



**Australian Government**  
**Department of Finance**



**Department of Finance**

**Submission to the Joint Committee of  
Public Accounts and Audit**

**Inquiry into Commonwealth Financial Statements 2021-2022**

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# 1. Introduction

The Department of Finance (Finance) welcomes the opportunity to contribute to the Joint Committee of Public Accounts and Audit's Inquiry into the Auditor-General's Report No. 8 of 2022-23: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022* (the Report).

This submission provides information on Australian Government financial reporting and the appropriations framework, which addresses several areas relevant to the inquiry's terms of reference.

## 2. Australian Government financial reporting

### 2.1 PGPA Framework

The *Public Governance, Performance and Accountability Act 2013*<sup>1</sup> (PGPA Act) and *Public Governance, Performance and Accountability Rule 2014*<sup>2</sup> establish a single principles-based system of governance and accountability, and a performance framework for the Commonwealth.

### 2.2 Financial Framework

The Commonwealth resource management framework establishes a system of governance and accountability for public resources, with an emphasis on planning, performance and reporting. This framework is set out in the PGPA Act and associated rules.

All Australian Government financial statements, including those prepared for the Budget, are required to comply with Australian Accounting Standards<sup>3</sup> (AAS) and the Australian System of Government Finance Statistics<sup>4</sup>. In addition to these external standards, the financial statements format is consistent with the Uniform Presentation Framework<sup>5</sup>, a national framework which is designed to provide consistent presentation of government financial information across the Commonwealth, state and territory governments.

The *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*<sup>6</sup> (FRR) applies to all Commonwealth entities (non-corporate Commonwealth entities and corporate Commonwealth entities) that are required to produce financial statements under section 42 of the PGPA Act. The FRR sets out the financial reporting requirements for the preparation of entity financial statements and provides for consistent reporting across the Commonwealth to allow comparison between entities' financial statements. Information reported by entities in accordance with the FRR also facilitates the preparation of the Australian Government's Consolidated Financial Statements.

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<sup>1</sup> <https://www.legislation.gov.au/Series/C2013A00123>

<sup>2</sup> <https://www.legislation.gov.au/Details/F2014L00911>

<sup>3</sup> <http://www.aasb.gov.au/Pronouncements.aspx>

<sup>4</sup> <https://www.abs.gov.au/ausstats/abs@.nsf/mf/5514.0>

<sup>5</sup> <https://treasury.gov.au/publication/p2019-t365789>

<sup>6</sup> <https://www.legislation.gov.au/Series/F2015L00131>

Commonwealth companies are not subject to the FRR. These entities are subject to the financial reporting requirements set out in Chapter 2M of the *Corporations Act 2001*<sup>7</sup>, including compliance with the AAS (section 296 of the *Corporations Act 2001*).

## 2.3 Guidance and support

Finance supports entities' preparation of their financial statements by issuing guidance and providing advice on how entities can comply with the AAS and the FRR. This guidance includes:

- Resource Management Guides (RMG), such as RMG 125 *Commonwealth Entities Financial Statements Guide*<sup>8</sup>, which sets out key reporting requirements and provides linkages to the FRR and AAS, as well as other resource management framework requirements;
- the Financial Statements Better Practice Guide<sup>9</sup>, which provides examples of better practice in financial statements preparation and processes;
- the Primary Reporting and Information Management Aid<sup>10</sup>, which provides example financial statements and associated disclosures which comply with the FRR requirements; and
- a range of detailed guidance on specific technical topics<sup>11</sup>.

Updates to the guidance available are made regularly by Finance, including to ensure it reflects entity experiences from the previous year's financial statements processes, observations made by the Auditor-General including in financial statement audits, as well as current year issues being managed.

Finance convenes numerous committees, forums, communities of practice and networks for entities, including for Chief Financial Officers (CFOs) of Commonwealth entities and their staff. These provide an opportunity for sharing information on current accounting, financial management (including cash and appropriations management) and financial reporting requirements, issues and emerging trends; facilitate discussion of common issues; and support the development of the accounting and finance profession in the Australian Public Service (APS). Regular technical training sessions are offered by Finance to further support entities to meet their financial reporting obligations and ensure requirements are met.

Relevant to observations made by the Auditor-General in the Report, Finance has updated guidance and ensured that targeted training is made available to entities to support the management of identified risks. For example, this has included in relation to:

- Related parties, to support the understanding of, and compliance with, disclosure requirements under accounting standard *AASB 124 Related Party Disclosures*<sup>12</sup>.
- Cloud computing and software as a service, to support the application of RMG 109 *Accounting for internally developed software and cloud computing arrangements*<sup>13</sup> and RMG 124 *Capital budgeting by Commonwealth entities in the*

<sup>7</sup> <https://www.legislation.gov.au/Details/C2019C00216>

<sup>8</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/commonwealth-entities-financial-statements-guide-rmg-125>

<sup>9</sup> <https://www.finance.gov.au/government/financial-reporting-accounting-policy/financial-statements-better-practice-guide>

<sup>10</sup> <https://www.finance.gov.au/government/financial-reporting-and-accounting-policy/financial-reporting-commonwealth-entities#primary-reporting-and-information-management-aid-prima-documents>

<sup>11</sup> <https://www.finance.gov.au/government/financial-reporting-and-accounting-policy>

<sup>12</sup> <https://aasb.gov.au/pronouncements/accounting-standards/>

<sup>13</sup> <https://www.finance.gov.au/publications/resource-management-guides/accounting-internally-developed-software-and-cloud-computing-arrangements-rmg-109>

*general government sector*<sup>14</sup>. This guidance is consistent with the two recent International Financial Reporting Standards Interpretations Committee<sup>15</sup> decisions.

- Sustainability reporting, whereby Finance is monitoring developments in sustainability reporting and actively engages with standard-setters about the international and national sustainability reporting standards that are currently under development for use by the private sector. Regular updates are provided to entities to ensure they remain aware of these developments.
- Risk and internal controls<sup>16</sup>, including the importance of CFO oversight of information technology and cyber risk and controls, particularly as they relate to financial statements preparation.

### 3. Appropriations Framework

Appropriation Acts perform an important constitutional function. They are the laws of Parliament that authorise the withdrawal of money from the Consolidated Revenue Fund (CRF), for the purposes specified in the Appropriation Acts. Section 83 of the Constitution<sup>17</sup> provides that no money can be drawn from the CRF, except under an appropriation made by law.

Annual Appropriation Acts provide funding from the CRF for entities to undertake the services of the government. The cycle and process for the passage of annual Appropriation Acts provides Parliament with a regular opportunity to scrutinise the government's new and ongoing spending activities.

Section 53 of the Constitution prevents the Senate from amending proposed laws appropriating revenue or moneys for the ordinary annual services of the government. Under section 54 of the Constitution, these proposed laws are limited to dealing only with such appropriation. As a result, appropriations for the services of the government are split into:

- Appropriation Acts (e.g. No. 1/3/5) that appropriate money for the ordinary annual services of the government; and
- Appropriation Acts (e.g. No. 2/4/6) that appropriate money for services other than the ordinary annual services of the government, such as new administered outcomes, non-operating costs, and payments to states, territories and local government.

The division of funding between the Appropriation Acts is in practice governed by the Senate Compact, an agreement between the Senate and the Executive Government on matters which would not be regarded as part of the ordinary annual services of the Government. The Senate Compact<sup>18</sup> is not a single document but rather it is a series of correspondence and practices that have evolved since 1965. In 2010, the Senate passed a resolution restating the Compact in a consolidated form<sup>19</sup>. By agreeing what is not regarded as the ordinary annual services of government rather than seeking to define this term, the broad and evolving nature of the operations of government is accommodated and the risk of

<sup>14</sup><https://www.finance.gov.au/government/managing-commonwealth-resources/capital-budgeting-commonwealth-entities-general-government-sector-rmq-124>

<sup>15</sup><https://www.ifrs.org/news-and-events/updates/ifric/>

<sup>16</sup><https://www.finance.gov.au/government/managing-commonwealth-resources/managing-risk-and-internal-accountability/duties/risk-internal-controls>

<sup>17</sup><https://www.comlaw.gov.au/Series/C2004Q00685>

<sup>18</sup>[https://www.aph.gov.au/About\\_Parliament/Senate/Powers\\_practice\\_n\\_procedures/Odgers\\_Australian\\_Senate\\_Practice/Chapter\\_13#h04.3.1](https://www.aph.gov.au/About_Parliament/Senate/Powers_practice_n_procedures/Odgers_Australian_Senate_Practice/Chapter_13#h04.3.1)

<sup>19</sup>[https://www.aph.gov.au/Parliamentary\\_Business/Chamber\\_documents/Senate\\_chamber\\_documents/standingorders/d00/Resolutions\\_expressing\\_opinions\\_of\\_the\\_Senate/d09#Procedural-orders\\_34](https://www.aph.gov.au/Parliamentary_Business/Chamber_documents/Senate_chamber_documents/standingorders/d00/Resolutions_expressing_opinions_of_the_Senate/d09#Procedural-orders_34)

necessary expenditure inadvertently not being supported by an appropriation where the definition is too narrow, is avoided.

### 3.1 Controls and integrity of the appropriations framework

There are a number of systems and controls in place to support the operation and preserve the integrity of the appropriations framework. This includes that annual Appropriation Bills are prepared in consultation with the Australian Government Solicitor (AGS) and the Office of Parliamentary Counsel.

The Government's policy intention for the use of appropriation items is set out in explanatory materials to the Appropriation Acts (which include explanatory memoranda and Portfolio Budget Statements) and guidance issued by Finance, such as RMG 100 *Guide to Appropriations*<sup>20</sup>.

The Budget Process Operational Rules (BPORs) contain detailed approval requirements for reallocations and reclassifications of expenses or cash flows which are funded through annual Appropriation Acts. Adherence to the BPORs and supporting estimates memoranda issued by Finance is mandatory for entities.

Under the FRR, appropriations are uniquely classified as material by nature<sup>21</sup>. This means that appropriations are not subject to a dollar value materiality consideration in entity financial reporting and the related financial statements audit processes undertaken by the Australian National Audit Office (ANAO).

### 3.2 Department of Defence (Defence) use of appropriations

In the Report, the Auditor-General has raised concerns regarding the implications for the appropriations framework of AGS advice provided to Defence in relation to Defence's use of an 'other departmental item' appropriation (equity injection) in *Appropriation Act (No. 2) 2020-2021* for the cancelled Attack Class submarine project contract termination payment.

In providing their advice and concluding that no breach of section 83 of the Constitution has occurred, the AGS noted that the terms 'equity injection' and 'non-operating' are not defined in the Appropriation Acts and that a court would not ascribe a meaning to these terms. The AGS considered that both 'equity injection' and 'non-operating' are accounting terms that do not have a natural meaning in the context of an Appropriation Act.

Finance has reviewed the legal advice and discussed this matter with the AGS, the ANAO and Defence. While Finance was not consulted by Defence in relation to the appropriation source prior to the termination payment being made, given the nature and circumstances of the payment under consideration, Finance formed the view that this is likely to have been an isolated, one-off occurrence.

While Finance does not believe there are strong grounds for concern that this instance is indicative that the controls and framework supporting the appropriation and expenditure of funds are not being followed by entities, we are working with the AGS to consider whether any clarifications are necessary in policy, legislation or guidance to ensure the continued integrity of the appropriations framework.

<sup>20</sup> <https://www.finance.gov.au/publications/resource-management-guides/guide-appropriations-rmq-100>

<sup>21</sup> <https://www.legislation.gov.au/Series/F2015L00131> - Subsection 35(1)