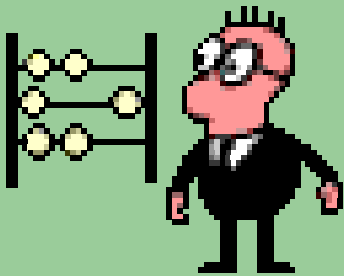


MODEL FINANCIAL REPORT & MD&A UPDATE

Accounting Branch
ACT Dept of Treasury

April 2006



Overview



- Model Financial Report
- MD&A
- Accounting Branch Website
- Reminders
- Timetable

2005-06 MODEL FINANCIAL REPORT



Model Financial Reports



Changes to the Model resulting from:
AIFRS

1. Terminology
2. Change in statement format
3. Cash and cash equivalents
4. Property, plant and equipment
5. Provisions
6. Accounting policies and prior period errors
7. Reconciliation of previous AGAAP to AIFRS
8. Other minor changes

Model Financial Reports

FMA amendments

9. Reporting against original budget

Other Changes

10. Statement of Responsibility



Model Financial Reports

1. Change in terminology

Previous AGAAP	AIFRS
'Statement of Financial Performance'	'Operating Statement'
'Statement of Financial Position'	'Balance Sheet'
'Statement of Cash Flows'	'Cash Flow Statement'
No Equivalent Statement	'Statement of Changes in Equity'
'Financial Statements'	'Financial Report'

Model Financial Reports

Statement of Changes in Equity

- Statement of Changes in Equity includes:
 - items from the bottom of the old 'Statement of Financial Performance'; but
 - uses a different format
- The statement reconciles the opening and closing balance of equity

Model Financial Reports

Statement of Changes in Equity – (cont)

- The statement is broken up into three parts:
 - Transactions Affecting Accumulated Funds
 - Operating Result
 - Gains and Losses Recognised Directly in Accumulated Funds
 - Transactions Affecting Reserves
 - Asset Revaluation Reserve
 - Gains and Losses Recognised Directly in Reserves
 - Transactions Involving Equity Holders Affecting Accumulated Funds
 - Capital Injection
 - Increase/Decrease in Net Assets due to AAO

Model Financial Reports

	Note No.	Actual 2006 \$'000	Original Budget 2006 \$'000	Actual 2005 \$'000
Opening Balance		3,808,360	3,841,482	3,636,196
<i>Accumulated Funds</i>				
Net Effect of Change in Accounting Policy	35	-	-	-
Net Effect of a Correction of an Error	35	-	-	-
Operating Result for the Period	35	(19,431)	(29,965)	(3,850)
<i>Reserves</i>				
Net Effect of Change in Accounting Policy	35	-	-	-
Net Effect of a Correction of an Error	35	-	-	-
Increase/(Decrease) in Asset Revaluation Reserve	35	15,200	18,143	110,050
Total Income and Expense Recognised Directly in Equity for the Period		(4,231)	(11,822)	106,200
<i>Transactions Involving Equity Holders Affecting Accumulated Funds</i>				
Capital Injections	35	13,500	16,952	27,500
Capital Distributions	35	(5,500)	(6,000)	(5,200)
Increase/(Decrease) in Net Assets due to Administrative Restructure	35	16,900	-	43,894
Dividend Approved	35	(230)	-	(230)
Closing Balance		3,828,799	3,840,612	3,808,360

Model Financial Reports



2. Change in Statement Format

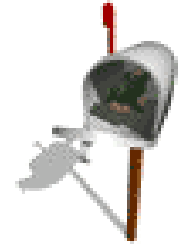
Operating Statement

- Revenue - replaced by the concept of Income:
 - Income made up of Revenue and Gains
- Extraordinary Items and Fundamental Error - no longer disclosed

Model Financial Reports

Extract of the Operating Statement from the Department Model Financial Report

	Note No.	Actual 2006 \$'000	Original Budget 2006 \$'000	Actual 2005 \$'000
Income				
<i>Revenue</i>				
Government Payment for Outputs	4	306,375	304,354	296,430
User Charges - ACT Government	5	17,208	12,200	15,707
User Charges – Non-ACT Government	5	12,442	8,267	11,309
Interest	6	2,070	687	1,270
Resources Received Free of Charge	7	2,025	116	610
Other Revenue	8	4,945	238	4,204
<i>Total Revenue</i>		345,065	325,862	329,530
<i>Gains</i>				
Gains on Investments	9	1,970	-	2,630
Other Gains	10	12,028	-	13,148
<i>Total Gains</i>		13,998	-	15,778
Total Income		359,063	325,862	345,308



Model Financial Reports

3. Cash and Cash Equivalents

- Now referred to as separate concepts
- Line item in Balance Sheet and Note now referred to as 'Cash and Cash Equivalents' instead of 'Cash'
- Definition substantially the same under AIFRS
- 'Cash Enhanced Portfolio' should be classified as a Cash Equivalent rather than an Investment

Model Financial Reports

Example of Cash and Cash Equivalents Note from Department Model Financial Report

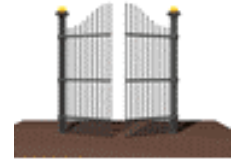
NOTE XX. CASH AND CASH EQUIVALENTS

'Example Department' holds a number of bank accounts with the Commonwealth Bank as part of the whole-of-government banking arrangements. As part of these arrangements 'Example Department' does not receive any interest on these accounts.

'Example Department' also held short-term investments with the Central Financing Unit (CFU) in the Cash Enhanced Portfolio throughout the year. The funds earned a floating interest rate between <5.75%> and <6.25%> (<5.5%> and <6%> in 2005). These funds are able to be withdrawn upon request and as such meet the definition of a cash equivalent.

	2006	2005
	\$'000	\$'000
Cash at Bank ^a	12,798	6,525
Cash on Hand	423	473
Investments with CFU – Cash Enhanced Portfolio	8,423	1,923
Total Cash and Cash Equivalents	21,644	8,921

Model Financial Reports



4. Property, Plant and Equipment:

Changes affecting PPE include:

- a. undertaking impairment testing;
- b. disclosure of assets held for sale;
- c. PPE includes estimate of restoration costs; and
- d. rolling revaluations



Model Financial Reports

4a. Undertaking Impairment Testing

- AASB 136 requires an asset be written-down where impairment exists
- Impairment applies to both assets held at cost and assets held at fair value
- Agencies must consider whether circumstances have occurred that would lead them to believe an asset maybe impaired
- If no indication exists no further action is required

Model Financial Reports

4a. Undertaking Impairment Testing – (cont)

- Examples of Indication of Impairment include:
 - A building being partially damaged by fire or flood
 - Infrastructure assets subject to poor maintenance
 - A building closed due to identification of structural deficiencies
 - Software no longer supported by the external supplier due to technological advances

Model Financial Reports

4a. Undertaking Impairment Testing – (cont)

Impact on Financial Report

- Impairment losses relating to assets held at cost included in 'Other Expenses'
- Information on impairment losses disclosed in the 'Waivers, Impairment Losses and Write-offs' Note
- Additional disclosures required where impairment loss is material
- Impairment losses relating to revalued assets can be included in 'Asset Revaluation Reserve'

Model Financial Reports

4a. Undertaking Impairment Testing – (cont)

Impact on Financial Report – (cont)

- Reversal of Impairment Loss relating to assets at cost included in 'Other Gains'
- Reversal of Impairment Loss relating to revalued assets included in 'Asset Revaluation Reserve'
- Accumulated impairment losses offset against PPE

Model Financial Reports



4b. Disclosure of 'Assets held for Sale'

- 'Assets held for Sale' is a new asset category included on the face of the Balance Sheet
- Non-current assets are classified as 'held for sale' where the carrying amount is recovered principally through a sale rather than through continuing use
- Non-current assets must be available for immediate sale in present condition and sale must be highly probable
- Sale expected to be completed within one year

Model Financial Reports

4b. Disclosure of 'Assets held for Sale' – (cont)

- Before being sold PPE needs to be transferred to 'Assets held for Sale'
- Land and buildings to be transferred to Property Group are not classified as "held for sale"
- Most agencies should only include Plant and Equipment as "held for sale"
- PPE which is part of an AAO is not classified as an 'Asset held for Sale'

Model Financial Reports

4b. Disclosure of 'Assets held for Sale' – (cont)

Impact on Financial Report

- Additional line item included on the Balance Sheet
- Additional note providing the following information:
 - a description of the non-current asset held for sale
 - a description of the facts and circumstances of the sale or expected disposal
 - the expected manner and timing of the disposal
 - the gain or loss recognised on the sale



Model Financial Reports

4c. PPE includes Estimate of Restoration Costs

- Cost of PPE includes:
 - the purchase price
 - directly attributable costs
 - the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located
- Restoration costs only included in PPE where there is a present legal or equitable obligation to make good the site

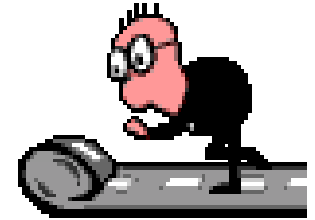
Model Financial Reports

4c. PPE includes Estimate of Restoration Costs – (cont)

➤ Restoration costs:

- included in PPE to be recognised as a provision
- depreciated in the same way as other cost elements
- included in land, must be separately identified and depreciated

Model Financial Reports



4d. Rolling Revaluations

- Previously rolling revaluations could be undertaken for a period of up to five years
- AASB 116 requires a class of PPE to be revalued at the same time
- Commentary in AASB 116 allows rolling revaluations if undertaken within a short period
- Does not define short period – ACT Accounting Policy is every 3 years



Model Financial Reports

5. Provisions

- Previously the unwinding component of a provision was not required to be separately disclosed
- AIFRS requires unwinding of a provision to be recognised as a borrowing cost
- Movement in provisions therefore required to be separated into two expense categories
- For most ACT Government agencies the borrowing costs relating to unwinding are immaterial and therefore are not separately disclosed

Model Financial Reports

5. Provisions

- ACT 95% Rule for Non-Current LSL Provisions means movements included in employee expenses
- Restoration Provision – movements included in PPE and restoration expenses

Model Financial Reports

5. Provisions – (cont)

Impact on Financial Report

- All movements in employee provisions disclosed as employee expenses
- All movements in provision for restoration disclosed as either PPE or restoration expenses

Model Financial Reports



6. Change in accounting policies and a correction of prior period errors
 - Previously changes in accounting policy and a correction of prior period errors recognised as a revenue or expense
 - Errors were separated into two components:
 - fundamental errors and
 - errors

Model Financial Reports

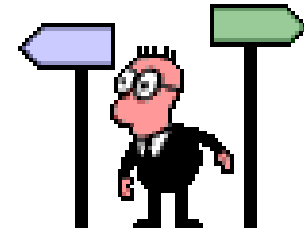
6. Change in accounting policies and a correction of prior period errors – cont
 - Under AIFRS changes in accounting policy and a correction of prior period errors are:
 - recognised directly against accumulated funds;
 - retrospectively applied; and
 - disclosed on the face of the ‘Statement of Changes in Equity’

Model Financial Reports

Extract of the Statement of Changes in Equity from the Department Model Financial Report

	Note No.	Actual 2006 \$'000	Original Budget 2006 \$'000	Actual 2005 \$'000
Opening Balance		3,808,360	3,841,482	3,636,196
<i>Accumulated Funds</i>				
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Increase/(Decrease) in Asset Revaluation Reserve	35	15,200	18,143	110,050
Total Income and Expense Recognised Directly in Equity for the Period		(4,231)	(11,822)	106,200

Model Financial Reports



7. Reconciliation of Previous AGAAP to AIFRS

- AASB 1 requires a reconciliation between AGAAP and AIFRS for:
 - the operating statement – for 30 June 2005
 - the balance sheet – at 1 July 2004 and 30 June 2005
- Reconciles 2004 and 2005 AGAAP numbers with AIFRS numbers
- Reconciliations to give sufficient detail of material adjustments
- AASB 108 does not deal with changes in Accounting Policies on Transition to AIFRS

Model Financial Reports

7. Reconciliation of Previous AGAAP to AIFRS – (cont)

Impact on Financial Report

- Accounting policy changes from AIFRS adoption included in reconciliation
- Accounting policy changes from management decision included in Note 3 'Changes in Accounting Policy'

Model Financial Reports

Example of Reconciliation – ‘Assets held for Sale’

Reconciliation of the Balance Sheet as at 30 June 2005	Note	Previous GAAP 30 June 2005 \$'000	Effect of transition to Australian Equivalents to IFRS \$'000	Australian Equivalents to IFRS 30 June 2005 \$'000
Current Assets				
Cash and Cash Equivalents		8,921	-	8,921
Receivables		2,606	-	2,606
Inventories		1,965	-	1,965
Assets held for Sale	(a)	-	750	750
Other		2,312	-	2,312
Total Current Assets		15,804	750	16,554
Non-Current Assets				
Receivables		16,385	-	16,385
Investments		3,141	-	3,141
Investment – Joint Venture		73,581	-	73,581
Property, Plant and Equipment	(a,b)	3,701,611	(750)	3,700,436
Intangible Assets		720	-	720
Capital Works in Progress		57,123	-	57,123
Other		625	-	625
Total Non-Current Assets		3,853,186	(750)	3,852,436
Total Assets		3,868,990	-	3,868,990

Model Financial Reports



8. Other Minor Changes

- Net Joint Venture result included at bottom of Operating Statement
- Externally purchased software disclosed separately from internally generated software
- Additional columns included in financial instrument note
- Capital commitments relating to PPE and software disclosed separately



Model Financial Reports

9. Reporting against original budget

- FMA amended in 2005-06 and Section 19F removed
- Original budget rather than amended budget must be disclosed on the face of the:
 - Operating Statement
 - Balance Sheet
 - Statement of Changes in Equity
 - Cash Flow Statement
- Reconciliation of Original Budget to Amended Budget no longer required

Model Financial Reports



10. Statement of Responsibility

- The following must be attached to the Financial Report:
 - A Statement of Responsibility
 - A Statement by the Chief Finance Officer
- Previously these Statements were combined
- Statement of Responsibility required by FMA [sec 64]
- Statement by the Chief Finance Officer recommended as best practice

Model Financial Reports

Example of Statement of Responsibility from Department Model Financial Report

**‘Example Department’
Financial Report
For the Year Ended 30 June 2006**

Statement of Responsibility

In my opinion, the financial report is in agreement with the Department’s accounts and records and fairly reflects the financial operations of the Department for the year ended 30 June 2006 and the financial position of the Department on that date.

Bob Jones
Chief Executive
‘Example Department’
July 2006



Copies of Model Financial Report

- The Model Financial Report can be found on the Accounting Website at

www.treasury.act.gov.au/accounting

Model Financial Report

QUESTIONS?



Coffee Break





Model Financial Reports

- Summary
 - AIFRS
 - FMA
 - Statement of Responsibility

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)



MD&A – FMA Amendments

- Previously, Chief Executives (CE) responsible for ensuring department's operations were consistent to budgeted financial targets
- Now, CE responsible for ensuring department's operations are consistent with, and comparable to, its budget
- FMA amendments also require material variances from budget to be included in the department's annual report

MD&A – What's changed?



- No longer providing analysis on:
 - financial targets; and
 - operating result
- Emphasis on
 - net cost of services;
 - expenditure; and
 - cash and investments (departments only)

MD&A – What's changed? (cont)

- Analysis of:
 - net cost of services
 - own source revenue (distinguish revenue and gains)
 - cash and investments (depts only)
- Variance explanations when comparing actual results with budget
 - table reconciling original budget to amended budget
 - table to identify impacts on actual result caused by AAOs, remaining variances to be explained

MD&A – Where to from here?

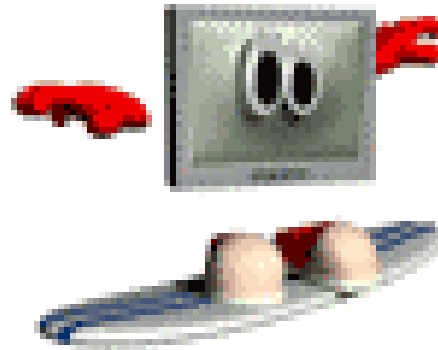
- Accounting Branch currently preparing a Better Practice Guideline
- Memo to be issued

MD&A

QUESTIONS?



ACCOUNTING BRANCH WEBSITE



Accounting Branch Website



Changes to the Website

1. Replacement of the Accounting Policy Manual (APM)
2. Model Financial Report Templates
3. Financial Information Bulletin Services (FIBS)

Accounting Branch Website

1. Replacement of the APM

- APM applied up until 30 June 2005
- APM replaced by individual 'ACT Accounting Policy Papers' applicable from 1 July 2005
- Currently the Accounting Branch has released the following papers:
 - Capital Works
 - Portable and Attractive Items
 - Accounting for Major Bushfire Recovery Projects
 - Property, Plant and Equipment
 - Software

Accounting Branch Website

1. Replacement of the APM – (cont)

- The purpose of Policy Papers is to provide accounting guidance to ACT Government Agencies
- Policy Papers do not replicate accounting standards
- ‘ACT AIFRS Policy Summaries’ to be used where there is no applicable ‘ACT Accounting Policy Papers’
- ACT Accounting policies and ACT Policy Summaries are included on our website

Accounting Branch Website

2. Model Financial Report Templates

- Model Templates being developed to assist agencies prepare their financial report
- Model Templates are due for release in May 2006
- Templates include a word document and an excel spreadsheet
- There are two templates, one for departments and one for Territory authorities
- Model templates will be included on our website

Accounting Branch Website

3. Financial Information Bulletin Services (FIBS)

- The Accounting Branch issues FIBS three times a year
- FIBS aims to highlight financial information of importance and covers:
 - new accounting standards
 - changes to existing accounting standards
 - GST/FBT issues
 - upcoming training
 - changes to relevant financial legislation
- All issues of FIBS are available on our website

Accounting Branch Website

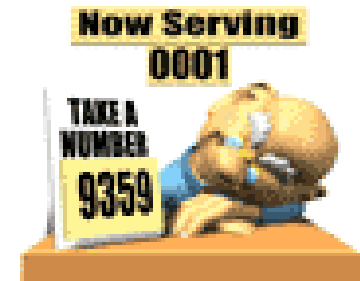
QUESTIONS?



REMINDERS



Reminders



Reminders for Agencies:

1. Statement of Performance
2. FMA Instruments 2005-06

Reminders – Statement of Performance

- Not part of the Financial Report but included in the Annual report
- Separate CE sign off
- Accountability indicators are audited
 - A Statement of Factual Findings issued
- Strategic indicators are not audited
- For 2005-06, Territory Authorities report on performance measures in Statement of Intent

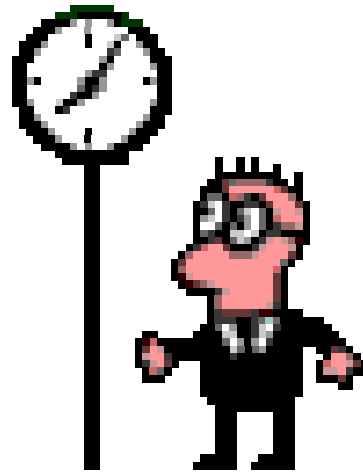
Reminders - Statement of Performance (cont)

- In 2006-07 prescribed Territory authorities will report against outputs and output performance criteria
- Accounting Branch to issue guidance

Reminders - FMA Instruments

- S 14 Transfers between appropriations
- S 15 Reallocate appropriation between an agency's output classes
- S 15A Reclassification of appropriation (rare)
- S 16 Transfer of functions
- S 17 Existing C'wealth grants
- S 18 Treasurer's advance
- S 19B New C'wealth grants
- S 19C Repayable capital injections (unlikely)
- S 19D Amend performance criteria

TIMETABLE



Indicative Timetable

Financial Report

Certified Report (small agencies) to Audit & Treasury	14 July 2006 (TBC)
Certified Report (medium and large agencies) to Audit & Treasury	21 July 2006 (TBC)
Clearance by Audit	25 August 2006
Final Audit Opinion	15 September 2006
Annual Report to Ministers	22 September 2006

Indicative Timetable (cont)

Statement of Performance

Certified Statement to Audit	18 August 2006
Statement of Factual Findings	15 September 2006

Summary



- Model Financial Report
- MD&A
- Accounting Branch Website
- Reminders
- Timetable

End



QUESTIONS?

Contact



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