

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

DEPARTMENT OF THE SENATE PAPER No.

JOINT COMMITTEE OF PUBLIC ACCOUNTS 9 NOV

Clerk of the Senate

210TH REPORT

FINANCE MINUTE ON THE COMMITTEE'S 199TH REPORT -DISCUSSION PAPER ON THE FORM AND STANDARD OF FINANCIAL STATEMENTS FOR COMMONWEALTH UNDERTAKINGS

> Australian Government Publishing Service CANBERRA 1983

Finance Minute on the Committee's 199th Report— Financial Statements for Commonwealth Undertakings



210

Joint Committee of

THE SENATE

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# JOINT COMMITTEE OF PUBLIC ACCOUNTS

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\*Ex-officio member being Chairman, House of Representatives Standing Committee on Expenditure

#### DUTIES OF THE COMMITTEE

Section 8.(1) of the Public Accounts Committee Act 1951 reads as follows:

Subject to sub-section (2), the duties of the Committee are:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
- (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

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# PREFACE

Arrangements to ensure that appropriate action is taken in response to comments contained in the Committee's Reports have been in operation since 1952 although reviewed periodically. These were known as Treasury Minute arrangements.

Following the creation of the Department of Finance on 7 December 1976 it was agreed that the arrangements should continue as before and should now be known as the Department of Finance Minute.

As they now stand the procedures are:

- The Report of the Committee is tabled in both Houses of the Parliament and motions are moved in both places that the Report be printed as a Parliamentary Paper.
- The Chairman of the Committee thereafter forwards a copy of the Report to the responsible Minister and to the Minister for Finance with a request that he give the Report his consideration and inform the Chairman of the action taken to deal with the Committee's conclusions.
- 3. The reply which is in the form of a Department of Finance Minute, is then examined by the Committee and, together with the conclusions of the Report to which it relates, is submitted as soon as possible as a Report to the Parliament.
- 4. Should the Committee find during its examination of a Department of Finance Minute that certain recommendations are not fully dealt with or are subject to a further Minute, it holds an exploratory discussion with officers of the Department of Finance prior to the submission of the Minute to the Parliament.
- 5. In reporting a Minute to the Parliament, the Committee, except in special cases does not usually make any comment other than to note recommendations not fully dealt with or subject to a further Minute.

- 6. When the Committee next examines the department concerned the Department of Finance Minute is considered by the Committee if applicable.
- 7. The Department of Finance furnishes the Committee with a half-yearly report on outstanding Minutes, indicating the progress made in dealing with the Committee's comments.

In accordance with the procedures outlined above, this Report documents the Department of Finance Minute which was submitted in response to the Committee's 199th Report.

For and on behalf of the Committee.

Senator C. Georges Chairman

y Lucium

M.J. Talberg Secretary

Joint Parliamentary Committee of Public Accounts

Parliament House

Canberra

6 October 1983

#### CHAPTER 1

THE THE STREET

#### INTRODUCTION

- 1.1 The Committee's 199th Report, a discussion paper on the form and standard of financial statements for Commonwealth undertakings, was tabled in Parliament on 28 October 1982. A summary of this report appears in Chapter 2. The recommendations together with the Department of Finance Minute appear in Chapter 3.
- 1.2 The Committee is pleased to note continuing widespread discussion and critical analysis of the issues surrounding the development and content of accounting standards for the public sector.
- 1.3 In particular, the following four recent developments are of interest to the Committee:
  - (i) the issuing by the Minister for Finance on 16 May 1983 of guidelines for the form and standard of financial statements of Commonwealth undertakings; and the issue on 11 November 1982 of guidelines for annual reports of departments and authorities;
  - (ii) the announcement on 1 September 1983 by the Ministerial Council on Companies and Securities that an Accounting Standards Review Board will be established and operate from 1 January 1984;
  - (iii) the announcement during September 1983 by the Australian accounting profession that it has established a Public Sector Accounting Standards Board; and
  - (iv) the recommendation of the NSW Parliamentary Public Accounts Committee that a (NSW) Annual Reports Act be introduced to specify the reporting and accounting requirements for (NSW) statutory authorites, 1
- 1.4 While the Committee welcomes the issuing of guidelines as outlined in 1.3(i) above, it wishes to stress that such guidelines are only the initial step in the process of improving published financial information on Commonwealth undertakings.

<sup>1 &#</sup>x27;Report on the Accounting and Reporting Requirements for Statutory Authorities', 7th Report of the Public Accounts Committee of the 47th NSW Parliament, June 1983, NSW Government Printing Office.

- 1.5 The Committee commends the initiative of the Australian accounting profession in establishing the Public Sector Accounting Standards Board and expresses the hope that the Board's responsibility and powers of enforcement are in accordance with the theme of the 199th Report's recommendations. On the 22 September 1983 the Committee wrote to the Chairman and members of the Public Sector Accounting Standards Board drawing their attention to the 199th Report and its recommendations. The Committee will be monitoring the activities of the Public Sector Accounting Standards Board in so far as they relate to Commonwealth administration.
- 1.6 The Committee will be similarly monitoring the operation of the Accounting Standards Review Board.
- 1.7 Although it has some reservations, the Committee is generally satisfied with the response to its 199th Report given that it is a discussion paper. It is pleased to note that many of its recommendations have been incorporated in the guidelines mentioned in 1.3(1) above.
- 1.8 The Committee notes that in the responses to recommendations 1, 3, 7, 8, 11, 12, 13, 16, 17, 22 and 23 there is recognition of a need for further research, either into a specific matter or across an area of general concern. The Committee believes that often difficult tasks may be indefinitely postponed by a call for further research. In this instance the Committee is concerned that the calls for further research made in the Finance Minute herein not go unnoticed by both Commonwealth and State Governments and that appropriate resources be made available for the undertaking of such research.
- 1.9 The Committee requests that the Minister for Finance report to the Committee, on or before 31 October 1964, on the progress made in researching those matters noted in his Department's response to recommendations 1, 3, 7, 8, 11, 12, 13, 16, 17, 22 and 23. The Committee notes that such a report should describe relevant research completed or in progress by the Public Sector Accounting Standards Board, Accounting Standards Review Board, Australian Accounting Research Foundation and other organisations as well as the Department of Finance.
- 1.10 The Committee requests that it be kept fully informed of the activities and decisions of the Accounting Standards Review Board and the Public Sector Accounting Standards Board as they relate to the Commonwealth's administration. The Committee, pursuant to recommendation 20 of its 199th Report, wishes to be accorded observer status at all meetings of the Public Sector Accounting Standards Board. The Committee has written to the Chairman of the Public Sector Accounting Standards Board requesting that a Committee member (or his/her nominee) be permitted to attend all meetings of the Public Sector Accounting Standards Board as an observer, in order that Parliament be fully informed of the Board's operation.

- 1.11 The Committee requests that the Minister for Finance inform the Committee of any amendments proposed to be made to the guidelines referred to in 1.4(i) above.
- 1.12 The Committee commends the progress being made by the Department of Finance in preparing program statements as described in the Department's response to recommendation 17 of the Committee's 199th Report. The Committee acknowledges the usefulness of the supplementary 1983-84 Budget document entitled 'Program Presentation of Appropriations and Outlays Departmental Estimates' and supports further research being undertaken in this area.

#### CHAPTER 2

#### SUMMARY OF THE COMMITTEE'S 199TH REPORT

- 2.1 Since its establishment the Joint Parliamentary Committee of Public Accounts has promoted measures to improve the form and quality of financial disclosures by Commonwealth agencies. During 1982 the Committee recognised that the special features and problems associated with public sector accounting needed to be drawn to the attention of the Australian accounting profession and all those involved with the formation of accounting standards. Hence it issued its 199th Report a discussion paper contrasting the environments of public sector and private sector reporting.
- 2.2 In evaluating the private sector standard setting process the Committee was concerned only with its relevance to the public sector, it made no judgements on the adequacy of the process or standards for the private sector itself.
- 2.3 Three important documents stimulated the drafting of the Committee's 199th Report and formed the basis of a series of seminars held by the Committee in association with the Australian Society of Accountants in all Australian capital cities. These documents, prepared by a Joint Working Party (JWP) consisting of senior officers from the Department of Finance and the Auditor-General's Office were:
  - the abridged Report of the JWP on Financial Statements of Commonwealth Undertakings (June 1980);
  - the JWP Exposure Draft of Proposed Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings (June 1980);
  - . the JWP Progress Report (December 1981).
- 2.4 In March 1981 a Sectional Committee, consisting of Senator J.O.W. Watson (Chairman), Mr D.M. Connolly, MP, Mr J.M. Bradfield, MP, and Senator G. Georges, set about preparing the 199th Report aiming to
  - open discussion on important questions concerning the development of accounting standards for public sector bodies;
  - review relevant current literature from local and overseas sources;
  - present recommendations and conclusions reflecting the Committree's experience in evaluating situations of public accountability; and

- encourage further research into public sector financial reporting models and concepts,
- 2.5 The 199th Report sector financial reporting by public sector bodies. In addition to evaluating the Report of the JWP on Financial Statements of reporting for fiscal compliance, financial viability and cost of services. It also considered additional disclosure requirements
- 2.6 The major recommendations of the Report were that
  - A genuine research effort should be mounted employing resources from both within the accounting profession and outside of it, to systematically construct a relevant theoretical framework for financial reporting by public sector authorities;
  - any adoption of private sector accounting standards should be seen as a short term solution;
  - cash based accounting should be eliminated as the primary focus for financial reporting by authorities (except for extremely small agency situations) and accrual accounting should be adopted;
  - funds statements of Commonwealth authorities to adopt a total resources rather than working capital or cash basis of funds and to be published as part of the formal financial statements;
  - further evaluation of the nature of financial reporting by public sector bodies should be undertaken and Government financial support at Commonwealth and State levels should be sought by a suitably organised proposal from the accounting profession;
  - program statements should be prepared by all government undertakings except where such a statement would disclose necessarily confidential information;
  - the audited financial statements of all government organisations should be presented to Parliament within six months of the close of the financial year to which they relate;

an Accounting Standards Review Committee should be established to examine Government accounting and reporting standards, and to make recommendations for improvement. This Committee should consist of representatives from the Parliament, the Public Service and the accounting profession.

#### CHAPTER 3

#### DEPARTMENT OF FINANCE MINUTE ON 199TH REPORT

#### Overview

- 3.1 The Department of Finance has examined the Report and taken up the observations and recommendations of the Committee with the Auditor-General's Office, Attorney-General's Department, and the Department of Prime Minister and Cabinet. The Australian Society of Accountants' Task Force on Public Sector Accounting Standards was also consulted and the matter discussed with senior members of the Society and of the Institute of Chartered Accountants in Australia.
- 3.2 The Report covers a wide range of accounting and financial reporting issues dealing both with practical steps which may be implemented in the short term to improve the quality of financial statements and with the direction research in government accounting should take in the longer term. In the latter respect it is noted that the Report is presented as a discussion paper.
- 3.3 It is generally agreed that accounting techniques used in the public sector, and, indeed, in the accounting profession generally, ought to be formulated within a theoretical framework which permits financial reporting practices to develop with the overall aim of meeting user needs. Development of such a framework requires, of course, a considerable effort both on the part of academic researchers, government practitioners and the profession at large. The attention focussed on issues by the Report has provided a considerable stimulus to activity in this field.
- 3.4 The Committee had recognised that while this important objective is being pursued modified private sector standards may have to be adopted as a short term expedient. A major step in implementing the Committee's findings was taken on 16 May 1983 when the Minister for Finance issued Guidelines which are intended to be adopted by Commonwealth undertakings, which have their financial statements approved by the Minister for Finance. (see Annex A). Other aspects of the Report were addressed, in part, by the issue, on 11 November 1982, of Guidelines for Annual Reports of departments and authorities (Annex B).
- 3.5 The twenty three (23) recommendations of the 199th Report can be grouped into three basic categories:
  - (a) those that refer specifically to matters coming within the ambit of the Guidelines for financial statements (which reflect the current state of generally accepted accounting practice);

- (b) those that are directed at improvement in the provision of financial information generally, having regard for user needs; and,
- (c) those relating to matters peculiar to reporting within the public sector framework.
- 3.6 Bearing in mind that the Report is to be treated as a discussion paper this Minute addresses the Committee's recommendations in terms of these three broad categories. However, for ease of reference, within each category, the recommendations are dealt with in the sequence in which they occur in the Report.

Category A: Accounting Guidelines - Immediate Steps to Upgrade Financial Statements

# RECOMMENDATION 2

Any adoption of private sector accounting standards should be seen as a short term solution.

#### Response

- 3.7 The Joint Working Party, which drafted the Guidelines on the Form and Standard of Financial Statements concentrated on identifying a body of orthodox practices which would enable statements to be prepared to the highest conventional standards, and permit Audit and Finance to employ a common approach to financial reporting consistent with contemporary accounting practice. Achieving a consistent standard of reporting by the issue of financial reporting guidelines is seen as the initial step in improving published financial information.
- 3.8 Of course, the Guidelines are intended to be adaptive and to evolve in response to changes in perceived information needs and to available technology. In the absence of any other standards, initially reliance will need to be placed on private sector standards. The length of time for which they are operative will depend on the results of the research recommended elsewhere in the 199th Report.

#### RECOMMENDATION 3

The process of standard setting in the public sector should be cognisant of the following features of financial accountability

- (a) legal, contractual and fiduciary constraints;
- (b) budgeting and prediction for resources allocation and control in authorities and programs;

- (c) determination of full costs of services and programs and formulation of efficiency criteria for performance evaluation;
- (d) equitable calculation of the burden of financing resources for governmental operations; and
- (e) the relevance of concepts of capital to be maintained under full costs calculations and "user to pay" policies.

#### Response.

- 3.9 A principal aim of accounting standards is to narrow the choice of accounting treatment so as to make financial statements reasonably comparable one with another. Development of standards requires a conceptual framework along the lines of that discussed in Recommendation 1.
- 3.10 Members of the accounting profession are not in full agreement as to how accounting standards should be structured in order to meet the varying needs of users. Without entering this on-going and lengthy debate it is agreed that many facets of financial accountability need to be considered when applying generally accepted accounting principles to the often unusual circumstances of public sector organisations. To the maximum extent which is possible under existing accounting conventions the Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings have been framed with the recommended criteria in mind.

#### RECOMMENDATION 5

Financial Reports of Government authorities should reveal:

- (a) resources available to the authority;
- (b) obligations;
- (c) changes in resources and obligations;
- (d) resource flows;
- (e) liquidity;
- (f) budget forecasts of operations; and
- (g) committents and contractual arrangements.

# Response

- 3.11 These requirements are incorporated in the Guidelines with the exception of (f), budget forecasts of operations. Budget information does not come within the accepted definition of published "accounts" as verifiable historical statements. As such it is beyond the Minister for Finance's powers to prescribe disclosure in the annual financial statements of authorities. Formal audit of budget information would seem inappropriate.
- 3.12 Nevertheless such information could be provided as supplementary statements in annual reports. Budget Paper 5 ("Estimates of Receipts and Summary of Estimated Expenditure") already discloses this information in respect of certain budget dependent bodies which are required by their enabling legislation to have estimates approved by the responsible Minister. However, authorities trading in competition with the private sector would be placed in an untenable position if required to disclose commercially sensitive budgetary information.
- 3.13 With respect to obligations the Guidelines provide for the recognition of liabilities in accordance with conventional accounting practice. In the case of commitments for purchase of goods and services, liabilities include only amounts arising from executed contracts (ie where there is a debt owing to the supplier). Paralleling commercial practice the Guidelines require separate disclosure of particulars of capital expenditure contracted for, lease/hire expenditure contracted for, and other contingent liabilities.

#### RECOMMENDATION 6

Cash based accounting should be eliminated as the primary focus for financial reporting by authorities except for extremely small agency situations and accrual accounting adopted.

# Response

3.14 The Guidelines incorporate this recommendation fully. In a handful of cases there is a need, of course, for appropriate transition arrangements, to permit a phased expansion of systems to accrual accounting.

#### RECOMMENDATION 7

For non-business undertakings, to avoid unfairness to management, but to also show full costs relating to the organisation, a modified form of the activity statement proposed by the Joint Working Party should be developed, distinguishing between those items which are controllable by management and those which are not. Complementary full accrual financial statements for the responsible Department would also show those costs relating to the undertaking for which the Department assumes responsibility.

#### Response

- 3.15 Development of an "ideal" form of activity statement would need to take place over a period of time. Initially a flexible approach needs to be adopted when approving the form of statements. Guidelines for the preparation of such statements are, at this stage, couched in general terms only.
- 3.16 The question of complementary accrual based statements for Departments is outside the scope of the Guidelines which deal principally with bodies operating outside the departmental structure. See also response to Recommendation 17 (page 17).

#### RECOMMENDATION 9

Funds Statements of Commonwealth authorities are to adopt a total resources rather than working capital or cash basis of funds and are to be published as part of the formal financial statements. The proposed Statement of Accounting Standards - Statement of Sources and Applications of Funds should be adopted by all government business institutions.

#### Response

3.17 This Recommendation reflects the position taken in Australian Accounting Standard - AAS 12 which is included in the Guidelines.

# RECOMMENDATION 10

The Statements of Activity suggested by the Joint Working Party for agencies with less than full autonomy and management accountability in the commercial sense should be evaluated for early implementation in place of cash based financial reporting.

## Response

3.18 The Guidelines require such bodies to prepare an activity statement (see para 17 of the Guidelines, Annex A).

#### RECOMMENDATION 23

The use of donated and other "free" assets by public bodies should be brought to account in the financial statements at a realistic valuation. An inventory of items of national importance owned by Departments or authorities should also be included in annual reports.

## Response

3.19 The Guidelines provide that where signficant resources are loaned, or deemed to be provided free of charge "the level of that support shall be disclosed in the accounts of the recipient and/or donor, either by way of note or in the form of supplementary statement, setting out actual amounts (or where that is not possible, estimated amounts) of expenditure undertaken for the direct benefit of the entity and the written down value of assets provided in support". Where "non exhaustible" assets (such as works of art, museum artefacts etc) are concerned, extant overseas standards do not provide for their capitalisation. Where such resources are gifted to an undertaking guidance should be sought from the Department of Finance. Further research in this area is warranted.

Category B: Improving Financial Statements in the Longer Term.

#### RECOMMENDATION 1

A genuine research effort should be mounted employing resources from both within the accounting profession and outside it, to construct systematically a relevant theoretical framework for financial reporting by public sector authorities. Such an approach should involve:

- (a) determining user needs;
- (b) an examination of the concept of certainty in relation to the needs of budgetary disclosure and commitment accounting in the public sector;

(c) discussion between private and public sector accountants on the strengths and weaknesses of conventional financial reporting to identify the likely economic consequences and effects on consumers of the adoption of various financial accountability measurement systems.

#### Response

- 3.20 The lack of a theoretical framework for financial reporting practices of the public sector gives rise to many of the technical problems identified in the Report. In many respects the public sector has tended to be a neglected area of accounting research in Australia. A major effort is presently being mounted in the USA to identify a conceptual basis for government and non-profit bodies. This basic research could well provide the impetus and a spring board for the agreement in Australia of a set of fundamental propositions concerning public sector accounting which will permit development of accounting practices and standards tailored to the Australian institutional context.
- 3.21 The Department of Finance fully agrees with the thrust of the Recommendation and feels that the establishment of an accounting standards body dealing with the public sector would provide the lead on these matters.

#### RECOMMENDATION 11

The Joint Working Party should join with accounting and other interested groups to further evaluate the nature of financial reporting of public sector bodies. Government financial support at Commonwealth and State levels should be sought by a suitably organised proposal from the accounting profession.

#### Response

- 3.22 The Joint Working Party completed its task in finalising the Guidelines later issued by the Minister for Finance and no longer exists. However the Department of Finance is prepared to cooperate with other groups in this endeayour.
- 3.23 An Accounting Standards Review Committee, along the lines foreshadowed in Recommendation 20 would seem the appropriate vehicle for pursuing this matter. The question of funding would be an issue for the Board or the accounting bodies to take up with the Government.

# RECOMMENDATION 21

Pederal and State Governments should provide financial support for necessary research to develop a comprehensive set of accounting standards for the public sector.

# Response

3.24 The funding of such research would need to take into consideration arrangements concerning a Public Sector Accounting Standards Board and/or Accounting Standards Review Committee. The scope of activities of such bodies (eg. whether they extend to local government and quasi government activities) and the degree of state participation achieved would be likely to have a direct bearing upon financial support forthcoming.

Category C: Improving Public Sector Reporting Generally

#### RECOMMENDATION 4

Reports on efficiency and effectiveness should be published and where criteria are available, be audited.

# Response

3.25 Issues associated with the evaluation of program effectiveness/efficiency are of interest to a number of Parliamentary Committees. It is probably best that the question of publication be addressed in the context of broader developments in relation to this subject. In that context it should be noted that, at the request of the House of Representatives Standing Committee on Expenditure, a review of the efficiency audit function by officials was commenced in mid-1982. At the time of preparation of this Minute the review was near to completion.

#### RECOMMENDATION 8

The validity of the concept of depreciation to government owned infrastructures should be carefully considered in relation to both government policies for cost determination and aversion and the economic and physical nature of resources.

#### Response

3.26 This recommendation derives from comments made in paragraphs 4.49 to 4.55 and needs to be considered in the context of that discussion. It is agreed that questions of capital maintenance and intergenerational equity should be addressed when setting prices for public goods. However, a clear distinction must be drawn between ex ante aspects of price fixing and the expost character of accounting measurements. The latter with matters of fact. Regardless of decisions made concerning the recoupment of capital expenditure, the actual property concerned losses (or gains) in terms of financially measurable utility (or "service potential"). This change in utility constitutes a cost actually incurred and provides a couchstone for assessing the appropriateness of pricing policies. In this respect the relationship between pricing and financial reporting practices requires clarification and further research.

#### RECOMMENDATION 12

Measurement of the investment base on which a fair rate of return is expected should be a major objective of research in public sector accounting under the "user to pay" philosophy.

#### Response

3.27 The fixing of prices for goods and services supplied by the public sector so that costs are equitably recovered from consumers entails both value judgement as to the allocation of costs to specific products and objective measurement of those costs in aggregate. The latter accounting process needs to be clearly distinguished from the process of price fixing. Research into both processes is desirable. Agreement as to whether, and in what cases a rate of return should be included in pricing formulae would seem a necessarey complement to development of criteria for the measurement of the investment base.

#### RECOMMENDATION 14

Budgeted and actual performance should be shown where possible in published financial reports of governmental authorities.

House of Representatives Standing Committee on Expenditure -"Review of the Auditor-General's Efficiency Audit Report -Department of Administrative Services Australian Property Functions", June 1981.

# Response

- 3.28 Information of this nature is already provided, to a limited extent, in respect of certain Budget-dependent authorities. Budget Paper 5, "Estimates of Receipts and Summary of Estimated Expenditure," provides prospective and past year figures in respect of cash transactions. This information could well be included in the annual reports of such authorities. However, as the Committee recognises (paragraph 6.28), an exception would still need to be made for authorities in competition with the private sector where disclosure of operating budgets could hazard an authority's competitive position.
- 3.29 It would seem inappropriate to include budget estimates in the forms of financial statements of authorities approved by the Minister for Finance. Relevant statutory provisions clearly regard the annual financial statements as measurements of actual performance and require the Auditor-General to audit them on that basis.

# RECOMMENDATION 15

Where problems exist in determining evaluation criteria the matter should be addressed in the organisation's Annual Report.

# Response

3.30 Any matter pertinent to interpretation of an entity's financial report should be included as part of the financial statements, either by way of note or otherwise.

# RECOMMENDATION 16

Annual Reports should provide non financial information about key performance indicators and adequate explanations of what these predict for the future operations of the authority.

#### Response

3.31 This need is recognised, in essence, in Guidelines for the preparation and presentation of Annual Reports by authorities and departments issued on 11 November 1982 (see Annex B). These include a requirement that the following information be disclosed:

- a description of the principal programs and activities of the body noting objectives and reviewing achievements:
- information on interaction with other authorities, departments and State and international bodies; and.
- a description of the major problems which have arisen in the body's activities including details of requisite Government action to overcome such problems.
- 3.32 The nature of performance indicators (both financial and non-financial) appropriate to particular public sector activities is an important matter for research.

#### RECOMMENDATION 17

Program statements should be prepared by all Government undertakings except where such a statement would disclose necessarily confidential information.

#### Response

- 3.33 This issue has also been raised by the House of Representatives Standing Committee on Expenditure in its Report Parliament and Public Expenditure". Responding to that Report on 3 March 1980 the Minister for Finance indicated that the Government had commenced work on the development of program statements. A gradual approach to implementation was advocated. The need to maintain consistency and comparability of presentation between such statements was stressed with the suggestion that program information might appropriately be published in departmental annual reports and tabled where possible in time for the debate on the Budget estimates.
- 3.34 Progress in this area has resulted in the preparation, for the 1983-64 Budget, of a supplementary "post budget document entitled "Program Presentation of Appropriations and Outlays Departmental Estimates". Further work in this field will be undertaken in the context of the Government's review of budgetary processes.

#### RECOMMENDATION 19

The audited financial statements of all government organisations should be presented to Parliament within six months of the close of the financial year to which they relate.

#### Response

3.35 This is presently covered by Government guidelines in relation to annual reports, issued on 11 November 1982 (Annex B). Discussions should be held between relevant Commonwealth and State Government ministers and officials on the desirability of introducing a uniform set of accounting standards for public sector authorities at all levels of government throughout Australia. An appropriate mechanism for this issue to be considered would be for a working party to be established by the Premier's Conference.

# Response

3.36 It would seem appropriate to consider strategies for the introduction of uniform accounting standards in the light of the public's response to the Committee's Report and the results of the various State and professional inquiries which are currently underway in related areas.



# Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings

Department of Finance
MAY 1983

GUIDELINES FOR THE FORM AND STANDARD OF FINANCIAL STATEMENTS OF COMMONWEALTH UNDERTAKINGS

(Operative in respect of accounting periods ending after 1 July 1983)

TSSUED: May 1983

DEPARTMENT OF FINANCE CANBERRA ACT 2600

Enquiries: (062) 63 3747

- These Guidelines set out broad norms for published financial statements of Commonwealth statutory authorities and associated subsidiary bodies, and certain departmental undertakings subject to a determination made under S41D of the Audit Act 1901. They deal with the underlying precepts, basic objectives and quality standards considered necessary to meet the information needs of Parliament and other users. Rather than enforce uniform accounting, they are intended to provide common objectives for financial statements and to identify a body of sound accounting practices which may be drawn upon for the development of the financial statements of particular bodies.
- In designing financial statements and accounting systems which service them. it is essential that the accountant have a clear idea of the particular ends to be achieved by those statements and the priorities to be served. Specific objectives for the design of financial statements (and hence of accounting systems) are founded on broad precepts regarding the value and role of financial reports. The information contained in reports is subject to standards designed to facilitate the achievement of those objectives. These Guidelines proceed by first establishing those precepts and objectives, then set out a General Disclosure Requirement applicable to all undertakings. Finally, undertakings are divided into broad categories which may be associated with specific accounting standards and pronouncements to serve as a practical basis for the design of financial statements and the choice of accounting techniques.

#### UNDERLYING PRECEPTS

- The following precepts are considered to underpin specific objectives for financial statements.
  - (a) The primary function of an accounting system is to accumulate and communicate financial information. This encompasses the recording and classification of financial transactions in a manner which will convey information as to the financial position and operations of the entity.
  - (b) Accounting systems provide information to managers for operational decision making and to other persons for purposes of appraisal and accountability. In the case of public sector bodies, the latter category includes Ministers individually and collectively, and the Parliament, whose needs for financial information should be considered paramount.
  - o) The value of financial information is directly related to the timeliness of its publication. In this connection the requirements of the recently issued Guidelines for Annual Reports should be noted. These

<sup>\*</sup>Senate Hansard 11 November 1982 pp2258-2261.

require authorities to submit annual reports (including, where required, financial statements) as soon as possible and not later than 6 months after the end of their financial year (unless a shorter period is otherwise provided in legislation). Similar provisions already apply to Departments.

# BASIC OBJECTIVES FOR FINANCIAL STATEMENTS

- 4. Deriving from the principles listed above are specific objectives for financial statements. In providing essential financial information that is useful or relevant to the needs of users in general, statements should permit the reader to establish as a matter of fact the:
  - (a) revenues, earnings and costs of operations of an undertaking over the reporting period and preceding period;
  - (b) net resources currently devoted to its activities;
  - (c) solvency of the undertaking; and
  - (d) change in the level of net resources since the previous reporting date and the manner in which that change came about.

These objectives are elaborated below.

- 5. "Costs of operations" should be determined in a manner which reflects the accountability of the entity through the Minister to the Parliament and, while maintaining that accountability in a manner which would enable interested members of the public to draw meaningful conclusions about the entity. The net effect of operations on the financial position of the undertaking should be reported on a basis similar to that used for corporations in the private sector.
- 6. In reporting the "level of resources used" by an undertaking the concern is to obtain a measurement of current investment. This involves disclosing the extent of property owned by the undertaking (assets) and all amounts owing by it to others (liabilities). It further requires disclosure of the amount of resources in the possession of, and used by the entity, but which are not legally owned by it.
- Reporting the "extent and nature of changes in the level of resources" implies the disclosure of all significant sources of finance and the use to which those funds were put.

#### ACCOUNTING STANDARDS GENERALLY

8. Standards relate both to the quality and serviceability of statements generally and to inputs and processes used to compile them. Qualities expected of all financial statements (whatever the objective they serve), are identified below and have been used as the basis for a General Disolosure Requirement (see Attachment 1). More specific standards, of limited application, dealing with particular processes and accounting inputs, have been identified for broad categories of undertakings (see Attachment 2).

#### QUALITY REQUIREMENTS FOR ALL FINANCIAL STATEMENTS

- 9. The fundamental quality requirement for all financial statements is that they provide a "true and fair" view of the situation or events they purport to describe. This requires that they be both factual and relevant.
- 10. "Factuality" implies that financial statements are historical records which disclose the financial position of an entity at a point in time and the manner in which this has changed since previously reported upon. As such, they should not be biased towards the interests of particular user groups.
- Statements should neither be cluttered with detail (of use to a few readers), nor so brief as to leave the individual reader uninformed of matters considered relevant to interested parties in general.
- "Relevance" implies that statements conform to criteria set out in Australian Accounting Standard AAS 6, viz, that they are:
  - (a) Material being concerned with information which is sufficiently significant to affect economic evaluations or decisions (criteria are defined in AAS5);
  - (b) Consistent so that accounting policies followed are consistent from one period to another;
  - (c) Prudent recognising the uncertainties surrounding measurements involved in the accounting process; and
  - (d) Concerned with Substance Over Form representing financial reality.

#### GENERAL DISCLOSURE REQUIREMENT

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13. Financial statements which are intended for inclusion in annual reports of Commonwealth undertakings or which are determined under section 41D of the Audit Act 1901 should conform to the General Disclosure Requirement set out in Attachment 1 of these guidelines.

- 14. Amounts shown in financial statements may be rounded in accordance with the provisions of Regulations made under the Companies Act 1981. At the time of preparation of these Guidelines those Regulations state that where the total assets of an undertaking exceed ten million dollars amounts may be rounded off to the nearest 1000 dollars; provided that where an amount as a result of the round off is reduced to zero, that amount shall be shown to the nearest dollar by way of a note.
- Except where it may be demonstrated to the Minister for Finance that financial statements prepared on a cash basis are not materially different in terms of information conveyed to readers, statements for all undertakings shall be prepared on an accumal basis.
- 16. In the case of companies, and undertakings required by enabling legislation or determination to keep accounts in accordance with commercial practice, statements shall include:
  - (a) A Balance Sheet;
  - (b) A Profit and Loss Statement;
  - (c) A Statement of Sources and Applications of Funds
  - (d) Notes to the Accounts:
  - (e) Certificates as outlined in paragraphs 27 or 28 hereunder.
- 17. The statements of other bodies shall include:
  - (a) A Statement of Activity\*;
  - (b) A Statement of Assets and Liabilities;
  - c) A Statement of Capital Accumulation (as appropriate):
  - (d) A Statement of Sources and Applications of Funds:
  - (e) Notes to the Accounts:
  - (f) Supplementary statements as necessary to disclose material auxiliary activities; and
  - (g) Certificates as outlined in paragraph 28 hereunder.

- 18. Before financial statements are prepared reasonable steps shall be taken to:
  - (a) cause all known bad debts to be written off and adequate provision made for doubtful debts;
  - (b) ascertain whether any current assets (other than debtors) are unlikely to realise in the ordinary course of operations their value as shown in the accounting records and, if so, to cause:-
    - those assets to be written down to an amount which they might be expected to realise; or
    - (ii) adequate provision to be made for the difference between the amount of the value as so shown and the amount that they might be expected so to realise; and
  - (c) ascertain whether any non-current asset is shown in the books of the undertaking at an amount which, having regard to its value to the undertaking as a going concern, exceeds the replacement cost in current condition at the end of the financial year and (when adequate provision for writing down that asset is not made) to cause to be included in the accounts such information and explanations as will prevent the financial statements from being misleading by reason of the overstatement of the amount of that asset.
- 19. Where investments are quoted on any stock exchange, in Australia or elsewhere, a separate total shall be shown for each class of quoted investments. There shall also be shown in respect of each such class the aggregate quoted market values, calculated on the officially quoted market "buyer" price net of the prevailing transfer costs or commissions as at the end of the financial year.
- The basis of valuation of each class of non-monetary asset shall be disclosed. Separate class totals shall be shown for each valuation method.

# VALUATION AND PRESENTATION OF LIABILITIES

 The amounts of liabilities shown in the financial statements shall be the nominal amount of all liabilities inclusive of interest accrued but unpaid as at the end of the financial year.

<sup>\*</sup>As set out in pp 56-58, Report of the Joint Working Party on Financial Statements of Commonwealth Undertakings (Abridged Edition) June 1980.

22. In respect of each liability or contingent liability shown in the financial statements being a liability the payment of which is secured by a charge on assets of the undertaking whether registered or unregistered, there shall be shown a statement that it is secured and the extent to which it is secured, and each such liability or contingent liability shall be distinguished from any other liabilities or contingent liabilities the payment of which is not so secured.

#### RESERVES AND PROVISIONS

- 23. The term "Reserve" shall not be used to describe any amount written off or retained by way of providing for depreciation, renewal or diminution in value of assets or retained by way of providing for any known liability, or any amount set aside to counter the effect of undue fluctuations in charges for taxation.
- 24. Where "provisions" are made for the amortisation, depreciation or diminution in value of an asset there shall be shown separately, by way of note or otherwise, the gross amount of the asset, the accumulated amount of the provision and the written down (net) amount of the asset.

#### RESOURCES PROVIDED FREE OF CHARGE

- 25. Where significant resources are loaned free of charge the level of that support shall be disclosed in the accounts of the recipient and/or donor, either by way of note or in the form of a supplementary statement, setting out actual amounts (or where that is not possible estimated amounts) of expenditure undertaken for the direct benefit of the entity and the written down value of assets provided in support. Where resources are gifted to an undertaking ownership should be reflected in the financial statements as an assessed realisable value (in the case of works of art and other non-exhaustible assets guidance should be sought from the Department of Finance).
- 26. Except where other oriteria may need to apply in order to provide a "true and fair" view, the requirements of paragraph 25 shall apply where:
  - (a) the (estimated) current value of assets provided free of charge equals or exceeds 5% of the written down value of assets actually owned by the reporting entity; or,
  - (b) the (estimated) amount of expenditure undertaken in direct support of an entity equals or exceeds 5% of the total expenses incurred by the entity in its own right.

Assets will be deemed to be provided "free of charge" when subject to "peppercorn rentals" or other charges not reflecting the substantial economic value of support received.

#### CERTIFICATE TO BE INCLUDED IN STATEMENTS

- 27. The financial statements of companies shall include a certificate, signed by directors, in accordance with Section 259 of the Companies Act 1981.
- 28. The financial statements of undertakings, other than companies, shall incorporate a certificate stating whether, in the opinion of the person(s) signing, those statements show fairly the operations and state of affairs of that undertaking. The certificate shall be signed:
  - (a) in the case of a departmental undertaking, by the senior officer responsible for the operations of the entity and by the Permanent Head or his deputy:
  - (b) in the case of a statutory authority, by one or more members of the authority.

#### SPECIFIC ACCOUNTING STANDARDS TO BE OBSERVED

- 29. Undertakings required by enabling legislation or determination to keep accounts in accordance with commercial practice (see Attachment 2-1) shall observe those accounting standards, issued jointly by the Australian Society of Accountants and the Institute of Chartered Accountants in Australia, which are listed in Attachment 3-1. In addition International Accounting Standards listed in Attachment 3-2 may be considered non-mandatory guides to acceptable accounting practice.
- 30. Notwithstanding any requirement to the contrary in these Guidelines, undertakings incorporated as companies are required to meet fully the requirements of the Companies Act 1981 and associated regulations. Similarly, these guidelines do not derogate from the responsibility of undertakings to produce subsidiary statements in a form required by statute.
- 31. Other undertakings (see Attachment 2-2) shall observe those accounting standards listed in Attachment 3-3. In addition, pronouncements listed in Attachment 3-4 may, where applicable, be considered to provide non-mandatory guidance as to acceptable accounting practice.
- 32. Non-mandatory "Guides to Acceptable Accounting Practice" provide a source of information on particular aspects of accounting techniques not presently covered by Australian pronouncements. In certain instances differences between institutional arrangements prevailing overseas and in Australia will affect any decision to employ the approach adopted by a "Guide" to a particular topic. Nevertheless, the "Guides" should otherwise be regarded as persuasive evidence of what constitutes acceptable accounting practice.

#### ATTACHMENT 1

#### GENERAL DISCLOSURE REQUIREMENTS

The following items should be separately disclosed in the financial statements of undertakings (including companies) where applicable.

#### REVENUES

- Appropriations, grants and subsidies received from the Commonwealth.
- . Sales turnover.
- . Dividends received, or due and receivable.
- Interest received or due and receivable on debentures, deposits, loans or advances.
- . Gains from sale of assets (other than trading stock).
- Income from other sources.

#### EXPENSES

- Operating expenses appropriately classified by function (eg building maintenance) or by input (eg salaries, stationery etc).
- Interest paid or due and payable on debentures, deposits, loans or advances.
- . Loss from sale of assets (other than trading stock).
- Depreciation and like charges.
- Any amounts set aside for renewal or replacement of fixed assets.
- Bad debts written off in respect of each class of debtors shown separately (where not previously provided).
- . Any amounts set aside to a Provision for Doubtful Debts.
- Amount set aside for income tax attributable to the current financial year.
- Amount set aside to any provision for income tax attributable to a period other than the current financial year.
- Any other provision.

- Amounts received or due and receivable by external auditors for auditing services.
- Emoluments or other benefits received or due and receivable directly or indirectly by full-time directors or members (however described) of a statutory body.
- Emoluments or other benefits received or due and receivable directly or indirectly by other directors or members (however described) of a statutory body.

#### TRANSFERS AND ADJUSTMENTS

- . Each transfer or proposd transfer to or from a reserve.
- Opening and closing balances of each reserve and equity account.

#### ASSETS

- . Cash at bank and in hand.
- Trade debtors and bills receivable (less provision for doubtful debts).
- Loans to employees, directors and members (however described) of statutory bodies.
- Other debtors.
- Government, municipal and other public debentures, stocks and bonds quoted on prescribed stock exchanges in Australia or elsewhere.
- Other Government, municipal and other public debentures, stocks and bonds.
- Shares in public companies quoted on prescribed stock exchanges.
- . Shares in other companies.
- Share options in public companies quoted on prescribed stock exchanges.
- . Share options in other companies.
- Debenture stock, bonds, notes and other securities quoted on prescribed stock exchanges.
- . Other debenture stock, bonds, notes and securities.

- . Stock on hand.
- . Other inventories appropriately categorised.
- . Land.
- Buildings including those erected on leasehold (showing gross value, accumulated depreciation and written down value).
- Plant (showing gross value, accumulated depreciation and written down value).
- Furniture and Fittings (showing gross value, accumulated depreciation and written down value).
- Motor Vehicles (showing gross value, accumulated depreciation and written down value).
- . Other fixed assets appropriately categorised.
- Patents and trademarks.

#### LIABILITIES

- Advances from the Commonwealth, indicating relevant details concerning interest and repayment requirements.
- Bank loans.
- Bank overdraft.
- . Debenture stock etc constituting a charge over assets.
- Unsecured debentures.
- . Trade creditors and bills payable.
- . Provision for current tax liability.
- . Provision for future income tax liability.
- Provision for doubtful debts.
- Relevant details of guarantees or other security provided in respect of other bodies in which the undertaking has a controlling interest.
- . Other liabilities.

#### OTHER ITEMS BY WAY OF NOTE

The aggregate amount, or estimated aggregate amount, and particulars of capital expenditure contracted for, so far as the amount has not otherwise been provided for.

- The aggregate amount, or estimated aggregate amount, and particulars of lease and hire expenditure contracted for, so far as the amount has not been provided for, and the amount of that expenditure which is payable within 12 months after the end of the financial year.
- The maximum amount, or an estimate of the maximum amount, for which the entity could become liable in respect of other contingent liabilities with appropriate particulars of these liabilities.
- There shall be shown in group accounts the net amount of consolidated profit or loss of the group for the financial year after provision for income tax, showing separately the extent to which each corporation in the group contributed to that consolidated profit or loss.
- The (estimated) amount of assets provided to the undertaking by other Commonwealth bodies free of charge as set out in paragraph 26.
- The (estimated) amount of expenditure by other Commonwealth bodies in direct support of the undertaking as set out in paragraph 26.

#### COMPARATIVE FIGURES

Except in the case of initial financial statements there shall be shown for each item appearing in the statements (including notes) the corresponding amount for the preceding period or balance date. If financial statements do not contain an item corresponding to an item in the statement for the preceding period or balance date the previous item and the amount thereof shall be shown.

#### ATTACHMENT 2-1

UNDERTAKINGS REQUIRED TO KEEP ACCOUNTS IN ACCORDANCE WITH COMMERCIAL PRACTICE

Aboriginal Development Commission

Army and Airforce Canteen Service

Australian Apple and Pear Corporation

Australian Bicentennial Authority

Australian Canned Fruits Corporation

Australian Capital Territory Electricity Authority

Australian Dairy Corporation

Australian Dried Fruits Corporation

Australian Honey Board

Australian Industry Development Corporation

Australian Institute of Sport

Australian Meat and Livestock Corporation

Australian National Airlines Commission

Australian National Railways Commission

Australian Overseas Projects Corporation

Australian Postal Commission

Australian Shipping Commission

Australian Telecommunications Commission

Australian Tobacco Board

Australian Wheat Board

Australian Wine & Brandy Corporation

Australian Wool Corporation

Building and Construction Industry Long Service Leave Board

Canberra Commercial Development Authority

Commonwealth Serum Laboratories Commission

Defence Service Homes Corporation

Department of Defence Support:-

Aircraft Engineering, Workshop, Pooraka

Ammunition Factory, Footscray

Australian Government Clothing Factory, Coburg

Explosives Factory, Albion

Explosives Factory, Maribyrnong

Explosives Factory, Mulwala

Government Aircraft Factories, Fishermens Bend and Avalon

Munitions Filling Factory

St Marys Ordnance Factory, Bendigo

Ordnance Factory, Maribyrnong

Small Arms Factory, Lithgow

Department of Territories and Local Government:-

ACT Forestry Operations

ACT Housing Operations

ACT Transport Operations

Export Finance Insurance Corporation

Health Insurance Commission

Housing Loans Insurance Corporation

Milk Authority of the Australian Capital Territory

National Exhibition Centre Trust

Overseas Telecommunications Commission (Australia)

Phosphate Mining Company of Christmas Island Limited

Pipeline Authority

Qantas Airways Limited

Snowy Mountains Engineering Corporation

Snowy Mountains Hydro-electric Authority

Stavedoring Industry Finance Committee

Superannuation Fund Investment Trust

OTHER UNDERTAKINGS

Albury-Wodonga Development Corporation

Anglo-Australian Telescope Board

Australia Council

Australia-Japan Foundation

Australian Atomic Energy Commission

Australian Capital Territory Bush Fire Council

Australian Capital Territory Schools Authority

Australian Centre for International Agricultural Research

Australian Broadcasting Commission

Australian Broadcasting Tribunal

Australian Film Commission

Australian Film and Television School

Australian Heritage Commission

Australian Institute of Aboriginal Studies

Australian Institute of Criminology

Australian Institute of Marine Science

Australian Institute of Multicultural Affairs

Australian Maritime College

Australian National Gallery

Australian National University

Australian Tourist Commission

Australian Trade Union Training Authority

Australian War Memorial Museum

Canberra College of Advanced Education

Canberra Municipal Accounts

Canberra Public Cemeteries Trust

Canberra Theatre Trust

Capital Territory Health Commission

Criminology Research Council

Commonwealth Scientific and Industrial Research Organisation

Curriculum Development Centre

Great Barrier Reef Marine Park Authority

High Court of Australia

Law Reform Commission

Legal Aid Commission (ACT)

Museum of Australia

National Library of Australia

National Parks and Wildlife Service

National Standards Commission

Parliament House Construction Authority

Special Broadcasting Service

# ACCOUNTING STANDARDS APPLICABLE TO UNDERTAKINGS REQUIRED TO KEEP ACCOUNTS IN ACCORDANCE WITH COMMERCIAL PRACTICE

# ACCOUNTING STANDARDS

- AAS1 Profit and Loss Statements
- AAS2 Valuation and Presentation of Inventories in the Context of the Historical Cost System
- AAS3 Accounting for Company Income Tax (Tax-effect Accounting)
- AAS4 Depreciation of Non-Current Assets
- AAS5 Materiality in Financial Statements
- AAS6 Accounting Policies: Determination, Application and Disclosure
- AAS7 Accounting for the Extractive Industries
- AAS8 Events Occurring After Balance Date
- AAS9 Expenditure Carried Forward to Subsequent Accounting Periods
- AAS10 Accounting for the Revaluation of Non-Current Assets
- AASI1 Accounting for Construction Contracts
- AAS12 Statement of Sources and Applications of Funds

# GUIDES TO ACCEPTABLE ACCOUNTING PRACTICE - UNDERTAKINGS REQUIRED TO KEEP ACCOUNTS IN ACCORDANCE WITH COMMERCIAL PRACTICE

## Issued by International Accounting Standards Committee 49-51 Bedford Row London WCIV 6RL United Kingdom

IAS 1	Disclosure of Accounting Policies
IAS 2	Valuation and Presentation of Inventories in the Context of the Historical Cost System
IAS 3	Consolidated Financial Statements
IAS 4	Depreciation Accounting
IAS 5	Information to be Disclosed in Financial Statements
IAS 6	Accounting Responses to Changing Prices
IAS 8	Unusual and Prior Period Items and Changes in Accounting Policies
IAS 10	Contingencies and Events Occurring. After the Balance Sheet Date
IAS 12	Accounting for Taxes on Income
IAS 13	Presentation of Current Assets and Current Liabilities
IAS 14	Reporting Financial Information by Segment
IAS 15	Information Reflecting the Effects of Changing. Prices
IAS 16	Accounting for Property, Plant and Equipment
IAS 17	Accounting for Leases
IAS 18	Revenue Recognition
IAS 19	Accounting for Retirement Benefits in the Financial Statements of Employers

# ACCOUNTING STANDARDS APPLICABLE TO OTHER UNDERTAKINGS

SZAA	Valuation and Presentation of Inventories in the Context of the Historical Cost System
AAS4	Depreciation of Non-Current Assets
AAS5	Materiality in Financial Statements
AAS6	Accounting Policies: Determination, Application and Disclosure
AAS8	Events Occurring After Balance Date
AAS10	Accounting for the Revaluation of Non-Current Assets
AAS12	Statement of Sources and Applications of Funds

#### ATTACHMENT 3-4

#### GUIDES TO ACCEPTABLE ACCOUNTING PRACTICE - OTHER UNDERTAKINGS

Issued by the American Institute of Certified Public Accountants Accounting Standards Division 1211 Avenue of the Americas New York NY 10036

- "Statement of Position 74-8: Accounting and Reporting by Colleges and Universities" August 1974
- "Statement of Position 75-5: Accounting Practices in the Broadcasting Industry" December 1975
- . "Statement of Position 78-10: Accounting Principles and Reporting Practices for Certain Non-Profit Organizations" December 1978
- "Industry Accounting Guide: Accounting for Motion Picture Films" 1981
- "Industry Audit Guide: Audits of Colleges and Universities"
- "Industry Audit Guide: Audits of Finance Companies" 1975
- "Industry Audit Guide: Hospital Audit Guide" 1978
- "Industry Audit Guide: Audits of Voluntary Health and Welfare Organizations" 1979

Issued by the American Association of Museums
1055 Thomas Jefferson Street, NW
Washington DC 20007 USA

"Museum Accounting Guidelines" (issued by the Association of Science-Technology Centers 1976) contained in "Museum Accounting Handbook" May 1978.

GUIDELINES FOR THE CONTENT, PREPARATION
AND PRESENTATION OF ANNUAL REPORTS BY
STATUTORY AUTHORITIES.

# Introduction

- These guidelines are intended to cover generally the annual reporting requirements for statutory authorities (incorporated or unincorporated authorities established by or pursuant to a law of the Commonwealth or of the A.C.T.) and are subject to refinement in the light of experience.
- Reports of small unincorporated authorities and office holders within the public account may continue to be included in the related departmental reports where it is practical to do so.
- . The guidelines do not, of course, override statutory requirements imposed by legislation on individual authorities, but to the extent that they require a higher standard than does the legislation, they should be followed by all such authorities.
- All authorities are to provide annual reports as soon as possible after the end of their financial year, if possible in time for the estimates debate in the Budget Sittings. At the very latest, reports should be submitted within six months (unless a shorter period is provided in the legislation of an individual authority). An explanation will be submitted to Parliament if the deadline has to be extended in exceptional cases (the new deadline is to be mentioned in the explanation). Ministers will ensure that reports are tabled within fifteen sitting days of receipt.

. Where there is a requirement for a form of financial statements to be approved by the Minister for Finance, authorities should commence negotiations with the Department of Finance early enough to allow issues to be resolved without delaying the annual report. Authorities also need to bear in mind the need for reasonable time to be allowed for completion of auditing of the financial statement within the six month deadline.

# Report Contents

- Reports should be the means of providing a wide dissemination of information on authorities, with special attention being given to making available material that might not otherwise be made public as a matter of course.
- Application of these guidelines to those authorities engaged in commercial competition with the private sector is subject to the need to protect commercially sensitive material.
- . The following information is to be provided in future annual reports:-
  - Enabling legislation: A clear statement of the legislation (if any) under which the organisation operates.
  - ii) Responsible Minister: To be shown. A
    description of any statutory powers of direction
    which the Minister has over the authority and
    details of the exercise of any such powers,
    subject to the need to protect confidential
    information, to be included.
  - iii) Powers, Functions and Objects: .To be detailed.

- iv) Membership and Staff: A list of the members of the body and their terms of appointment, together with listing of senior executive staff and a statement of the total number of staff employed by the organisation. In addition, the basis for staffing of the organisation should be identified. The address and phone number of the information officer should also be included.

  v) Financial Statements: All Government bodies
- Financial Statements: All Government bodies should provide statements which adequately disclose financial aspects of their activities. For example, where the form of a body's financial statements is approved by the Minister for Finance, the approved form must, of course, be followed; where an unincorporated body has no specific financial responsibilities and no financial reporting requirement exists, it might be appropriate to disclose departmental receipts and expenditures relevant to its operations, while avoiding unnecessary duplication of the information contained in the annual Financial Statements prepared by the Minister for Finance. The requirement for adequate disclosure will extend to bodies incorporated under companies legislation if the Commonwealth is sole owner or shareholder; this will not affect the need to satisfy the reporting requirements under company law. The Department of Finance and the Auditor-General's Office are preparing guidelines which will assist Commonwealth undertakings in preparing financial statements; an exposure draft entitled 'Proposed Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings' was issued in August 1980. The

Exposure Draft has been considered by the relevant Parliamentary Committees.

- vi) Activities and Reports: A description of the
  principal programs and activities of the body
  noting objectives and reviewing achievements.
  Information on interaction with other
  authorities, departments and State and
  international bodies should be provided as should
  , a list of publications during the reporting
  period.
- vii) Operational Problems: A description of the major problems which have arisen in the body's activities, including details of requisite Government action to overcome such problems e.g. the amendment of the enabling Act.
- viii) Subsidiaries: Details of subsidiary companies formed, or interest acquired in existing companies, are to be provided. It is a desirable practice to include the annual report of such subsidiaries as are controlled by the parent authority with the report of that authority, where this is feasible.

#### GUIDELINES FOR DEPARTMENTAL ANNUAL REPORTS

#### A. General Principles

- Reports should be the means of providing a wide dissemination of information on the activities of departments, with special attention being given to making available material that might not otherwise be made public as a matter of course. Undue repetition of material already widely publicly available should be avoided; reference to the source and availability of such material may be appropriate.
- 2) The reports should provide an account of departments' more significant activities and any background information necessary to an understanding of these.
- Reports should be oriented towards administrative, managerial and operational aspects of departmental activities.
- 4) Ministers will be responsible for tabling annual reports in the Parliament and otherwise publicising them. The detailed content of reports will be the responsibility of Permanent Heads who should consult as necessary with their Ministers.
- 5) Where comments are made impinging on the operations of other departments and authorities, special care should be taken to see that all views are presented in a balanced way.
- 6) Reports should be concise yet present all information necessary for an understanding of the matters covered. Some reports, especially those from policy oriented departments, may be quite short.
- 7) As reports are to provide information on the operation of departments rather than to promote them, modest standards of production are desirable and appropriate. Relevant AGPS Guidelines should be closely observed

3.

8) If practicable, reports should be prepared on a financial year basis and should be available if possible for the estimates debates, in the Budget Sittings. When there are difficulties getting reports finished in time for the estimates debates departments should provide an interim statement in A4 duplicated form for the information of the Parliament. Departments currently producing annual reports on a calendar year basis may continue to do so.

# B. Contents

- ) Standard information such as:
  - a top structure organisation chart, including regional offices and associated bodies, with an indication of those that report separately to the parliament
  - a brief outline of the main functions of the department, highlighting any changes
  - consistent with the Government's policy on access to information, an indication of further sources of information, including other publications, policy information and policy discussions papers and references to submissions to various advisory mechanisms, committees of inquiry, etc. with adequate bibliographic details and address and phone number of information officer
  - selected financial information associated with the administration of programs and the operation of the departments; this information should be consistent with financial information published in the Budget Papers, and the Financial Statements prepared by the Minister for Finance

- statistics in annual comparative form, on main programs administered and departmental administration, including staffing
- a list of senior officers (at divisional head level and above)
- information relating to the Freedom of Information Act (covered by separate guidelines issued by the Attorney-General's Department)
- reference to the activities of smaller statutory and non-statutory bodies responsible to the Minister where separate reports are not produced by these bodies.
- 2) Optional information such as:
  - a description of programs, particularly those involving direct services to the public, including significant developments during the year and reference to the principal Acts administered
  - reviews of objectives, processes and of achievements, including information on management improvement activities
  - personnel development activities
  - systems and legislative changes significantly affecting the department
  - the effects of administrative review mechanisms (Ombudsman, Administrative Appeals Tribunal, etc.) on the organisation, operation and workload of the department and any consequent changes in procedures and decision making processes.