

Part 4

Financial statements



Contents

Independent auditor's report _____	38
Statement by the Parliamentary Budget Officer and Chief Financial Officer _____	40
Statement of comprehensive income _____	41
Statement of financial position _____	42
Statement of changes in equity _____	43
Cash flow statement _____	43
Notes to and forming part of the financial statements _____	44



INDEPENDENT AUDITOR'S REPORT

To the President of the Senate and the Speaker of the House of Representatives

I have audited the accompanying annual financial statements of the Parliamentary Budget Office for the year ended 30 June 2016, which comprise:

- Statement by the Parliamentary Budget Officer and Chief Financial Officer;
- Statement of comprehensive income;
- Statement of financial position;
- Statement of changes in equity;
- Cash flow statement; and
- Notes to the financial statements including a Summary of significant accounting policies.

Opinion

In my opinion, the financial statements of the Parliamentary Budget Office:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Parliamentary Budget Office as at 30 June 2016 and its financial performance and cash flows for the year then ended.

My opinion should be read in conjunction with the rest of this report.

Accountable Authority's Responsibility for the Financial Statements

The Parliamentary Budget Officer of the Parliamentary Budget Office is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Parliamentary Budget Officer is also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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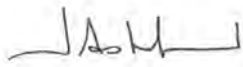
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office



Jocelyn Ashford
Senior Executive Director

Delegate of the Auditor-General

Canberra
22 July 2016

Statement by the Parliamentary Budget Officer and Chief Financial Officer

Certification of financial statements

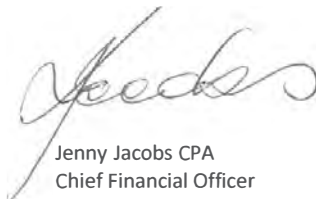
In our opinion the following financial statements for the year ended 30 June 2016 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Parliamentary Budget Office will be able to pay its debts as and when they fall due.



Phil Bowen PSM FCPA
Parliamentary Budget Officer

22 July 2016



Jenny Jacobs CPA
Chief Financial Officer

22 July 2016

Statement of comprehensive income for the period ended 30 June 2016

	Notes	2016 \$	2015 \$	Original Budget 2016 \$
NET COST OF SERVICES				
Expenses				
Employee benefits	1.4	6,618,514	5,705,811	6,253,000
Supplier	1.6	1,310,934	1,273,682	1,697,000
Depreciation and amortisation	1.7	272,611	260,602	261,000
Total expenses		8,202,059	7,240,095	8,211,000
Own-source income				
Other revenue				
Resources received free of charge	1.3			
Auditor remuneration		50,000	45,000	45,000
Accommodation		284,000	295,694	297,000
Total other revenue		334,000	340,694	342,000
Total own-source income		334,000	340,694	342,000
NET COST OF SERVICES		7,868,059	6,899,401	7,869,000
Revenue from Government				
Departmental Appropriation	1.3	7,410,000	7,013,000	7,410,000
Special Appropriation		309,000	-	548,000
Total revenue from Government		7,719,000	7,013,000	7,958,000
Surplus/(deficit) attributable to the Australian Government		(149,059)	113,599	89,000
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE AUSTRALIAN GOVERNMENT		(149,059)	113,599	89,000

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position

as at 30 June 2016

	Notes	2016 \$	2015 \$	Original Budget 2016 \$
ASSETS				
Financial assets				
Cash	1.5	34,078	28,198	11,000
Receivables				
Appropriation receivable	1.3	2,359,013	2,142,915	2,007,000
GST receivable		22,859	10,043	
Other receivables	1.5	22,954	59,187	
Total financial assets		2,438,904	2,240,343	2,018,000
Non-financial assets				
Property, plant and equipment	1.7	1,868,879	1,954,715	1,873,000
Intangibles	1.7	1,304,873	961,211	1,132,000
Prepayments		35,684	44,542	15,000
Total non-financial assets		3,209,436	2,960,467	3,020,000
Total assets		5,648,340	5,200,810	5,038,000
LIABILITIES				
Payables				
Trade creditors	1.6	255,298	74,001	326,000
Employee payables	1.4	40,371	224,997	
Other payables		21,418	7,287	146,000
Total payables		317,087	306,285	472,000
Provisions				
Employee leave provisions	1.4	2,117,206	1,531,419	1,490,000
Total liabilities		2,434,293	1,837,704	1,962,000
Net assets		3,214,047	3,363,106	3,076,000
EQUITY				
Asset revaluation reserve		50,305	50,305	50,000
Retained earnings		3,163,742	3,312,801	3,026,000
Total equity		3,214,047	3,363,106	3,076,000

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity as at 30 June 2016

	2016 \$	2015 \$
RETAINED EARNINGS		
Opening balance as at 1 July 2015	3,312,801	3,199,202
Surplus/(deficit) for the period	(149,059)	113,599
Closing balance attributable to the Australian Government	3,163,742	3,312,801
ASSET REVALUATION RESERVE		
Closing balance attributable to the Australian Government	50,305	50,305
Total equity	3,214,047	3,363,106

Cash flow statement for the period ended 30 June 2016

	2016 \$	2015 \$	Original Budget 2016 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations	7,034,284	6,763,140	7,929,000
Net GST received	62,893	36,737	-
Non-appropriation receipts ^(a)	468,618	125,126	-
Total cash received	7,565,795	6,925,003	7,929,000
Cash used			
Employees	6,203,226	5,537,498	6,224,000
Suppliers	1,016,684	1,370,384	1,355,000
Total cash used	7,219,910	6,907,882	7,579,000
Net cash from operating activities	345,885	17,121	350,000
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment	-	-	-
Purchase of intangibles	340,005	-	350,000
Total cash used	340,005	-	350,000
Net cash used by investing activities	(340,005)	-	(350,000)
Net (decrease) / increase in cash held	5,880	17,121	-
Cash at the beginning of the reporting period	28,198	11,077	11,000
Cash at the end of the reporting period	34,078	28,198	11,000

(a) Non-appropriation receipts are required to be returned to the Official Public Account. They increase the PBO's available appropriation under section 74 of the PGPA Act and when subsequently drawn down for use by the PBO they are recorded as ordinary appropriations.

Note 1: Summary of significant accounting policies

1.1. Basis of preparation of the financial report

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The financial statements have been prepared in accordance with:

- a *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) and
- b Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention. No allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest dollar.

1.2. Changes in Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

The PBO has adopted the AASB 2015-7 *Amendments to the Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*. This amending standard applies to annual reporting periods beginning on or after 1 July 2016. Early adoption impacts on disclosure of fair value measurements of property, plant and equipment assets, with no effect on the face statements.

Future Australian Accounting Standard requirements

Accounting standards that were issued prior to the signing of the statement by the Parliamentary Budget Officer and Chief Financial Officer, and applicable to future reporting period/s, are not expected to have a future material effect on the PBO's financial statements.

Accounting standard AASB 124 *Related Party Disclosures* will be adopted in 2016–17. This Standard requires the disclosure of significant transactions with related parties.

Note 1: Summary of significant accounting policies (continued)

1.3. Revenue

Revenue from Government

	2016	2015
	\$	\$
Ordinary annual services		
Annual appropriation	7,719,000	7,013,000
Section 74 PGPA Act receipts	468,618	125,126
Total appropriation	8,187,618	7,138,126
Less Appropriation applied (current and prior years)	(7,981,410)	(6,888,266)
Variance^(a)	206,208	249,860

(a) The variance between appropriation provided and applied is largely due to retained funding for future leave entitlements and capital purchases.

Amounts appropriated for departmental appropriations for the year are recognised at their nominal amount as Revenue from Government when the PBO gains control of the appropriation.

The PBO may draw upon the following appropriations:

- 1 Annual appropriations providing for the ordinary course of business are noted below. The amount of unspent appropriations is equal to the sum of the cash and appropriation receivable balances, as at 30 June.
 - a *Appropriation (Parliamentary Departments) Act (No.1) 2014–15*
Unspent balance as at 30 June 2016: \$nil
Unspent balance as at 30 June 2015: \$2,171,113
 - b *Appropriation (Parliamentary Departments) Act (No.1) 2015-16*
Unspent balance as at 30 June 2016: \$2,359,013.
- 2 Special appropriation, of a limited amount, to provide for payments in relation to the Parliamentary Budget Officer or the Parliamentary Budget Office:
 - c *Parliamentary Service Act 1999*
Limited to \$6,000,000, unspent balance as at 30 June 2016: \$4,991,000
(2015: \$5,300,000).

Resources received free of charge

Resources received free of charge are recognised as other revenue when and only when fair value can be reliably determined and the services would have been purchased if they had not been donated. These revenues are measured at their fair value and the use is recognised as an expense.

Note 1: Summary of significant accounting policies (continued)

1.4 Employee benefits, payables and provisions

	2016	2015
	\$	\$
Employee benefits		
Wages and salaries	4,972,936	4,343,185
Superannuation		
Defined benefit plans	440,401	404,868
Defined contribution plans	442,255	373,256
Leave and other entitlements	762,922	584,502
Total employee benefits	6,618,514	5,705,811

	2016	2015
	\$	\$
Employee payables		
Wages and salaries	24,372	182,853
Superannuation	3,909	30,054
FBT payable	12,090	12,090
Total employee payables	40,371	224,997

Employee payables

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) due within twelve months of the end of reporting period are measured at their nominal amounts. There were no termination benefits during 2015–16.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. Settlement is usually made net 30 days.

Other long-term employee benefits include long service leave and annual leave and are measured at the present value of the defined benefit obligation at the end of the reporting period.

Employee leave provisions

The liability for employee leave includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the PBO is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the PBO's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2016. The estimate of the present value of the liability takes into account an estimate of attrition rates and pay increases through promotion and inflation.

Note 1: Summary of significant accounting policies (continued)

Superannuation

The PBO's employees are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other funds of employee choice.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

The PBO makes employer contributions to employees' superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government. The PBO accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

Significant accounting judgements and estimates

In the process of applying the accounting policies, the PBO has made the following judgements that have a significant impact on the amounts recorded in the financial statements.

The calculation of leave provisions involved actuarial assumptions based on the likely tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates.

Other than the calculation of leave provisions there are no other accounting assumptions or estimates that have been identified as having a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Note 1: Summary of significant accounting policies (continued)

1.5 Financial assets

Cash

Cash is available at call and held on deposit with the Reserve Bank of Australia.

Receivables

Receivables are classified as 'receivables' and recorded at face value less any impairment. Other and GST receivables are recognised where the PBO becomes a party to a contract and has a legal right to receive cash. These receivables are derecognised on payment and have settlement terms of 30 days and all are within the trade terms and are considered to be a high credit quality.

Impairment of financial assets

Receivables are assessed for impairment at the end of each reporting period. No indicators of impairment were identified as at 30 June 2016.

1.6 Supplier expenses and trade creditors

Supplier expenses

	2016	2015
	\$	\$
Supplier expenses		
Professional services	198,686	205,988
Enhanced capability	141,236	60,990
Corporate services outsourced	386,254	384,782
Employee related	64,315	68,777
Accommodation expenses	284,000	295,694
Travel	31,039	42,557
Software licences	121,410	86,188
Other	52,604	84,863
Workers compensation expenses	31,390	43,843
Total supplier expenses	1,310,934	1,273,682

Trade creditors

Trade creditors and accruals are recognised at cost to the extent that the goods or services have been received (and irrespective of having been invoiced). Settlement is usually made net 30 days.

Note 1: Summary of significant accounting policies (continued)

1.7 Property, plant and equipment and intangibles

	Property, plant and equipment \$	Computer software (internally developed) \$	Total \$
As at 1 July 2015			
Gross book value	2,280,551	1,239,248	3,519,799
Accumulated depreciation and amortisation	(325,836)	(278,037)	(603,873)
Total as at 1 July 2015	1,954,715	961,211	2,915,926
Additions			
Purchase	-	530,437	530,437
Depreciation/amortisation expense	(85,836)	(186,775)	(272,611)
Total as at 30 June 2016	1,868,879	1,304,873	3,173,752
Total as at 30 June 2016 represented by:			
Gross book value	2,280,551	1,769,685	4,050,236
Accumulated depreciation and amortisation	(411,672)	(464,812)	(876,484)
Total as at 30 June 2016	1,868,879	1,304,873	3,173,752

Asset recognition threshold

Purchases of property, plant and equipment (including fit-out of accommodation within Parliament House) are recognised initially at cost in the Statement of financial position, except for purchases costing less than \$2,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluations

Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets did not differ materially from the assets' fair values as at the reporting date.

The PBO performed a valuation of property, plant and equipment assets on 30 June 2014. The valuation was performed by independent qualified valuers, Preston Rowe Paterson NSW Pty Limited, and was based on valuing the assets at fair value. Preston Rowe Paterson NSW Pty Limited confirmed that the net asset values materially reflected their fair value at 30 June 2016. The carrying amount includes a revaluation amount of \$50,305.

Note 1: Summary of significant accounting policies (continued)

Fair value measurement

All property, plant and equipment non-financial assets are measured at fair value using the cost approach (depreciated replacement cost). The unobservable inputs (Level 3 fair value hierarchy) used to determine the fair value, include historical actual cost information and costing guides to estimate the current replacement cost. Appropriate useful life profiles have been adopted to depreciate the replacement cost to reflect the expended life.

Intangibles

The PBO's intangibles comprise internally developed computer software for internal use. These assets are reported at cost.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the PBO using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives) and residual values are determined at the initial recognition of the asset.

Depreciation rates for property, plant and equipment are based on their useful lives which cover 10–40 years.

Amortisation

The amortisation rate of the intangible asset is based on its seven year useful life.

Impairment

All assets were assessed for impairment at 30 June 2016, with no indications of impairment.

1.8 Taxation

The PBO is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recovered from the Australian Taxation Office. Receivables and payables are recognised inclusive of GST.

Note 2: Events after the reporting period

There were no events following the reporting period that impact on the PBO's financial statements for the year ended 30 June 2016.

Note 3: Budget variances

The comparison of the unaudited original budget as presented in the 2015–16 Portfolio Budget Statements to the 2015–16 final outcome as presented in accordance with Australian Accounting Standards is included in the Statement of comprehensive income, the Statement of financial position and the Cash flow statement. Major variances detailed below are in relation to the management of resources, to ensure the performance of the PBO in achieving its mandate during the course of the year.

3.1 Major variances

During 2015–16, the PBO's average staffing level (ASL) was higher than forecast at Budget. The PBO had an ASL of 42 during the reporting period against an ASL of 39 estimated at Budget. This reflected an increase in employee numbers to assist with increased demand associated with the general election. The budget reflected higher suppliers expense in anticipation of the augmented workforce engaged through contractors rather than through recruitment. This increase in employees is directly reflected in the higher than budgeted employee leave provisions. The employee leave provision balance comprises leave provisions for 50 employees at 30 June 2016.

During 2015–16 the PBO incurred capital expenditure on the implementation of its workflow management system (represented in computer software) of \$530,437. This is higher than the estimate of \$350,000 due to the scoping of the project being finalised during 2015–16.

Note 4: Senior management personnel remuneration

	2016 \$	2015 \$
Short-term employee benefits		
Salary	1,714,078	1,639,796
Total short-term employee benefits	1,714,078	1,639,796
Post-employment benefits		
Superannuation	254,131	240,689
Total post-employment benefits	254,131	240,689
Other long-term benefits		
Annual leave accrued	131,495	126,138
Long service leave accrued	42,736	40,995
Total other long-term benefits	174,231	167,133
Total senior executive remuneration expenses	2,142,440	2,047,618

There are seven senior management positions (2015: seven).

Note 5: Additional disclosures

5.1 Comparative year disclosure

Property, plant and equipment and intangibles

	Property, plant and equipment \$	Computer software (internally developed) \$	Total \$
As at 1 July 2014			
Gross book value	2,280,551	1,239,248	3,519,799
Accumulated depreciation and amortisation	(240,000)	(103,271)	(343,271)
Total as at 1 July 2014	2,040,551	1,135,977	3,176,528
Depreciation/amortisation expense	(85,836)	(174,766)	(260,602)
Total as at 30 June 2015	1,954,715	961,211	2,915,926
Total as at 30 June 2015 represented by:			
Gross book value	2,280,551	1,239,248	3,519,799
Accumulated depreciation and amortisation	(325,836)	(278,037)	(603,873)
Total as at 30 June 2015	1,954,715	961,211	2,915,926

5.2 Reporting of Outcomes

The purpose of the PBO is to inform the parliament by providing independent non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals. The PBO's single outcome reflects this purpose. The PBO is structured to meet its outcome.

The PBO's activities contributing towards this outcome are classified as departmental. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the department in its own right.