



February 10, 2010

Memorandum

To: Members of the Board
From: Ross Simms, Assistant Director
Through: Wendy M. Payne, Executive Director
Subj: Financial Reporting Model - TAB F¹

MEETING OBJECTIVE

To review a survey of the financial reporting practices of other national governments so that the Board may determine a country or countries for more in-depth study and determine their lessons learned.

BRIEFING MATERIAL

This transmittal memorandum includes a discussion of our survey results entitled, Survey of Financial Reporting Practices, beginning at page 6. Also, Attachment 1 provides the operating statements of selected countries (Australia, Canada, New Zealand, and United Kingdom).

BACKGROUND

At the December 2009 meeting, the FASAB discussed the financial management aspects of other countries and decided to survey the reporting models of several countries. Upon completing the survey, the Board may invite officials from a particular country or countries to attend a FASAB meeting and conduct more in-depth research. Also, members discussed concerns regarding the existing financial reporting model, the need for managerial cost accounting information, and the scope of generally accepted accounting principles (GAAP).

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations

QUESTIONS FOR THE BOARD

While reviewing the results of the survey, the Board may wish to consider the following questions:

1. As part of our survey, we received responses from Australia, Canada, Italy, New Zealand (NZ), Norway, Portugal, Sweden, and United Kingdom (UK). Considering that all these countries prepare financial statements on the same basis as their budget, prepare departmental financial statements, and three of the countries (Australia, NZ, and UK) prepare financial statements in conformity with private sector based financial reporting standards, which countries would the Board like to consider in more depth?

To consider approaches for enhancing a model that involves preparing financial reports on a different basis from budgeting, staff suggests that Sweden may be the closest model of those responding to our survey because they have experience with this approach. Also, a government that has a dual system, but did not respond to the survey is France. They believe that a dual system enables them to monitor budget execution compliance, minimize opportunities for manipulation of an accrual basis budget, reliably assess the government's assets and financial position, develop reliable assessments of assets' actual cost of service delivery, and calculate full costs.²

2. What additional information would the Board like to obtain from the other governments?
3. During our citizens' survey we learned that the public wants more information on the sources of revenues and details of costs. Considering the level of disaggregation provided in the operating statements of Australia, Canada, NZ, and UK, the Board may begin to consider more disaggregated presentations of revenue and cost information in financial reports. Matters to consider include whether: (a) the amounts and kinds of inflows and outflows are being adequately presented; (b) disaggregation would make financial statements too detailed and users would have difficulty understanding them; (c) disaggregation would make the financial statements less comparable among departments and agencies; (d) expenses should be shown by function, department, or object (personnel, supplies, equipment, etc.). If the Board agrees, staff could provide example formats for the Board's consideration at the next meeting.

² Modernization of Government Accounting in France: The Current Situation, The Issues, The Outlook, International Federation of Accountants, January 2003, p. 18.

NEXT STEPS

Staff will examine the financial reporting practices and experiences of the selected country or countries in more detail.

If you have any questions or need additional information, please contact me at 202-512-2512 or by email at simmsr@fasab.gov as soon as possible. I will be able to consider and respond to your request more fully in advance of the meeting.

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PURPOSE

The purpose of the survey was to learn about the financial reporting practices of other countries and identify a country or country for more in-depth study.

SCOPE AND METHODOLOGY

To conduct the survey, we designed a brief questionnaire based in part on matters discussed during previous FASAB meetings, such as the guiding principals used in preparing financial statements, who are the users of financial statements and how are financial statements used, and managerial cost accounting practices. The questionnaire consisted of nine questions regarding financial reporting and three questions concerning managerial cost accounting. The questions were as follows:

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?
2. Are departmental financial statements prepared and audited?
3. Who are the intended and actual users of the whole of government and/or departmental financial statements?
4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?
5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?
6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?
7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?
8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?
9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).
11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.
12. What major barriers have you identified to comparing costs across departments or agencies?

Next, staff provided the questionnaire to the Organization for Economic Co-operation and Development (OECD) for distribution to its member countries (29 countries³ excluding the U.S.). In addition, because the OECD representatives were primarily experts in their government's budget, we sought the perspectives of accountants by providing the questionnaire to representatives who responded to an International Public Sector Accounting Standards Board (IPSASB) Long-Term Fiscal Sustainability Reporting questionnaire. The respondents included representatives from Australia, Canada, France, NZ, Sweden, Switzerland, UK, Eurostat, and the International Monetary Fund. As a result of our outreach efforts, we received responses from Australia, Canada, Italy, NZ, Norway, Portugal, Sweden, and UK.

In addition, during our citizens' survey, we learned that citizens wanted disaggregated cost information such as salaries and benefits and cost of programs or functions. We examined the line items and level of disaggregation provided in the operating statements of Australia, Canada, NZ, and UK. At the December 2009 FASAB meeting, the Board discussed some of the financial management practices of these countries and appeared to show some interest in them.

RESULTS IN BRIEF

Survey respondents discussed several practices that were similar to that of the U.S. For example, they make their whole of government financial statements available on the internet and their departments prepare financial statements that are audited. In addition, the users of government financial statements include internal and external users such as Parliament, ministries, and citizens, and accountability was considered a key objective to determining the form and content of financial statements.

Also, based on the responses, integrating financial statements and the budget appeared to be significant. When discussing the uses of financial statements, the respondents

³ OECD members other than the U.S. include Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, and United Kingdom.

generally discussed the financial statements in relation to the budget. They noted that the financial statements are used in comparing final outcomes to the budget, making budget decisions, and in preparing the budget itself.

Given the importance of linking financial statements to the budget, it appeared reasonable that all of the respondents noted using the same basis for budgeting and for preparing financial statements. Respondents either used the accrual or cash basis for both types of reporting. This was one area of practice that differed from that of the U.S. where two different bases are used. In separate literature from its survey response, Sweden noted that using dual bases complicated the accounting model and several challenges developed, such as the accrual basis financial statements did not receive the level of attention of the primarily cash basis budget.⁴

Another area where the respondents differed in their practices was the use of private sector International Financial Reporting Standards (IFRS). Although the financial statements were intended for internal and external users, three respondents used IFRS to help facilitate consistency in reporting between the public sector and private sector. In other words, these respondents desired to have the government provide financial reports like the private sector and managers used the information in these “private sector style” financial statements for decision-making.

In addition, respondents noted several benefits of financial statements. For example, one respondent (Australia, using IFRS) discussed the following benefit of audited departmental financial statements.

Audit of departmental financial statements ensures that the quality of information presented at departmental level is high, which has specific benefits in departmental management and administration. For example, for a number of years the Department of Defence received qualified financial statements across a range of areas, including inventory and employee leave entitlements. The qualifications led directly to management improvement action, which not only improved the quality of the financial statements, but provided management benefits as well – management were more confident that inventory was located where the records said it was, and there were fewer incorrect payments to employees for leave entitlements.

Regarding a managerial cost accounting system, most of the respondents did not indicate having managerial cost accounting system requirements. Accordingly examples of change management strategies during system implementation were limited. Respondents did note that involvement of legislators and key department and agency personnel and training were important to implementation. Also, NZ provided an extensive example of their requirements (See Appendix IV) and Sweden provided their New Accounting Model (NAM)⁵ which is based on IPSASB standards and discusses cost accounting principles.

Additionally, by examining the operating statements of Australia, Canada, NZ, and UK, we noted that each provides detailed information on revenues and expenses. The face of the statement may include aggregated information while the notes provide greater

⁴ *Accrual Accounting in Swedish Central Government*, ESV 2001.

⁵ Due to the length of the NAM it was not included in the Appendices.

detail. The statement and notes present information on the sources of revenue and cost information by object, function, and department. Readers are provided with information such as employee salaries and wages, employee benefits, depreciation, interest, the cost of general public services, defense, public order and safety, education, health, social welfare, transfer payments, etc. Also, Canada and NZ provide a comparison of actual and budget or forecasted information on the face of the operating statement while UK provides a separate statement comparing budget and actual amounts.

Overall, with respect to the survey, it appeared that the respondents sought to reduce complexity and the risk of potential confusion in financial reporting. They were able to engage legislators and department managers in their models and provide information that could be used for fiscal decisions and demonstrating accountability to citizens.

Details of the survey results are provided in the following sections.

Section I: Summary Responses by Question, provides a summary of the responses to each of the survey questions.

Section II: Summary of Responses by Respondent provides a summary of responses to each survey question by respondent.

Section III: Operating Statement Displays of Selected Countries presents the items included in the operating statements of Australia, Canada, NZ, and UK.

SECTION I: SUMMARY OF RESPONSES BY QUESTION

SECTION I: SUMMARY RESPONSES BY QUESTION

This section provides a summary of the responses to each of the survey questions.

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?

All the respondents make their whole of government financial statements available on the internet.

2. Are departmental financial statements prepared and audited?

The respondents generally noted that departmental financial statements are prepared and audited. Departmental financial statements appeared to be important to demonstrating accountability and for decision-making.

3. Who are the intended and actual users of the whole of government and/or departmental financial statements?

The users of financial statements include internal and external readers. They include Parliament or legislators (internal), departments and ministries (internal), and the public (external). While Parliament or the legislative body and the public (citizens) appeared to be the most frequently cited users, respondents described Parliament as an actual user rather than a potential user. For example, the NZ respondent noted that Parliamentary select committees use the financial statements to "examine fiscal performance of the government."

The respondents' views on users appear consistent with the FASAB financial reporting concepts. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Accounting (Objectives)* states that the FASAB considers the information needs of both internal and external users, in part, because the distinction is less significant for the federal government than for other entities. Officials who should have access to information often find that they do not.⁶ U.S. financial reporting users include citizens, Congress, federal executives, and federal program managers.

⁶ SFFAC 1, par.25.

In addition, while some respondents (Australia, NZ, UK) noted that internal and external groups were financial statement users, their governments applied private sector accounting standards, IFRS. The IFRS framework is intended for the preparation of financial statements for *external* users.⁷ One respondent (UK) noted that it was their goal to ensure that government financial statements are comparable with those of the private sector. Thus, it appears that legislative bodies and managers in other governments have identified benefits in using financial information primarily intended to be prepared and presented to external users.

4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?

Accountability appeared to be a theme of the responses to this question, as the respondents described aspects of accountability such as accountability for financial resources, accountability for compliance, accountability for efficiency and economy, and accountability for results. Respondents noted that the financial statements are used in a formal financial review process, comparing expenditures with appropriations, economy and efficiency of expenditures, and comparing forecasts with management results. Additionally, it should be noted that, to the extent appropriate, Australia, NZ, and the UK follow IFRS which is intended for private sector financial reporting.

The FASAB's *Objectives* discuss that accountability and decision usefulness provides the foundation for the objectives of U.S. federal financial reporting.⁸

5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?

The respondents generally used the same basis for preparing budgets and financial statements. The respondents appeared to view the budget as the fundamental management document and financial statements help in assessing how well the budget was achieved and in developing future budgets. This high level of linkage between the budget and financial statements may help explain why the legislative bodies of these governments appear to have a keen interest in financial statements.

In other research of national government financial reporting practices, it was noted that a key to NZ's financial management reforms was the *simultaneous* movement of budgets and financial statements for government departments to

⁷ IASB, *Framework for the Preparation and Presentation of Financial Statements*, par.1

⁸ SFFAC 1, par. 71.

an accrual basis.⁹ Also, it has been noted that reporting information on different bases poses risks¹⁰ and the many benefits of accrual accounting may not be maximized if financial statements are presented using accrual accounting, while the budget remains on a cash basis.¹¹

In a separate document from their survey response, Sweden noted some of its experiences with a dual bases (different bases for budgeting and financial statements) reporting model. Sweden noted that, in the long-run, dual bases reporting led to problems such as defining when an event is to be recognized in the different reports and it was noted that the accrual based financial statements did not receive the level of attention that they should have received. During the 1990's Sweden experienced substantial deficits and implemented expenditure ceilings to improve the budget process. This placed the focus on appropriations because they constitute the spending ceilings. In addition, macro restrictions were implemented and these restrictions were often on a cash basis. Moreover, ministries and agencies tended to add new routines to the old ones rather than replacing the old ones. This made accounting more complicated than necessary.¹²

Having the budget and financial statements on the same basis is an area where the financial reporting practices of the respondents differ from that of the U.S. In the U.S., budgetary information is prepared on a different basis (primarily cash) from that of financial statements (accrual). Also, in the U.S. various documents are prepared that provide budget data and analyses. For example, both the executive and legislative branches prepare different budget documents for fiscal planning and decision making. The executive branch prepares the Budget of the United States Government (President's Budget) which includes policy recommendations and is submitted to the legislative branch. The legislative branch considers the President's Budget and prepares the Concurrent Budget Resolution which provides the plan for legislative budgetary actions. See Exhibit 1: U.S. Documents Providing Federal Budget Information.

⁹ Ball, Ian, Tony Dale, William Eggers, John Sacco, Policy Study No. 258, *Reforming Financial Management in the Public Sector: Lessons U.S. Officials Can Learn from New Zealand*, Reason Public Policy Institute, June 1, 1999, p. 6.

¹⁰ In 1967, the notion of using different measurement bases for the U.S. budget was deliberated. At that time, it was noted that budgets prepared on different bases may be needed to meet the various objectives of the U.S. budget. These objectives included setting forth the President's request to Congress for new programs, proposing an allocation of resources to serve national objectives, embodying the fiscal policy of the government for promoting high employment and healthy economic growth, and providing the basis for executive and agency management of federal government programs. However, the President's Commission on Budget Concepts noted that "different and competing budgets confuse public and congressional understanding and impede governmental decision-making." See *Report on the President's Commission on Budget Concepts*, U.S. Government Printing Office, Washington, October 1967, p. 2.

¹¹ Athukorala, Sarath Lakshman, *Accrual Budgeting and Accounting in Government and Its Relevance for Developing Member Countries*, Asian Development Bank, 2003, p. 51.

¹² *Accrual Accounting in the Swedish Central Government*, ESV 2001.

The FASAB has discussed budgetary reporting and financial statements and noted that the FASAB may influence the reporting of actual budgetary data and it supports efforts to ensure the accuracy and reliability of budget reporting. The FASAB also believes that financial statements along with budgetary reports provide a more comprehensive understanding of the federal government's financial position, results of operations, and financial condition than either of the reports provide alone.¹³ This view is consistent with that of the Congressional Budget Office's (CBO) view, who in 2006 examined the President's Budget and the U.S. government-wide financial report at the request of the Chairman and Ranking Member of the Senate Budget Committee. Regarding the two reports, the CBO noted that they serve different and complementary purposes and that, "neither provides all of the relevant information about federal finances, and together they offer a more comprehensive perspective on the fiscal implications of present policies."¹⁴

¹³ SFFAC 1, par. 186 and par. 191.

¹⁴ *A CBO Study: Comparing Budget and Accounting Measures of the Federal Government's Fiscal Condition*, Congressional Budget Office, December 2006, pp.1,2.

Exhibit 1 U.S. Documents Providing Federal Budget Information

U.S. Documents Providing Federal Budget Information

Budget of the United States Government (President's Budget) – Prepared by the Executive branch and submitted to Congress, this document includes: the President's significant policy recommendations and changes; analyses intended to place the budget in perspective; tables showing the budget by agency and account and by function, sub-function, and program; data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment over an extended time period, and other analyses.

Source: *Budget of the U.S. Government Fiscal Year 2011*, Office of Management and Budget

Concurrent Budget Resolution (Budget Resolution) – Prepared by the legislative branch, the Budget Resolution documents the agreement between the two chambers of the Congress on a budget plan for the upcoming fiscal year and at least the following four fiscal years and provides the framework for later legislative action on annual appropriations bills, revenue measures, debt limit legislation, reconciliation legislation, if necessary, and any other budgetary legislation. According to legislation, Section 301(a) of the 1974 Budget Act, the Budget Resolution must include at least the following:

- Aggregate levels of new budget authority, outlays, the budget surplus or deficit, and the public debt;
- Aggregate level of federal revenues and the amount, if any, by which the aggregate level of federal revenues should be increased or decreased by legislative action;
- Amount of new budget authority and outlays for each of the major functional categories; and
- For purposes of Senate enforcement rules, Social Security outlays and revenues (although these amounts are not included in the budget surplus or deficit totals due to their off-budget status).

Source: Heniff, Bill, *CRS Report for Congress: Formulation and Content of the Budget Resolution*, Congressional Research Service, 98-512 GOV, May 1, 2007.

The Budget and Economic Outlook – CBO report on the U.S. budget and economic outlook over the next 10 years. It provides the Congress with a baseline against which to measure the effects of proposed changes in spending and tax laws. Source: Congressional Budget Office

Financial Report of the United States Government (CFR) – Prepared by the Executive branch, the CFR is intended to:

- Provide an overall view of the annual financial results of operations and the financial position of the federal government, including long-term commitments and obligations;
- Demonstrate accountability for the money the federal government raises through taxes and for spending money according to the laws and regulations that govern the federal government's budgets and financial operations;
- Report on the federal government's operating performance, accounting systems, and internal control; and
- Demonstrate the federal government's stewardship over its resources.

Particularly regarding budget information, the document provides a Reconciliation of Net Operating Revenue (or Cost) and Unified Budget Surplus (or Deficit) and Statement of Changes in Cash Balance from Unified Budget and Other Activities.

Source: *Understanding the Primary Components of the Annual Financial Report of the United States Government*, U.S. Government Accountability Office, GAO-09-946SP, September 2009.

CBO Cost Estimates and Scorekeeping - Shows how individual legislative proposals would change spending or revenue levels under current law and help to determine whether those budget effects are consistent with the targets in the Congress' most recent budget resolution. Source: Congressional Budget Office

Current Level/Scorekeeping Report – House and Senate Budget Committee Reports on the status of the congressional budget.

Department and Agency Financial Reports – Show how the entity obtained its budgetary resources and the status of these resources at the end of the reporting period.

Combined Statement of Receipts, Outlays, and Balances – Department of the Treasury report that presents the receipts and outlays of the federal government and the U.S. general ledger account balances.

6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?

Respondents discussed various challenges associated with changes such as changing from cash to accrual accounting. For example, the UK noted,

For departmental financial reporting the main challenge was moving from cash-based accounting to accruals accounting, including the challenges of valuing assets and liabilities. For finance teams this was addressed by increasing the professionalism of staff supported by the acquisition of commercial IT accounting packages. There was a lag in the wider transition of departments to an accruals culture. This required a general improvement in financial management awareness across departments.

Valuing legacy assets¹⁵ and establishing proper systems¹⁶ were some of the challenges experienced in U.S. financial reporting.

7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?

The respondents discussed various uses of financial statements. These included:

- To measure financial outcome of the budget process and actual financial performance against that budget (NZ)
- Budget execution (Portugal)
- Preparing budgets and future budget decisions (Australia, Italy, Norway, Sweden, UK)
- Monitor stewardship, efficiency and effectiveness (Australia, UK, NZ)
- Decision-making and accountability (Canada)

One theme that may be noted from the respondents is that financial statements are linked to their budget.

¹⁵ Testimony before the Subcommittee on Space and Aeronautics, Committee on Science and Technology, U.S. House of Representatives, Key Issues and Challenges Facing NASA, Statement of The Honorable Paul K. Martin Inspector General, National Aeronautics and Space Administration, February 5, 2010.

¹⁶ Financial Management: Persistent Financial Management Systems Issues Remain for Many CFO Act Agencies, Government Accountability Office, GAO-08-1018, September 30, 2008.

8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?

Respondents noted numerous benefits of preparing financial statements and having them audited. Examples include:

- Provide a transparent picture of the impact of the global financial crisis on present and future government finances (Australia).
- Identifies problems regarding the use of resources (Italy)
- Provides information on the government's financial health (NZ)
- Provides information on performance (NZ)
- Controlling expenditures (Norway)
- Integrated accounting system across all levels of the federal administration. (Sweden)
- Objective assurance as to the truth and fairness, propriety and regularity of expenditure and acts as a disincentive to fraud and impropriety, reassuring taxpayers that their money has been used properly. It also provides accountability to Parliament and citizens. (UK)

9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

Respondents noted some changes which may result in changes to financial statements. They discussed considering other accounting standards such as the International Public Sector Accounting Standards Board's (IPSASB) International Public Sector Accounting Standards (IPSAS) or International Accounting Standards Board's (IASB) IFRS. In addition, one respondent (Australia) noted that:

- In 2009-10, department financial statements will be presented in a "net cost of services" format to focus on departmental expenditure;
- In 2009-10, departmental financial statements will include some enhanced reporting of asset management and acquisitions, to provide greater transparency in this area; and
- The independent accounting standard setter (Australian Accounting Standards Board) is currently considering proposals that, if adopted, could result in further changes. A significant change being considered is differential reporting. Smaller agencies may not need to provide as much information in their financial statements.

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).

Unlike the U.S., most of the respondents did not discuss managerial cost accounting systems requirements. Only two respondents (NZ and Portugal) noted managerial cost accounting system requirements, while others that provided comments to this question (Australia, Italy, Norway, and UK) simply noted that departments prepare cost information. In addition, one respondent (Sweden) noted that their New Accounting Model discusses cost accounting.

11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.

NZ and Sweden implemented a change management strategy. The strategy involved legislators, central agencies and departmental staff, training, and comprehensive accounting policies. In addition, one respondent, Italy, noted that they provide constant training and Norway indicated that information and guidance on accrual accounting is provided.

12. What major barriers have you identified to comparing costs across departments or agencies?

For those that responded, various difficulties were noted. Examples include the following:

- Consistency in reporting costs (Australia)
- Introducing a new way of thinking based on costs rather than expenditures (Italy)
- Benchmarking is required to compare costs across departments or agencies, but occurs infrequently. (NZ)
- No standard detailed chart of accounts at the agency level. (Norway)
- Lack of financial and non-financial indicators. (Portugal)
- The definition of relevant costs, quantifying costs (e.g. splitting IT costs across finance functions), quantifying units (e.g. how should part-time staff be treated in defining staff units). (UK)

SECTION II: SUMMARY OF RESPONSES BY RESPONDENT

QUESTION NO.	QUESTION	AUSTALIA	CANADA	ITALY	NEW ZEALAND	NORWAY	PORTUGAL	SWEDEN	UK
1.	Audited whole of government financial statements available on the internet?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2.	Departmental financial statements prepared and audited?	Yes	Departmental financial statements prepared, but not all audited	Yes	Yes	Yes	All prepare financial statements, but only some are audited	Yes	Yes
3.	Who are intended and actual users of financial statements?	<p>Ministers and the Government;</p> <p>Parliament (including committees and individual parliamentarians);</p> <p>Government agencies;</p> <p>Taxpayers and the community generally;</p> <p>Employees;</p> <p>External providers of goods and services;</p> <p>Beneficiaries and other recipients of goods and services provided by</p>	The public, legislators, investors, analysts, other governments and users within the government.	Parliament, State Audit Court, Ministry of Economy and Finance, National Statistics Institute and all the citizens.	Parliament, media, economic and fiscal analysts, sectoral interest groups, investors and rating agencies	<p>Departments – Departments, Ministry of Finance, auditor,</p> <p>Whole of Government – Parliament, auditor, Ministry of Finance and Statistics</p>	Departments themselves, ministries, Parliament, general public	Parliament, the general public, the citizen.	Parliament as whole and individual members. Other users – citizens, businesses, lobby groups, suppliers, and media.

Section II: Summary of Responses by Respondent

QUESTION NO.	QUESTION	AUSTALIA	CANADA	ITALY	NEW ZEALAND	NORWAY	PORTUGAL	SWEDEN	UK
		Government; Industry and community groups; and Media.							
4.	What were key objectives or concepts considered in determining form and content?	Accountability and economic decision-making. Information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Also a means by which management discharges its accountability to the users of the reported financial information.	Section PS 1000 of the Public Sector Accounting Handbook issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.	To compare initial forecasts and final management results	Accountability and decision-making To provide a basis for financial accountability (as part of the financial review process and accountability to taxpayers, bondholders and other resource providers) and to assist external users in decision-making	Control of expenditures according to appropriations and the basis for finance policy Departments – cash based Whole of government – cash based	Attest to legality of the expenditure, economy, efficiency, and effectiveness of the expenditure	Control (includes information to interpret the budget) and transparency	Follow private sector accounting principles (IFRS) where appropriate & show expenditures compared with appropriations and expenditure by departmental strategic objectives
5.	Is there a difference between basis for budgeting and for preparing financial statements?	No	No	No	No	No	Mixture of approaches. Ministries have different types of services – integrated and autonomous. Integrated use cash basis for budget and financial statements while	No	No

Section II: Summary of Responses by Respondent

QUESTION NO.	QUESTION	AUSTALIA	CANADA	ITALY	NEW ZEALAND	NORWAY	PORTUGAL	SWEDEN	UK
							autonomous uses cash basis budget and accrual financial statements.		
6.	Significant challenges in financial reporting and how were they addressed?	<p>Moving from cash to accrual presented challenges - valuation of heritage assets, a depreciation funding model, and valuation or funding of existing debt. Valuers, actuaries and other experts were engaged.</p> <p>Measurement of financial instruments - Australian Accounting Standards are based on IASB standards which presume the presence of an active market or a proxy which may not be the case for some financial instruments held by governments. Addressed on a case by case basis by agreeing valuation principles for individual items or classes of items with auditors.</p> <p>Fluctuations in the</p>	No response	Insufficient attention paid by Parliament to the achieved results in comparison with budget. Forthcoming reform is intended to address this matter.	<p>Determining the extent of changes required from standard corporate reporting practice for application to the public sector.</p> <p>Accounting for rights and obligations in association with Kyoto commitments and government operated emission trading schemes</p> <p>Fair value measurement of concessional loans where the determination of cash flows is dependent on future.</p> <p>Consistent robust</p>	<p>Some ministries need more financial information than cash basis can provide. Agencies voluntarily follow accrual accounting</p> <p>Considered accrual budgeting and accounting</p>	<p>Implementing accrual accounting in all ministries. Developed a plan – Public Accrual Accounting Plan</p>	<p>Administrative units facing higher standards/requirements due to the move to accrual accounting: More know-how required, responsibility for results</p> <p>Greater transparency means more resources</p>	<p>For departments, moving from cash basis of accounting to accrual basis (valuing assets and liabilities). Addressed thru increasing professionalism of staff and acquiring IT accounting packages.</p> <p>For whole of government, consolidating financial information across 1,300 entities, eliminating intra-government trans., aligning accounting policies across sectors, and achieving buy-in.</p>

Section II: Summary of Responses by Respondent

QUESTION NO.	QUESTION	AUSTALIA	CANADA	ITALY	NEW ZEALAND	NORWAY	PORTUGAL	SWEDEN	UK
		<p>value of long term assets and liabilities measured on a discounted cash flow basis, principally outstanding superannuation (pension scheme) liabilities for government employees. This issue not addressed.</p> <p>Decided to prepare financial statements that "harmonise" the requirements of AAS with those of statistical standards (GFS). This was based on a number of specific advantages including preparation of a single set of financial statements, alignment of budget and actual reporting systems etc.</p>			<p>depreciated replacement cost valuations of specialised property plant and equipment.</p> <p>Determining appropriate long term risk free discount rates in the absence of market data for use with pension and long term insurance obligations.</p>				
7.	How are financial statements used?	<p>Whole of Government (WOG) statements – a monitoring tool.</p> <p>Agency financial statements - assist in making budget decisions, monitor</p>	Decision-making and accountability	Basis for future budget decisions	Whole of govt. – provides financial indicators used for fiscal strategy (measure financial outcome of the	Preparing budgets and following up expenditures against appropriations	Budget execution	Budget decisions, to account for the financial situation of the government, to approve by the parliament.	Monitor stewardship, efficiency and effectiveness, and provide a basis for budgets

Section II: Summary of Responses by Respondent

QUESTION NO.	QUESTION	AUSTALIA	CANADA	ITALY	NEW ZEALAND	NORWAY	PORTUGAL	SWEDEN	UK
		program efficiency and stewardship over assets.			<p>budget process and actual financial performance against that budget)</p> <p>Department financial statements report the financial position of the department, and on the financial result in comparison to budget, but need to be considered in the light of service performance information to assess operational efficiency.</p>				
8.	What are some important benefits of financial statements?	Increased transparency and accountability of Government reporting; Improved decision-making particularly around balance sheet management; Planning, forecasting, budgeting; Enhancing the governments understanding of their financial performance and	No response.	Financial statements bring to light some problems related to the actual use of resources by the administrations	<p>Meets the needs of a range of external users –provides information on the state of the Government’s overall financial health and financial condition.</p> <p>Departmental</p>	Expenditure control and the basis for budgeting and better quality accounting	In 2008, OECD has produced a budget review, making some suggestions to improve the quality of the budget process in Portugal.	<p>Integrated accounting system across all levels of the federal administration.</p> <p>Increased accountability: More than 70 administrative units (agencies), which have to sign the respective</p>	<p>Objective assurance as to the truth and fairness, propriety and regularity of expenditure and acts as disincentive to fraud and impropriety, reassuring taxpayers that their money has been used properly.</p> <p>Also provides</p>

Section II: Summary of Responses by Respondent

QUESTION NO.	QUESTION	AUSTALIA	CANADA	ITALY	NEW ZEALAND	NORWAY	PORTUGAL	SWEDEN	UK
		position.			financial statements explain what they have done and how well they have performed			financial statement including the income statement and balance sheet.	accountability to Parliament and citizens.
9.	Any plans to revise form and content?	<p>Yes</p> <p>In 2009-10, department financial statements will be presented in a "net cost of services" format. This is largely only a format change, but will provide greater focus on departmental expenditure;</p> <p>In 2009-10, departmental financial statements will include some enhanced reporting of asset management and acquisitions, to provide greater transparency in this area; and</p> <p>The independent accounting standard setter (Australian Accounting Standards Board) is currently considering proposals that, if adopted, could</p>	No response.	Form and content of financial statements differ and plans are to harmonize them using the cash basis	Considering whether to adopt IPSAS rather than IFRS	No	Continue to implement accrual accounting, program budgeting, and simplifying the budget process. Also, planning to adopt IPSASB	No	Moving to IFRS

Section II: Summary of Responses by Respondent

QUESTION NO.	QUESTION	AUSTALIA	CANADA	ITALY	NEW ZEALAND	NORWAY	PORTUGAL	SWEDEN	UK
		result in further changes.							
10.	Are departments required to have managerial cost accounting systems?	No legislative or other requirement to have managerial cost accounting systems. However, departments do have managerial cost accounting systems.	PSAB has not issued pronouncements on managerial cost accounting.	Cost accounting documents are prepared to support budget decisions, but reforms are planned	Departments required to have cost allocation systems that attribute their costs to the outputs appropriated.	No requirements for managerial cost accounting systems. Agencies may prepare accrual basis statements for internal or supplementary purposes	Required to implement accrual accounting and cost accounting systems, but only hospital sector has implemented this.	The New Accounting Model of the Swiss Confederation, based on IPSAS, discusses different types of cost accounting for administrative units.	No, but departments operate management accounting systems to provide information on the use of resources.
11.	Change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems?	N/A	No response.	Constant training for all central state administrators	Implemented a significant change management strategy involving legislators, central agencies (such as the Treasury) and departmental staff.	Government Agency for Financial Management provides information and guidance on accrual accounting, financial statements, and financial management	N/A	Yes Intensively discussed in parliamentary committees. Acknowledged by parliament. Training of specialists needed which was covered by courses and a comprehensive accounting manual. Organizational adjustments necessary (roles, tasks, responsibilities, competencies), some reallocation of jobs (no more	No guidance has been issued on managerial cost accounting systems.

Section II: Summary of Responses by Respondent

QUESTION NO.	QUESTION	AUSTALIA	CANADA	ITALY	NEW ZEALAND	NORWAY	PORTUGAL	SWEDEN	UK
								job guarantee).	
12.	Major barriers to comparing costs across departments or agencies?	Consistency in reporting costs – while comparisons between agencies can be fraught with difficulty due to differences in their nature of operation.	No response.	Difficulties linked to the introduction of a new “accounting culture” (or a new “way of thinking”) based on the concept of cost, instead of the concept of expenditure	Comparisons of costs across departments or agencies require a benchmarking exercise to ensure consistency in the result and rigour in the analysis., but occurs infrequently.	No standard detailed requirements for chart of accounts established at agency level.	Lack of financial and non-financial indicators. The lack of accrual accounting reduces the level of accountability and the lack of skilled staff and complexities of public sector financial management processes.	Technically, no specific problems. The business between the agencies (and departments) differs sometimes highly therefore comparison of costs across them differs highly. It is more useful and successful to compare the costs for each department or agency (or category of them) over a specific period of time.	The definition of relevant costs (for example, should they include or exclude overheads), quantifying costs (for example, the splitting of IT costs across finance functions such as debtor, creditor management) and quantifying units (for example should office space occupied include non-effective space or the treatment of part-time staff in defining staff units).

SECTION III: OPERATING STATEMENT DISPLAYS OF SELECTED GOVERNMENTS

In this section, we examined the operating statements for selected countries, Australia, Canada, NZ, and UK. Board members discussed these countries during the December 2009 Board meeting and during our U.S. citizens' survey we learned that citizens want to know more about the sources of revenues and details of costs. Accordingly, we compiled a table, Table 1: Background for Selected Governments, to provide some background information on these countries and another table, Table 2: Items of Information and Level of Disaggregation in Operating Statements, to show the items of information and level of disaggregation they are currently presenting to readers of their operating statements.

Background Information

Except for Canada, each of the countries use private sector based standards for preparing and presenting financial statements. Only Canada has a standards setting body established to promulgate financial reporting standards solely for the national government. However, the UK has an accounting standards board to advise the Treasury on accounting principles.

In addition, each of the countries uses the accrual basis for financial statements and budgeting, and requires departmental financial statements, but as discussed in their survey response, only New Zealand established managerial cost accounting requirements. Also, each of the countries has greater general government revenue as a percentage of GDP than that of the U.S. and, except for Australia, each has greater general government expenditure as a percentage of GDP than that of the U.S. However, the U.S. general government expenditure for defense as a percentage of GDP is greater than all of the selected countries. This may indicate that the U.S. may have more complex assets to consider for valuation than the other countries.

Items of Information and Level of Disaggregation

Regarding the items and level of disaggregation presented in operating statements, each of the countries presented sources of revenues such as taxes or in the case of UK, operating income. In addition, each of those countries applying private sector based standards (Australia, NZ, and UK) presented expenses such as employee salaries and wages, employee benefits, staff costs, depreciation, and interest on the face of the statement. However, Canada, which has a body that promulgates accounting standards for the national government, focused on functions such as Old age security benefits, guaranteed income supplement, other levels of government, employment insurance benefits, and children's benefits.

Each of the countries presented details of revenue and expenses in the notes. Notes were used to provide details or other displays such as expenses by object, function (general public services, defense, public order and safety, education, health, social welfare, etc.) and department. In addition, Canada and NZ provide comparisons with budget or forecasted information on the face of the operating statement, and UK presents a separate statement to compare budgeted and actual amounts. Below are summaries that discuss the purpose of each government's operating statement.

Australia

Australia implemented a fully integrated accrual financial management framework. This framework involves preparing budgets, managing operations and preparing financial reports on a basis similar to that used by businesses, including specification and costing of outcomes and outputs. As part of its set of financial statements, Australia prepares an operating statement that focuses on performance. According to the *Guide to the Financial Statements of the Commonwealth Government of Australia*, the statement shows the components of revenues and expenses and the amount of the operating surplus/deficit. The statement also helps to answer questions such as:

- Is the Commonwealth operating at a sustainable level? (e.g. are the costs of government being met by revenues or being deferred to the future?)
- How are costs and revenues made up and how are they changing?
- How has the Government allocated resources to various policy areas? (e.g. health, education, social security, transport and communications)
- What budgetary measures might be needed to achieve the Government's financial objectives?¹⁷

The face of the operating statement shows revenues and expenses by economic type or objects (taxation and non-taxation for revenue and personnel, supplies, grants, etc. for expenses), while the notes present revenues and expenses by function. However, a comparison of budget and actual is not shown on the operating statement. See Attachment 1 for Australia's operating statement and example of Australia's expenses by function note.

Canada

Canada uses accrual accounting and budgeting and its set of financial statements include a Statement of Operations (SO). The SO presents revenues, expenses, annual surplus/deficit amount, and accumulated surplus/deficit position. The annual surplus/deficit indicates whether revenues were sufficient to cover the current year's costs and the accumulated surplus/deficit position represents Canada's net economic resources. Also, the statement provides a comparison of budget and actual amounts. This comparison provides

¹⁷ *Guide to the Financial Statements of the Commonwealth Government of Australia*, p.1, accessible at <http://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements/index.html>.

accountability information necessary to evaluate the government's performance in achieving its plans.¹⁸

In addition, Canada displays information by function or program on the face of the statement, while providing additional details of revenues and expenses in the notes. The notes provide schedules of expenses by segment (Ministries, Crown Corporations, and other entities), and object (e.g., personnel, repair and maintenance, utilities, and supplies). See Attachment 1 for Canada's SO.

NZ

NZ focuses on public sector performance and developed a framework that involves accrual accounting and budgeting. NZ notes that it uses the accounting standards that are used for businesses because this would make it easier for external users to understand the financial statements. Included in its set of financial statements is a Statement of Financial Performance (SFP). The SFP presents revenues, expenses, and operating balance (overall surplus or deficit) and is intended to help answer questions such as:

- Is the government operating at a sustainable level (for example, are the costs of government being met by revenue or are they being deferred to the future)?
- How has the government allocated resources to various policy areas (for example, health, education or transport)?
- What budgetary measures might be needed to achieve the government's fiscal objectives?¹⁹

While the face of the SFP displays revenues and expenses by object, NZ presents other statements (Analyses of Expenses by Functional Classification) and notes that provide detailed information and revenues and expenses by function. In addition, NZ provides a comparison of actual and forecasted amounts. See Attachment 1 for the NZ SFP and NZ's tax and levies note.

UK

The UK uses Resource Accounting and Budgeting which is an accrual based approach to accounting and budgeting and indicates Parliamentary control. With the overall objective to enhance service delivery, it places emphasis on outputs rather than inputs. As part of its set of financial statements, the UK prepares the Operating Cost Statement (OCS). The OCS is intended to "show the resources consumed during the year in support of a department's own administrative expenditure and its program expenditure, net of departmental income."²⁰ In

¹⁸ *20 Questions about Government Financial Reporting: Federal, Provincial and Territorial Governments*, The Canadian Institute of Chartered Accountants, 2003.

¹⁹ *A Guide to the Public Finance Act: Whole of Government Financial Statements*, The New Zealand Treasury, August 2005.

²⁰ *Resource Accounting: Framework of Accounting Standard Setting in the UK Central Government Sector*, International Federation of Accountants, June 2002, p.19.

addition, the statement was designed to meet the budgetary control requirements of the Treasury and Parliament.²¹

The UK also prepares multiple displays of revenues and expenses. A Summary of Resource Outturn (SRO) and Statement of Resources by Departmental Aim and Objectives (SRDAO) are prepared. The SRO compares outturn (actual results) with estimates for resource expenditure and the overall cash requirement and the SRDAO restates the OCS to show spending by aims and objectives.^{22, 23} Additionally, the notes to the statement provide details of income and costs. These details include the salaries of government officials such as the Prime Minister and Chief Whip which is also a type of information sought by respondents to our U.S. citizens' survey. See Attachment 1 for the UK OCS.

²¹ Ibid, p.19.

²² Ibid, pp. 19-20.

²³ In the U.S., departments and agencies prepare a Statement of Net Cost. This statement is intended to show "gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and/or the organization." See Statement of Federal Financial Accounting Concepts 2, Entity and Display, par. 86.

Background for Selected Governments

Table 1 provides background information regarding each country.

Table 1 Background for Selected Governments

	AUSTRALIA	CANADA	NEW ZEALAND	UK
Has an accounting standards body promulgating accounting standards solely for the public sector	No	Yes	No	No
Has a conceptual framework for public sector accounting standards	Yes	Yes	Yes	Yes
Conceptual framework applies to both public and private sector	Yes, adopted IASB framework for Australian Equivalent	No	Yes, adopted IASB framework for the New Zealand Equivalent	Yes, adopted IASB
Conceptual framework concern cash basis, accrual basis, or both	Accrual	Accrual	Accrual	Accrual
Conceptual framework includes objectives	Yes	Yes	Yes	Yes
Conceptual framework discusses financial statements	Yes	Yes, but a standard prescribes what statements should be prepared	Yes	Yes
Basis for budgeting	Accrual	Accrual	Accrual	Accrual
Managerial cost standards	No	No	Requirements are issued	No
Requires departmental financial statements	Yes	Yes	Yes	Yes
2006 General government revenues as a % of GDP (U.S. 34.3%) Source: Government at a Glance 2009 - OECD © 2009 - ISBN 9789264061644	35.8%	40.7%	44.4%	41.6%
2006 General government expenditure as a % of GDP (U.S. 36.4%) Source: Government at a Glance 2009 - OECD © 2009 - ISBN	34.9%	39.3%	39.9%	44.2%

Section III: Operating Statement Displays of Selected Governments

	AUSTRALIA	CANADA	NEW ZEALAND	UK
9789264061644				
2006 General government expenditure for defense as a % of GDP (U.S. 4.3%) Source: Government at a Glance 2009 - OECD © 2009 - ISBN 9789264061644	Data not available	1%	1% (2005)	2.5% (2005)

Table 2 Items of Information and Level of Disaggregation in Operating Statements

Items of Information and Level of Disaggregation in Operating Statements					
Items	Countries				
	U.S.	Australia ^{24, 25}	Canada ²⁶	New Zealand ²⁷	UK ²⁸
Revenue					
Taxes		X		X	
Personal/Individual	X		X		
Corporate	X		X		
Unemployment	X				
Excise and gift	X				
Customs duties	X				
Other taxes, duties, receipts	X		X		
Miscellaneous earned revenues	X				
Employment Insurance Premiums			X		
Other program revenues			X		
Foreign exchange net revenues			X		

²⁴ The Australian model integrates Government Finance Statistics (GFS) information. Where Key Fiscal Aggregates presented on the face of the financial statements are materially different to that measured in accordance with GFS requirements, a reconciliation between the two measures is required to be provided.

²⁵ Detailed schedules of revenues and expenses are provided in the notes. The schedules include a schedule of expenses by function (general public services, defense, public order and safety, education, health, social welfare, etc.). See Appendix IX for an example of expenses by function display.

²⁶ Canada shows budget and actual in its operating statement.

²⁷ New Zealand shows forecast and actual information and the notes to the financial statements include schedules showing details of revenues and expenses. Expense schedules include employee and management personnel compensation and other operating expenses.

²⁸ Details of costs and income are disclosed in the notes.

Section III: Operating Statement Displays of Selected Governments

Items of Information and Level of Disaggregation in Operating Statements					
Items	Countries				
	U.S.	Australia ^{24, 25}	Canada ²⁶	New Zealand ²⁷	UK ²⁸
Interest	X	X		X	
Dividends		X		X	
Sales of goods and services		X		X	
Administration Costs					X
Operating Income					X
Net Cost	X ²⁹				
Intragovernmental transfers	X				
Unmatched transactions and balances	X ³⁰				
Program Costs					X
Expenses					
Employee salaries and wages		X		X	
Employee benefits		X			
Staff/Personnel costs				X	X
Use of goods and services ³¹		X			
Depreciation		X		X	
Interest		X		X	
Insurance				X	
Subsidy expenses		X			

²⁹ The Financial Report of the U.S. Government includes a Statement of Net Cost. The Statement of Net Cost shows costs by department or agency.

³⁰ Needed to bring the change in net position into balance.

³¹ Term used in Australian reporting to refer to the total value of goods and services used in production, and use of goods acquired for resale. Goods and services acquired for use as direct in-kind transfers to households or as grants are excluded.

Section III: Operating Statement Displays of Selected Governments

Items of Information and Level of Disaggregation in Operating Statements					
Items	Countries				
	U.S.	Australia ^{24, 25}	Canada ²⁶	New Zealand ²⁷	UK ²⁸
Grants		X			
Social benefits		X			
Loss on write-off of fair value of assets		X			
Superannuation net interest expenses		X			
Transfer Payments				X	
Old age security benefits, guaranteed income supplement			X		
Other levels of government			X		
Employment insurance benefits			X		
Children's benefits			X		
Other transfer payments			X		
Other Program expenses			X ³²		X
Public Debt Charge ³³			X		
Other Operating Expenses				X	
Net gains/(losses) on financial instruments				X	X
Net gains/(losses) on non-financial instruments				X	
Net surplus from associates and joint ventures				X	

³² Canada presents a schedule of program expenses by object (personnel, transportation and communications, information, professional and special services, rentals, repair and maintenance, utilities, and others) and segment (Ministries) in the notes. However, only actual amounts are presented.

³³ Term refers to interest on unmatured debt, amortization of discounts, and servicing costs.

Section III: Operating Statement Displays of Selected Governments

Items of Information and Level of Disaggregation in Operating Statements					
	Countries				
Items	U.S.	Australia^{24, 25}	Canada²⁶	New Zealand²⁷	UK²⁸
Gains/losses from discontinued operations				X	
Minority interest				X	
Fiscal Balance (Net Lending/Borrowing) ³⁴		X			
Net acquisition/disposal of non-financial assets		X			
Net Operating Balance		X		X	
Net other economic flows		X			
Net Operating (cost)/revenue	X				
Net Position	X				
Annual deficit or surplus			X		
Accumulated deficit or surplus			X		
Net Program Costs					X
Total Net Operating Costs					X
Shows Budget/Forecast vs Actuals	No	No	Yes	Yes	In another statement

³⁴ This item is intended to show the “extent to which financial resources are placed at the disposal of the rest of the economy or the utilization of financial resources generated by the rest of the economy. It is an indicator of the Government’s financial impact on the rest of the economy.” Commonwealth of Australia Consolidated Financial Statements for the Year Ended 30 June 2009, Commonwealth of Australia, December 2009.

Appendix I: Australia Response

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?

Answer:

Audited whole of government financial statements for the Australian Government are available on the internet. The link to the Australian Government Consolidated Financial Statements is:

<http://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements/index.html>

2. Are departmental³⁵ financial statements prepared and audited?

Answer:

Australian public sector entities are required to prepare statements under the *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997* or the *Corporations Act 2001*, as applicable. These acts, together with the Finance Minister's orders, set the financial reporting framework for the public sector entities.

Public sector reporting entities (including Departments of States and their agencies) are required on an annual basis to prepare and provide financial statements to the Auditor-General for audit.

The audited financial statements are prepared in accordance with the Australian Accounting Standards and Finance Minister's Orders.

Chief Executive and Chief Financial Officers are required to certify that the financial statements of the reporting entity have been based on properly maintained financial records and that they give a true and fair view of matters.

In addition to the financial statements of each reporting entity, the Government presents whole-of-government financial results in annual consolidated financial statements covering all Government entities (General Government, Public Financial Corporations and Public Non-Financial Corporations). The Minister for Finance and Deregulation certifies the Australian Government Consolidated Financial Statements (CFS) and must

¹ The term departmental refers to components of the federal government such as ministries, departments, and agencies.

provide them to the Auditor General, and table in parliament. The CFS is subject to audit by the Auditor General. The CFS is prepared in accordance with AASB 1049 *Whole of Government and General Government Financial Reporting*. This standard aims to harmonise the Australian Accounting Standards (AAS) and Government Finance Statistics (GFS) in a single set of financial statements.

Also under the *Charter of Budget Honesty Act 1998*, the Government prepares and presents the Final Budget Outcome (FBO). This report is prepared in accordance with external reporting frameworks (GFS and AASB 1049). The Auditor-General does not audit the FBO; however, it is prepared based on audited agency financial statements. These statements are integral to the Government's financial reporting framework, and complement the Budget process by providing outcomes against the Budget estimates. The FBO must be presented to Parliament by 30 September each year.

3. Who are the intended and actual users of the whole of government and/or departmental financial statements?

Answer:

Annual reports are the principal vehicle by which Parliament and the community are able to hold the public sector entity accountable for its performance. All entities are required to present annual reports to their responsible Minister in accordance with relevant legislative requirements. Annual reports are required to be tabled in Parliament by 31 October each year.

Annual reports are required to include a copy of the financial statements and the audit report.

The CFS and audit report thereon are tabled in Parliament as a separate report. Agencies are encouraged –although it is not mandatory - to make their annual reports, including financial statements, available on their web sites. Almost every agency in fact does so.

While the prime users are identified as parliamentarians, there are a large number of parties that are actual or potential users of individual entity and whole-of-government financial statements. They include:

- Ministers and the Government;
- Parliament (including committees and individual parliamentarians);
- Government agencies;
- Taxpayers and the community generally;
- Employees;
- External providers of goods and services;

- Beneficiaries and other recipients of goods and services provided by Government;
- Industry and community groups; and
- Media.

4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?

Answer:

The objective of the financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

Financial statements are also a means by which management discharges its accountability to the users of the reported financial information. (Under the Australian government financial framework, there is a high degree of decentralisation of decision-making. Consequently audited departmental financial statements support decision making about the effectiveness of financial management in each agency)

5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?

Answer:

Financial Statements for actual and budgets are prepared on an accrual basis. Agencies receive appropriations on an accrual basis, including for depreciation expenses and employee entitlements. Depreciation funding will be removed from the calculation of appropriation funding for the 2010-11 Budget. Instead agencies will be funded when the asset purchases occurs.

6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?

Answer:

The move from cash to accrual reporting (1999-2000) involved many challenges, some of which were the valuation of heritage assets, a depreciation funding model and valuation/funding of existing debt. Where appropriate, valuers, actuaries and other experts were engaged to assist in estimating the value of a range of financial statement balances.

Measurement of financial instruments has also proven a challenging issue, given that Australian Accounting Standards are based on IASB standards which presume the presence of an active market or a proxy therefore, which may not be the case for some financial instruments held by governments. This has been dealt with on a case by case basis by agreeing valuation principles with for individual items or classes of items with auditors.

Another recent significant issue has been fluctuations in the value of long term assets and liabilities measured on a discounted cash flow basis, principally outstanding superannuation (pension scheme) liabilities for government employees. The fluctuations have been exacerbated by movements in interest rates caused by the global financial crisis, and is caused because of the requirements of Australian Accounting Standards (they take a different approach to this issue to that of FASAB). This issue has not been satisfactorily resolved.

The Australian Government has also decided to prepare financial statements that “harmonise” the requirements of AAS with those of statistical standards (GFS). The desire to prepare “harmonised” reporting was based on a number of specific advantages including preparation of a single set of financial statements, alignment of budget and actual reporting systems etc. The challenges faced were considerable as the two systems were initially divergent on a wide range of subjects. The challenge was addressed through a lengthy period of consultation and negotiation to eliminate differences where possible, and to provide decision rules – incorporated into an accountings standard, AASB 1049 - where differences could not be eliminated. At present reporting on this basis is undertaken only at consolidated level. There have been a large number of other items requiring resolution, and we would be happy provide further information if requested.

7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?

Answer:

Whole of Government (WOG) statements are a monitoring tool. Agency financial statements assist in making budget decisions, monitor program efficiency and stewardship over assets.

In addition to annual financial statements, the Government is required to release Monthly Financial Statements. This statement is based on the information provided by agencies and is compared to a profile of the expected revenue and expenses. The Department of Finance and Deregulation uses this information to monitor program efficiency and assist with budget decisions.

8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?

Answer:

Increased transparency and accountability of Government reporting; Improved decision making particular around balance sheet management; Planning, forecasting, budgeting; Enhancing the governments understanding of their financial performance and position. Examples where this has been beneficial and/or led to decision-making include:

- the decision to establish a fund to provide for government employees' superannuation (pension fund) liabilities, when previously these had been unfunded; and
- the emergence of the global financial crisis, where the existence of comprehensive whole of government financial statements provided a transparent picture of the impact of the crisis on present and future government finances.

Audit of departmental financial statements ensures that the quality of information presented at departmental level is high, which has specific benefits in departmental management and administration. For example, for a number of years the Department of Defence received qualified financial statements across a range of areas, including inventory and employee leave entitlements. The qualifications led directly to management improvement action, which not only improved the quality of the financial statements, but provided management benefits as well – management were more confident that inventory was located where the records said it was, and there were fewer incorrect payments to employees for leave entitlements.

9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

Answer:

Yes.

- In 2009-10, department financial statements will be presented in a “net cost of services” format. This is largely only a format change, but will provide greater focus on departmental expenditure;
- In 2009-10, departmental financial statements will include some enhanced reporting of asset management and acquisitions, to provide greater transparency in this area; and
- The independent accounting standard setter (Australian Accounting Standards Board) is currently considering proposals that, if adopted, could result in further changes. The most significant of these are a) differential reporting, whereby smaller agencies may not need to provide as much information in their financial statements (they are generally lower risk because of the smaller amounts of money involved and lack of complexity in operations); and b) harmonisation of reporting between accounting standards and statistical standards, similar to that presently required at whole of government level by AASB 1049 (to provide greater consistency in reporting format between consolidated and departmental reports)

In addition, the FASAB established one concept and five standards on managerial cost accounting. These standards influence not only presentation of information in financial statements but also the development of cost accounting systems internally. Regarding managerial cost accounting, please respond to the following questions:

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).

Answer:

There is no legislative or other requirement for agencies to have managerial cost accounting systems.

However, many agencies do have such systems, as the financial statements are required to allocate costs to outcomes and outputs/programs in notes to their financial statements, and this requires allocation of indirect/overhead costs. As there is rarely a need to make comparisons between agencies at this level of reporting, there are no standards or centrally-determined guidelines. As this disaggregated information is

audited, the Auditor General reviews the methods of cost allocation for reasonable application of cost accounting principles.

In a very small number of cases costings are required to support pricing decisions (e.g. by the post office to justify the price of a postage stamp), or to classify revenue items as either taxes or non-taxes. Such decisions are normally beyond the scope of financial statements, and the costings are done separately and are independently reviewed.

11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.

Answer:

Not Applicable

12. What major barriers have you identified to comparing costs across departments or agencies?

Answer:

Department and agencies are responsible for their accounts and records. A major barrier is comparing costs between agencies is consistency in reporting costs – while comparisons between agencies can be fraught with difficulty due to differences in their nature of operation, where such information is compared it is usually done as a special project (e.g. accounting costs, IT costs, office accommodation costs) and the measurement rules are specified for the particular project to improve the consistency.

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Appendix II: Canada Response

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?

Audited financial statements of the government of Canada are available on the internet on <http://www.tpsgc-pwgsc.gc.ca/recgen/pdf/49-eng.pdf>.

2. Are departmental³⁶ financial statements prepared and audited?

Unaudited departmental financial statements are prepared.

3. Who are the intended and actual users of the whole of government and/or departmental financial statements?

Users of both the whole of government and departmental financial statements include the public, legislators, investors, analysts, other governments and users within the government.

4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?

They are based on the objectives and concepts described in Section PS 1000 of the Public Sector Accounting Handbook issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?

Both the budget and financial statements are prepared on a full accrual basis. The appropriations which represent legal spending authority are reported on a partial accrual basis.

³⁶ The term departmental refers to components of the federal government such as ministries, departments, and agencies.

6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?
7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?
They are intended to be used for decision making and accountability.
8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?
9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

In addition, the FASAB established one concept and five standards on managerial cost accounting. These standards influence not only presentation of information in financial statements but also the development of cost accounting systems internally. Regarding managerial cost accounting, please respond to the following questions:

Note that no pronouncement on managerial cost accounting is issued by PSAB.

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).
11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.
12. What major barriers have you identified to comparing costs across departments or agencies?



Ministero dell'Economia e delle Finanze

DIPARTIMENTO DELLA RAGIONERIA GENERALE DELLO STATO
SERVIZIO STUDI DIPARTIMENTALE – UFFICIO IV

***RESPONSES TO
FINANCIAL REPORTING QUESTIONNAIRE PROPOSED BY THE
FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
(JANUARY 2010)***

Mr. Jón Ragnar Blöndal - Deputy Head of Division - Budgeting and Public Expenditures Division - OECD - Paris

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?

RESPONSE:

As regards audited financial statements of central administrations (ministries), they are named *Rendiconto Generale dello Stato* and are available on the internet (<http://www.rgs.mef.gov.it/VERSIONE-I/Bilancio-d/Rendiconto/2008/index.asp>).

As regards local governments (Regions, Provinces and Municipalities) and all other public bodies (universities, health units, social security institutions, schools, etc.), financial statements are available on their respective web sites. Besides, Istat (Italian National Statistics Institute) provides for consolidation of the whole public administration accounts according to ESA95 criteria in order to submit them to Eurostat.

2. Are departmental financial statements prepared and audited?

RESPONSE:

Yes, they are. And then they are audited by the State Audit Court (see <http://www.rgs.mef.gov.it/VERSIONE-I/Bilancio-d/Rendiconto/2008/index.asp>).

3. Who are the intended and actual users of the whole of government and/or departmental financial statements?

RESPONSE:

Intended and actual users of financial statements are Parliament, State Audit Court, Ministry of Economy and Finance, National Statistics Institute and all the citizens. Financial statements are already available for the general public; however with the forthcoming reform will be compulsory, in the near future, to publish them on the internet.

4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?

RESPONSE:

Form and content of the financial statements are designed in order to make a comparison between initial forecasts and final management results, and in order to set out the operational items.

5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?

RESPONSE:

There is no difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements. As regards the budgeting appropriations of central administrations (ministries), during the budgeting stage focus and parliamentary vote are on the so-called “expenditure aggregates” (more than 700) inside the Programmes. Nevertheless, starting from 2011, because of the reform law (law no. 196 of 31 December 2009), focus and Parliamentary vote is going to “raise” directly on Programmes. During the budgeting stage planning is the main requirement. On the contrary, financial statements are elaborated drawing attention to the nearly 6,500 chapters (or items of expenditure), namely the aggregates which represent the object of expense. During the reporting stage, focus is on operational items.

6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?

RESPONSE:

More than a specific challenge experienced in preparing financial statements, the problem lies on the insufficient attention paid by the Parliament to the achieved results in comparison with budget. Nevertheless, the forthcoming reform is intended also to modify this habit and lay the right stress on the information provided by the financial statements.

7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?

RESPONSE:

Sometimes the information provided by the financial statements are a useful basis to take future budget decisions.

8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?

RESPONSE:

Financial statements bring to light some problems related to the actual use of resources by the administrations.

9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

RESPONSE:

Currently, form and content of financial statements are different also because of accounting and administrative autonomy of the several institutions. Nevertheless, they are about to be harmonized on the basis of the content of a law enacted under delegated power which, among other things, provides for a shift towards a new system that will be based only on cash and an harmonization of all the public budgets. In the next weeks an English translation of a document about this reform will be available. We will send it to you.

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).

RESPONSE:

From 2000 onwards three cost accounting annual documents are prepared: an economic budget, a first half-year cost recording and a second half-year cost recording (for further information see http://www.rgs.mef.gov.it/ENGLISH-VE/Cost-Accou/the-System/The-System.html_cvt.asp). The forthcoming comprehensive accounting and public finance reform will provide for an evolution of the current cost accounting system towards a *contabilità economico-patrimoniale* (patrimonial and cost accounting).

11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting

systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.

RESPONSE:

The implementation of cost accounting system has been accompanied by an activity of moral suasion towards all the central state administrations. This strategy included also departmental executive and, above all, legislators (the documents mentioned in response to answer no. 10 are made available for all the members of Parliament in order to support and facilitate their vote decision about the state budget). The constant training for all central state administrations (ensured by RGS) turned out to be the most useful strategy to help the administrations to implement cost accounting system. After a trial period lasted for some years, all the ministries have started to use the produced reports inside their internal management control systems.

12. What major barriers have you identified to comparing costs across departments or agencies?

RESPONSE:

We have not had any particular problems in comparing costs across departments. Nevertheless, our main obstacle to overcome has been the whole of difficulties linked to the introduction of a new “accounting culture” (or a new “way of thinking”) based on the concept of *cost*, instead of the concept of *expenditure*³⁷.

³⁷ In order to allow an economic evaluation of management and objectives pursued, instead of taking the expense into consideration, this accounting system refers to the cost, namely the value of the actually utilized human and instrumental resources (goods and services). This approach is based on the different nature of cost and expense: the expense is a cash disbursement linked to acquisition of resources, whereas the cost originates in the utilization of resource. Therefore, the cost is quantified according to actual use of resource and is attributed to the accounting period in which this actual use occurs, apart from the moment when the relevant cash disbursement occurs. (http://www.rgs.mef.gov.it/ENGLISH-VE/Cost-Accou/the-System/The-System.html_cvt.asp).

Appendix IV: New Zealand Response

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?

Audited annual financial statements of government and the monthly unaudited financial statements are posted at www.treasury.govt.nz. These consolidate all entities controlled by the Government as defined by New Zealand generally accepted accounting practice.

2. Are departmental¹ financial statements prepared and audited?

Audited departmental financial statements are made available on departmental web sites. These audited financial statements report items controlled by departments, and also report schedules of assets, liabilities, revenues and expenses administered but not controlled by them.

3. Who are the intended and actual users of the whole of government and/or departmental financial statements?

The critical user of whole-of-government and departmental financial statements is the legislature. Parliamentary select committees use these financial statements to examine the fiscal performance of the government in an accountability process known as the financial review. Having said that, the financial statements are general purpose financial reports, and are used by the media, economic and fiscal analysts, sectoral interest groups, investors and rating agencies among others.

4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?

The key objectives of the financial statements are to provide a basis for financial accountability (as part of the financial review process and accountability to taxpayers, bondholders and other resource providers) and to assist external users in decision-making (whether through exercising their political rights, lobbying or in the exercise of resource allocation decisions). These decision-making and accountability objectives underpin generally accepted accounting practice in New Zealand.

5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?

Appropriations are required for all expenses recognised by the core Crown and measured in accordance with generally accepted accounting practice and all capital expenditure of the core Crown on an accrual basis. All disbursements of public money require parliamentary approval but the Public Finance Act provides automatic authority if the disbursement is in settlement of appropriated expenses. Reporting and decision-making are simplified as both budget and actual information is reported on the same basis.

6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?

In New Zealand the current reporting framework has been in place for almost 20 years, and therefore the challenges are not transitional. Our current major challenges include:

- Determining the extent of changes required from standard corporate reporting practice for application to the public sector. In general, the NZ standard setting policy is not to make a change unless a public sector difference warrants it. We are seeking a to better define such differences, so as to be more confident in our approach to differentiating accounting requirements.
- Accounting for rights and obligations in association with Kyoto commitments and government operated emission trading schemes. Accounting policies in advance of standards development have been prepared after consultation with the Audit Office.
- Fair value measurement of concessional loans where the determination of cash flows is dependent on future. Advice has been taken from actuaries and major accounting firms.
- Consistent robust depreciated replacement cost valuations of specialised property plant and equipment. Specialised valuation guidance has been written by the Treasury.
- Determining appropriate long term risk free discount rates in the absence of market data for use with pension and long term insurance obligations. We are developing a model for this with actuaries

7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?

The whole-of-government financial statements provide the financial indicators that are used to determine and describe fiscal strategy. As such, they are used as the base data by fiscal analysts. They provide a measure of both the financial outcome of the budget process and the actual financial performance against that budget.

Department financial statements report the financial position of the department, and on the financial result in comparison to budget, but need to be considered in the light of service performance information to assess operational efficiency.

8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?

The most important benefit of the financial statements of the Government is its ability to meet the needs of a range of external users.

Although each group of users will have specific needs, users of the financial statements of the Government are frequently interested in the state of the Government's overall financial health and whether this financial condition has improved or deteriorated. The financial statements of the Government provides information on aspects of financial condition including:

- sustainability, or a government's ability to meet existing operational commitments and the creditor requirements brought on by past borrowing, without abrupt or large increases in debt or taxes
- flexibility, or the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden, and
- vulnerability, or the degree to which the government becomes dependent, and therefore vulnerable, to sources of funding outside its control or influence (source CICA, 1997).

The benefits of financial statements are that they provide users with the basis for analyzing the Government's financial condition, at a point in time, against these criteria. However, the Government's financial statements do not provide information on the effectiveness of government spending and revenue decisions, as that requires separate evaluation of the impact of these decisions.

Departmental Financial Statements are an integral part of a department's annual report. The benefits of an annual report are that they provide a way for departments to explain to a wider audience what they have done and how well they have performed during the year. This includes information on the financial and non-financial health of the department at the end of a financial year, and on the extent to which the department has achieved its financial and non-financial goals for that year.

Annual reports are a prime source of information for parliamentary select committees when conducting financial reviews of the performance and current operations of departments, as provided for in Standing Orders of the House of Representatives. The results of these annual reviews are reported back to the House.

9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

The New Zealand standard setter has begun consideration as to whether the New Zealand public sector should adopt IPSAS based public sector reporting standards rather than IFRS based standards. No other changes are being considered.

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).

Departments are required to have cost allocation systems that attribute their costs (inputs) to the outputs that are appropriated. The requirements imposed on departments are contained in section 5 of Treasury Instructions, detailed below:

5 Operating instructions: Cost accounting policy parameters

5.1 Disclosing cost accounting policies

The Act requires departments to:

- identify in the Estimates and other supporting documents the expenses (or forecast expenses) to be incurred for each class of outputs to be supplied by the department (sections 14(1)(a) and 15(1)(c));
- identify in the Statement of Forecast Service Performance the proposed output expenses to be incurred for each class of outputs (section 41(1)(e)(iii)) prepared as part of information on the future operating intentions of the department; and
- compare in the Statement of Service Performance actual output expenses incurred with the output expenses that were forecast in the Statement of Forecast Service Performance (section 45A(c)(ii)) prepared as part of the annual report of the department.

The accuracy and reliability of output expenses are determined by the cost accounting policies that each department has followed. If users of financial reports are to understand output expenses fully, financial reports must inform users of those policies, any changes to them, and what effects those changes of policy have had.

Departments must include a clear and concise statement of cost accounting policies in external financial reports.

The objective of disclosing cost accounting policies is to provide users of financial reports with sufficient information to:

- understand the significance of the output cost information;
- be confident that the information is reliable, relevant and not misleading; and
- determine whether the report is comparable with those of other periods and other departments.

The statement of cost accounting policies in external financial reports must disclose:

- **all the significant cost accounting policies used in estimating, accumulating and reporting output costs; and**
- **any material changes to those policies.**

The disclosure must comprise:

- **a statement specifying the criteria for distinguishing between direct and indirect costs;**
- **a statement about the methods of attributing direct costs;**
- **a statement about the bases for allocating indirect costs; and**
- **a statement of any changes in cost accounting policies since the date of the last external financial report or, if there have been no changes, a statement to that effect. If the changes made materially affect the cost of individual outputs, there must be full disclosure of:**
 - **the nature of the changes;**
 - **the reasons for the changes; and**

- the effect of the changes on individual outputs.

Departments supplying contestable outputs may apply to the Treasury for a modified disclosure.

5.2 Documenting cost accounting policies

Chief Executives must ensure that cost accounting practices are formalized and properly documented, and sufficiently detailed to enable him or her to:

- satisfy his or her obligations under the State Sector Act 1988 and the Public Finance Act 1989;
- satisfy the management information requirements of Chief Executives and departmental managers; and
- achieve the standard required to:
 - satisfy the scrutiny of the Audit Office; and
 - enable the Treasury to assure the Minister of Finance that the output cost information is reliable.

To satisfy these requirements, it would generally be expected that the cost accounting system should be able to produce a reliable average and marginal cost-per-unit of standardised goods and services that are regularly delivered by the department.

When documenting departmental cost accounting policies, the format and level of detail are left to the discretion of each Chief Executive, but the documented cost accounting policies must cover the:

- methods of classifying direct and indirect costs;
- methods of attributing direct costs;
- bases for allocating indirect costs;
- procedures for updating cost accounting policies; and
- procedures for self-reviewing cost accounting systems.

Cost accounting is a formal discipline. Structures and procedures must be followed if information is to be credible and transparent. A proper documentation of this process will include definitions, rules and procedures, and ensure that:

- agreement on major definitions is formalized;
- practices are applied correctly and consistently;
- knowledge can be reliably transferred; and
- audit trails are provided.

5.3 Classifying direct and indirect costs

There are many ways of classifying costs that have proven useful for various purposes. **For the purposes of output costing, output purchase contracting and output reporting, cost classification must focus on assigning costs to outputs.** This involves the cost accounting policy of distinguishing between direct and indirect costs.

Where costs are treated sometimes as direct, and sometimes as indirect, departments must set out the criteria and circumstances that govern the distinction.

Departments must establish a written policy about how direct and indirect costs are to be distinguished for the purpose of assigning costs to outputs. The criteria used to classify costs as direct or indirect must be based on whether the cost can be causally linked and assigned to an output in an economically feasible manner.

To increase the accuracy and reliability of output costing, departments must review and formalise their definition of direct costs. They must not adopt the convenient approach of grouping direct costs into an indirect cost pool, and then allocating the whole by calling it overheads.

Departments may decide how detailed the classification of costs ought to be, but must disclose separately how each major cost grouping was classified.

5.4 Bases and methods of assigning costs to outputs

5.4.1 Introduction

The Government allocates resources to departments on the basis of their outputs. **Departments must estimate, accumulate and report output costs in a manner consistent with this method of resource allocation.**

5.4.2 Assigning expenses

When estimating, accumulating and reporting output costs for external financial reports, departments must assign all operating costs (that is, both direct and indirect costs) to outputs. They must not assign “other expenses”, as defined in the Public Finance Act 1989, and as further discussed in section 5.6 of the Treasury Instructions (“Departmental other expenses”) to outputs.

5.4.3 Attributing direct costs

Direct costs that are attributed to outputs must be based on actual consumption. Pre-established bases or ratios may be used, if departments are able to prove these fully represent actual consumption.

5.4.4 Allocating indirect costs

Where services are provided to more than one output at the same time, the cost must be divided and allocated to each output in reasonable proportion to its actual consumption. Departments may accumulate indirect costs into “homogeneous ” cost pools. An indirect cost pool is “homogeneous ”, if the activities whose costs are included have similar causal relationships to the production of the outputs.

Departments must allocate indirect cost pools to outputs by appropriately measuring resource consumption.

Pre-established rates may be used in allocating indirect cost pools, if departments can prove that these fully represent actual consumption.

5.4.5 Pre-established rates

When a department uses pre-established rates to assign direct and indirect costs to outputs, it must have a written policy for establishing the rates. The rates must be reviewed at least annually, and revised to reflect the anticipated conditions. If the revision occurs during a cost accounting period and there are significant variations, the costs assigned to that period must be adjusted to the amounts that would have been allocated using the revised rates.

5.5 Consistency in applying cost accounting policies

5.5.1 Introduction

Consistency in applying cost accounting policies enables similar transactions to be treated alike. This improves comparability between estimated and actual costs, and with other periods and departments.

Such comparisons provide a basis for financial control, cost accountability and evaluating estimation capabilities.

The following sections provide criteria to ensure that departments are consistent when estimating, accumulating and reporting costs, both within and between financial years.

5.5.2 Consistency

A department's cost accounting policies must be consistent, both for estimating costs for external ex-ante reports and for accumulating and reporting actual costs for external ex-post reports.

A department's cost accounting policies must normally not change from one reporting period to another, and must be applied to all cost items of a similar nature.

5.5.3 Changes in cost accounting policies

A department may change its cost accounting policies during the financial year, only if the new policies better reflect its cost behaviour and underlying activities. When such a change is made, the department must provide full disclosure as that phrase is described in section 5.1 of the Treasury Instructions ("Disclosing cost accounting policies").

11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.

The implementation of cost accounting, which occurred as part of the financial management reforms was implemented through a significant change management strategy involving legislators, central agencies (such as the Treasury) and departmental staff. A description of that change management strategy can be found in the IPSASB Occasional Paper 1: Implementing Accrual Accounting in Government: The New Zealand Experience which can be accessed [here](#).

12. What major barriers have you identified to comparing costs across departments or agencies?

Because of the flexibilities provided in Part 5 of Treasury Instructions above, we have found that comparisons of costs across departments or agencies requires a benchmarking exercise to ensure consistency in the result and rigour in the analysis. Such benchmarking comparisons are undertaken infrequently, although one is currently being tackled over costs associated with administrative and support services.

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Appendix V: Norway Response

FASAB Financial Reporting Questionnaire, January 2010 – Response by Norway

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?

The Ministry of Finance publishes the whole of government financial statements for the central government when it is presented to the Parliament at the end of April after the budget year. The central government financial statements are available at:

<http://www.regjeringen.no/nb/dep/fin/dok/regpubl/stmeld/2008-2009/stmeld-nr-3-2008-2009-.html?id=556515>

The audit report is published by the Office of the Auditor General when it is presented to the Parliament in October after the budget year. The audit report is available at:
http://www.riksrevisjonen.no/Rapporter/Sider/Dokumentbase_Dok_1_2009_2010.aspx

2. Are departmental³⁸ financial statements prepared and audited?

All agencies and ministries prepare separate financial statements which are audited by the Office of the Auditor General (OAG). However, the ministries do not present separate financial statements for policy areas/sectors other than the reports included in the whole of government financial statements.

The OAG presents separate audit reports to the agencies. The auditors' opinions concerning the ministries are included in the main audit report presented to the Parliament.

3. Who are the intended and actual users of the whole of government and/or departmental financial statements?

The departmental financial statements are used by the issuing entity itself, the superior ministry (in case of agencies), the Ministry of Finance as well as the OAG. The departmental accounts are also reported to the central government accounts in order to prepare the whole of government financial statements to be presented to the Parliament.

The whole of government financial statements are used primarily by the Parliament, the OAG, the Ministry of Finance and Statistics Norway. Further, the whole of government accounts are published and thus, available for different kind of users and interests groups.

4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?

The departmental accounts reported to the central government accounts shall be cash based. The whole of government financial statements are according to the cash

³⁸ The term departmental refers to components of the federal government such as ministries, departments, and agencies.

principle. These financial statements are mainly focused on expenditures, income and financial assets and liabilities. The main objectives of these reports and statements are control of expenditures according to appropriations, and they are basis for the finance policy as well.

5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?

The central government accounts (the whole of government financial statements) and the appropriation budgets are both presented according to the cash principle.

6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?

The central government administration has experienced the following main challenges in whole of government and departmental financial reporting:

- Some agencies and ministries need a broader scope of financial information than the cash based financial reports can provide. Therefore the central government has established standards for accrual accounting at the agency level. The agencies may on a voluntary basis employ the accounting standards for supplementary accounting and financial statements in addition to the requirements of cash reporting to the central government accounts.
- Accrual budgeting and corresponding accounting has been subject to thorough consideration by the Ministry of Finance. Some sector interests and academics have called for accrual budgeting, i.a. as accrual budgeting generally is deemed to expand the room for investment spending in the short term and provide a better basis for allocating resources at the agency level of government. The Ministry of Finance however has emphasized the importance of sound macro fiscal management, which is provided in a better way through cash appropriations and cash accounting correspondingly. The Ministry considers that cash based appropriations give more precise measurements and more precise requirements set by the Parliament to the government administration, avoiding for instance fluctuations in valuations, uncertainty of the level of investments, and spending of non-cash appropriations.

7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?

The financial statements are mainly used for preparing budgets and following up expenditures against appropriations.

8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?

The most important benefits are expenditures control and basis for budgeting. Further, the audit of the financial statements probably also contributes to better quality of

accounting as potential critics from the Auditor General and the Parliament are undesirable.

9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

No

Regarding managerial cost accounting, please respond to the following questions:

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).

There are no mandatory requirements for managerial cost accounting systems. However, the agencies may prepare financial statements based on the accrual principle for internal supplementary purposes in addition to the cash based reporting to the central government accounts.

11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.

The Government Agency for Financial Management (GAFM, a subordinate agency to the Ministry of Finance) provides information and guidance on accrual accounting, financial statements and financial management. This agency also provides accounting services to central government agencies on a voluntary basis.

12. What major barriers have you identified to comparing costs across departments or agencies?

A major barrier has been that no standard detailed requirements for chart of accounts is established at an agency level. The government has recently decided to implement a standard detailed chart of accounts in the central government administration. The implementation process will start during 2010 and be completed within 2014. Further, the GAFM will study methods of aggregating information to the central government accounts based on the new chart of accounts. Up to now the aggregate financial statements are coarse-meshed, giving one figure each on running expenditure and investment.

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Appendix VI: Portugal Response

1. The government financial statements (State General Account - Conta Geral do Estado), are prepared in a cash basis and are available on the internet (<http://www.dgo.pt/cge/index.htm>).
2. The State General Account contains the budget execution data for all central government departments and funds, as well as the Social Security on a cash basis. The State General Account is submitted to Parliament by the 30th of June, following the end of the fiscal year. The State General Accounts is also submitted to the Court of Auditors. This document is audited by the Court of Audits, and the audit report is also available in the Internet. All departments submit an annual financial statement to the Court of Auditors. In most cases, the financial statement is on a cash basis. Some of the departments (autonomous funds and services) have “accrual accounting” and have external auditors that audit the year financial statements.
3. The users of this information are the departments themselves, the line ministries, the “Office of Planning, Strategy, Assessment and International” (GPEARI) of each ministry, the Ministry of Finance and the Budget Directorate, the line inspections and the General Inspectorate of Finance, The Court of Audit and, in the case of whole of government accounts also Parliament and the general public.
4. The main objectives are to attest the legality of the expenditure, if the expenditure is registered in the budget and the economy, efficiency and effectiveness of the expenditure.
5. In each ministry there are “integrated services” and “autonomous funds and services”. The integrated services (state sub-sector) have administrative autonomy but not financial autonomy. The autonomous funds and services have both administrative and financial autonomy, but their degree of autonomy varies.

The integrated services have a “cash basis” budget, and therefore, the budget appropriations are in the same basis of their accounting for financial statements. The autonomous funds, which have accrual accounting, have the budget appropriations in a cash basis, and the financial statements in accrual basis.
6. The main challenge has been implementing Public Accrual Accounting Plan in the entire public administration; this would mean that all ministries would adopt accrual accounting for their financial reporting. The Ministry of Finance has been developing a common platform - called RIGORE - for financial and human resource management across the entire public sector. The
7. There are two regular reports on the execution of the budget: the DGO monthly bulletin and the annual General State Account. Both the DGO monthly bulletin and the report on the General State Account are available to the public on the DGO website. In addition to these regular reports, the DGO prepares internal reports on expenditure

overruns – analysis of deviations in budget execution – and on additional financing requirements.

8. In 2008, OECD has produced a budget review, making some suggestions to improve the quality of the budget process in Portugal.

9. The government is committed to continue to implement accrual accounting, programme budgeting and simplifying the budget process, by giving more autonomy and responsibility to the line ministries, and reducing the bureaucratic work of the Budget Directorate. Portuguese government is planning to adopt international accounting standards for the public sector.

10. According to the Public Accrual Accounting Plan, the services must have accrual accounting, but also a cost accounting system. Yet, only the hospital sector has implemented this, using the information about costs to make decisions.

11. N/a

12. The major barriers are the lack of information, not only financial information, but also non-financial indicators. The fact that most of the services don't have accrual accounting reduces the level of accountability. The use of cash basis doesn't necessary show the real cost of the agency in that year. The lack of skilled staff in line ministries and the complexity of the public sector financial management processes also pose important difficulties.

Appendix VII: Sweden Response

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?

They are available on the internet under the link:

- a) financial statements:

http://www.efv.admin.ch/d/dokumentation/zahlen_fakten/finanzberichterstattung/s_tatsrechnungen.php

- b) budget:

http://www.efv.admin.ch/d/dokumentation/zahlen_fakten/finanzberichterstattung/budget.php

2. Are departmental financial statements prepared and audited?

Yes, they are.

3. Who are the intended and actual users of the whole of government and/or departmental financial statements?

Parliament, the general public, the citizen.

4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?

See 'NAM The New Accounting Model of the Swiss Confederation' p. 5 – 6, 21.

5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?

No, there is none. We use accrual accounting as well as accrual budgeting.

6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?

Moving to accrual was a huge step for the administrative units; however they didn't face any major problems / difficulties.

In addition to the new accounting system, a new IT environment was also implemented (SAP based).

Opening balance sheet 2007: Revaluation of around 35'550 items in the areas of real estate, loans and participations/stake holdings; new provisions made.

Administrative units facing higher standards/requirements due to the move to accrual accounting: More know-how required, responsibility for results

Greater transparency means more resources

7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?

They are used for budget decisions, to account for the financial situation of the government, to approve by the parliament.

8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?

Before the move to accrual accounting: Interface between centralised accounts and the accounts of the various administrative units. The centralised accounts were based on the figures provided by the various administrative units.

Today: Integrated accounting system across all levels of the federal administration.

Increased accountability: More than 70 administrative units (agencies), which have to sign the respective financial statement including the income statement and balance sheet.

9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

No, there are not such plans. In addition to the existing financial statements we will provide a consolidated annual report that will include those organizations which, although legally hived off, are closely associated with the Confederation in economic terms.

In addition, the FASAB established one concept and five standards on managerial cost accounting. These standards influence not only presentation of information in financial statements but also the development of cost accounting systems internally. Regarding managerial cost accounting, please respond to the following questions:

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).

See 'NAM The New Accounting Model of the Swiss Confederation' p. 18 – 20.

11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.

Yes, we had change management and communication strategy, including:

Intensively discussed in parliamentary committees. Acknowledged by parliament.

Training of specialists needed which was covered by courses and a comprehensive accounting manual.

Organisational adjustments necessary (roles, tasks, responsibilities, competencies), some reallocation of jobs (no more job guarantee).

12. What major barriers have you identified to comparing costs across departments or agencies?

The business between the agencies (and departments) differs sometimes highly therefore comparison of costs across them differs highly. It is more useful and successful to compare the costs for each department or agency (or category of them) over a specific period of time. For the financial commission of the Parliament we are looking for some accompanying documents including commentaries to give more transparency in that point. But that is still in study.

Technically there are no specific problems. All needed information are based on the reporting of the business warehouse.

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Appendix VIII: United Kingdom Response

1. Are audited whole of government financial statements available on the internet? If so, please provide a link. If not, is it the government's intention to make them available in the future?

Answer

The UK is developing whole of government accounts and intends to issue them for the first time for financial year 2009-10 (financial year ending 31 March 2010), probably in spring 2011.

In common with other UK government financial statements, whole of government accounts will be available on the internet.

2. Are departmental³⁹ financial statements prepared and audited?

Answer

Government departments are required by law to prepare financial statements each year. They follow the Government Financial Reporting Manual, which from financial year 2009-10 is based on International Financial Reporting Standards. Legislation requires financial statements to be audited by the UK Comptroller and Auditor General, who is independent of Government. Similar arrangements apply to the devolved governments.

3. Who are the intended and actual users of the whole of government and/or departmental financial statements?

Answer

The primary users of financial statements include Parliament, to whom departments are accountable, and individual Members of Parliament. Other users include citizens both as taxpayers and users of services, businesses, lobby groups, suppliers and the media.

4. What key objectives or financial reporting concepts were considered when determining the form and content of the whole of government and departmental financial statements?

Answer

UK government policy is for public sector financial statements to follow where appropriate the accounting principles and policies adopted by the private sector, particularly major public interest entities; this is to show the share of the economic resources used by each sector. Prior to 2001-02 central government

³⁹ The term departmental refers to components of the federal government such as ministries, departments, and agencies.

financial statements were prepared on a cash basis providing an account of expenditure compared with the appropriations approved by Parliament.

From 2001-02 onwards, financial statements have been prepared on a full accruals basis. Until 2008-09 they reflected UK GAAP and, as noted earlier, from 2009-10 they will reflect international financial reporting standards.

In addition to the primary statements required by IFRS, the financial statements include additional disclosures to meet Parliamentary requirements relating to expenditure compared with appropriations, expenditure by departmental strategic objectives (representing IFRS 8 segments), and cash losses and other nugatory expenditure.

5. Presently, is there a difference between the basis of accounting for budgeting appropriations and the basis of accounting for financial statements? If so, are there challenges associated with presenting financial statements and budgetary information using different bases?

Answer

Both budgeting and accounting are done on the same financial reporting basis. There are some differences between (i) Estimates (annual appropriations approved by Parliament) (ii) Resource accounts (IFRS-based financial statements) and (iii) Budgets (information included in public spending plans and similar to national accounts). The majority of expenditure is included in all three, but some is included in one but not the others. The Government is aiming to minimize the differences by 2011-12 through its *Clear Line of Sight* project which will eliminate the majority of inconsistencies.

6. What were some of the significant challenges experienced in whole of government and departmental financial reporting and how were the challenges addressed?

Answer

For departmental financial reporting the main challenge was moving from cash-based accounting to accruals accounting, including the challenges of valuing assets and liabilities. For finance teams this was addressed by increasing the professionalism of staff supported by the acquisition of commercial IT accounting packages. There was a lag in the wider transition of departments to an accruals culture. This required a general improvement in financial management awareness across departments.

For whole of government accounts, the main challenges have involved the consolidation of financial information across more than 1,300 entities, eliminating intra-government transactions, aligning accounting policies across sectors (although almost all the same today) and achieving buy in to the project.

7. How are the whole of government and departmental financial statements used (e.g. referred to in making budget decisions, monitoring program efficiency and stewardship over assets)?

Answer

Financial statements are an important part of the range of information used by Parliament, Government, and the media to monitor stewardship, efficiency and effectiveness and as a basis for budgets. Other evidence used includes department annual reports and spending plans, external audit reports, and internal management accounts.

8. What were some of the important benefits noted from the preparation and audit (if applicable) of federal government and departmental financial statements?

Answer

The UK central government has long recognised the benefits from independently-audited annual financial statements, with the current system dating back to 1866. Such a system provides objective assurance as to the truth and fairness, propriety and regularity of expenditure and acts as a disincentive to fraud and impropriety, reassuring taxpayers that their money has been used properly. It also provides accountability to Parliament and citizens.

9. Are there any plans for revising the form and content of whole of government and/or departmental financial statements? If so, what are the plans and why?

Answer

As noted in response to Q2, government departments are moving to International Financial Reporting Standards from 2009-10. As financial statements are required to comply with IFRS, they will continue to develop in response to changing standards. The aim is to ensure that government financial statements are comparable with those produced by the private sector and to provide users with full information about government assets and liabilities and income and expenditure.

In addition, the FASAB established one concept and five standards on managerial cost accounting. These standards influence not only presentation of information in financial statements but also the development of cost accounting systems internally. Regarding managerial cost accounting, please respond to the following questions:

10. Are departments required to have managerial cost accounting systems? If so, please describe the goals of any implementation requirements imposed on agencies (e.g., consistent treatment of administrative costs, methodologies/principles, and/or terminology).

Answer

Whilst departments operate management accounting systems to provide information on the use of resources, there are no specific requirements relating to the scope or operation of such systems, for example definitions covering the treatment of certain types of expenditure to ensure consistent treatment. We are continually improving the quality and effectiveness of financial management in central government.

11. Was a change management strategy or other communication strategy adopted to accompany implementation of managerial cost accounting systems? If so, did the strategy include legislators as well as departmental executives? Specific examples of useful strategies or effective cost reporting would be most helpful.

Answer

The UK has not issued central guidance on managerial cost accounting systems.

12. What major barriers have you identified to comparing costs across departments or agencies?

Answer

Many government departments have participated in a benchmarking exercise promoted by the Chartered Institute of Public Finance and Accountancy designed to compare the unit costs of common functions, such as the unit cost of paying a creditor. The main barriers to producing such information include the definition of relevant costs (for example, should they include or exclude overheads), quantifying costs (for example, the splitting of IT costs across finance functions such as debtor, creditor management) and quantifying units (for example should office space occupied include non-effective space or the treatment of part-time staff in defining staff units).

Attachment 1
Operating Statements of Selected Countries

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Australia's Operating Statement

Consolidated operating statement
for the year ended 30 June 2009

	Note	2009 \$m	2008 \$m
Revenue from transactions			
Taxation revenue	2	278,321	285,966
Sales of goods and services	3	16,282	14,822
Interest income	4	8,274	8,816
Dividend income	4	1,592	1,372
Other	5	5,320	4,108
Total revenue		309,789	315,084
Expenses from transactions			
<i>Gross operating expenses</i>			
Wages and salaries	6	17,967	16,805
Superannuation	6	3,036	2,854
Depreciation and amortisation	7	6,099	5,581
Payment for supply of goods and services	8	63,107	58,193
Other operating expenses	6	5,699	4,833
<i>Total gross operating expenses</i>		<i>95,908</i>	<i>88,266</i>
Superannuation interest expense	6	6,715	6,011
Interest expenses	9	6,442	5,901
Current transfers			
Current grants	10	93,212	88,462
Subsidy expenses		8,079	7,437
Personal benefits		111,548	86,342
<i>Total current transfers</i>		<i>212,839</i>	<i>182,241</i>
Capital transfers			
Mutually agreed write-downs	10	1,853	1,939
Other capital grants	10	11,026	5,161
<i>Total capital transfers</i>		<i>12,879</i>	<i>7,100</i>
Total expenses	11	334,783	289,519
Net operating balance		(24,994)	25,565
Other economic flows			
Net write-downs of assets (including bad and doubtful debts)	12	(10,654)	(7,790)
Assets recognised for the first time		281	163
Net gain (loss) from the sale of assets	13	85	550
Net foreign exchange gains/(losses)	14	3,845	(338)
Net swap interest received	15	(28)	(184)
Other gains/(losses)	16	(605)	883
Share of net result from associates and joint ventures accounted for using the equity method		36	29
Operating result		(32,034)	18,878
Other economic flows - Other non-owner movements in equity			
Revaluation of equity investments	32B	508	504
Revaluation of non-financial assets	32B	1,841	3,224
Actuarial revaluations of superannuation	37(f)	(21,633)	1,034
Other economic revaluations		(407)	241
Comprehensive result - Total change in net worth		(51,725)	23,881
Net operating balance		(24,994)	25,565
less Net acquisition of non-financial assets			
Purchases of non-financial assets		10,941	8,562
less Sales of non-financial assets		367	299
less Depreciation		6,100	5,582
plus Change in inventories		606	599
plus Other movements in non-financial assets		(46)	(12)
Total net acquisition of non-financial assets		5,034	3,268
Fiscal balance (net lending/borrowing)		(30,028)	22,297

The above statement should be read in conjunction with the accompanying notes.

Canada's Statement of Operations

GOVERNMENT OF CANADA

Statement of Operations and Accumulated Deficit
for the Year Ended March 31, 2009

(in millions of dollars)

	2009		2008
	Budget (Note 2)	Actual	Actual
REVENUES			
<i>TAX REVENUES (Note 16) —</i>			
Income tax revenues —			
Personal	118,595	116,024	113,063
Corporate	36,830	29,476	40,628
Non-resident	5,890	6,298	5,693
<i>Total income tax revenues.....</i>	<i>161,315</i>	<i>151,798</i>	<i>159,384</i>
Other taxes and duties —			
Goods and services tax	27,565	25,740	29,920
Energy taxes	5,250	5,161	5,139
Customs import duties	4,190	4,036	3,903
Other excise taxes and duties	4,795	4,869	5,245
<i>Total other taxes and duties</i>	<i>41,800</i>	<i>39,806</i>	<i>44,207</i>
TOTAL TAX REVENUES	203,115	191,604	203,591
EMPLOYMENT INSURANCE PREMIUMS.....	16,530	16,887	16,558
OTHER REVENUES —			
Crown corporation revenues	7,340	7,760	6,504
Other program revenues	13,410	15,105	13,895
Foreign exchange net revenues	1,515	1,736	1,872
TOTAL OTHER REVENUES	22,265	24,601	22,271
TOTAL REVENUES	241,910	233,092	242,420
EXPENSES (Notes 3 and 16)			
TRANSFER PAYMENTS —			
Old age security benefits, guaranteed income supplement and spouse's allowance	33,265	33,377	31,955
Other levels of government	46,180	46,515	46,152
Employment insurance benefits	15,295	16,308	14,298
Children's benefits	11,905	11,901	11,894
Other transfer payments	29,617	30,192	27,032
TOTAL TRANSFER PAYMENTS.....	136,262	138,293	131,331
OTHER PROGRAM EXPENSES —			
Crown corporation expenses	7,353	8,066	7,340
Ministry expenses	64,480	61,498	60,827
TOTAL OTHER PROGRAM EXPENSES.....	71,833	69,564	68,167
TOTAL PROGRAM EXPENSES	208,095	207,857	199,498
PUBLIC DEBT CHARGES	31,509	30,990	33,325
TOTAL EXPENSES	239,604	238,847	232,823
ANNUAL DEFICIT (-) OR SURPLUS	2,306	-5,755	9,597
ACCUMULATED DEFICIT AT BEGINNING OF YEAR	457,637	457,637	467,268
OTHER COMPREHENSIVE LOSS (-) OR INCOME (Note 4).....		-318	34
ACCUMULATED DEFICIT AT END OF YEAR (Note 4).....	455,331	463,710	457,637

The accompanying notes are an integral part of these statements.
Details (unaudited) can be found in other sections of this volume.

New Zealand's Statement of Financial Performance

Statement of Financial Performance

for the year ended 30 June 2009

Forecast					Actual	
Original Budget	Estimated Actuals			Note	30 June 2009	30 June 2008
\$m	\$m				\$m	\$m
Revenue						
55,911	53,523	Taxation revenue		2	54,145	56,372
4,037	4,114	Other sovereign revenue		2	4,118	3,879
59,948	57,637	Total revenue levied through the Crown's sovereign power			58,263	60,251
14,222	15,248	Sales of goods and services		3	15,356	15,399
3,358	2,999	Interest revenue and dividends		4	3,419	3,214
2,591	3,075	Other revenue		5	2,890	2,615
20,171	21,322	Total revenue earned through operations			21,665	21,228
80,119	78,959	Total revenue (excluding gains)			79,928	81,479
Expenses						
19,681	20,182	Transfer payments and subsidies		6	19,962	18,374
17,061	18,031	Personnel expenses		7	18,064	16,478
3,950	4,283	Depreciation and amortisation		8	4,305	3,670
32,053	32,605	Other operating expenses		9	34,116	30,656
2,503	3,358	Interest expenses		10	3,492	3,101
3,799	3,916	Insurance expenses		11	3,882	3,563
249	-	Forecast new operating spending			-	-
(495)	(500)	Top-down expense adjustment			-	-
78,801	81,875	Total expenses (excluding losses)			83,821	75,842
1,318	(2,916)	Operating balance before gains/(losses)			(3,893)	5,637
1,424	(3,266)	Net gains/(losses) on financial instruments		12	(2,634)	(617)
170	(3,450)	Net gains/(losses) on non-financial instruments		13	(4,167)	(2,925)
1,594	(6,716)	Total gains/(losses)			(6,801)	(3,542)
193	333	Net surplus from associates and joint ventures			212	334
3,105	(9,299)	Operating balance from continuing activities			(10,482)	2,429
-	(4)	Gain/(loss) from discontinued operations			2	22
3,105	(9,303)	Operating balance (including minority interest)			(10,480)	2,451
-	-	Operating balance attributable to minority interest in Air New Zealand			(25)	(67)
3,105	(9,303)	Operating balance			(10,505)	2,384

The accompanying Notes and Accounting Policies are an integral part of these Statements.

United Kingdom's Operating Cost Statement

Operating Cost Statement

for the year ended 31 March 2009

		2008-09		2007-08 (Restated)	
	Note	Core Treasury £000	Group Total £000	Core Treasury £000	Group Total £000
Administration costs					
Staff costs	6.1	65,539	90,894	68,575	94,003
Other administration costs	7	101,802	121,796	80,225	102,592
Gross administration costs before exceptional items		167,341	212,690	148,800	196,595
Operating income	9	(45,293)	(59,063)	(18,767)	(36,750)
Net administration costs before exceptional items		122,048	153,627	130,033	159,845
Exceptional item – loss on sale of Trevelyan House	7	-	-	3,385	3,385
Exceptional item – loss on sale of Thistle Street	7	-	-	372	372
Net administration costs after exceptional items		122,048	153,627	133,790	163,602
Programme costs					
Request for Resources 1: Core Treasury and DMO					
Expenditure	8	824,289	828,951	101,449	104,241
Exceptional item – Creation of APS provision	8	25,000,000	25,000,000	-	-
Exceptional item – Impairment of financial assets	8	18,925,881	18,925,881	-	-
Exceptional item – Building	8	9,001	9,001	(14,957)	(14,957)
Less: income	8 & 9	(2,764,517)	(2,766,269)	(132,676)	(134,056)
		41,994,654	41,997,564	(46,184)	(44,772)
Request for Resources 2: Coinage					
Expenditure	8	42,094	42,094	43,688	43,688
Less: income	8 & 9	(4,588)	(4,588)	(4,877)	(4,877)
		37,506	37,506	38,811	38,811
Request for Resources 3: OGC					
Expenditure	8	-	2,778	-	1,231
Exceptional item: Restructuring exit costs		-	-	-	10,300
Less: income	8 & 9	-	(2,347)	-	(1,919)
		-	431	-	9,612
Expenditure outside Supply process					
Banking and gilts registration services	33&8	11,305	11,305	11,358	11,358
Net programme costs		42,043,465	42,046,806	3,985	15,009
Total net operating costs		42,165,513	42,200,433	137,775	178,611

Statement of Recognised Gains and Losses

for the year ended 31 March 2009

		2008-09		2007-08 (Restated)	
	Note	Core Treasury £000	Group Total £000	Core Treasury £000	Group Total £000
Movement on AFS Reserve	21	1,058,154	1,058,154	435,890	435,890
Movement on Hedging Reserve	21	(6,717)	(6,717)	-	-
Movement on Revaluation Reserve	21	-	-	(138)	(3,167)
Recognised losses for the financial year		1,051,437	1,051,437	(435,752)	(432,723)

The notes on pages 182 to 263 form part of these accounts.

Australia's Expenses by Function Note

Note 11: Expenses by function^(a)

	2009	2008
	\$m	\$m
General public services	15,341	12,506
Defence	18,224	16,861
Public order and safety	2,773	3,642
Education	22,608	18,071
Health	53,017	47,703
Social security and welfare	122,814	97,384
Housing and community amenities	4,925	2,926
Recreation and culture	3,060	3,063
Fuel and energy	5,806	5,360
Agriculture, forestry and fishing and hunting	2,718	3,817
Mining, manufacturing and construction	1,813	1,573
Transport and communication	13,004	9,702
Other economic affairs	7,556	8,201
Other purposes	61,124	58,710
Total expenses	334,783	289,519

(a) Refer Note 45 for description of each function.

Note 12: Net write-down of assets (including bad and doubtful debts)

	2009	2008
	\$m	\$m
FINANCIAL		
Receivables - bad and doubtful debts		
Goods and services	32	32
Taxes due	4,227	850
Higher Education Loan Program	431	393
Other student loans	-	6
Other	667	277
Total receivables - bad and doubtful debts	5,357	1,558
Net write-down/(reversal) and impairment arising from the revaluation of investments and other financial assets	4,020	4,363
Total financial write-down and impairment	9,377	5,921
NON-FINANCIAL		
Inventories	681	318
Land	2	-
Buildings	78	42
Specialist military equipment	173	973
Other infrastructure, plant and equipment	247	379
Heritage and cultural assets	(17)	1
Other non-financial assets	3	6
Intangibles	91	150
Investment properties	19	-
Net write-down, impairment and fair value losses arising from the revaluation of non-financial assets	1,277	1,869
Total net write-down and impairment of assets and fair value losses	10,654	7,790

New Zealand's Tax and Levies Note

Note 2: Tax and Levies Collected through the Crown's Sovereign Power (Accrual)

Forecast				Actual	
Original Budget	Estimated Actuals			30 June 2009	30 June 2008
\$m	\$m			\$m	\$m
Direct Income Tax Revenue (accrual)					
Individuals					
22,874	22,967	Source deductions		22,587	23,345
4,986	4,639	Other persons		4,408	5,071
(1,199)	(1,731)	Refunds		(1,636)	(1,470)
523	499	Fringe benefit tax		500	522
27,184	26,374	Total individuals		25,859	27,468
Corporate Tax					
7,817	7,014	Gross companies tax		8,245	8,787
(300)	(535)	Refunds		(430)	(242)
1,402	1,409	Non-resident withholding tax		1,451	1,506
109	5	Foreign-source dividend withholding payments		10	71
9,028	7,893	Total corporate tax		9,276	10,122
Other Direct Income Tax					
2,740	2,763	Resident withholding tax on interest income		2,571	2,699
91	61	Resident withholding tax on dividend income		65	69
3	2	Estate and gift duties		1	3
2,834	2,826	Total other direct income tax		2,637	2,771
39,046	37,093	Total direct income tax		37,772	40,361
Indirect Income Tax Revenue (accrual)					
Goods and Services Tax					
20,458	22,248	Gross goods and services tax		20,551	20,631
(8,578)	(10,655)	Refunds		(9,000)	(9,516)
11,880	11,593	Total goods and services tax		11,551	11,115
Other Indirect Taxation					
940	883	Road user charges		868	851
813	811	Petroleum fuels excise - domestic production		781	819
605	630	Alcohol excise - domestic production		616	573
151	170	Tobacco excise - domestic production		172	159
541	540	Petroleum fuels excise - imports ¹		514	528
227	200	Alcohol excise - imports ¹		213	222
857	820	Tobacco excise - imports ¹		891	804
234	268	Other customs duty		262	303
254	215	Gaming duties		215	260
229	171	Motor vehicle fees		171	226
91	92	Approved issuer levy and cheque duty		80	105
43	37	Energy resources levies		39	46
4,985	4,837	Total other indirect taxation		4,822	4,896
16,865	16,430	Total indirect taxation		16,373	16,011
55,911	53,523	Total taxation revenue		54,145	56,372
Other Sovereign Revenue (accrual)					
2,780	2,885	ACC levies		2,880	2,718
303	303	Fire service levies		299	279
87	87	EQC levies		86	86
274	345	Child support		375	308
274	284	Court fines		263	262
319	210	Other miscellaneous items		215	226
4,037	4,114	Total other sovereign revenue		4,118	3,879
59,948	57,637	Total sovereign revenue		58,263	60,251

1. Customs excise-equivalent duty.