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Treasury Circular 2013/07

Unrestricted Distribution

For all Departments, Offices of Parliament, Crown Entities and SOEs

Chief Executives
Directors of Finance/Chief Accountants/Chief Financial Officers

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FINANCIAL REPORTING – VARIANCE REPORTING

1. In September 2009, Treasury instigated a feedback process on the quality of the financial variance reporting received from entities (refer TC 2009/13). This process involved rating the quality of the reports received and sharing the results (in league-table format) with entity Chief Executives on a quarterly basis.

2. Given the significant improvement in reports made by entities since then, we are returning to an exception-based reporting process. **In future, we will only provide feedback to Chief Executives (and Chief Financial Officers) where quality issues are evident.** However Treasury will continue to rate the reports and publish feedback on the CFISnet website on a regular basis.

3. While the general quality of reports has improved there is still room for further improvement, particularly around the meaningfulness of the variance explanations provided. Often the explanations we receive fail to identify the underlying reason for the variance concerned. That is, <u>why</u> the actual results differed from the assumptions made in the forecast.

4. Therefore, to help free-up time for departments and enable them to focus on explaining big differences in a meaningful way, **effective from submission of the September 2013 actuals Treasury is increasing the variance reporting thresholds for departments as follows**:

Thresholds for Departments and Offices of Parliament		
	For Sep 2013 and beyond	**Currently**
Income	+/- $50m	+/- $20m
Expenses	+/- $50m	+/- $20m
Operating cash flow	+/- $50m	+/- $20m
Investing cash flow	+/- $50m	+/- $20m
Financing cash flow	+/- $50m	+/- $20m
Total Assets	+/- $200m (No change)	+/- $200m
Total Liabilities	+/- $200m (No change)	+/- $200m

These changes are expected to halve the number of variances that require reporting to Treasury by departments.

5. **The variance thresholds (of $100m to $200m) for State-Owned Enterprises and Crown Entities have not been changed, as these are considered high enough.**

6. Treasury will continue to review its process for collecting and assessing financial variance reporting from entities and any further changes will be communicated (in advance) to entities.

7. In the meantime, please ask your staff to note the contents of Annex One, which outlines our expectations for variance reporting.

8. For further information please refer to the original Treasury Circulars which (otherwise) remain current:

   a. TC 2007/12 regarding the variance reporting requirement
   b. TC 2009/13 regarding the feedback process

   Or for any other information contact Blair Radford (contact details above).

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for Secretary to the Treasury

Annex One – Variance Explanations

The requirement to provide monthly variance explanations to Treasury was introduced in 2007 (refer TC 2007/12).

This is important because:

- Treasury uses the explanations provided in published documents and communications with Ministers
- variances that exceed the reporting thresholds are big (i.e. at least $50m). So they represent significant departures from original expectations. These could:

    - reflect legitimate changes in the environment that should be responded to; or
    - reveal errors in the forecast or actual numbers that should be addressed.

Our expectations for variance reports are:

- Explanations should address the underlying reason of each significant component (each variance may have several significant components)
- Where possible, explanations should separately quantify how much of the variance is attributable to price and quantity variations
- Explanations should be of a publishable standard
- Language should be used that a layperson unfamiliar with your business could understand (e.g. avoid using jargon and acronyms)

More guidance on what is required is available in TC 2007/12, TC 2009/13 and the "Monthly Variance Report" document in the Quick Links section of the CFISnet Homepage.

The following explanations in themselves are generally not acceptable:

Comment	**Issue**
"Cash drawdowns were lower than expected"	Why? What was it that did not unfold as expected, resulting in a lower cash requirement?
"Expenses were lower than expected, but this is a timing issue"	Why were they lower than expected, and when will the variance wash-out?
"The forecast classification was wrong"	Provide the details, including what other lines are affected and confirm that measures have been taken to ensure the error is not repeated in future.
"PPE purchases are behind schedule"	What project(s) specifically are behind schedule, what is the reason for the delay and when is the purchase now expected to occur?