



Australian Government

Department of Finance and Deregulation

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Making financial statements more useful to end users – an Australian perspective

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Presentation overview

- What is Accountability
- Prime financial aggregates of the Australian Government
- Australian government financial reports
- What does it mean for financial reporting
- Other financial framework elements supporting accountability
- Expanding the definitions of accountability ?



What is accountability ?

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Accountability is often expressed in two forms:

- A “constrained view” – focus on compliance with the budget and with laws and regulations
- An “expansive view” – includes a focus on results (outputs and/or outcomes), efficiency and effectiveness – often known as a new public management (NPM) approach
- Accountability is one of the prime objectives of government financial reporting
- It is incorporated in the IPSASB conceptual framework as one of the two prime objectives (along with decision-making)
- Accountability intersects with decision-making – the more expansive the view the more it intersects



Prime financial aggregates of the Australian Government

Underlying cash balance (UCB) – similar to GFS cash surplus/deficit but adjusted for sovereign wealth fund earnings and finance leases

Fiscal Balance – accrual equivalent of UCB

Gross debt – Government securities on issue

Net debt – gross debt less certain financial assets

But there are others although they are not considered a “prime” aggregate



Publication of financial statements

The Charter of Budget Honesty Act requires the Australian Governments financial reports to be based on GFS and Australian Accounting Standards

Full suite of financial statements are included in Budget Paper Number 1 (Statement 9 of 10 *statements* in BP1)

But

Extracts of key aggregates drawn from the financial statements are included in tables throughout all Budget papers



Operating Statement

	Note	Estimates		Projections	
		2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Revenue					
Taxation revenue	3	323,631	361,679	385,879	406,890
Sales of goods and services	4	8,050	8,295	8,561	8,256
Interest income	5	5,190	5,417	5,463	5,258
Dividend income	5	1,652	1,786	1,931	1,954
Other	6	5,587	5,587	5,709	5,793
Total revenue		344,110	382,764	407,542	428,151
Expenses					
Gross operating expenses					
Wages and salaries(a)	7	19,374	18,707	18,930	19,176
Superannuation	7	4,177	3,376	3,412	3,382
Depreciation and amortisation	8	5,733	5,956	6,110	6,294
Supply of goods and services	9	70,425	70,092	74,244	78,855
Other operating expenses(a)	7	4,624	4,630	4,769	4,760
<i>Total gross operating expenses</i>		<i>104,333</i>	<i>102,761</i>	<i>107,465</i>	<i>112,467</i>
Superannuation interest expense	7	7,351	7,886	8,141	8,398
Interest expenses	10	12,983	13,680	14,165	14,128
Current transfers					
Current grants	11	111,799	117,859	123,587	132,616
Subsidy expenses		9,782	12,808	14,794	14,946
Personal benefits	12	110,787	115,488	121,805	129,837
<i>Total current transfers</i>		<i>232,368</i>	<i>246,156</i>	<i>260,187</i>	<i>277,400</i>
Capital transfers					
Mutually agreed write-downs		2,267	2,403	2,549	2,696
Other capital grants		12,445	7,049	8,116	3,775
<i>Total capital transfers</i>		<i>14,712</i>	<i>9,451</i>	<i>10,665</i>	<i>6,471</i>
Total expenses		371,747	379,935	400,623	418,863
Net operating balance		-27,637	2,829	6,919	9,288
Other economic flows					
Gain/loss on equity and on sale of assets(b)		-1,875	7,889	3,508	3,647
Net write-downs of assets (including bad and doubtful debts)		-5,376	-5,887	-6,284	-6,641
Assets recognised for the first time		517	544	574	609
Actuarial revaluations		-819	0	0	0
Net foreign exchange gains		-527	26	871	68
Net swap interest received		45	0	0	0
Market valuation of debt		-7,628	1,352	1,182	973
Other economic revaluations(c)		-84	-337	-14	450
Total other economic flows		-15,747	3,587	-163	-894
Comprehensive result -					
Total change in net worth	13	-43,383	6,415	6,756	8,394



But we add additional tables to the financial statements to arrive at the Australian Governments key financial aggregates

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
Note	\$m	\$m	\$m	\$m
Net operating balance	-27,637	2,829	6,919	9,288
Net acquisition of non-financial assets				
Purchases of non-financial assets	10,013	8,846	8,730	8,899
<i>less</i> Sales of non-financial assets	612	5,104	403	235
<i>less</i> Depreciation	5,733	5,956	6,110	6,294
<i>plus</i> Change in inventories	638	537	532	458
<i>plus</i> Other movements in non-financial assets	508	-208	10	65
Total net acquisition of non-financial assets	4,813	-1,885	2,760	2,893
Fiscal balance (Net lending/borrowing)(d)	-32,450	4,714	4,159	6,395



Australian Government Balance Sheet

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An additional table is added
to highlight other key
aggregates

	Note	Estimates		Projections	
		2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Assets					
Financial assets					
Cash and deposits	20(a)	2,484	2,511	2,673	2,460
Advances paid	14	29,790	32,683	36,611	40,757
Investments, loans and placements	15	97,990	106,868	106,582	108,448
Other receivables	14	37,011	40,720	42,336	44,929
Equity investments					
Investments in other public sector entities		21,858	26,425	33,040	37,129
Equity accounted investments		318	318	319	321
Investments - shares		29,110	31,781	35,299	38,389
<i>Total financial assets</i>		<i>218,560</i>	<i>241,305</i>	<i>256,861</i>	<i>272,434</i>
Non-financial assets					
Land	16	8,661	8,595	8,531	8,588
Buildings		23,094	23,953	24,352	24,255
Plant, equipment and infrastructure		52,696	54,178	56,039	58,003
Inventories		7,031	7,204	7,328	7,357
Intangibles		5,224	5,388	5,326	5,582
Investment properties		316	316	316	316
Biological assets		36	36	36	36
Heritage and cultural assets		9,498	9,511	9,523	9,536
Assets held for sale		148	148	148	148
Other non-financial assets		3,196	3,022	3,058	3,166
<i>Total non-financial assets</i>		<i>103,901</i>	<i>112,350</i>	<i>114,656</i>	<i>116,997</i>
Total assets		328,461	353,655	371,517	389,421
Liabilities					
Interest bearing liabilities					
Deposits held		209	209	209	209
Government securities		253,455	262,296	268,157	272,424
Loans	17	8,357	11,755	11,760	11,789
Other borrowing		796	1,093	1,453	1,351
<i>Total interest bearing liabilities</i>		<i>262,817</i>	<i>275,353</i>	<i>289,579</i>	<i>285,773</i>
Provisions and payables					
Superannuation liability	18	133,487	137,995	142,565	147,196
Other employee liabilities	18	11,539	11,806	12,122	12,311
Suppliers payable	19	4,478	4,428	4,487	4,493
Personal benefits provisions and payable	19	13,165	14,138	14,428	14,984
Subsidies provisions and payable	19	2,292	2,881	3,145	3,268
Grants provisions and payable	19	10,618	10,914	9,759	8,657
Other provisions and payables	19	12,394	12,053	12,588	13,503
<i>Total provisions and payables</i>		<i>187,973</i>	<i>194,215</i>	<i>199,095</i>	<i>204,411</i>
Total liabilities		450,789	469,568	480,674	490,184
Net worth(a)		-122,328	-115,913	-109,157	-100,763
<i>Net financial worth(b)</i>					
<i>Net financial liabilities(c)</i>					
<i>Net debt(d)</i>					



Cash flow statement



Australian Government

Department of Finance

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Cash receipts from operating activities				
Taxes received	315,299	349,161	375,458	395,493
Receipts from sales of goods and services	7,970	8,218	8,523	8,191
Interest receipts	4,902	4,951	4,942	4,617
Dividends and income tax equivalents	2,233	1,785	1,930	1,953
Other receipts	5,417	5,340	5,378	5,469
Total operating receipts	335,820	369,455	396,231	415,724
Cash payments for operating activities				
Payments for employees	-26,171	-25,428	-25,863	-26,270
Payments for goods and services	-71,140	-70,337	-74,405	-79,106
Grants and subsidies paid	-137,057	-135,063	-144,893	-149,344
Interest paid	-10,775	-11,753	-11,721	-11,948
Personal bene fit payments	-110,299	-114,526	-121,504	-129,286
Other payments	-4,522	-4,339	-4,491	-4,566
Total operating payments	-359,963	-361,447	-382,878	-400,519
Net cash flows from operating activities	-24,143	8,008	13,353	15,205
Cash flows from investments in non-financial assets				
Sales of non-financial assets	612	5,104	403	235
Purchases of non-financial assets	-10,009	-8,218	-8,249	-8,956
Net cash flows from investments in non-financial assets	-9,397	-3,114	-7,847	-8,721
Net cash flows from investments in financial assets for policy purposes	-9,677	-10,867	-9,073	-7,558
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	1,475	-3,028	-1,959	-3,483
Net cash flows from investments in financial assets for liquidity purposes	1,475	-3,028	-1,959	-3,483
Cash receipts from financing activities				
Borrowing	43,688	10,343	7,057	5,435
Total cash receipts from financing activities	43,688	10,343	7,057	5,435
Cash payments for financing activities				
Other financing	-1,939	-1,314	-1,370	-1,091
Total cash payments for financing activities	-1,939	-1,314	-1,370	-1,091
Net cash flows from financing activities	41,749	9,028	5,687	4,344
Net increase/(decrease) in cash held	7	27	162	-213



And again we add another table to get to the prime Budget aggregate

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Net cash flows from operating activities and investments in non-financial assets (surplus+)/deficit(-)	-33,540	4,894	5,506	6,484
Finance leases and similar arrangements(b)	-117	-404	-469	0
GFS cash surplus(+)/deficit(-)	-33,658	4,490	5,038	6,484
<i>less</i> Future Fund earnings	3,455	3,011	3,174	3,376
Equals underlying cash balance(c)	-37,113	1,479	1,864	3,108
<i>plus</i> Net cash flows from investments in financial assets for policy purposes	-9,677	-10,867	-9,073	-7,558
<i>plus</i> Future Fund earnings	3,455	3,011	3,174	3,376
Equals headline cash balance	-43,334	-6,377	-4,035	-1,074





For example – Statement 1 – Budget overview draws directly from financial statements information

		Estimates			
		2011-12		2012-13	
		Budget	MYEFO	Budget	MYEFO
→	Underlying cash balance(\$b)(a)	-22.6	-37.1	3.5	1.5
	Per cent of GDP	-1.5	-2.5	0.2	0.1
→	Fiscal balance(\$b)	-20.3	-32.4	4.0	4.7
	Per cent of GDP	-1.4	-2.2	0.3	0.3
		Projections			
		2013-14		2014-15	
		Budget	MYEFO	Budget	MYEFO
	Underlying cash balance(\$b)(a)	3.7	1.9	5.8	3.1
	Per cent of GDP	0.2	0.1	0.3	0.2
	Fiscal balance(\$b)	3.2	4.2	8.5	6.4
	Per cent of GDP	0.2	0.3	0.5	0.4

This table is presented on the first page of the Budget fiscal overview section



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Further breakdown of items included in the various sections of the budget papers – again sourced from the financial statements – in this case – Cash receipts

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	143,850	142,500	-1,350	-0.9
Gross other individuals	31,050	30,800	-450	-1.4
less: Refunds	27,400	28,800	-800	-2.9
Total individuals and other withholding taxation	147,500	146,500	-1,000	-0.7
Fringe benefits tax	3,700	3,450	-250	-6.8
Company tax	72,800	70,000	-2,800	-3.8
Superannuation funds	9,230	8,850	-380	-4.1
Resource rent taxes(a)	2,080	1,930	-150	-7.2
Income taxation receipts	235,310	230,730	-4,580	-1.9
Sales taxes				
Goods and services tax	48,482	47,663	-819	-1.7
Wine equalisation tax	750	740	-10	-1.3
Luxury car tax	510	480	-30	-5.9
Total sales taxes	49,742	48,883	-859	-1.7
Excise duty				
Petrol	5,790	6,000	210	3.6
Diesel	7,630	8,000	370	4.8
Beer	2,070	2,050	-20	-1.0
Tobacco	5,830	6,250	420	7.2
Other excisable products	4,950	4,800	-350	-7.1
Of which: Other excisable beverages(b)	960	950	-10	-1.0
Total excise duty receipts	26,270	28,900	630	2.4
Customs duty				
Textiles, clothing and footwear	620	650	30	4.8
Passenger motor vehicles	630	600	-30	-4.8
Excise-like goods	4,830	4,000	-830	-17.2
Other imports	1,400	1,450	50	3.6
less: Refunds and drawbacks	260	260	0	0.0
Total customs duty receipts	7,220	6,440	-780	-10.8
Carbon pricing mechanism	-	-	-	-
Other indirect taxation				
Agricultural levies	414	427	14	3.3
Other taxes	2,147	1,919	-228	-10.6
Total other indirect taxation receipts	2,561	2,346	-215	-8.4
Indirect taxation receipts	85,793	84,569	-1,224	-1.4
Taxation receipts	321,103	315,299	-5,804	-1.8
Sales of goods and services	7,996	7,970	-26	-0.3
Interest received	5,297	4,902	-395	-7.5
Dividends	1,422	2,233	810	57.0
Other non-taxation receipts	6,573	6,029	-544	-8.3
Non-taxation receipts(c)	21,288	21,133	-154	-0.7
Total receipts(c)	342,390	336,432	-5,958	-1.7
<i>Memorandum:</i>				
Capital gains tax	8,300	7,300	-1,000	-12.0
Medicare levy receipts	8,940	8,930	-10	-0.1



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Tables provided for both cash and accrual information
And the corresponding accrual table

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	144,930	143,520	-1,410	-1.0
Gross other individuals	33,360	32,910	-450	-1.3
<i>Less:</i> Refunds	27,400	26,600	-800	-2.9
Total individuals and other withholding taxation	150,890	149,830	-1,060	-0.7
Fringe benefits tax	3,760	3,530	-230	-6.1
Company tax	74,600	71,800	-2,800	-3.8
Superannuation funds	9,330	8,990	-340	-3.6
Resource rent taxes(a)	2,050	2,030	-20	-1.0
Income taxation revenue	240,630	236,180	-4,450	-1.8
Sales taxes				
Goods and services tax	50,630	49,750	-880	-1.7
Wine equalisation tax	760	750	-10	-1.3
Luxury car tax	510	480	-30	-5.9
Total sales taxes	51,900	50,980	-920	-1.8
Excise duty				
Petrol	5,870	6,080	210	3.6
Diesel	7,610	7,980	370	4.9
Beer	2,070	2,050	-20	-1.0
Tobacco	5,830	6,250	420	7.2
Other excisable products	4,950	4,600	-350	-7.1
Of which: Other excisable beverages(b)	960	950	-10	-1.0
Total excise duty revenue	26,330	26,960	630	2.4
Customs duty				
Textiles, clothing and footwear	620	650	30	4.8
Passenger motor vehicles	780	750	-30	-3.8
Excise-like goods	4,830	4,000	-830	-17.2
Other imports	1,410	1,460	50	3.5
<i>Less:</i> Refunds and drawbacks	120	120	0	0.0
Total customs duty revenue	7,520	6,740	-780	-10.4
Carbon pricing mechanism	-	-	-	-
Other indirect taxation				
Agricultural levies	414	427	14	3.3
Other taxes	2,453	2,344	-109	-4.5
Total other indirect taxation revenue	2,867	2,771	-96	-3.3
Indirect taxation revenue	88,617	87,451	-1,166	-1.3
Taxation revenue	329,247	323,631	-5,616	-1.7
Sales of goods and services	8,050	8,050	0	0.0
Interest	5,735	5,190	-544	-9.5
Dividends	1,328	1,652	324	24.4
Other non-taxation revenue	5,601	5,587	-15	-0.3
Non-taxation revenue(c)	20,714	20,479	-235	-1.1
Total revenue(c)	349,961	344,110	-5,851	-1.7
<i>Memorandum:</i>				
Capital gains tax	8,300	7,300	-1,000	-12.0
Medicare levy revenue	8,940	8,930	-10	-0.1



Understandability of information is critical

Functional presentation of
spending to assist analysis

	Estimates			Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
General public services	21,239	20,887	21,491	22,349	23,129
Defence	20,136	21,277	20,711	21,895	22,771
Public order and safety	3,943	3,969	3,953	3,961	4,026
Education	32,555	29,938	30,314	31,414	32,720
Health	57,240	59,858	61,584	64,711	67,734
Social security and welfare	116,739	121,907	127,711	133,322	139,194
Housing and community amenities	5,741	4,579	4,699	4,579	4,141
Recreation and culture	3,342	3,397	3,449	3,331	3,250
Fuel and energy	6,269	6,302	6,496	6,594	6,622
Agriculture, forestry and fishing	3,067	3,444	2,526	2,245	2,385
Mining, manufacturing and construction	2,039	2,014	2,006	1,965	1,974
Transport and communication	4,748	6,919	7,119	6,748	6,267
Other economic affairs	9,055	9,385	8,664	8,218	8,152
Other purposes	64,692	71,940	79,801	87,642	91,771
Total expenses	350,803	365,817	380,523	398,974	414,137

Different perspectives of the same financial data are provided throughout the Budget papers

But it must all reconcile to the financial statements



Understandability

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Parliamentarians understand government activity in terms of “programs”

Whole of government financial reports include financial data on the 20 largest programs

Individual agency financial reports include financial and nonfinancial data for programs



Program	Function	Estimates			Projections	
		2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Revenue assistance to the States and Territories	Other purposes	46,524	49,459	52,853	55,812	58,498
Income support for seniors	SSW	31,852	34,161	36,860	38,891	41,605
Family tax benefit	SSW	17,766	18,156	18,682	19,043	19,499
Medicare services	Health	16,463	16,981	17,693	18,892	20,301
Disability support pension	SSW	13,286	13,836	14,368	14,855	15,460
Assistance to the States for healthcare services	Health	11,988	12,820	13,683	14,598	16,155
Pharmaceuticals and pharmaceutical services	Health	9,235	9,833	10,298	11,089	11,883
Non government schools - national support	Education	7,258	7,749	8,351	9,028	9,733
Job seeker income support	SSW	6,995	7,197	7,342	8,283	8,591
Residential care	SSW	6,822	7,183	7,370	7,846	8,428
Higher education support	Education	6,285	6,851	7,158	7,395	7,645
Public sector superannuation*	Other purposes; General public services	6,367	6,301	6,405	6,502	6,602
Income support for carers	SSW	5,109	5,679	6,343	7,066	7,858
Parents' income support	SSW	5,639	5,621	5,667	5,605	5,554
Fuel tax credits scheme	Fuel and energy	4,996	5,142	5,614	5,715	5,819
Army Capabilities	Defence	4,938	4,943	5,003	5,188	5,454
Department of Human Services*	SSW; Health	4,461	4,339	4,087	4,090	4,085
National partnership payments - road transport	Transport and communication	2,530	4,065	3,922	3,121	270
Air Force Capabilities	Defence	3,824	4,036	4,081	4,161	4,300
Navy Capabilities	Defence	3,779	4,027	4,122	4,092	4,110
Sub-total		216,117	228,379	239,902	251,272	261,850
Other programs		134,686	137,438	140,621	147,702	152,287
Total expenses		350,803	365,817	380,523	398,974	414,137



Accountability and financial reporting

- Distinction between financial performance reports and financial compliance reports
- Whole of government financial reports are focussed mainly on performance
- Individual agency financial reports include both performance and compliance elements



Example – financial compliance for appropriations

Note 28: Appropriations (FMA Act only)

Table A: Annual Appropriations ('Recoverable GST exclusive')

	2011 Appropriations						Total appropriation \$'000	Appropriation applied in 2011 (current and prior years) \$'000	Variance \$'000
	Appropriation Act			FMA Act					
	Annual Appropriation \$'000	Appropriations reduced ^(a) \$'000	AFM ^(b) \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000			
DEPARTMENTAL									
Ordinary annual services	152,601	-	-	-	114,269	-	266,870	(279,757)	(12,887)
Other services									
Equity	1,000	-	-	100		-	1,100	(1,100)	-
Loans	-	-	-	-		-	-	-	-
Total departmental	153,601	-	-	100	114,269	-	267,970	(280,857)	(12,887)
ADMINISTERED									
Ordinary annual services									
Administered items	63,001	(1,013)	-	-		-	61,988	(58,888)	3,100
Payments to CAC Act bodies	40,850	-	-	-		-	40,850	(40,850)	-
Other services									
States, ACT, NT and Local government	51,945	(404)	-	13,255		-	64,796	(61,557)	3,239
New administered outcomes	4,500	(1,150)	-	500		-	3,850	(3,658)	192
Administered assets and liabilities	100	-	-	-		-	100	(100)	-
Payments to CAC Act bodies	-	-	-	-		-	-	-	-
Total administered	160,396	(2,567)	-	13,755	-	-	171,584	(165,053)	6,531

The Australian Government requires agencies to report about some compliance and control matters, such as the use of annual appropriations (above); and also reporting about other types of appropriation, unspent appropriations, special accounts, act of grace payments, and debt waivers. Most of these reporting requirements are not required by accounting standards



Accountability and financial reporting

- Use of accrual and cash reporting for budget and actual, at an aggregate level and also for program level is essential
- Inclusion of some financial compliance reports in the financial statements further integrates the compliance and performance frameworks
- Nonfinancial performance indicators and integration with financial indicators is essential to understanding public sector performance
- Financial statements provide a solid framework and control mechanism to ensure financial data is robust
- Compliance with independently set standards is also fundamental to high-quality financial reporting
- By themselves, financial statements cater mainly to “expert” users
- There is a need to interpret and present information in an accessible and understandable way for the non expert reader



Other activities to promote “good financial management” and control

- Certificate of Compliance – compliance with financial laws and regulations
- Publication of contracts and grants
- Senate Committee hearings
- Capabilities and skills of finance staff, particularly Chief Finance Officers
- Performance audits by Auditor-General
- Audit Committees within agencies
- Strategic program evaluations by central agencies



Emerging accountabilities relevant to government reporting

- **Accountability for non-financial performance, particularly in social and environmental matters** – various terms used such as sustainability reporting, triple-bottom line, integrated reporting etc
- Some countries have implemented this for government agencies and Australia is considering this issue at national government level



Emerging accountabilities relevant to government reporting (continued)

- **Accountability for inter-generational equity and/or long-term fiscal sustainability**
- An increasing number of countries publish longer-term reports, including Australia
- IPSASB are developing guidance



Thank You