



**Australian Government**

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**Financial Reporting Council**

**Public Sector Financial Reporting  
in Australia**

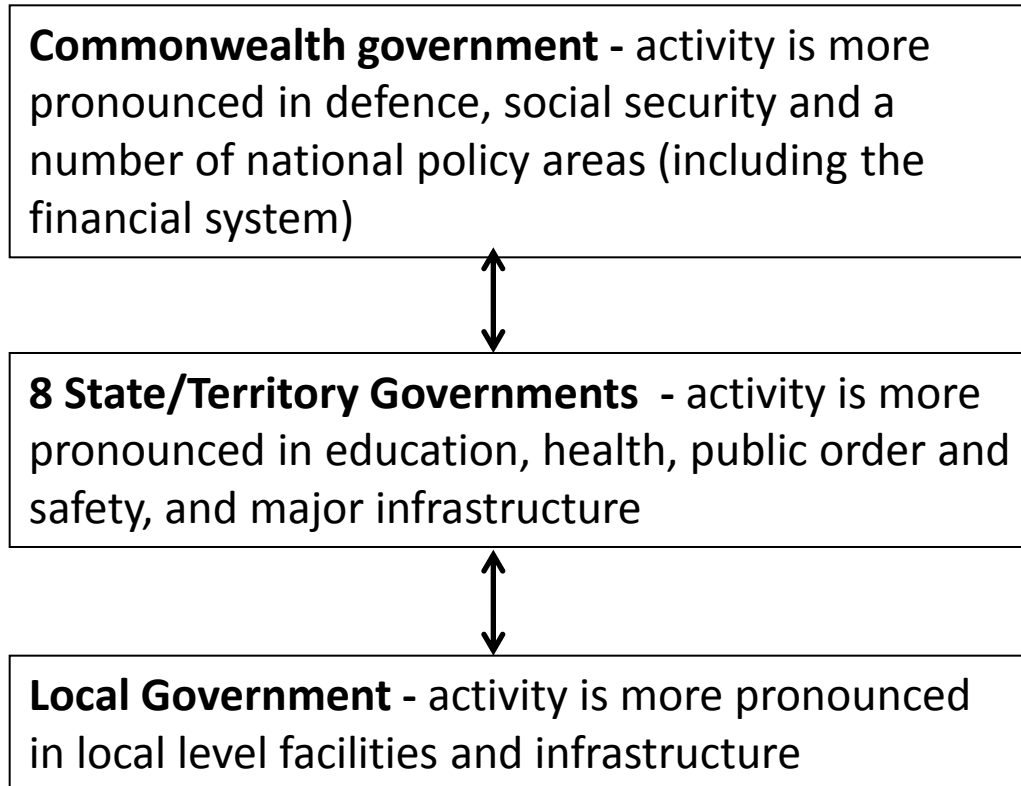
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- Background context – public management in Australia and implications for public sector financial reporting
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# Organisational structure of government

- Australia has a federal system of government with three tiers
- The Tiers are Commonwealth (national government); State/Territory (regional government); and Local (municipal government)
- The Australian Constitution defines the powers of the national government and its relationship with the States
- The powers of local governments are defined by state government legislation in each state

# Responsibilities of governments



Note: This diagram is a simplified representation of the relationship between the levels of government

# Some statistics

- The total revenue of the public sector in Australia is about \$A510 billion (2010-11 – about 36% of GDP)
- Equivalent total expenses are about \$A550 billion (about 37% of GDP)
- About 2/3 of the revenue is raised by the Commonwealth; about 1/2 the expenses are incurred by the states/local government
- This difference between revenue raising and expenses is accommodated through significant grant transfers between the Commonwealth and the States (2012 about \$A95 billion)
- The public sector in Australia invests about \$A40 billion net in assets each year. Most of this occurs at state/local level
- Core public sector financial activity constitutes 30-35% of GDP which is lower than the OECD average of 37-44% (2010 OECD data)
- Note that statistics for many countries – including Australia - are presently highly variable between years due to the impacts of the global financial crisis

# Public Management in Australia

- Government at the state and national level is derived from the Westminster system
- Key features are Ministerial accountability and the separation of powers between parliament, executive and judiciary
- The approach to public management in most national/state governments is decentralised and emphasises accountability by managers for performance in the form of efficiency and effectiveness in service delivery to citizens/taxpayers

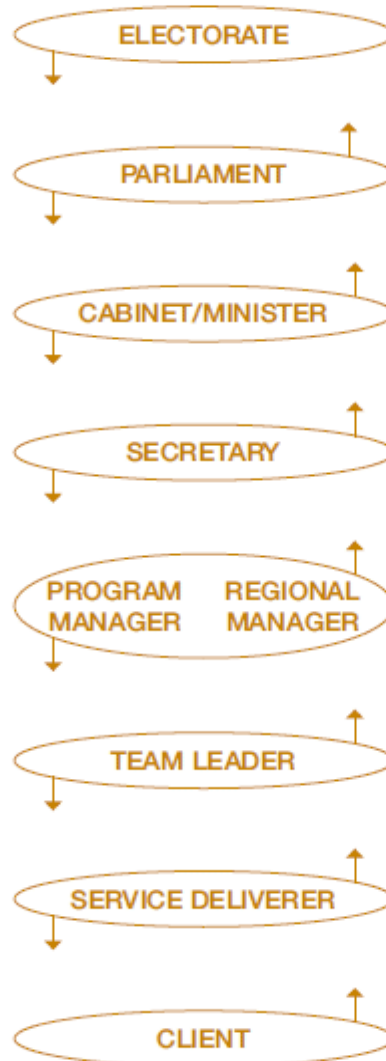
# Public Management Responsibility and Accountability, focusing on services to the public

## AUTHORITY AND RESPONSIBILITY

- elect members of parliament
- delegate authority and responsibility to govern
- delegate authority and responsibility to manage a department
- delegate authority and responsibility to manage programs or regional operations
- delegate authority and responsibility to administer programs to ensure compliance and due process
- delegate authority and responsibility to provide quality services
- provide quality service

## ACCOUNTABILITY MECHANISMS

- accountable for responsible government
- accountability mechanisms incl. elections
- accountable for management of portfolio
- accountability mechanisms incl. budget documents
- accountable for policy advice and management of department
- accountability mechanisms incl. annual reports
- accountable for overall program performance or regional operations
- accountability mechanisms incl. performance appraisal and corporate management
- accountable for quality service delivery
- accountability mechanisms incl. program management cycle
- accountable for duty of care
- accountability mechanisms including direct authority relationship



Source: Australian Public Service Commission. Relates to Commonwealth Government with similar arrangements applying at State government level

# The Government Budget Cycle

- while there is ex-post reporting and reviewing, there is often greater focus on ex-ante prioritising (via the budget process)





# Key Implications for financial reporting by Governments

- Due to the federal system, each level of government is considered to be independent of each other for accounting and reporting purposes (in some countries the different levels of government are consolidated)
- The focus on decentralisation of management to agencies means that financial reporting is also given importance at agency level to ensure accountability
- A focus on comprehensive financial reporting at all levels of government
- Statistical information about all levels and sectors of government is compiled by the Australian Bureau of Statistics for economic analysis (as in most other countries, although in Australia it is more closely aligned with the accounting and reporting process)

# Key attributes of public sector reporting

- Qualitative characteristics are not much different from the private sector but there is a particular focus on transparency and accountability (consistent with the accountability and responsibility model)
- Accountability to parliament (or ratepayers for local government) for financial outcomes
- Primacy of the budget
- There is a need to provide information for economic management, both nationally and internationally
- Standards for reporting are set independently of government – Australian Accounting Standards Board (accounting standards) and the Australian Bureau of Statistics (statistical standards)

# Key features of public sector reporting

- Accrual accounting
- Accrual accounting includes cash flow statements since both cash and accrual information is considered important for public sector financial management
- Comprehensive reporting based on international accounting and statistical standards
- Transaction neutral approach to reporting requirements promoting consistency and comparability across sectors

# Key features of public sector reporting (cont)

- Comprehensive reporting is required and the global financial crisis has underlined the importance of sovereign financial reporting to capital markets
- Comprehensive reporting is only one feature in a package supporting high quality public financial management
- E.g. Ex-ante reporting in Budgets contains projections for future years for national and state governments (3 years is typical)

# What types of financial reports are prepared for the public sector in Australia ?

- Budget reporting, which is mostly ex-ante and linked to parliamentary approval processes.
- National government long term fiscal sustainability reporting – “Intergenerational Report”
- Mid year and pre-election updates to budget projections
- Reporting of actual or ex-post outcomes – monthly/quarterly and annually.

# Who sets the reporting requirements for the public sector in Australia ?

- High-level reporting requirements are set in legislation
- At a detailed level state and national government treasuries/finance ministries set broad reporting requirements for government agencies
- State governments set reporting requirements for local governments within their state (at varying levels of detail)
- Reporting requirements have Australian Equivalents to International Financial Reporting Standards (AEIFRS) and Government Finance Statistics (GFS) at their core – depending on the context
- AEIFRS and GFS are set independently of government agencies that prepare the financial statements

# Standard setting for the public sector in Australia – ex-post

- The overall financial reporting environment for ex-post financial statements (including auditing) is overseen by the Financial Reporting Council
- Standards for ex-post financial statements are set by the same process and the same body as for the private sector (AASB) and referenced to GFS where appropriate
- Consistent with the transaction neutrality concept, the standards developed by the AASB are based on IFRS, with additional or modified standards only where necessary to give effect to significantly different public sector circumstances

# Standard setting for the public sector in Australia – budget

- There is not a comprehensive set of accounting standards applicable to budgets
- Most jurisdictions use a system similar to the ex-post reporting, to ensure comparability
- Heads of Treasuries (HoTs) co-operate in maintaining comparability of the reporting environment at state and national level, including a consistent Uniform Presentation Framework (UPF)



# More information

- Financial Reporting Council – [www.frc.gov.au](http://www.frc.gov.au)
- Australian Accounting Standards Board – [www.aasb.gov.au](http://www.aasb.gov.au)
- Australian Bureau of Statistics – [www.abs.gov.au](http://www.abs.gov.au)
- Department of Finance and Deregulation – national government financial reports page - <http://www.finance.gov.au/publications/index.html>