Treasurer's Instruction No	204
Title	**Recognition and Management of Agency Data for Half Yearly Reporting**
Effective date	**1 July 2005**
Objective and Background	**Outlines requirements relating to the recognition and management of agency data used for interim financial reporting**
Last Reviewed Date	**1 January 2004**

This Instruction was previously known as Treasurer's Instruction No 619 – Recognition and Management of Agency Data for Half Yearly Reporting.

Black letter (or bold) items within these Instructions are mandatory and other plain font items are instructional or for the purpose of providing guidance only.

BACKGROUND

The State's financial reporting framework requires the production of financial reports comparing actual outcomes and budgeted performance throughout the financial year. Agencies must regularly update data in their Financial Management Information System (FMIS) to enable the generation of accurate accrual reports.

This Treasurer's Instruction outlines requirements in relation to the production of interim reports, in particular:

- the recognition of revenue and expenses; and
- general ledger practices that will help ensure the production of accurate accrual data.

Requirements relating to the lodgement of Public Account Reporting System accrual files by agencies are set out in the *Treasury Financial Reporting System* (TFRS) *Mandatory Data Requirements* (MDR).

Division 7 of the *Financial Management and Audit Act 1990* describes the State's annual and interim external financial reporting framework.

Half yearly reports are produced as at 31 December and 30 June each year. They report on the General Government Sector (GGS) Budget position and the Consolidated Fund. The December half yearly report incorporates the Loan Council Mid Year Report.

The Treasurer's Annual Report includes the Budget results, audited Public Account information and the Loan Council Outcomes Report. It also includes additional information relating to the previous year's outcomes, including progress toward achieving Fiscal Strategy targets and provides commentary on changes in forecasts and other assumptions underlying the Budget.

The annual Budget Papers will report on the actual financial performance of the GGS as at 31 March for the current Budget year.

End of year financial reporting allows 45 days for the preparation of the draft financial statements, whereas interim financial information must be prepared within five working days. Agencies may need to adopt estimation methods to ensure that interim financial information produced within the short timeframe is relevant and reliable.

Interim reports produced by the Government will accord with the requirements of AASB 134 *Interim Financial Reporting*. Accordingly, agencies producing information for consolidation into these reports should comply with the principles included in that Standard, particularly as they relate to:

- materiality in recognising, measuring, classifying or disclosing an item;
- changes in accounting policies; and
- reliance upon estimation methods.

AASB 1031 *Materiality* also provides guidance in the determination of whether an item is material for the preparation of interim financial data.

Accrued revenue and expenses are unlikely to be material at an output or PAN level and may be costed to Output Group 77, Output 777 and Public Account Number ACCR. At the end of each financial year, output costing will be required for all accrual items.

RECOGNITION AND MEASUREMENT

(1) Revenues and expenses are to be recognised within the Agency's FMIS in accordance with generally accepted accounting principles.

Recognition of revenues

(2) Revenues are to be recognised in the month in which it is probable that the inflow or other enhancement or saving in outflows of future economic benefits has occurred, if this treatment is adopted in the agency's annual financial statements.

Appropriations, whether recurrent or capital, are to be recognised as revenues in the period in which an agency gains control of the appropriated funds.

Generally, grants payable by the Australian Government should be recognised as revenue in the month that the grant payment is received. However, where a grant is reciprocal in nature, the revenue is to be classified as Revenue in Advance and the revenue recognised as performance occurs under the grant.

Amounts earned in exchange for the provision of goods and services are to be recognised when the good or service is provided.

Revenue from State Taxation and from Fees and Fines is to be recognised upon the first occurrence of either:

- receipt by the State of a taxpayer's self-assessed taxes and fees; or
- the time the obligation to pay arises, pursuant to the issue of an assessment.

Payments in Advance

(3) Payments for goods and services where payment in advance is a normal contractual condition are to be recognised as a Payment in Advance within the Balance Sheet and the expense recognised on a monthly basis over the life of the contract, if this treatment is adopted in the agency's annual financial statements.

Treasurer's Instruction 706 Prepaid Expenditure prohibits the prepayment of goods and services which have not been provided and are not due for payment, other than those goods and services such as insurance, accommodation costs, maintenance contracts and software licences where payment in advance is a normal contractual condition. It is assumed that the expense incurred in relation to these goods and services is incurred at the same rate over time and recognised on a monthly basis.

Depreciation

(4) A standard monthly expense is to be adopted for charging depreciation throughout the year with an adjustment made in June to align the actual and standardised depreciation expense for the year.

Long Service Leave

(5) A standard monthly expense is to be adopted for Long Service Leave with an adjustment made in June to align the actual and standardised expense for the year.

Creditors and accrued expenses

(6) Expenses are to be brought to account in the period in which they are incurred.

(7) A liability for creditors is to be recognised where goods and services have been received and invoiced but not paid at the end of the reporting month.

An agency will generally manage its creditors through a subsidiary accounts payable ledger. An efficient procurement process is required to recognise when a commitment is incurred, recording the liability and when goods are received or services provided and invoiced.

Agencies should estimate the value of outstanding creditors not recorded within the FMIS and process a standard journal to recognise the amount. The level of creditors as at 30 June of each year may represent a reasonable benchmark as to the expected level of creditors.

(8) A liability for accrued expenses is to be recognised where a good or service has been received but not invoiced.

Accrued expenses, except for utility services, are generally not processed through the subsidiary accounts payable ledger. An accrued expense arises where a service is provided such as employee services or utility services which are invoiced at regular intervals in arrears. Any unpaid salaries and wages, or employee entitlements other than Long Service Leave, must be accrued at the appropriate rates at the end of the reporting month. In the case of utility services, where an invoice has not been received, the amount of the accrual may need to be estimated. This should be based upon the number of days the service was provided to the end of the reporting month.

FINANCIAL MANAGEMENT PRACTICES SUPPORTING THE PRODUCTION OF ACCRUAL DATA

The relevance and accuracy of the information within an agency's FMIS will determine the quality of the State's interim financial reports.

(9) An agency's FMIS must be regularly updated to reflect transactions, assets and liabilities recorded in any related agency financial system.

(10) The Head of Agency is to ensure that the following practices are adopted within an Agency for updating information within an agency's FMIS:

(a) Fixed Assets

(i) Asset acquisitions and disposals of fixed assets are to be recognised within the FMIS on a monthly basis;

(ii) Work in Progress on capital projects is to be recognised as expenses occur;

(iii) Fixed asset registers are to be kept up to date and reconciled with the FMIS each month; and

(iv) Revaluations of fixed assets are to be recognised within the FMIS in the month in which the revaluation takes effect.

The Government's budget performance will be measured against the actual GGS Operating Result and Fiscal Balance for the period. The GGS Operating Result in particular may be impacted if fixed asset transactions are initially recorded as an expense.

This practice may also lead to material variances between an agency's budgeted and actual results within maintenance and fixed asset transaction types.

(b) Other assets and liabilities

- **(i) Debtor and creditor ledgers are to be reconciled each month;**
- **(ii) Debts are to be written off immediately that they are recognised as bad debts;**
- **(iii) The adequacy of an agency's doubtful debts provision is to be considered regularly, but at least in May each year;**
- **(iv) Inventories are to be reviewed for possible write-downs regularly, but at least in May each year; and**
- **(v) Processing of creditors must be timely to enable accurate measurement of creditors at the various reporting month ends throughout the year.**