the entity and contributing to the priorities and objectives of government.
- RMG 202 *Audit committees*<sup>20</sup>, which provides guidance on the role of the audit committee including matters that the accountable authority could consider when determining the audit committee's functions, structure, and conduct.
- RMG 211 *Implementing the Commonwealth Risk Management Policy*<sup>21</sup>, which provides practical advice to assist Commonwealth officials implement the requirements of the 2023 Commonwealth Risk Management Policy<sup>22</sup>.

<sup>19</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/duties-accountable-authorities-rmg-200>

<sup>20</sup> <https://www.finance.gov.au/publications/resource-management-guides/audit-committees-rmg-202>

<sup>21</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/managing-risk-internal-accountability/risk-internal-controls/implementing-commonwealth-risk-management-policy-rmg-211>

<sup>22</sup> <https://www.finance.gov.au/about-us/news/2022/revised-commonwealth-risk-management-policy-2023>



### 3.1 Internal audit

Finance notes the Auditor-General's observation in paragraph 2.42 of the Report that there is an opportunity for the Australian Government to consider whether guidance relating to the implementation and delivery of internal audit would be beneficial to enhance the Australian Government's system of internal control.

Finance agrees that an effective internal audit process is integral to a Commonwealth entity's system of internal control. Finance has commenced consultation in relation to the development of enhanced guidance on internal audit.

## 4 Summary

Finance provides support to entities to meet their financial reporting obligations including through ongoing stewardship, guidance and advice. This support is often tailored to meet individual entity needs and is informed by learnings from JCPAA and ANAO activity in addition to feedback from the numerous forums and seminars Finance convenes, facilitates or is engaged with.