



Consolidated Financial Reporting A Case Study on Australia

Mark Silins, TCOP Expert
Podgorica, Montenegro
10-12 November 2014



Topics

- Australian System of Accounting
- Legislative Framework for Accounting
- Australian Accounting Standard (AAS) 1049 – Consolidated Reporting
- Central Budget Management System (CBMS)
- Australian Government Financial Statistics framework (GFSM)
- Chart of Accounts
- The Consolidated Statements



Overview of Australian Accounting Standards (Board)

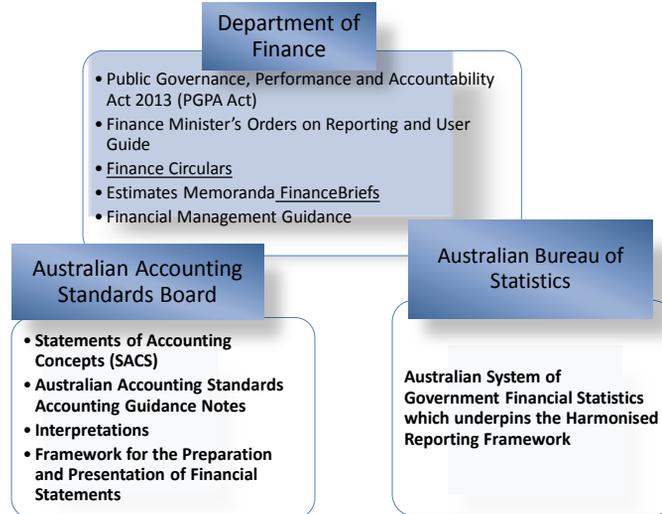
- The AASB deals directly with the adoption of International Financial Reporting Standards (IFRS)
- The AASB creates unique Australian interpretations of IFRS only in rare and exceptional circumstances.
- In general these adaptations are for not-for-profit reporting entities which includes government reporting
- Paragraphs that have been added to an Australian Standard are identified with the prefix “**Aus**”, followed by the number of the preceding IASB paragraph and decimal numbering.
- Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.
- AAS pre-date IPSAS- This is why Australia has a single set of integrated standards based on IFRS. 56 standards in total with 4 dual standards for profit and not-for-profit.



AASB and IPSAS

- In paragraph 37 of the AASB Policies and Processes document, the AASB states:
- “The AASB contributes to the technical agenda and processes of the IPSASB in order to foster the development of IPSASs on the basis that IPSASs are expected, in due course, to become the most relevant and appropriate Standards for public sector not-for-profit entities. The AASB is pursuing this aspiration on the grounds that the IPSASB will:
 - (a) continue to base IPSASs on IFRSs, departing from IFRSs only to the extent appropriate for public sector issues; and
 - (b) develop high-quality Standards on topics affecting the public sector that are not dealt with by the IASB

Three components to the Public Sector Accounting Framework



Four elements of the Australian Federal Government Consolidation Framework





AAS 1049 – Whole of Government and General Government Sector Financial Reporting

- **Largely aligned with IPSAS 22** although it also requires reporting for whole of government
- **Consolidation is within governments** thus consolidation occurs for federal, state and local governments not across levels – this is because they are not controlled entities
- **Reports are prepared monthly and annually** - the target is to get this to the Minister within 21 days of the end of the reporting period – this has proven a challenge
- **Covers over 220 reporting entities:** - including departments (ministries), statutory bodies and business enterprises



AAS 1049 (cont)

- **Netting of transactions** – focus is on transactions above 20 million AUD
- **Supported by Finance Ministers Order and PRIMA** – Electronic financial reporting template – Forms from PRIMA are mandatory
- **Statements compiled from PRIMA are the mechanism for input to Finance** - emphasis on quality control, including significant editing and review work over a number of iterations
- Recent recognition that **MoF needs to be more prescriptive than in the past**- consolidated reports are only as reliable as the quality of the underlying data.
- **Good practice reporting guide being jointly developed by MoF and Auditor General**



Central Budget Management System (CBMS)

- **Decentralised transaction processing model is operating in Australia** – departments control own resources, operate own bank accounts and process payments and collect receipts. Each reporting entity has its own IFMIS
- **Reporting Entities also produce an annual financial statement** which is incorporated into a broader annual report on performance
- **CBMS is operated by Department of Finance and has four purposes:**
 - Appropriation control
 - Budget reporting – programs and outcomes
 - Cash management
 - **Consolidated financial reporting**
- **Currently being upgraded** as previous version reached the end of its useful life



CBMS (cont)

- **A new version of CBMS is currently being developed based on SAP ERP but heavily customised**
- **Uses PRIMA electronic forms to obtain key information for consolidation**
- **Public sector enterprises will be required to report using the new CBMS**
- **Current initiative to reduce reporting burden** - recognition that many reporting entities do not need to disclose all of the requirements under AAS. Developing a more targeted reporting template which will eliminate many detailed reporting issues not specifically relevant to all reporting entity



Australian Government Financial Statistics (GFS) Framework

- Australia developed GFSM for accrual before the IMF because it did not exist when Australia moved to accrual
- ABSGFSM largely aligns with GFSM 2001
- AAS1049 largely based on ABSGFSM
- Preference for using GFSM formats - Where GFSM requirements are consistent with AAS, GFSM requirements are to be used. Eg financial/non-financial assets
- All general government has signed up to a uniform data standard around ABSGFSM to ensure comparability for statistical and economic reporting and analysis across the entire public sector.
- ABSGFSM thus forms the basis on which the whole public sector financial information is consolidated. This is not subject to AAS or prepared in accordance with AAS1049 and is therefore not audited



Chart of Accounts

- **Fully integrated** – reports cash and accrual, AAS and GFSM requirements simultaneously
- **Extremely detailed** approaching 1000 codes in the economic/accounting segment
- **Redeveloped in 2013/14** with direct input from users
- **Supports consolidated and reporting entity reporting**
- **It is the universal or minimum reporting structure** applied to all reporting entities



Consolidated Financial Statements (CFS) for the Australian Government

- Includes an overview, audit opinion, financial statements. Extends to 213 pages of which 150 pages are Notes
- notes
- **Four primary statements** – Operating Statement, Balance Sheet, Cashflow Statement, and Statement of Changes in Equity.
- **These are further presented by sector to integrate GGS and Consolidated Government into one set of statements**
- Given its statistical (fiscal) focus **it also provides additional information on fiscal aggregates** such as the fiscal balance and net acquisition of non-financial assets
- **Balance sheet – primary structure for assets is financial/non-financial** with current/non-current appearing as an additional disclosure.



Concluding Comments

- Recent changes in Australia in the legal framework, standards, instructions and the CoA show that **accrual accounting is unlikely to be a one time process – it is continually evolving**
- Consolidation has revealed some issues with the approach to accrual in Australia – **DoF realised there was a need to be more prescriptive and to provide more guidance**
- **The demanding requirements of full compliance with AAS is being reviewed** to target reporting to better match reporting entity operations
- **Attempts to integrate financial and statistical reporting in consolidated statements is still a work-in-progress** but has largely resulted in an single reporting framework



Questions

?