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Government**
Treasury

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PUBLIC ACCOUNTS COMMITTEE

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Public Accounts Committee
Inquiry into Financial Reporting**

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1 INTRODUCTION

This submission seeks to contribute to the Committee's Inquiry into financial reporting from the perspective of Treasury's whole-of-Government role in financial management policy and government financial reporting.

It is noted that for the purpose of this inquiry the Committee has defined financial reporting to cover both audited and unaudited financial information.

Financial reporting is of course just one element of Queensland's financial management framework. In considering issues of the form and usefulness of financial reporting it is important to view financial reporting in the broader context of the financial management framework. Accordingly this submission focuses on the evolution of the current financial management and reporting framework over the last ten years, as well as current issues and developments that will shape its further evolution, particularly in terms of financial reporting.

2 EXECUTIVE SUMMARY

The Queensland Government's financial reporting and performance framework has undergone significant change over the last ten years. This had included the introduction of accrual accounting, the adoption of Australian Accounting Standards for Government and changes in performance reporting by the public sector.

Recent reforms in public sector financial management across all Australian jurisdictions have sought to strengthen decision makers' focus on outcomes for the community, rather than measuring success purely in terms of either resources consumed or services delivered.

While this approach delivers significant benefits in terms of identifying and measuring the impact that Government services have on communities' experiences, it also poses challenges for public sector administration.

Managing for Outcomes (MFO) framework is the Queensland Government's financial management framework and includes a comprehensive and integrated framework of planning, resource management, and performance management. In addition the Charter of Social and Fiscal Responsibility outlines the Government's social and fiscal principles and is an integral part of the Government's commitment to the community.

Currently the Queensland Government budgets and reports financial performance under two different reporting frameworks:

- Uniform Presentation Framework (GFS); and
- Australian Accounting Standards (GAAP) – AAS29 for Departments and AAS31 for the State

The primary users of public sector reports include Members of Parliament and the public that have an interest in the financial performance/operation of the Queensland Government, Government bodies such as other State and Territory and the Commonwealth governments, Professional accounting bodies, academics, and other interested organisations, Australian Bureau of Statistics (ABS), Commonwealth Grants Commission and Ratings agencies.

To achieve the objective of producing reliable and relevant financial information, the rules underpinning the assumptions made in the preparation of the information needs to be based on robust reporting frameworks that are transparent, consistently applied and comparable with other Government jurisdictions.

Australian Accounting Standards and the UPF framework of accounting provide for such robust frameworks. However, it is fair to say that detailed interpretation and analysis of the financial information does require some understanding of the rules underpinning their preparation.

Within the Australian public sector, two emerging developments which have the potential to impact the financial reporting in the future include the adoption of Australian Equivalents for International Financial Reporting Standards in 2005-06 and convergence of the Government Finance Statistics (GFS) and Australian Accounting Standards (AAS) frameworks.

With the increasing globalization of commerce, an attempt to rationalize the national accounting standards to transition to a converged international set of financial reporting standards (IFRS) has begun. The main financial impacts expected as a result of the implementation of IFRS are expected to occur as a result of the standards relating to the treatment of financial instruments (many of which were previously 'off balance sheet'), the calculation of superannuation liabilities, the treatment of revaluations of assets on an individual rather than a class basis and the application of the concept of impairment to not-for-profit entities. Relatively speaking, the financial impacts on a whole of Government basis are to be limited.

It is hoped the convergence of these frameworks will reduce the reporting burden of government and result in the 'one bottom line' against which their performance can be evaluated.

3 QUEENSLAND'S FINANCIAL MANAGEMENT FRAMEWORK

3.1 Key Elements of the Framework

The Queensland Government's financial and performance framework has seen significant change in the last 10 years in response to:

- changing public expectations of modern public administration in terms

of service delivery, achievement of positive outcomes for the community, and accountability;

- changes to external reporting information requirements; and
- national and international trends in public administration in particular, and management in general.

A significant reform process during this period was articulated in the Queensland Government's Strategy for Improving Financial Management in the Leading State (June 1994). The Strategy presented a framework to ensure that the Government's financial management policies, standards and practices represented world's best practice in public sector financial management through a development process over the succeeding three to five years.

The Strategy set three financial management goals – to:

- ensure that government services are provided on the basis of best value for money;
- maintain the State's infrastructure in a condition appropriate for present and future generations; and
- preserve the long term financial stability of the State.

In support of these goals, the Strategy also enunciated seven guiding principles: client focus, fiscal discipline, high standards of expertise for staff; clarity of objectives; performance measurement and evaluation; management authority and autonomy; and accountability.

In the late 1990s, most Australian jurisdictions were investigating a move from the traditional cash budgeting systems to some form of accrual and/or output-based budgeting system.

Queensland's approach to accrual output budgeting was termed 'Managing for Outcomes' (MFO), and was implemented within all departments and some statutory bodies from 1 July 2000. This was the most significant reform process within the Queensland public sector since the implementation of the Financial Management Strategy.

The MFO framework included a comprehensive and integrated framework of planning, resource management, and performance management, and its principles have shaped Queensland's financial and performance framework as it stands today. Elements of the current framework have evolved to address specific issues and changing circumstances since the implementation of MFO.

Figure 1 demonstrates the current framework at its highest level. Individual components of the framework are further explained in the table following.

This framework continues to be reviewed over time to ensure that it promotes value for

money, improved stewardship of and accountability for public monies, contributes to Queensland's ability to meet external reporting requirements and reflects best practice financial and performance management.

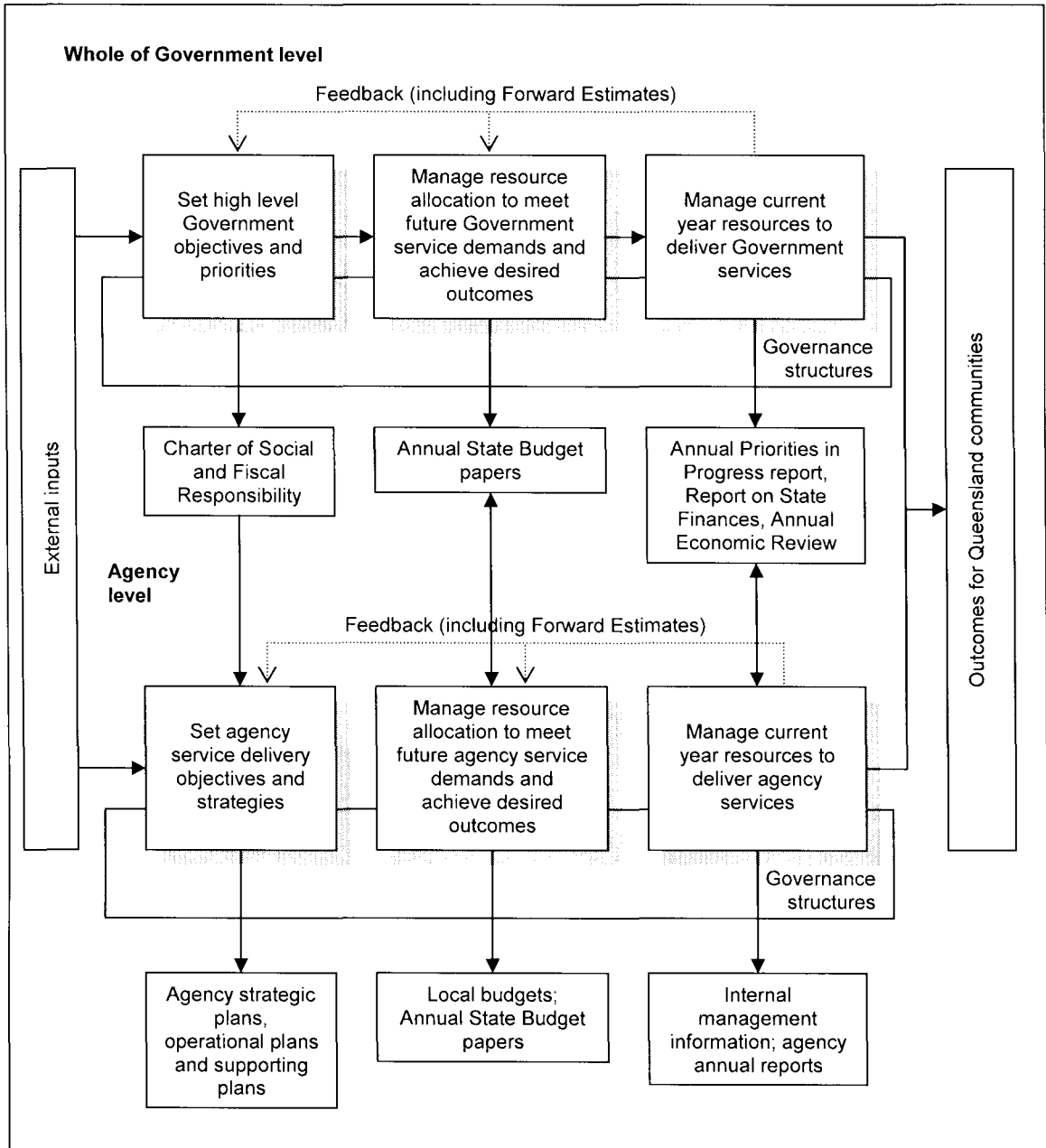


Figure 1: Queensland's Financial Management Framework

Individual components of the framework are further explained in the table below.

Component	Explanation	Deliverable
Set high level Government objectives and priorities	The Government specifies the outcomes that they are seeking to achieve in the longer term, and their shorter term priorities	The <i>Charter of Social and Fiscal Responsibility</i> details the community outcomes and the Government's current priorities
Set agency service delivery objectives and priorities	Agencies' strategic planning processes take into account how the agency will contribute to the Government's overarching objectives and priorities	Agency strategic plans are published annually. Supporting plans (operational plans, asset strategic plans, ICT resources strategic plans) are produced annually for internal use
Manage resource allocation to meet future Government service demands and achieve desired outcomes	This element represents Cabinet Budget Review Committee processes within the annual State Budget process	Annual State Budget Papers and Ministerial Portfolio Statements represent the result of this process
Manage* resource allocation to meet future agency service demands and achieve desired outcomes	This element represents agencies' role in the annual State Budget process, including preparing, prioritising and advocating Budget submissions	As above, plus agencies' internal budgets (not public documents)
Manage* current year resources to deliver Government services	During the current Budget year, Treasury, on behalf of Government, manage financial and non-financial performance at the whole-of-Government level	<ul style="list-style-type: none"> The annual Priorities in Progress report includes information on economic, social and environmental outcomes The annual Report on State Finances includes whole-of-Government financial statements The Annual Economic Report details economic performance
Manage* current year resources to deliver agency services	All Accountable Officers are required by the Financial Management Standard to ensure that their agencies' resources are managed efficiently and effectively	<ul style="list-style-type: none"> Agencies produce management information to meet the information needs of Accountable Officers (not public documents) Each agency is required to produce an annual report, including both financial and non-financial performance information, each year
Governance structures	All functions within the components listed above are underpinned by comprehensive governance and accountability frameworks	<p>Financial management functions within Government agencies are governed by the <i>Financial Administration and Audit Act 1977</i> and the <i>Financial Management Standard 1997</i>;</p> <p>Accountability structures within this framework include such bodies as:</p> <ul style="list-style-type: none"> the Queensland Audit Office the Public Accounts Committee Estimates Committees, etc.

1 "Manage" includes monitoring and reporting on financial and non-financial performance

The first *Charter of Social and Fiscal Responsibility* was established in August 1999, pursuant to Part 1A of the *Financial Administration and Audit Act 1977*. The Charter outlines the Government's social and fiscal principles and is an integral part of the Government's commitment to the community.

In the current Charter (April 2004) social principles are framed as a set of community outcomes, and current Government priorities within those outcomes. Fiscal principles have been framed to meet a number of objectives, with the overriding requirement to maintain the integrity of the State's finances. The fiscal principles establish the basis for sustainability of the Government's policies. The Government regularly publishes a number of reports to support this Charter and ensure accountability and transparency for the outcomes of Government decisions. These reports include:

The Annual State Budget papers	<ul style="list-style-type: none"> • information detailing the performance of the Government in meeting its fiscal objectives • a tax expenditure statement, detailing revenue foregone as a result of government decisions; • a capital funding statement; • an analysis of the sensitivity of the fiscal estimates to changes in the major economic and other assumptions used in estimating that present year results and forward estimates; and • an explanation of the major assumptions (economic and other) underpinning the Budget forward estimates.
Mid Year Fiscal and Economic Review	<ul style="list-style-type: none"> • six-monthly updates of the Budget position and four-year forward estimates including economic assumptions and forecasts.
Report on State Finances	<ul style="list-style-type: none"> • At the end of each financial year, under Section 38B of the <i>Financial Administration and Audit Act 1977</i>, the Government presents annual whole-of-Government financial reports, including a statement of financial performance, a statement of financial position, a cash flow statement, and information about contingent liabilities.
Priorities in Progress	<ul style="list-style-type: none"> • Discusses performance across a range of qualitative and quantitative performance indicators relating to outcomes experienced by Queensland's communities; • Major reviews during the year of Government's activities and programs; and • Outlines new initiatives, legislation and policy changes implemented or to be implemented in the coming year.

Social and fiscal objectives contained within the Charter provide guidance to agencies in developing their strategic plans. Section 17(4) of the Financial Management Standard 1997 requires that agencies' strategic and operational plans be developed in the context of the Government's social and fiscal objectives. In this way, agencies' strategic plans articulate the strategies that individual agencies will put in place to ensure that their business reflects and contributes to the whole-of-Government strategic agenda.

Asset strategic plans then describe issues relating to the agency's asset requirements in the medium to long term, as they relate to the delivery of services as described in the agency's strategic plan. Agencies submit their asset strategic plans to Treasury in August each year to enable Treasury to formulate a view of asset management across all agencies.

A whole-of-Government approach to asset maintenance and management is critical to ensuring that value-for-money outcomes are achieved and service delivery outcomes are enhanced.

The *Financial Management Standard 1997* provides the legislative framework for agencies responsibilities in relation to asset strategic planning and asset management. Elements of the asset management framework have evolved to address specific issues and needs since the implementation of MFO.

Improvements in maintenance and management are not likely unless agencies and Government at all levels have access to relevant, reliable and timely information on assets. Queensland Treasury and the Department of Public Works have prepared numerous publications to facilitate agencies provision of this information. These publications are subject to continual review processes and are updated on an as needs basis.

3.2 Performance Management Elements of Framework

Improvements in performance management were one of the main objectives of the introduction of the Managing for Outcomes Framework in 1999-2000. As its title implies, Managing for Outcomes focused managers' attention on service deliverables, and the impacts of those deliverables on the community.

The MFO framework aimed at improving the quantity and quality of performance information available to managers and decision makers at all levels of the financial management framework.

Figure 2 demonstrates the current performance management framework, at its highest level.

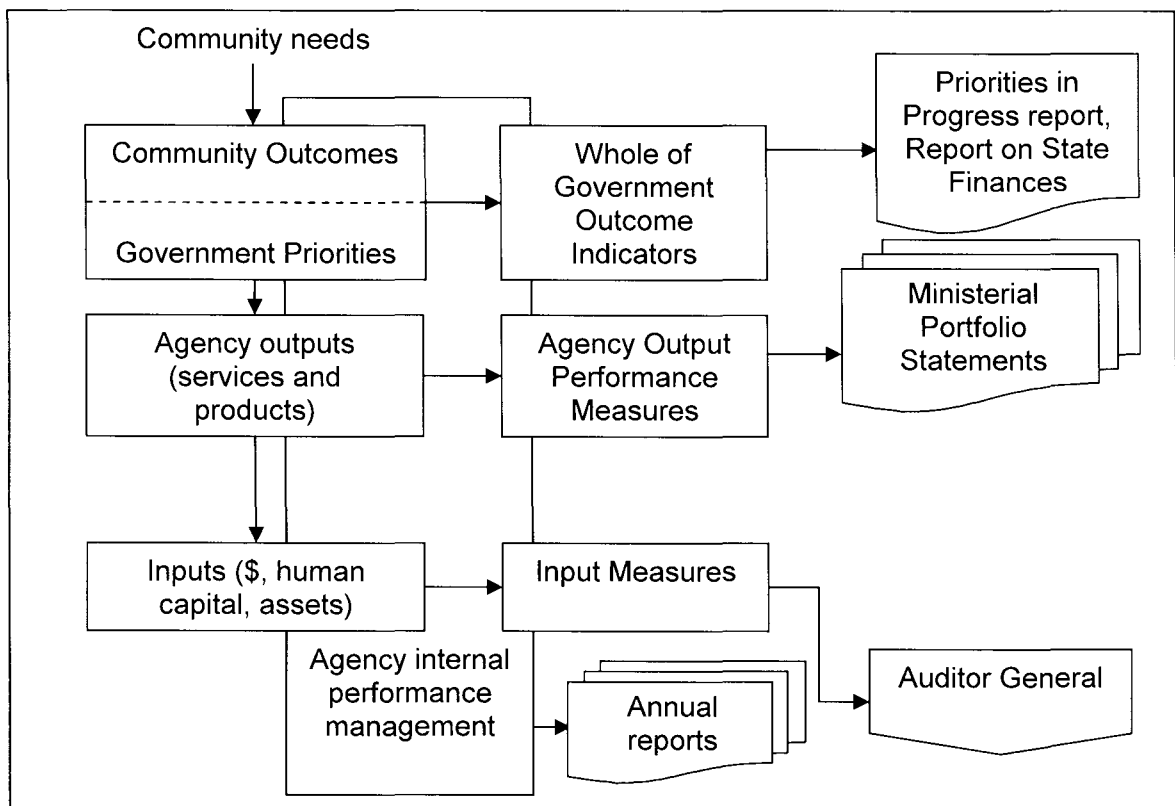


Figure 2: Queensland's Performance Management Framework

Elements of the framework are further explained in the table below.

Element	Performance Measurement	Deliverable
Community needs	The Government's assessment of Queensland communities' needs will contribute to the development of its Priorities. These are usually reflective of the policy platform on which the Government was elected.	Contribute to the development of Priorities
Community Outcomes	Government Outcomes represent a comprehensive list of the Government's objectives for the community. Priorities represent the Government's current focus within those broader objectives.	Priorities in Progress report
Priorities	A set of whole-of-Government Outcome Indicators are used to assess performance in achieving these objectives. The indicators have been developed to comprehensively represent Queenslanders' experiences in relation to economic, social and environmental factors. Performance against these outcome indicators including, to the extent possible, comparisons of that performance with other jurisdictions and over time, is reported annually in the Priorities in Progress report (see Section 9).	
Agency Outputs	Delivery of agencies' outputs, or services and products, is assessed using performance measures in terms of quantity, quality, timeliness, [unit] cost and, where relevant, location. Ministerial Portfolio Statements (see Section 6) include, for each output: <ul style="list-style-type: none"> • the resources consumed in delivering the output (previous year budget and estimated actual, and Budget year estimate), • performance measures for the output, and • performance targets for each measure (previous year budget and estimated actual, and Budget year estimate). 	Ministerial Portfolio Statements
Inputs (\$, human capital, assets)	Accountable Officers and Statutory Bodies are required under both the <i>Financial Administration and Audit Act 1977</i> and the <i>Financial Management Standard 1997</i> to ensure that the agency is operating efficiently, effectively and economically. It is the role of the Queensland Auditor General to ensure that agencies comply with statutory requirements.	Reports of the Queensland Auditor General

Element	Performance Measurement	Deliverable
Agency performance management	Supplementing these external performance measurement and monitoring requirements, individual agencies monitor performance at all levels of the framework in order to inform internal planning and resource management decisions, and to inform staff, clients and stakeholders of the impacts of the agency's activities.	Internal performance reporting, annual reports

The application of non-financial performance information within Government raises complex issues around the level at which to measure outputs – or service deliverables – and outcomes – or the impacts of those services. Ongoing attention to this issue in all Australian jurisdictions indicates that these challenges are not unique to Queensland.

Queensland Treasury is currently examining its non-financial performance monitoring procedures to ensure that:

- the non-financial performance information provided by agencies is comprehensive, provides sufficient detail, timely, and is provided efficiently; and
- Queensland Treasury applies that information effectively in fulfilling its role of advising the Treasurer and Cabinet Budget Review Committee on resource allocation and management issues.

Current projects include assessing the efficiency and effectiveness of performance monitoring activities, and the consequent development of monitoring strategies for the 2005-06 financial year. The project is being undertaken jointly by Treasury Office and the Office of Economic and Statistical Research, with input from selected agencies and the Queensland Audit Office, and complements the Queensland Audit Office's current increasing focus on performance management systems.

The long term goals of this project are to:

1. make better use of non-financial performance monitoring within Treasury;
2. identify and implement ways to influence agencies to place increased value on the use of non-financial performance information in planning and decision making; and
3. increase the value derived from non-financial performance information overall.

In consultation with the Queensland Audit Office, the Office of Economic and Statistical Research is also in the process of developing better practice performance management guidelines for Queensland Government agencies.

3.2.1 The Priorities in Progress Report

Annual publication of the Priorities in Progress report is a requirement of the Charter of Social and Fiscal Responsibility.

The report provides information for stakeholders – Members of Parliament, Departmental staff, key community groups, community members, and other government jurisdictions – with information about the current state of the economy, communities and the environment, and strategic governance issues for Queensland.

The first Priorities in Progress report was published for the 1999-2000 financial year as part of the implementation of the Managing for Outcomes Framework. The latest report – for the 2003-04 financial year – was published in January 2005.

As much as possible, the report compares Queensland results with those of other jurisdictions and/or illustrates changes in Queensland's performance over time. To maximise the benefits of monitoring time series data, indicators are relatively stable: approximately 90% of the indicators included within the report do not change over time. Changes to indicators (for example, to reflect enhanced data availability) and new indicators are highlighted throughout the report and in an index.

To complement performance information, the report also features significant evaluation, policy and legislative developments of the Government during the year to which it relates, and future policy directions. In this way, the report provides the reader with a comprehensive view of current performance (with comparative data where possible) and significant current and planned responses to that performance level.

The report is distributed broadly throughout Queensland, including to state and local government libraries, and is available electronically on Queensland Treasury's website.

It is important to note that the Priorities in Progress report includes information on a broad spectrum of community experiences. While these experiences are likely to be influenced by Government policy and other interventions, they are also influenced by other factors outside of the Government's control. For example, while Government policy will impact on the local economy, this will also be influenced by national and global conditions.

3.2.2 Report on Government Services

Australian governments (through the Council of Australian Governments) established the Review of Government Services Provision to provide information on the efficiency and effectiveness of government services in Australia. The Australian Government's Productivity Commission provides the Secretariat for the production of the Report on Government Services (ROGS) annually. The first report was published in 1995. The report compares the efficiency and effectiveness of services in the areas of education, health, justice, emergency management, community services and housing across all States and Territories. The tenth annual edition of the Report was released in January 2005.

Development of ROGS is supported by a Steering Committee comprising representatives from central agencies in the Commonwealth, States and Territories. The Steering Committee is, in turn, supported by inter-jurisdictional working groups for each of the sections (i.e. areas of service delivery) of the report. Working groups consist of representatives from the relevant government agencies in each State.

Queensland is represented on the Steering Committee by senior representatives of Treasury and the Department of Premier and Cabinet, and on each of the Working Groups by a departmental representative from an agency relevant to the area of government service.

Efforts have been made in recent years to improve the value and quality of data contained in the report. Working groups have developed comprehensive reporting frameworks for each service area, and are progressively expanding and improving the indicators used within those frameworks. For each performance indicator, the report stipulates whether

data is comparable across jurisdictions.

Notwithstanding these efforts, there are limitations to the comparability of performance across jurisdictions due to different data definitions and different service delivery scope, such as (for example) differences in matters dealt with by different judicial systems across the states. Comparability may also be affected by a range of factors beyond the control of service agencies including differences in clients, available inputs, prices and geography and comparisons of performance across jurisdictions need to consider these factors. For example, Queensland has a widely dispersed population while Victoria does not which impacts on service provision.

Individual jurisdictions and working groups are continuing to strive to improve the value provided by performance information included within this report and, indeed, all Government performance reports. This is an evolutionary process and will continue to develop and improve over time.

4 FINANCIAL REPORTING

4.1.1 Description of Frameworks

Currently the Queensland government budgets and reports financial performance under two different reporting frameworks:

- Uniform Presentation Framework (GFS); and
- Australian Accounting Standards (GAAP) – AAS29 for Departments and AAS31 for the State

The primary objective of the Uniform Presentation Framework (UPF) is to ensure that the Commonwealth, State and Territory Governments provide a common ‘core’ of financial information. This includes reporting of expenditure by function/purpose within the General Government sector.

The format of the UPF is based on the reporting standards of the Australian Bureau of Statistics’ Government Finance Statistics (GFS) framework and includes common accrual-based budgetary and fiscal information. The GFS framework includes only those transactions over which a government exercises control under its legislative or policy framework. The UPF presentation framework is primarily structured on a sectoral basis with a focus on the General Government and Public Non-Financial Corporation sectors.

The operating statement presents information on GFS revenues and GFS expenses. This statement shows the full cost of resources consumed by the government in achieving its objectives, and how these costs are met from various revenue sources. The balance sheet records a government’s stocks of financial and non-financial assets and liabilities thereby disclosing the resources over which a government maintains control. GFS excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets.

Australian Accounting Standards AAS29 and AAS31 require adoption of a full accrual basis of accounting. Transactions are recorded when they have their economic impact rather than when the cash flows associated with these transactions occur. The standard prescribes model general-purpose reports which can be modified to suit the needs of the reporting entity. These statements are audited by the Queensland Auditor General, and accord with generally accepted accounting principles (GAAP).

Financial reporting undertaken by Agencies and the State (whole-of-Government) are outlined in the table below:

Agency		Whole-of-Government	
Financial Report	Governing Legislation/Reporting Framework	Financial Report	Governing Legislation/Reporting Framework
Ministerial Portfolio Statements	<i>AAS29 - Financial Reporting by Government Departments</i> Finance Circulars and Budget directions issued by Treasury under the FAA Act	State Budget (BP2) including -Financial Statements -Expenditure by purpose -Tax Expenditure Statement and Statement of Risk -Loan Council Allocation	Uniform Presentation Framework/GFS
		Mid year Financial and Economic Review	Uniform Presentation Framework/GFS Charter of Social and Fiscal Responsibility
		Treasurer's Annual Statement (Quarterly and Annual*)	FAA s38A
Annual Report including Financial Statements*	<i>AAS29 - Financial Reporting by Government Departments, FAA Act, FMS, Treasurer's MRRs and Dept Premier and Cabinet Guidelines for Annual Reports</i>	Report on State Finances including: -Outcomes Report Consolidated State Financial Report*	Uniform Presentation Framework/GFS Charter of Social and Fiscal Responsibility <i>AAS31 - Financial Reporting by Government, FAA s38B</i>

* - subject to audit by the Queensland Audit Office

4.1.2 History of Current Financial Reporting Frameworks

The transparency and comprehensiveness of government financial reporting has been improving steadily in recent years both from a GFS and GAAP basis.

Government Finance Statistics (GFS) were developed in 1986 by the International Monetary Fund (IMF) and establish the standards for compilation and presentation of fiscal statistics as part of a worldwide trend toward greater accountability and transparency in government finances, operations and oversight.

In 1991, all jurisdictions in Australia, through the Australian Loan Council worked to develop uniform reporting arrangements, using the Australian Bureau of Statistics' Government Finance Statistics (GFS) standard.

This was subsequently updated into the Uniform Presentation Framework (UPF) in 1997. This framework was the first to recognise publicly the looming revolution in public sector reporting in Australia as a result of the decision by the Public Sector Accounting Standards Board to reform public sector accounting onto an accrual basis.

Prior to 1997, governments in Australia prepared both budgets and financial reports on a cash basis. Budgets and financial reports were based on the particular public account fund structure in each jurisdiction. For example, Queensland's public accounts were structured into the Consolidated Fund and a number of Trust and Special Funds. Accordingly, reports were limited to the cash outlays made for operations and acquisition of assets for public sector entities during the year. There was no composite record of assets held by government, and the 'custodial' responsibility for assets became confused over time. Financial statements represented operating and capital cash outflows with considerable flexibility in the timing of disclosures across financial years. This made it difficult to appreciate the fiscal position of Government at any one point in time, in particular from a completeness view point.

As a result of public demand for increased transparency and accountability, governments in Australia agreed to report their annual financial results, by department (1996-97) and later on a whole of government basis (1998-99), in accordance with the same generally accepted accounting principles (GAAP) and Australian standards as applied to the private sector – to the degree relevant - with the addition of some public sector specific standards to cater for those transactions unique to government.

This transitioned government from cash to accrual reporting for their end of year performance (operating result) and established a composite record of assets and liabilities held across agencies to report on the financial position (balance sheet) for both departments and States/Territories. These reports are termed General Purpose Financial Reports as they are designed to meet the informational needs of users who are 'reasonably knowledgeable' but who cannot command specific information from the reporting entity.

The UPF was revised by the Australian Loan Council in March 2000 to include common accrual-based budgetary and fiscal information. Queensland introduced accrual budgets from 1999-2000. The Australian Bureau of Statistics introduced the accrual GFS framework with the release of its 1999-2000 *Government Financial Estimates* publication in early 2002.

Both the GAAP accruals basis of accounting and the GFS framework provide for the preparation of a Cash Flow Statement to facilitate a review of the solvency of reporting entities – both private and public sector – to ensure that liabilities/debts can be met as and when they fall due.

Cash is a simple concept and readily understood. However, as an accounting methodology it fails to allocate the cost of service delivery across the periods in which the benefit will be derived. Cash accounting is the basis traditionally used by government and continues in use in many countries today – for both budgeting and financial reporting. However, most countries are committed to adopting an accrual statistical/macro-economic framework over time to improve comparability and comprehensiveness of performance reports prepared on this basis.

Accrual accounting is supported by a rigorous framework of concepts and principles which can be applied to both private and public sectors. Financial reports prepared under the GAAP accrual framework are externally audited by the Queensland Audit Office, which enhance their credibility. As the accrual financial reports prepared by government adopt the same principles and a similar format to their private sector counterparts, they should be easily understood and interpreted by a knowledgeable reader of company accounts.

While the objectives of most public sector entities can be distinguished from those of the private sector in that government focus is service delivery rather than the generation of profit, many transactions and events of government ‘business’ reflect those in the private sector.

A key fiscal principle in the Government’s *Charter of Social and Fiscal Responsibility* is to ensure that service provision is financially sustainable by maintaining an overall General Government accrual operating surplus in GFS terms. Only by ensuring that accruing revenues are at least matching accruing expenses (such as asset depreciation and accruing employee expenses) can Governments demonstrate the fiscal sustainability of current service provision.

4.1.3 Impact of Implementation of Accrual Accounting

As noted above, the implementation of accrual accounting has provided a comprehensive framework that was lacking under cash accounting to support the concept of fiscal sustainability at both the whole-of-Government level and at the agency level.

Importantly, accrual accounting provided for the explicit recognition of assets and liabilities through balance sheets and the linkages between these assets and liabilities to an operating statements (such as the progressive consumption of an asset’s service potential through depreciation or the future superannuation liabilities arising from current year service provision).

At a whole-of-Government level these linkages are critical to assessing the ongoing capacity of Government to deliver current services and to also ensure that intergenerational equity is achieved in the financing of government services, i.e. that today's community should pay for the full cost of services they receive without passing these costs onto future taxpayers. This concept of intergenerational equity underpins Queensland's current fiscal policy principles.

At both the whole-of-government level and at agency level there are significant managerial benefits (beyond issues of fiscal sustainability) from accrual accounting. In order to drive improvements in efficiency and effectiveness it is critical to be able to measure the full cost of services (e.g. under cash accounting the use of existing assets in delivery services is only recognised in terms of cash maintenance costs).

While there can be considerable challenges in accurate cost attribution to individual services, the alternative of ignoring non-cash costs in managing resource allocation and delivering services is not an appropriate alternative.

Clearly, the downside of the move to accrual accounting for external users of accrual based financial statements and information is that they are inherently more complex. The fact that there are two accrual based sets of information at the whole-of-government level (GFS and AAS31) obviously also adds to this complexity. Moves toward the convergence of the GFS and GAAP frameworks are discussed in section 4.2

4.2 Agency Financial Reporting including Ministerial Portfolio Statements and Annual Reports

4.2.1 Annual Reports (including financial statements)

The *Financial Administration and Audit Act 1977* (Ss. 30 and 46J) requires public sector entities to prepare written Annual Reports which must contain details of the operations of the entity during the financial year, information required under the *Financial Management Standard 1997* and a copy of each set of the entity's general purpose financial statements, including the Auditor-General's certificate. These Annual Reports are to be tabled in Parliament within four months of the end of each financial year. Sections 95 and 96 of the *Financial Management Standard 1997* (FMS) also provide for additional information to be contained within these reports. While some content is mandated to ensure minimum disclosures are met, the Annual Report is designed to be a significant accountability document for entities and an opportunity for management to showcase achievements over the previous financial year.

Governments in Australia have agreed to adopt applicable Australian Accounting Standards when preparing annual financial statements. The Australian accounting standard setting body, the Australian Accounting Standards Board (AASB), has also made public sector specific standards to cover those transactions and balances unique to government. This means that, to the degree relevant, public sector entities comply with the same accounting and reporting conventions as used by the private sector. The financial reporting standard which applies to Departments is *AAS29 Financial Reporting for Government Departments*. These financial statements are subject to audit by the Auditor-General. Compliance with these standards forms part of the Auditor-General's review.

AAS29 requires the disclosure of previous years achieved results as comparatives. Accordingly the financial statements do not provide for comparison of achieved results against the budget estimates for the reporting year. The Australian Accounting Standards Board is expected to release in July 2005 an Exposure Draft on Financial Reporting by the General Government Sector. Subject to the results of the consultation process, the new standard is proposed to become operative from 1 July 2007. One significant change to current practice proposed in the Exposure Draft is to recast the budget for the General Government Sector into the same format and on the same basis as the end of year financial statements have been prepared, with explanations of material variances between original budget and actual results.

To reflect the high level of accountability expected of government entities, the Treasurer also issues Minimum Reporting Requirements which specify the detailed accounting treatments and disclosures required of departments and statutory bodies in preparing their annual financial statements. These Minimum Reporting Requirements are the mandated policy section of the Financial Reporting Requirements issued by Treasury, usually on an

annual basis. Additional guidance material on complex accounting issues and a set of model financial statements are also contained in the Financial Reporting Requirements to assist consistency of reporting in the public sector.

While audited financial statements have a compliance dimension in terms of format, content and disclosure, they provide a standardised and consistent framework against which the financial health of an agency can be assessed. Depending on the user, this may be as simple as ensuring that the agency's revenues match its expenses or may include a more detailed analysis, for example, assessing the liquidity of an agency through review of ratios such as current assets to current liabilities.

The Department of Premier and Cabinet releases Annual Reporting Guidelines. This annual publication collates for public sector entities the many disclosure requirements contained across various pieces of legislation and includes disclosure of the agency's performance against specific outcomes/priorities of the Government.

While generic disclosures can be identified, discretion rests with public sector entities to ensure that all information relevant to discharge stewardship of resources entrusted to the entity is adequately reported in Annual Reports.

Annual Reports are required to be tabled in Parliament by the end of October.

4.2.2 Ministerial Portfolio Statements (budget reporting)

The Ministerial Portfolio Statements (MPS) documents contain financial and non-financial information about each Ministerial Portfolio.

The Ministerial Portfolio Statements (MPS) are forward looking in their focus and provide predominantly budgeted financial and non financial information for the new financial year. In this way, they complement agency annual reports, which document actual performance (including audited financial statements) for the previous financial year. Given the timing of the State Budget, final information about actual financial and non-financial performance is not available when the MPS documents are produced and accordingly, an estimate of performance and position is shown throughout the MPS documents. An output performance section is prepared for each output in the portfolio.

While the functions of an individual government agency will span a large number of activities (ie services, schemes and programs), in order for the MPS to provide a high level view of the planned budget for an agency, these range of activities are aggregated into broad outputs to facilitate the presentation of information and to better link activities that are contributing to key agency and government priorities and outcomes.

The MPS's include for each output a summary of performance measures in terms of quantity, quality, timeliness and cost. The relevance, usefulness and comprehensiveness of these measures are subject to ongoing review by agencies and central agencies. In this context it is important that the starting point for performance measures is information which is required by agencies to effectively allocate and manage their resources to deliver required outcomes.

Departments use the GAAP accrual basis with specific reference to the disclosure requirements of AAS29 to present their budgets in their Ministerial Portfolio Statements. As currently departments must prepare annual financial statements on a GAAP basis the standardised use of GAAP in departmental reporting enhances comparability between their budgeted and estimated actual results.

Ministerial Portfolio Statements (MPSs) are the primary source of information for the hearings of the Parliamentary Estimates Committees. These hearings examine funding provided in the State Budget to each Ministerial portfolio, and take place following the presentation of the Budget.

Agency financial reports (both MPS and Annual reports) are used by Members of Parliament, the media, academics/students, the public and other interested parties to obtain information on strategies and prospective outcomes and financial performance of individual Queensland government agencies.

Given, the volume of information that is potentially available for inclusion in the MPSs and annual reports the ongoing challenge is to achieve a balance between the level and quantity of detailed information to be included and the broad needs of users of these documents.

4.3 Whole-of-Government Financial Reporting

4.3.1 Treasurers Annual Statement

The *Financial Administration and Audit Act 1977* (s38A) outlines the Treasurer's accountability for the Consolidated Fund. This section requires the preparation of quarterly statements disclosing for each quarter, cash receipts deposited into and amounts paid from, the Consolidated Fund operating account. In addition the balance of the Consolidated Fund bank account and investment accounts must be disclosed. Section 38A also requires the preparation of the Treasurers Annual Statement within three months after the end of the financial year. This statement is subject to audit by the Auditor General and tabled in Parliament with a particular focus in reporting payments from the Fund to Government departments.

4.3.2 State Finance Report

Consolidated whole-of-Government financial statements are required to be prepared by the Treasurer under *section 38B* of the *Financial Administration and Audit Act 1977* within six months after the end of each financial year. These financial statements are prepared in accordance with generally accepted accounting principles and *AAS31 Financial Reporting by Government*, audited by the Auditor General, and tabled in Parliament.

The AAS 31 report presents the operating result, financial position and cash flows of the Queensland Total State sector on a consolidated basis. These statements provide a consolidated view of the States position including its investments in joint ventures, public private partnership arrangements, expenditure commitments, assets held in trust, contingent assets and liabilities of the State, and employee benefits/superannuation commitments.

The Outcomes (GFS) report contains financial statements prepared and presented on a Government Finance Statistics (GFS) basis in accordance with the Uniform Presentation Framework (UPF) and consistent with the Budget presentation. The Outcomes Report compares the actual results for the reporting year with the estimated actuals reported in the most recent Budget papers. The report also includes general government expenses, capital purchases of non-financial assets by function, Loan Council Allocation (LCA) outcomes and assesses the State's performance against the fiscal principles outlined in the *Charter of Social and Fiscal Responsibility*. For example, Queensland's competitive tax environment is measured as the taxation revenue per capita in Queensland compared to the other states.

The GFS Outcomes Report and the Consolidated Financial Statements focus on different aspects of Government finances. The Consolidated Financial Statements outline the operations of the Queensland Government including valuation adjustments whereas the Outcomes Report removes valuation adjustments (as required under the GFS framework) to reflect costs more appropriately related to the underlying operations of Government.

In 2002-03, Queensland Treasury combined these two differing frameworks into the "State Finances Report". The Report on State Finances provides a comprehensive analysis of the finances of the Queensland Government and includes a reconciliation between the two frameworks. The report is tabled in Parliament and distributed to interested parties each year by 31 October.

4.3.3 Budget Financial Information

The purpose of the State Budget is to outline the Governments objectives and priorities and to allocate funding to Government entities to allow them to achieve the Governments' priorities.

The Budget Strategy and Outlook (Budget Paper No. 2) provides an analysis of the economic and fiscal outlook, a more comprehensive discussion of the Governments' priorities, expenditures, revenues, net worth and cash flows. Budgeted financial statements included in the presentation of the Budget, comprise an Operating Statements, Balance Sheet and Cash Flow Statement for the General Government, Public Non-financial

Corporations and Public Financial Corporations sectors and are prepared on an accrual GFS basis in accordance with the Uniform Presentation Framework (UPF). These statements show prior year information as well as the Budget year together with projections for three forward years.

A Mid Year Fiscal and Economic Review is released in January/February. This is required under the Government's Charter of Social and Fiscal Responsibility and the Uniform Presentation Framework and provides an update of the fiscal and economic outlook for Queensland, based on assessments prepared by Queensland Treasury. The financial statements outlined above are revised and presented as part of this process.

4.3.4 Users of whole-of-Government Financial Reports

The purpose of the Report on State Finances is to satisfy the needs of users by providing, on an annual basis, understandable, reliable, relevant and timely information on the performance, financial position and cash flows of the Queensland Government that is comparable over time. The following are considered to be the primary users of the Report on State Finances:

- Member of Parliament;
- Member of the public that have an interest in the financial performance/operation of the Queensland Government;
- Government bodies such as other State and Territory and the Commonwealth governments;
- Professional accounting bodies, academics, and other interested organisations;
- Australian Bureau of Statistics (ABS);
- Commonwealth Grants Commission; and
- Ratings agencies.

To achieve the objective of producing reliable and relevant financial information, the rules underpinning the assumptions made in the preparation of the information needs to be based on robust reporting frameworks that are transparent, consistently applied and comparable with other Government jurisdictions.

Australian Accounting Standards and the UPF framework of accounting provide for such robust frameworks. However, it is fair to say that detailed interpretation and analysis of the financial information does require some understanding of the rules underpinning their preparation.

The Report on State Finances is primarily prepared to meet the needs of a broad group of users, however specific users such as the ABS, ratings agencies, specialist media commentators etc. that have reasonable knowledge of business, economic activities and accounting as well as a willingness to study the information with reasonable diligence, are in a better position to undertake analysis.

5 EMERGING DEVELOPMENTS WITHIN QUEENSLAND

5.1 Focusing on community outcomes

Recent reforms in public sector financial management across all Australian jurisdictions – including Queensland – have sought to strengthen decision makers’ focus on outcomes for the community, rather than measuring success purely in terms of either resources consumed or services delivered.

While this approach delivers significant benefits in terms of identifying and measuring the impact that Government services have on communities’ experiences, it also poses challenges for public sector administration.

Achievement of each community outcome relies on services delivered by a range of Government agencies. For example achieving ‘safe and secure communities’ includes service delivery relating to police; justice; corrective services; emergency management and response; roads and transport and health.

The introduction of the annual Priorities in Progress report has provided a mechanism for monitoring and reporting the extent to which community outcomes are being realised. The process of production of the report provides a forum for the government agencies that contribute to each outcome to jointly examine issues relating achievement of the outcome, and approaches to improve outcome performance.

The current financial management framework encourages agencies to work together to develop and submit for CBRC consideration multi-agency resourcing proposals for initiatives that span several agencies. An example of such an initiative is Meeting Challenges, Making Choices – the Government’s response to the Cape York Justice Study.

5.2 Improvement in Financial Reporting systems

In December 2002, Government approved the implementation of the Shared Services Initiative (SSI), a shared services model and transition strategy for transforming corporate service delivery in the Queensland public sector.

From a whole-of-Government perspective opportunities were identified for disseminating efficient practices to all agencies, sharing skills across the sector and reducing the large amounts of effort duplication across similar activities delivered by several agencies.

Shared Service Providers are expected to deliver improvements in the collection, management, control and reporting of whole-of-Government information. This means year-to-date and annual reporting in finance, administration and human resources will be more readily and accurately produced using consistent approaches and standards.

The SSI framework facilitates information sharing on corporate service policy development, implementation and practice improvement across agencies. Consistent performance information will be readily available, allowing meaningful benchmarking and comparisons across the sector and externally. The more responsive and consistent information available will also benefit people in the core service delivery areas of agencies.

The Government's return on investment in finance systems will be maximised by consolidating and optimising finance systems and processes across Government into a single integrated SAP finance solution. These common system and business processes will result in significant savings and more efficient and consistent service delivery for public sector employees and their customers.

A single whole-of-Government integrated HR solution will mean all Government agencies and shared service providers will use the same system enabling improved reporting of employee and payroll information at a whole-of-Government level.

6 EMERGING DEVELOPMENTS WITHIN THE AUSTRALIAN PUBLIC SECTOR

Within the Australian public sector, two emerging developments have the potential to impact the financial reporting in the future include the:

- adoption of Australian Equivalents for International Financial Reporting Standards in 2005-06; and
- convergence of the Government Finance Statistics (GFS) and Australian Accounting Standards (AAS) frameworks.

6.1 International Financial Reporting Standards (IFRS)

With the increasing globalization of commerce, an attempt to rationalize the national accounting standards to transition to a converged international set of financial reporting standards (IFRS) has begun. With effect from reporting periods beginning on or after 1 January 2005, many nations, including Australia, have agreed to adopt IFRS. Australia is a world leader in that it is one of the few countries in the world where the public sector reports budgets and year end results on an accruals basis and government financial statements are prepared in accordance with accounting standards applicable to the private sector.

The main financial impacts expected as a result of the implementation of IFRS are expected to occur as a result of the standards relating to the treatment of financial instruments (many of which were previously 'off balance sheet'), the calculation of superannuation liabilities, the treatment of revaluations of assets on an individual rather than a class basis and the application of the concept of impairment to not-for-profit entities. Relatively speaking, the financial impacts on a whole of Government basis are to be limited.

Queensland public sector entities have been reviewing their systems and policies to ensure

a smooth transition to IFRS. The first general purpose financial report under the internally converged standards will occur for the 2005-06 financial year for most entities. Public sector entities with a financial year that coincides with the calendar year, eg, universities, will report under the new standards on 31 December 2005.

Replacing existing Australian Accounting Standards with IFRS has been criticized as a backward step for Australian reporting as the Australian standards were seen to be conceptually better in many respects. However, convergence is to be implemented by both private and public sector Australian entities in the interests of development of global standards.

There may be a period of adjustment for general readers of financial statements prepared under IFRS as accounting treatment changes may impact on financial ratios currently relied on to assess profitability, liquidity and gearing levels.

6.2 GFS/AAS Convergence

As noted earlier, there are two accrual based set of financial statements at the whole-of-government level which clearly adds to the complexity of government accounts for users.

In response to a request from Australian Heads of Treasuries, the Australian Accounting Standards Board has been working with public sector representatives to align the accounting (GAAP) and statistical (GFS) frameworks under which governments currently report.

It is hoped the convergence of these frameworks will reduce the reporting burden of government and result in the 'one bottom line' against which their performance can be evaluated. In addition, the adoption of a converged framework would provide a standard for the Auditor-General to utilise when forming a audit opinion on the information currently disclosed in the Outcomes (GFS) Report. This would provide independent confirmation on the accuracy and completeness of results reported. In Queensland, the Charter of Social and Fiscal Responsibility prescribes that Queensland annual fiscal performance will be measured on a GFS basis.

The results under the two frameworks are equally valid. The differences arise mainly because of the conceptual divergence of the two frameworks. AAS31 is based on applying accounting policies founded in the context of private sector commercial accounting to the government sector. On the other hand GFS is designed for public sector policy purposes and used to facilitate macro-economic analysis.

As well as conceptual differences, there are also a number of operational interpretations and applications which differ between the two frameworks. Broadly speaking, many of these arise because the GFS framework relies on mutual treatment by parties to a transaction, whereas GAAP is based on prudence and requires immediate recognition of probable expenses, eg, GFS only writes off bad debts when both parties agree they will not be paid, whereas GAAP provides for bad debts when it becomes less likely rather than more likely that the debt will be collected.

Work continues to progress on GFS/GAAP convergence and while there has been substantial improvement in alignment of the frameworks, full convergence is unlikely and

as a result a reconciliation of the remaining differences appears inevitable as an interim measure. A review of the framework on which GFS is based is expected to be completed in 2008 and some further alignment may be possible during this process.

The Australian Accounting Standards Board (AASB) is expected to release in July 2005 an Exposure Draft on Financial Reporting by the General Government Sector which outlines the results of work to 'converge' the two frameworks. Subject to the results of the consultation process, the new standard is proposed to become operative from 1 July 2007.

One significant change to current practice proposed in the Exposure Draft is to recast the budget for the General Government Sector into the same format and on the same basis as the end of year financial statements have been prepared, with explanations of material variances between original budget and actual results. It is understood that the AASB is also considering this issue in the context of reporting requirements for government entities.

The international public sector accounting standards board also is currently working on projects addressing GFS/GAAP convergence and budget reporting and is keenly following progress in Australia to inform its direction.

Input and feedback on the exposure draft from potential users such as the PAC would be most valuable.

7 Reference material

Electronic access to the following publications are available on the Treasury website <http://www.treasury.qld.gov.au>:

Charter of Social and Fiscal Responsibility: </office/clients/community/fiscal-responsibility.shtml>

Priorities in Progress report: </office/services/reporting/priorities/index.shtml>

MFO framework: </office/knowledge/docs/manage-for-outcomes/index.shtml>

Strategic Asset Planning Guidelines and Template: </office/knowledge/docs/asset-planning/index.shtml>

Report on State Finances: </office/services/reporting/state-finances>

Report on Mid Year Fiscal and Economic Review: </office/knowledge/docs/mid-year-review/index.shtml>

Financial Reporting Requirements: </office/knowledge/docs/fin-reporting-req/index.shtml>

Electronic access to the following publications are also available:

Annual State Budget papers including Ministerial Portfolio Statements: www.budget.qld.gov.au

Financial Management and Reporting Legislation: www.legislation.qld.gov.au

Maintenance Management Framework: <http://www.build.qld.gov.au/amps/amps03.asp>

Agency strategic plans and annual reports can be found on individual agencies' websites: <http://www.qld.gov.au/departments/index.html?ref=h>

Reports of the Queensland Auditor General - <http://www.qao.qld.gov.au/AGReports.html>

Reports of Parliamentary Committees (including the Public Accounts Committee and Estimates Committees) <http://www.parliament.qld.gov.au/view/committees/committees.asp?area=introduction&LIndex=0&SubArea=introduction>

The Report on Government services: <http://www.pc.gov.au/gsp/reports/rogs/2005/index.html>

Australian Bureau of Statistics (2001) Paper Cat. No. 5514 *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, ABS, Canberra.

Noon, A and Worland, N (2000) "The Queensland Government's Charter of Social and Fiscal Responsibility", *Accounting and Performance*, Vol. 6, No. 2, pp117-128.

Commonwealth of Australia (2000) "Accrual Uniform Presentation Framework".