FRR 5C  Budgetary Reporting Disclosures

INTRODUCTION

Policy items, indicated by shaded bold print, form the Minimum Reporting Requirements (MRRs) referred to in sections 42(1) and 43(1) of the Financial and Performance Management Standard 2009 (FPMS). These are mandatory for departments. Statutory bodies must also have regard to these requirements and apply them where they are considered relevant in the circumstances.

Application guidance, indicated by plain text under the “Application Guidance” sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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5C.1 APPLICATION OF BUDGETARY REPORTING REQUIREMENTS

REFERENCES

- AASB 1055 Budgetary Reporting

POLICY

- An agency is required to comply with AASB 1055 and this policy if:
  - budgeted financial statements in respect of the agency were included in a Service Delivery Statement (SDS) as part of the annual State Budget papers for that financial year; or
  - the agency was established by a reallocation of functions from another agency subsequent to the last SDS, and budgeted financial statements for the new agency will be included in future SDSs.

- If an agency has been established subsequent to the SDS for that financial year, but not by a reallocation of functions from another agency, it is out-of-scope of the application of AASB 1055 and this policy for that financial year only (as no budgeted statements would have been tabled in Parliament in respect of that agency).

- Where an agency controls other separate reporting entities (that are not included in the SDS budgeted figures for the agency), AASB 1055 and this policy only apply to the department or statutory body reporting entity for which budgeted financial statements are (or will be) included in an SDS (i.e. the variance analysis is to be displayed at one level only, according to the reporting entity used for general purpose financial statements where budgeted financial statements for the same reporting entity are included in the SDS).
APPLICATION GUIDANCE

AASB 1055 and this policy only apply where general purpose financial statements are prepared for a particular reporting period. Therefore, where a new agency has been allowed to defer the preparation of its first financial statements under s.44 of the FPMS, AASB 1055 and this policy only apply as from that agency’s first general purpose financial statements.

Where an agency has been abolished, AASB 1055 and this policy apply to the final financial statements of that agency.

Statutory bodies eligible to adopt Tier 2 (Reduced Disclosure) Requirements are those that do not have their financial information consolidated into whole-of-Government financial statements, and generally do not have budgeted financial statements included in the SDS. For that reason, they are effectively outside the scope of AASB 1055. However, in the rare circumstances that such a statutory body has presented its original budget to Parliament for the financial year (outside the State Budget process), it would need to comply with the requirements of AASB 1055 and this policy.

For some agencies, budgeted financial statements are included in the SDS for parts of the agency (e.g. commercialised business units) that are not reporting entities – refer to FRR 2A Basis of Financial Statement Preparation for the reporting requirements for Commercialised Business Units (CBUs) and Shared Service Providers (SSPs). As with all accounting standards, AASB 1055 only applies to reporting entities. Therefore, AASB 1055 and this policy do not apply to any part of an agency that is not itself a reporting entity.

In certain SDSs, budgeted financial statements are included for different levels of aggregation (i.e. aggregated on a different basis to reporting entities used for general purpose financial statements). In such cases, the budgeted financial statements to be used for the purposes of AASB 1055 and this policy are those that are aggregated on the same basis as the reporting entity used for the agency’s general purpose financial statements – these are generally identified in the SDS as “Reporting Entity” budgeted financial statements.
Where the SDS ‘Reporting Entity’ budgeted financial statements do not include all of the agency’s controlled entities included in audited general purpose financial statements, AASB 1055 and this policy only apply to those controlled entities included (i.e. consolidated) in the agency’s SDS ‘Reporting Entity’ budgeted financial statements.

Where an agency presents its administered items within the notes to its financial statements (consistent with the illustration in the Sunshine Department Illustrative Model Financial Statements), it is acceptable for the budget versus actual comparison for the administered items to also be presented in the same format.

### 5C.2 PRESENTATION OF ORIGINAL BUDGET INFORMATION

**REFERENCES**

- AASB 1055 *Budgetary Reporting*

**POLICY**

- Agencies required to comply with AASB 1055 and this policy must present the original budgeted figures from the SDS for that financial year for the same reporting entity (subject to the below exceptions re subsequent machinery-of-Government (moG) changes and new/abolished agencies).

- Subject to paragraph 6(e) of AASB 1055, the budgeted figures to be displayed for the agency, along with a comparison to actual results and explanations of major variances, are those in the SDS:
  - Controlled Income Statement;
  - Controlled Balance Sheet (in respect of equity, agencies must display the variance analysis at the level of total equity only); and
  - Controlled Cash Flow Statement.
Subject to paragraph 7(a) of AASB 1055, the budgeted figures to be displayed for the agency, along with a comparison to actual results and explanations of major variances, are those in the SDS:

- Administered Income Statement; and
- Administered Balance Sheet (however, agencies are not to include a variance analysis for administered equity).

APPLICATION GUIDANCE

Agencies may elect to present the original budgeted figures required by AASB 1055 and this policy either on the face of the main financial statements or within the notes.

5C.3 USE OF ALTERNATE BUDGETS TO ORIGINAL BUDGET

REFERENCES

- AASB 1055 Budgetary Reporting

POLICY

- Where an agency has been established by a reallocation of functions from another agency subsequent to the SDS for that financial year, the figures in the SDS column headed “Adjusted Budget” in the following year’s SDS must be used.

- Where a department has been otherwise affected by a moG change since publication of the SDS for that financial year but continues to exist (with or without being renamed), the figures in the SDS column headed “Adjusted Budget” in the following year’s SDS must be used instead of the original SDS budget figures.

- Where an agency is abolished, original SDS budget figures must be used for the full financial year (i.e. unadjusted with no allocation) in the final financial statements of the abolished agency.
• Subject to the above exceptions for subsequent moG changes and new/abolished agencies, for the variance analysis itself:
  - agencies are NOT to use revised budget figures in place of original budget figures (paragraph 9 of AASB 1055 explains the meaning of “original budget”); and
  - agencies are NOT to present revised budget figures in addition to original budget figures.

APPLICATION GUIDANCE

For the purposes of this policy, a machinery-of-Government change means a reallocation of Government functions between departments that is in accordance with a specific Departmental Arrangements Notice.

Treasury acknowledges that AASB 1055 requires budgetary reporting to be based on comparisons to original budget figures. However, where a moG change has impacted on an agency original budgeted figures in that SDS generally no longer serve as a useful basis to compare to actual results (as acknowledged in paragraph BC16 of AASB 1055). Therefore, on the grounds of qualitative materiality, this policy requires replacement of original budget figures with “Adjusted Budget” figures in certain circumstances – refer to the above policies. In those circumstances, the basis of the budget figures disclosed should be explained by footnote to the “Adjusted Budget” columns.

Similarly, where a new agency is established during the financial year as a result of a reallocation of functions from another agency, and the new agency is included in the next SDS, its budgeted statements in that SDS will display figures in the “Adjusted Budget” column (in respect of the functions that have been reallocated during the year). Such “Adjusted Budget” figures effectively represent original budget figures for such agencies.

Any new agencies established during the financial year - but not from a reallocation of functions from another agency - and included in the next SDS will not display figures in the “Adjusted Budget” column in their budgeted financial statements. In
those circumstances, for the first financial year only, such agencies are effectively out-of-scope of AASB 1055 and this policy.

For the application of this policy, figures in the SDS budgeted financial statements reported as “Adjusted Budget” are not to be impacted by non-moG adjustments. It is acknowledged that Adjusted Budget figures may be difficult to compute, particularly for the Statement of Financial Position and Statement of Cash Flows, where a moG change occurs part way through a financial year. In these circumstances, the Adjusted Budget figures should be calculated on a “best endeavours” basis.

For an abolished agency, this policy requires that the original SDS budgeted income statement, balance sheet and statement of cash flows is to be presented unadjusted in the final financial statements, covering the full financial year as set down in the SDS. This reflects the only pre-abolition published budget tabled in parliament. Abolished agencies are still required by FRR 5C.4 to provide an explanation of variances between their actual financial results and the budgeted financial statements – however the extent of these explanations will depend on the abolition circumstances. Abolished agencies should refer to the policy and guidance in FRR 5C.4

As required by this policy, where functions of an abolished agency are transferred to another agency, the recipient agency will include the budgetary impact of the transferred function within its “Adjusted Budget” in the following year’s SDS.

Most of the policies in this FRR 5C assume the usual timeframe of the SDS being published in June each year (i.e. prior to reporting date). If the timing of the annual State Budget changes in any year (e.g. if the SDS will not be published prior to the audited financial statements being certified by management), Treasury will assess the circumstances and develop an alternative approach to deal with those specific circumstances, if necessary.
The following table illustrates the type of note explanations that agencies may consider using in these situations (alongside the format illustrated in the Sunshine Department model financial statements.)

**Scenario 1 - New agency established by reallocation of functions from another agency:**

The department was created on [Notice commencement date] 20xx to assume certain responsibilities previously undertaken by the Department of ABC as outlined in [insert note number here]. These figures represent the budgeted figures for 20xx-xy, as published in the latest Service Delivery Statement tabled in Parliament.

**Scenario 2 – Continuing department impacted by moG change:**

On [Notice commencement date] 20xx, certain responsibilities were transferred to the department from the Department of ABC and the Department of UVW. Details of the transfer are outlined in [insert note number here]. As required by Queensland Treasury policy under such circumstances, the budget figures used in this comparison represent the Adjusted Budget figures for the financial year, as published in the latest Service Delivery Statement tabled in Parliament. The original budget figures in the previous Service Delivery Statement no longer serve as a useful basis to compare to the department’s actual results.

**Scenario 3 - Agency abolished:**

On [Notice commencement date], certain responsibilities were transferred to the Department of UVW following abolition of the [department/statutory body] as outlined in [insert note number here]. As required by Queensland Treasury policy under such circumstances, the budget figures used in these final financial statements reflect the unadjusted, original budget for the full financial year as published in the latest Service Delivery Statement tabled in Parliament. The explanation of major variances between year-to-date actuals and original budget covers the abolition of the [department/statutory body] and other materially identifiable variations not connected to the abolition. Refer to note xx for information about abolition of the [department/statutory body] and the assets and liabilities transferred to Department of UVW.
5C.4 EXPLANATION AND DISCLOSURE OF BUDGET VARIANCES

REFERENCES

- AASB 1055 Budgetary Reporting

POLICY

- The comparison between budgeted financial statements and actual results is to be presented at the level of financial statement line items, setting out the following information:
  - original budgeted figures as published in the SDS (subject to the exceptions for moG changes and newly established agencies described above);
  - actual results; and
  - the dollar amount of any budget to actual variance.

- For the purpose of applying AASB 1055 and this policy, explanations of major variances are not required for any immaterial line items in the audited financial statements. Materiality for this purpose is to be assessed in accordance with FRR 2B Materiality.

  - Subject to the line item's materiality, explanations must be provided, at a minimum, for the following variances that are larger than 5% of the budgeted figure for:
    - employee expenses (Statement of Comprehensive Income);
    - supplies and services (Statement of Comprehensive Income);
    - payments for property, plant & equipment (Statement of Cash Flows); and
    - for all other material line items - variances larger than 10% of the budgeted figure.
• Explanations of major variances must include the following information:
  ➢ the specific transaction(s) and/or balance(s) that the variance relates to (including quantification, where possible); and
  ➢ the underlying cause of the variance.

• For an abolished agency’s final financial statements, explanations of major variances must include materially identifiable variances that are due to a reason other than the abolishment of the agency.

• Agencies are not to include corresponding information for the comparative year.

APPLICATION GUIDANCE

Variance analysis and explanations of major variances

Consistent with paragraphs 6 and 7 of AASB 1055, for the variance analysis the line items of the budgeted financial statements (from the SDS) need to be aligned with the classification of line items of the corresponding actual financial statements. Where there is a classification difference, agencies must reclassify the budgeted figures accordingly. Examples of line items for which this would be necessary include:

• losses on sale/revaluation/impairment of assets (for the Statement of Comprehensive Income); and
• the various GST cash flow line items (for the Statement of Cash Flows).

Where a major variance between a budgeted figure amount and the corresponding actual is attributable to more than one reason, agencies are to exercise judgement in identifying and disclosing those reasons (both positive and negative) that most substantively explain the overall major variance.

Although there is to be no substitution of original budget figures (subject to the exceptions for subsequent moG changes or newly established agencies), revised
budget figures may be appropriate to refer to as part of narrative explanations of major variances between the original budgeted figures and actual results.

Abolished Agencies

For agencies abolished part way through a financial year, allocating a portion of the original SDS budget to compare to the actual year-to-date results is not practical to provide meaningful explanations of individual variances at the line item level. Consequently, this policy requires abolished agencies to present a comparison of their actual year to date results with the original, unadjusted SDS presented to parliament.

The intent of the budget to actual variance explanations for an abolished agency is that the explanations disclosed convey meaningful information in the context of the abolition. While abolition will ordinarily be the substantive reason used by abolished agencies to explain variances between original budget and audited actuals, the explanation of variances would also include those that are obviously due to a reason(s) other than the abolition. The following circumstances are examples of such non-abolition variances:

- where actual year-to-date revenue and/or expenditure incurred for the part-year already exceeds the full year original budgeted item at abolition date.

- Where the proportion of actual expenditure for a line item relative to its original budget is significantly more or less than the proportion of actual to budgeted results for other line items. For example, an agency might be abolished half-way through a financial year. If 80% or more of the budget for supplies and services expenditure was already expended compared to other line items that were 40-50% expended against original budgeted amounts, it would be evident that the actual to budget variance for supplies and services was caused by factor(s) other than the abolishment of the agency.

- A significant revaluation of property, plant and equipment occurred post original budget