

Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Finance and Administration Portfolio

Department of Finance and Administration

November Estimates Hearings 2003-04 – 4 November 2003

Question: 22A

Outcome: 1 Sustainable Government Finances, Output: 1.2.2 Financial Reporting

Topic: Business Operations

Hansard page: N/A

Written Question on Notice: 4 November 2003

Senator Foreshaw asked:

Is it now a mandatory requirement to prepare a full set of financial statements for agencies designated as business operations? When did this become a mandatory requirement?

Answer:

Activities determined to be business operations are required to prepare a full set of financial statements.

Clause 1B.1 of the 2002-03 Finance Minister's Orders requires:

1B.1 The financial statements must be prepared for the following entities:

- (a) each Commonwealth Agency and Commonwealth Authority;
- (b) the economic entity, comprising the Commonwealth Agency or Commonwealth Authority and its subsidiaries;
- (c) the activity or activities of a Commonwealth Agency which is/are determined to be a Business Operation pursuant to *Financial Management and Accountability Orders* 6.2.1

All designated business operations were first required to prepare a full set of financial statements in 1998-1999. This arrangement continued for the 1999-2000 and 2000-01 years.

A voluntary reporting regime applied for 2001-02. This was because a level of duplication in reporting existed, as all designated business operations are also special accounts. Special accounts are reported by way of note disclosure in agencies' financial reports.

The Auditor-General wrote to Finance in May 2002, expressing a preference for mandatory reporting highlighting transparency and accountability issues.

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In response, a review was undertaken by Finance, which recommended re-instatement of the mandatory reporting requirements. This position was supported by the Australian National Audit Office and affected agencies. The mandatory reporting regime was re-introduced for 2002-03 and continues to apply.

Date: 9 December 2003

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Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Finance and Administration Portfolio

Department of Finance and Administration

November Estimates Hearings 2003-04 – 4 November 2003

Question: 22B

Outcome 1 Sustainable Government Finances, Output 1.1.2 Financial Reporting

Topic: Business Operations

Hansard page: N/A

Written Question on Notice: 4 November 2003

Senator Foreshaw asked:

How are these business operations identified as reporting entities?

Answer:

Reporting entities are defined under Statement of Accounting Concepts 1 *Definition of the Reporting Entity* (SAC1) at paragraph 40 as:

“...all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.”

Designated business operations are identified to be reporting entities as they have the characteristics of a reporting entity - users who are dependent on general purpose financial reports on the performance of the business operation's management of Australian Government resources, to make and evaluate decisions about the allocation of scarce resources.

At a practical level, decisions to identify business operations take into account the scale of the business operations, whether it is a distinct departmental activity, the significance of external revenue, whether it generates sufficient revenue to meet on an ongoing basis a major portion of its expenditure, whether it operates in a commercial manner, and the level of stakeholder interest.

Date: 28 November 2003

Cleared by (SES): Ian McPhee

Group/Branch: FMG/Accounting Policy

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ANSWERS TO QUESTIONS ON NOTICE

Finance and Administration Portfolio

Department of Finance and Administration

November Estimates Hearings 2003-04 – 4 November 2003

Question: 22C

Outcome 1 Sustainable Government Finances, Output 1.1.2 Financial Reporting

Topic: Business Operations

Hansard page: N/A

Written Question on Notice: 4 November 2003

Senator Forshaw asked:

How does an agency become designated as a business operation?

Answer:

Order 6.2 of the *Financial Management and Accountability Orders 1997* (FMA Orders) deals with the establishment of ‘business operations’ of agencies under the *Financial Management and Accountability Act 1997*.

Order 6.2 of the FMA Orders provides the Finance Chief Executive with the ability to determine that a specific activity, or activities, of an Agency are to be treated as a ‘business operation’ of the Agency.

Order 6.2 of the FMA Orders states:

“6.2.1 The Finance Chief Executive may issue a determination specifying the activity or activities of an Agency to be treated as a business operation of an Agency.”

The Finance Chief Executive has delegated this power to determine a business operation to the General Manager of Budget Group, in the Department of Finance and Administration.

Date: 4 December 2003

Cleared by (SES): Ian McPhee

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Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Finance and Administration Portfolio

Department of Finance and Administration

November Estimates Hearings 2003-04 – 4 November 2003

Question: 22D

Outcome 1 Sustainable Government Finances, Output 1.1.2 Financial Reporting

Topic: Business Operations

Hansard page: N/A

Written Question on Notice: 4 November 2003

Senator Forshaw asked:

Which agencies designated as business operations have not been following the legal requirement to report separately as well as continuing to be included in the agencies financial statements?

Answer:

Requirement for business operations to be reported as part of the Agency's financial statements:

Business operations are an activity within an agency, which form part of the "Agency" for the purposes of Clause IB.1 (a) of Schedule 1 of the *Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2003) Orders*.

For 2002–03, Clause IB.1 (a) of Schedule 1 of the *Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2003) Orders* required agencies to prepare full financial statements for the Agency, incorporating business operations of the Agency.

For 2002–03, all agencies complied with the requirement to report business operations within the Agency's financial statements.

Requirement for Business Operations to prepare separate financial statements:

For 2002–03, agencies were required, by clause 1B of Schedule 1 of the *Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2003) Orders*, to prepare full and separate auditable financial statements for business operations of the Agency as well as include business operations within the financial statements of the Agency.

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In 2002–03, all agencies with business operations complied with the requirement to prepare a separate financial statements for those business operations.

The Department of the Treasury did not prepare a separate set of financial statements for the activities of the Australian Government Actuary Account business operation for 2002–03 because it was granted an exemption due to the immaterial nature of the financial balances of the Australian Government Actuary Account business operation for 2002–03.

Date: 4 December 2003

Cleared by (SES): Ian McPhee

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ANSWERS TO QUESTIONS ON NOTICE

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Department of Finance and Administration

November Estimates Hearings 2003-04 – 4 November 2003

Question: 22E

Outcome 1 Sustainable Government Finances, Output 1.1.2 Financial Reporting

Topic: Business Operations

Hansard page: N/A

Written Question on Notice: 4 November 2003

Senator Forshaw asked:

Can you provide a list of business operations and indicate which ones have met this requirement and which ones haven't?

Answer:

For 2002–03, business operations were required, by clause 1B of Schedule 1 of the *Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2003) Orders*, to prepare full and separate auditable financial statements.

Table 22E.1 (below) outlines the activities of agencies that were designated as business operations for the purposes of 2002–03 financial reporting, as well as their compliance with the requirement to report as a business operation. All business operations that were required to have prepared separate financial statements did so. Also, all business operations were reported included in the financial statements of the relevant Agency.

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Table 22E.1:

Agency	Business Operation	Business operation financial statements 2002–03?	Agency financial statements 2002–03?
Australian Federal Police	Australian Protective Service Account	Yes	Yes
Department of Agriculture, Fisheries and Forestry	Australian Quarantine Inspection Service Account	Yes	Yes
	National Residue Survey Trust Account	Yes	Yes
Department of Finance and Administration	Business Services Trust Account	Yes	Yes
Department of Health and Ageing	CRS Australia	Yes	Yes
	Therapeutic Goods Administration Account	Yes	Yes
Department of Industry, Tourism and Resources	Australian Government Analytical Laboratories Account	Yes	Yes
Department of the Treasury	Australian Government Actuary Account	No – however, exemption granted.	Yes
	Australian Valuation Office Account	Yes	Yes – in the report of the Australian Taxation Office.
	Royal Australian Mint and Coinage Account	Yes	Yes

Date: 4 December 2003
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