

# Overview of the Australian Government Accounting Framework



# Facts on Australia

- Traditional Land Owners
- European History
  - 1700's Willem Janszoon
  - 1606, Dirk Harthog
  - 1770 Captain James Cook
  - 1788 – First Fleet - Convicts
- Federation – 6 states formed 1901
- Constitutional Monarchy
- Head of State- Queen of Australia (Elizabeth II) represented in Australia by the Governor General
- Westminster system of Parliament Bicameral (two houses)
- Approximately 22.68 million
- Land Mass 7.692,024 million square kilometres
- GDP 1.521 trillion USD (2012)
- Very diverse culturally – more than 75% have a background outside of Australia
- Federation of the six states occurred in 1901 – Constitution of Australia enacted in the UK

# Australian Government

- First Tier - Federal Government
- Federal Government comprises 18 departments (ministries) and 193 autonomous bodies
- Second Tier - Six state and two territory governments
- Third Tier - 565 local authorities – (Pilbara 380,000 square km)

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- 1983 - PROGRAM BUDGETING
  - PROGRAM BUDGET STATEMENTS
  - RUNNING COST REFORM
  - FORWARD ESTIMATES
  - DEVOLUTION
  
  - 1987 - WHOLE OF COST
  - ACCRUAL REPORTING
  - DEPARTMENT FMIS
  - FIRM
  
  - 1992 - PILOT OF ACCRUAL ACCOUNTING  
BY AGENCY
  
  - 1994 - ACCRUAL ACROSS THE PUBLIC  
SECTOR
  
  - 1998 - NEW FMIS
  - AIMS
  - OUTPUTS/OUTCOME
  
  - 1999 - ACCRUAL BUDGETING
  
  - 2001 - PRICING
  - BENCH MARKING

(TIMELINE IS INDICATIVE ONLY)

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# Australian Accounting Standards

- The Australian Accounting Standards Board (AASB) is the body with overall responsibility for account standards for both the private and public sector
- AAS are consistent with IFRS and IPSAS, except where specific additional requirements are necessary in Australia
- Currently there are 54 standards – of which 17 are dual standards for profit and not-for-profit entities
- Thus Australia has a single set of standards for all accounting and reporting entities
- The Australian Bureau of Statistics has also issued its own GFS manual, which accords with GFSM 2001. It explains issues pertaining to Australia to ensure proper compilation by each government

# Some Key standards relevant to the public sector

- AAS13 Fair Value Measurement
- AAS101 Presentation of Financial Statements [for not-for-profit entities]
- AAS102 Inventories
- AAS116 Property, Plant and Equipment
- AAS136 Impairment of Assets [for not-for-profit entities]
- AAS138 Intangible Assets
- AAS1049 Whole of Government and General Government Sector Financial Reporting
- AAS 1050 Administered Items
- **AAS 1051 Land under Roads**
- AAS1056 Budgetary Reporting



# The Legislative Basis of Accounting for Federal Government

- Constitution of Australia
- Financial Management and Accountability Act 1997
- Commonwealth Authorities and Companies Act 1997
- Estimates Memoranda
- FinanceBrief
- Finance Circulars
- Financial Management Guidance series
- Accounting Guidance Notes
- Standard Parameters and other guidance issued by Finance.

# ***A Conceptual Difference in Australia – Principal Based Decision Making***

- ***Have regard to...***  
the phrase ‘have regard to’ imposes a positive obligation to consider – entities must ‘turn their minds’ to the principle. This means entities must take the principles contained in relevant documents into account, consider them and give due weight to them as a fundamental element in making the decision.
- If entities do not apply a principle, they should be able to demonstrate, if required, that they have considered it, provided it due weight, and determined that it is not relevant to their situation. Merely asserting that the entity has had regard to the principles will be insufficient. Entities should document their reasoning.



# Basis of accounting- Whole of government Reporting

- The financial report for the whole of government and the General Govt Sector has been prepared in accordance with the reporting requirements of AASB 1049, which requires compliance with applicable AASs. The purpose of this financial report is to provide users with information about the stewardship by the Australian Government and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of the Australian Government; and information that facilitates assessment of the macro-economic impact of the Australian Government.

# Assets classes as presented in the Federal Government Consolidated Financial Statements

- **Financial assets**
- Cash and deposits
- Advances paid
- Other receivables and accrued revenue
- Investments, loans and placements
- Equity investments
  
- **Non-financial assets**
- Land
- Buildings
- Plant, equipment and infrastructure
- Intangibles
- Investment property
- Inventories
- Biological assets
- Heritage and cultural assets
- Assets held for sale
- Other non-financial assets

# Measurement at Fair Value

- Land;
- Buildings;
- Heritage and cultural assets (where not intangible assets);
- Investment properties; and
- Other property, plant and equipment.

Unless required by the applicable standard to be measured otherwise, entities must measure every type of asset above at fair value in accordance with [AASB 116](#) or [AASB 140](#).

# Some further Asset Classes

- Intangible assets must be valued by class in accordance with AASB 138, at:
  - cost, in the absence of an active market; or
  - fair value, where an active market exists for all assets in a class.
- The cost model must be applied to specialist military equipment. *Fuels, explosives ordnance, general stores and consumables are not specialist military equipment.*
- Inventories held for sale are valued at the lower of cost and net realisable value.
- Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.

# Depreciation and amortisation rates applying to each class of depreciable assets based on the following useful lives:

- Buildings 2-200 years
- Specialist military equipment 1-53 years
- Other plant, equipment and infrastructure 1-112 years
- Heritage and cultural assets 5-5,000 years

# Review for Impairment Annually

- Each non-financial asset other than investment properties, must be assessed each year to ensure that the carrying amount does not differ materially from fair value as at reporting date. If there is a material difference then revaluation of the entire class is required.
- Investment property must be revalued annually in compliance with [AASB 140](#).



# Impairment Process

- ***Impairment process***
- Impairment under [AASB 136](#) is a two step process that involves:
  - testing assets for indications of impairment; and
  - only where indications of impairment have been established for an assets, performing the recoverable amount test and making any required adjustment for impairment losses.
- ***Indicators of Impairment***
  - Impairment indicators should be developed that are appropriate to the entity's operations and consider the materiality of the asset/asset class ..
- Where an asset is assessed for impairment, some of the minimum impairment indicators specified in [AASB 136](#) will be more relevant than others. For example, an entity may consider that physical damage or obsolescence is the most significant factors relevant to assessing whether or not a \$5,000 computer is impaired. However, additional factors may also be taken into account when determining if an impairment assessment should be undertaken. Consideration of indicators of impairment should be documented.

# Reporting on Non-Financial Assets

- **Analysis of Non-Financial Assets**
  - **Notes to the financial statements must include the following :**
    - ***Table A Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment;***
    - ***Table B Reconciliation of the Opening and Closing Balances of Investment Property; and***
    - ***Table C Reconciliation of the Opening and Closing Balances of Intangibles.***
  - **Entities may combine tables required by this division where it is considered appropriate to simplify disclosure.**

# Departmental verses Administered

- Subject to section 15.4, entities must distinguish between ‘departmental’ and ‘administered’ in the financial statements for all disclosures outlined in this schedule.
- Special public money (including money held in trust for other persons) is neither ‘departmental’ nor ‘administered’ (refer to [Division 120](#)).