



NAPSAC 2013

Presentation of Financial Statements in the
Public Sector : A Cross-Country Comparison

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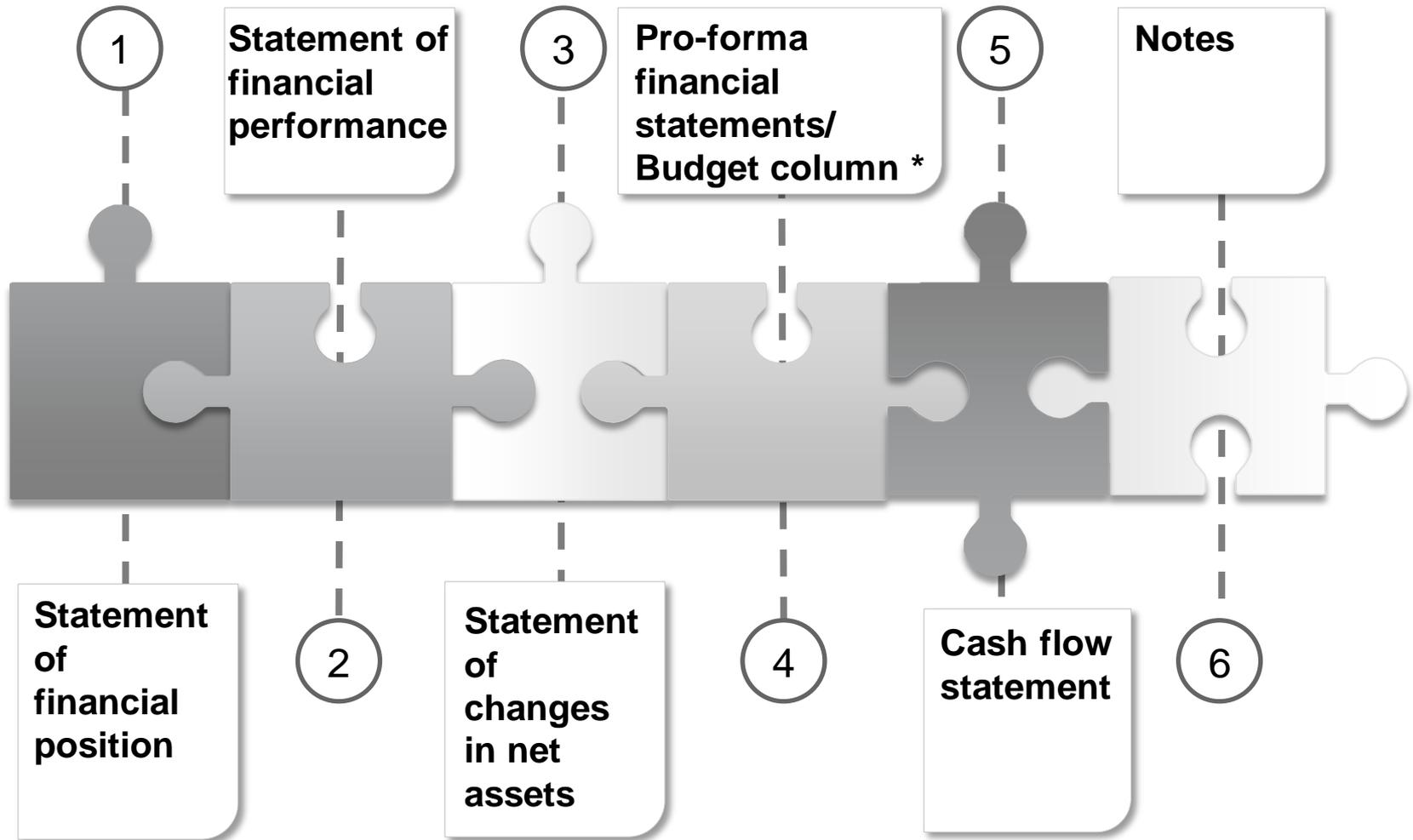
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Overview

- Comparison of public sector financial statements of the following countries:
 - Canada
 - Australia
 - Hong Kong
 - New Zealand
 - United Kingdom
- These countries adopted accrual accounting in some form but have yet to adopt International Public Sector Accounting Standards.
- Canada and United Kingdom use IPSAS as reference.
- Australia and New Zealand are virtually compliant with IPSAS.
- Countries that have adopted IPSAS directly include Switzerland and Austria.
- There are countries that adopted IPSAS through national standards such as South Africa, Brazil and Spain.
- The comparison will focus on the following areas:
 - Background information
 - Primary statements
 - Basis of consolidation
 - Assets
 - Liabilities and contingent liabilities
 - Related party disclosure
 - Additional information included in the notes
 - Auditors' report

Recap of IPSAS 1 - Components of financial statements



* When the entity makes its approved budget publicly available, a comparison of budget and actual amounts are made in the financial statements

Background information

Description	Canada	Australia	Hong Kong
Year end	31 Mar 2012	30 Jun 2012	31 Mar 2012
Date of auditors' report	30 Aug 2012	21 Nov 2012	26 Oct 2012
Accounting convention	Accrual	Accrual	Accrual/Cash
Accounting standards applied	Canadian Public Sector Accounting Standards	Australian Accounting Standards including AASB 1049 Whole of Government and General Government Sector Financial Reporting (AASB 1049).	Accrual – no specific standards referred to Cash – Public Finance Ordinance and section 11(1) of the Audit Ordinance
Content of annual report	Vol 1 – audited financial statements and financial information Vol 2 – financial information segregated by ministries Vol 3 – supplementary information and analysis	Consolidated financial statements	Consolidated financial statements on cash basis Consolidated financial statements on accrual basis

Background information (cont'd.)

Description	New Zealand	United Kingdom
Year end	30 Jun 2012	31 Mar 2011
Date of auditors' report	28 September 2012	29 Oct 2012
Accounting convention	Accrual	Accrual
Accounting standards applied	New Zealand generally accepted accounting practice. These financial statements comply with New Zealand equivalents to International Financial Reporting Standards as appropriate for public benefit entities.	2010-11 Government Financial Reporting Manual which apply EU adopted International Financial Reporting Standards as adapted or interpreted for the public sector context. Exceptions to the application of IFRS are certain non-departmental public bodies, public corporations and entities that were set up as charities, whose accounts are prepared under UK GAAP.
Content of annual report	Consolidated financial statements	Consolidated financial statements

Primary statements

Canada	Australia
Consolidated statement of operations and accumulated deficit	Operating statements <ul style="list-style-type: none"> ▪ Detail revenue and expenses provided on the face ▪ Revaluation of assets and liabilities separated into one section
Consolidated statement of financial position <ul style="list-style-type: none"> ▪ Liabilities split between accounts payable and accrued liabilities ▪ Assets split between financial and non-financial assets 	Balance sheet <ul style="list-style-type: none"> ▪ Assets split between financial and non-financial assets ▪ Liabilities split between interest bearing and provisions and payables
Consolidated statement of change in net debt	Cash flow statement – direct method
Consolidated statement of cash flow – indirect method	Statement of changes in equity

In addition to prior year comparative information, comparison is also made to budget.

Financial statements provided for the whole government as well as by sector i.e. General government, public non-financial corporation and public financial corporation.

Primary statements (cont'd.)

Hong Kong

Consolidated statement of financial performance
(expenses by nature)

- salaries
- depreciation
- social security costs

Consolidated cash flow statement – indirect and split
between operating and non-operating

Consolidated statement of financial performance
(expenses by function)

- education
- social welfare
- health

Statement of reconciliation between the general reserve
reported under the accrual basis and the consolidated
fund balance reported under the cash basis

Consolidated statement of financial position

- Assets split between financial and non-financial assets
- Liabilities in one caption
- Net asset of exchange fund shown separately

Statement of reconciliation between the surpluses
reported under the accrual basis and under the cash basis

Primary statements(cont'd.)

New Zealand	United Kingdom
Statement of financial performance <ul style="list-style-type: none"> ▪ Personnel ▪ Depreciation and amortisation ▪ Interest expense ▪ Insurance expense 	Consolidated statement of revenue and expenditure – expenses by nature
Analysis of expenses by functional classification <ul style="list-style-type: none"> ▪ Health ▪ Education ▪ Defense ▪ Transport 	Consolidated statement of comprehensive income
Statement of comprehensive income	Consolidated statement of financial position
Statement of cash flows – direct method	Consolidated statement of changes in tax payers' equity
Statement of changes in net worth	Consolidated cash flow statements – indirect method and investing activities referred to as cash flows from capital expenditure and financial investments.
Statement of financial position – breakdown between current and non-current not provided	
Statement of segments	

In addition to prior year comparative information, comparison is also made to forecast figures as included in the 2011 and 2012 annual budget

Basis of consolidation

Canada

- The reporting entity of the Government of Canada includes:
 - all of the government organisations - legal entity of the Government,
 - other government organisations, which are separate legal entities but are controlled by the Government,
 - other organisation not listed in the *Financial Administration Act* but meet the definition of control and their revenues, expenses, assets or liabilities are significant
- The financial activities of all of these entities, except for enterprise Crown corporations and other government business enterprises, are consolidated in these financial statements on a line-by-line and uniform basis of accounting after eliminating significant inter-governmental balances and transactions.
- Enterprise Crown corporations and other government business enterprises, which are not dependent on the Government for financing their activities, are recorded under the modified equity method.
- For financial reporting purposes, control is defined as the power to govern the financial and operating policies of an organisation with benefits from the organisation's activities being expected, or the risk of loss being assumed by the Government.

Basis of consolidation (cont'd.)

Australia

- The Australian Government reporting entity includes:
 - Australian Government Departments of State,
 - Parliamentary Departments,
 - prescribed agencies,
 - Commonwealth authorities,
 - Commonwealth companies limited by shares, and
 - Commonwealth companies limited by guarantee in which the Australian Government holds a controlling interest.
- The definition of control complies with the requirements under AASB 127 *Consolidated and Separate Financial Statement*.
- The Australian National University has not been consolidated in this financial report, but the value of total net assets has been recognised as an investment.
- Total value of net assets of other entities, in which the Australian Government holds a share of the assets, but which it does not significantly influence, have also been recognised as an investment.

Basis of consolidation (cont'd.)

Hong Kong

- The entities included in the consolidated financial statements are as follows:
 - Line by line consolidation:
 - General Revenue Account,
 - the funds established under section 29 of the Public Finance Ordinance (Cap. 2),
 - other Funds established by the Government for specific purposes with their funding mainly from the Government and the Government being responsible for their use,
 - the Hong Kong Housing Authority (HKHA), and
 - Hong Kong Link 2004 Limited.
 - Equity basis – share of net results and assets
 - government business enterprises in which the Government has an investment holding of not less than 20 per cent and of which the Government shares the net earnings, and
 - the Exchange Fund.

Basis of consolidation (cont'd.)

New Zealand

- The consolidated financial statements include:

Core crown entities

- ministers of the crown
- government departments
- offices of parliament
- Reserve Bank of New Zealand
- New Zealand Superannuation Fund

Other entities

- State-owned enterprise
- Crown entities (excluding tertiary education institutions)
- Air New Zealand Limited
- Organisations listed in Schedule 4 and 5 of the Public Finance Act 1989

- Tertiary education institutions are equity accounted for as the government does not determine the operation and financial policies of these institutions.

Basis of consolidation (cont'd.)

United Kingdom

- The consolidated financial statements consolidate a group of entities that appears to HM Treasury to:
 - exercise functions of a public nature,
 - entirely or substantially funded from public money.

This group includes central government departments, non-departmental public bodies, public corporations, local authorities, the National Health Service and the devolved administrations.

- Some entities have not been included at this time largely for pragmatic and materiality reasons.
- All the banks classified to the public sector, except for the Bank of England (which has been fully consolidated), have been included as investments in these statements and have not been fully consolidated.
- A few entities that are not controlled by an executive arm of government are also not consolidated.
- Balances and transactions that are less than £1million are not considered to be material and are not eliminated.

Assets

Canada	Australia	Hong Kong
<p><i>Financial assets</i></p> <ul style="list-style-type: none"> ▪ Cash and cash equivalents ▪ Taxes receivables ▪ Other accounts receivables ▪ Foreign exchange accounts ▪ Loans, investments and advances <p><i>Non-financial assets</i></p> <ul style="list-style-type: none"> ▪ Tangible capital assets <ul style="list-style-type: none"> ○ Land and buildings ○ Works and infrastructure ○ Machinery and equipment ○ Vehicles ○ Leasehold improvements ○ Assets under construction ○ Assets under capital lease ▪ Inventories ▪ Prepaid expenses 	<p><i>Financial assets</i></p> <ul style="list-style-type: none"> ▪ Cash and deposits ▪ Advances paid ▪ Investments, loans and placements ▪ Equity investments ▪ Other receivables and accrued revenue <p><i>Non-financial assets</i></p> <ul style="list-style-type: none"> ▪ Land and buildings ▪ Plant, equipment and infrastructure ▪ Intangibles <ul style="list-style-type: none"> ○ Computer software ○ Water entitlements ○ Goodwill – public corporations ▪ Investment property ▪ Inventories ▪ Biological assets ▪ Heritage and cultural assets 	<p><i>Financial assets</i></p> <ul style="list-style-type: none"> ▪ Investments with the Exchange Fund ▪ Investment in government business enterprises ▪ Other investments ▪ Loans and advances ▪ Cash and cash equivalents ▪ Other assets <p><i>Fixed assets</i></p> <ul style="list-style-type: none"> ▪ Buildings ▪ Infrastructure assets ▪ Computer assets ▪ Other plant and equipment ▪ Capital works/projects in progress

Assets (cont'd.)

New Zealand	United Kingdom
<ul style="list-style-type: none">▪ Cash and cash equivalents▪ Receivables▪ Marketable securities, deposits and derivatives▪ Share investments▪ Advances▪ Inventory ▪ Property, plant and equipment<ul style="list-style-type: none">○ Land and buildings○ State highways○ Electricity generation assets and distribution network○ Specialist military equipment○ Specified cultural and heritage assets○ Aircraft (excluding military)○ Rail network○ Others ▪ Equity accounted investments ▪ Intangible assets and goodwill<ul style="list-style-type: none">○ Computer software○ Net Kyoto position○ Goodwill	<p><i>Non-current assets</i></p> <ul style="list-style-type: none">▪ Property, plant and equipment<ul style="list-style-type: none">○ Infrastructure asset○ Land and buildings○ Assets under construction○ Military equipment○ Plant and machinery○ Transport equipment○ IT hardware, software and equipment○ Furniture, fittings and others (include heritage assets) ▪ Investment property▪ Intangible assets<ul style="list-style-type: none">○ Military equipment○ Development expenditure○ Software licenses○ Internally developed software○ Licenses, trademark and patents○ Goodwill ▪ Trade and other receivables▪ Equity investment in public sector bank <p><i>Current assets</i></p> <ul style="list-style-type: none">▪ Inventories▪ Trade and other receivables▪ Cash and cash equivalent▪ Gold holdings

Liabilities and contingent liabilities

Canada	Australia	Hong Kong
<p><i>Accounts payable and accrued liabilities</i></p> <ul style="list-style-type: none"> ▪ Other accounts payable and accrued liabilities ▪ Taxes payable ▪ Environmental liabilities <ul style="list-style-type: none"> ○ Remediation of contaminated sites ○ Future asset restoration ▪ Interest and matured debt ▪ Allowance for guarantee <p><i>Interest bearing debt</i></p> <ul style="list-style-type: none"> ▪ Unmatured debt ▪ Pensions and other future benefits ▪ Other liabilities <p><i>Contingent liabilities</i></p> <ul style="list-style-type: none"> ▪ Guarantees provided by government ▪ Claims and pending and threatened litigation ▪ Insurance programme 	<p><i>Interest bearing liabilities</i></p> <ul style="list-style-type: none"> ▪ Government securities ▪ Loans ▪ Deposits ▪ Other borrowings <p><i>Provisions and payables</i></p> <ul style="list-style-type: none"> ▪ Superannuation liability ▪ Australian currency on issue ▪ Other employee liability ▪ Subsidies and grant payables ▪ Other provisions and payables <p><i>Contingent liabilities</i></p> <ul style="list-style-type: none"> ▪ Guarantees and indemnities ▪ Capital subscriptions ▪ Claims for damages/costs ▪ Net of contingent assets ▪ Exclude remote contingent liabilities <ul style="list-style-type: none"> ○ Financial claims scheme ○ Guarantee scheme for large deposits and wholesale 	<ul style="list-style-type: none"> ▪ Provision for pensions ▪ Bonds and notes issued ▪ Other liabilities ▪ Contingent liabilities <ul style="list-style-type: none"> ○ Guarantees ○ Litigation claims

Liabilities and contingent liabilities (cont'd.)

New Zealand	United Kingdom
<ul style="list-style-type: none">▪ Borrowings▪ Insurance liabilities▪ Retirement plan liabilities▪ Issued currency▪ Deferred revenue▪ Provisions and payables▪ Contingent liabilities<ul style="list-style-type: none">○ Guarantee and indemnities○ Uncalled capital○ Legal proceedings and disputes○ Others <p>Breakdown by segments is also provided.</p>	<p><i>Current liabilities</i></p> <ul style="list-style-type: none">▪ Trade and other payables▪ Government borrowing and financing▪ Provision for liabilities and charges<ul style="list-style-type: none">○ Nuclear decommissioning○ Clinical negligence▪ Other financial liabilities <p><i>Non-current liabilities</i></p> <ul style="list-style-type: none">▪ Trade and other payables▪ Government borrowing and financing▪ Provision for liabilities and charges▪ Other financial liabilities▪ Net public service pension liability

Related party disclosure

Canada	Australia	Hong Kong
<p>No related party disclosure included in the consolidated financial statements.</p> <p>However, included in the supplementary financial statements prepared for the Employment insurance operating accounts are the following commentary on related party transactions:</p> <ul style="list-style-type: none"> ○ the account is related to all departments, agencies and Crown corporations; ○ the account enters into transactions with these entities in the normal course of operations under the same terms and conditions that apply to unrelated parties. The transactions are measured at the exchange amount. ○ related party transactions disclosed include administration costs charged by another entity. 	<p><i>AASB 124 Related Party Disclosures requires the disclosure of remuneration of key management personnel although this standard is not currently applicable to general purpose financial reports of not-for-profit public sector entities.</i></p> <p>The Australian Government has elected to disclose ministerial remuneration of Cabinet Ministers.</p> <p>Ministerial remuneration is limited to Cabinet Ministers because they are considered the key management personnel of the Australian Government.</p> <p>Under employee and superannuation expenses note:</p> <p>Employee expenses include salary and allowances for 22 Cabinet Ministers totaling \$7.6 million during 2011-12.</p>	<p>None included in both accrual and cash based financial statements.</p>

Related party disclosure (cont'd.)

New Zealand	United Kingdom
<p>Commentary made on related party transaction as follows:</p> <p>Related parties of the Government include:</p> <ul style="list-style-type: none">▪ ministers of the Crown, who are key management personnel,▪ ministers' spouses, children and dependants who are close family members of key management personnel, and▪ private-sector entities owned or jointly controlled by Ministers, their spouses, children and dependants. <p>Transaction with related parties may arise from the payment of taxes and user charges (such as purchase of electricity), and the receipt of entitlements and services (such as access to education).</p> <p>Other transactions with these related parties can include the employment of Ministers' spouses, children and dependants by a Government entity, receipt of grants from, or the purchase or sale of goods and services to, a Government entity by Ministers, their spouses, children and dependants, or private-sector entities they own or jointly control.</p> <p>These transactions have not been separately disclosed.</p>	<p>Related parties have been identified as those public sector entities that have not been included in the consolidated financial statements.</p> <p>The most significant related parties are the public sector banks, Royal Bank of Scotland (RBS), Lloyds Banking Group (Lloyds) and Northern Rock.</p> <p>In the course of normal business, government entities entered into arms-length banking transactions with these institutions such as loans and deposits.</p> <p>The volume and diversity of these transactions make disclosure of them all impractical.</p>

Additional information included in the notes

Canada	Australia	Hong Kong
<ul style="list-style-type: none"> ▪ Segmental information for revenue and expenses by ministries ▪ Further detail analysis on: <ul style="list-style-type: none"> ○ Revenues, expenses and accumulated deficit ○ Accounts payable and accrued liabilities ○ Interest bearing debt ○ Cash and accounts receivable ○ Foreign exchange accounts ○ Loans, investments and advances ○ Non-financial assets ○ Contractual obligations and contingent liabilities 	<ul style="list-style-type: none"> ▪ Commitment and contingencies (including analysis by sector) ▪ Remote contingent liabilities ▪ Financial risk management policies <ul style="list-style-type: none"> ○ Market risk – interest and other price risk ○ Credit risk ○ Liquidity risk ▪ Assets held in trust ▪ Explanation of major variances between the general government sector budget and actual outcomes 	<p>Standard information included in the notes.</p>

Additional information included in the notes (cont'd.)

New Zealand	United Kingdom
<p>In addition to prior year comparative information, comparison is also made to forecast figures as included in the 2011 and 2012 annual budget</p> <ul style="list-style-type: none">▪ Insurance liabilities▪ Capital objectives and fiscal policy▪ Canterbury Earthquake▪ Derivatives and hedge accounting▪ Risk management policies disclosed by specific entities that hold significant portfolio of financial instruments. Covers:<ul style="list-style-type: none">○ Market risk – interest and other price risk○ Credit risk○ Liquidity risk○ Foreign currency risk▪ Statement of unappropriated expenditure▪ Statement of expenses or capital expenditure incurred in emergencies▪ Statement of trust money	<ul style="list-style-type: none">▪ Remote contingent liabilities reported to parliament<ul style="list-style-type: none">○ Quantifiable○ Non-quantifiable▪ Financial risk management disclosure<ul style="list-style-type: none">○ Market risk – interest and other price risk○ Credit risk○ Liquidity risk○ Foreign currency risk▪ Significant financial assets and liabilities that are not consolidated in the account▪ Third party assets

Auditors' report

Canada	Australia	Hong Kong
<p>Unqualified opinion in accordance with the stated accounting policies of the Government of Canada set out in the notes, which conform with Canadian public sector accounting standards.</p>	<p>Unqualified opinion in accordance with section 55 of the Financial Management and Accountability Act 1997 and Australian Accounting Standards (including the Australian Accounting Interpretations).</p>	<p>Audit opinion only provided for cash based financial statements, which an unqualified opinion.</p>

Auditors' report (cont'd.)

New Zealand	United Kingdom
<p>Unqualified opinion in accordance with generally accepted accounting practice in New Zealand.</p> <p>Emphasis of matter – uncertainties due to the Canterbury earthquakes</p>	<p>Qualified opinion issued on the basis of:</p> <ul style="list-style-type: none">▪ disagreements on the definition and application of the account boundary▪ disagreement relating to the valuation of local authority infrastructure assets▪ limitation in audit scope due to lack of evidence supporting the completeness of the elimination of intra-government transactions and balances▪ disagreement in the accounting for 3G licenses▪ disagreement and limitation in audit scope from underlying statutory audits of components of the government▪ limitation in audit scope due to lack of evidence supporting the completeness and valuation of schools' assets <p>Emphasis of matter – significant uncertainty : uncertainties inherent in estimating the likely cost of the liabilities of the Nuclear Decommissioning Authority</p>



Q&A Session