

# MINISTRY OF PUBLIC ENTERPRISES

## GUIDELINES FOR ANNUAL REPORTS

The Public Bodies (Performance and Accountability) Act (2001) requires all Public Bodies to submit annual and quarterly reports. The Annual Report is required to be submitted to the Minister of Public Enterprises **no later than four months after the end of the financial year, by October 31 each year**. It requires:

- Information necessary to enable informed performance assessment of a Public Body, including comparisons with the Statement of Corporate Objectives, Corporate Plan and prior financial year;
- Compliance with matters required under the Public Bodies Act and Companies Act (where relevant);
- Statement of the dividend payable for the financial year to which the report relates.

MPE has developed these guidelines on the contents of Annual Reports. The guidelines do not limit information that may be included in the annual report and their purposes are:

- to assist entities to produce informative and user friendly Annual Reports; and
- to improve the overall standard of annual reporting by Public Bodies.

It should be noted that Public Bodies are also required to provide the Ministry for Public Enterprises a separate confidential commentary on their operational and financial performance at the time their Annual Report is submitted. This analysis and commentary is to include:

- all of the performance measures (for quarterly reporting) agreed between the MPE and Public Body;
- a table of the performance measures which includes the actual performance for the current financial year, the previous financial year and the corporate plan; and
- a brief comment on each performance measure – focusing on the differences between:
  - this year and last year;
  - this year and the corporate plan.

A comment should also be made on whether the corporate plan performance measures are expected to be achieved in the next financial year.

Further information on this requirement is attached at the end of these guidelines. (Annex 3)

## **Contents of the Annual Report**

The annual report should contain sections for:

1. Contents Table
2. Statement to Parliament
3. Chairperson's Report
4. CEO's Report
5. Auditors Report
6. Audited Financial Statements

### **1. Contents Table**

This lists the sections of the Annual Report and the page where each section commences.

### **2. Statement to Parliament**

The Responsible Minister's statement relating to the presentation of the Annual report in Parliament. It should provide:

- an introduction to the Annual Report
- Legislative provision for the presenting of the Annual Report in Parliament
- Vision and Mission Statement, and Objectives of the Public Body as provided in the Statement of Corporate Objectives

### **3. Chairperson's Report**

The Chairperson's report is provided on behalf of the Directors and is expected to provide a broad strategic overview of the performance of the public body and issues faced by the entity, together with information relating to governance of the Public Body.

The Chairperson's report may be organized into the following sections:

#### **■ Activities and Performance of the Entity**

- Principal activities undertaken by the entity

- Overview of operating and financial performance – in relation to previous financial year and this year’s plan
- Events since balance date which could significantly impact the future activities and performance of the entity
- Overview of expected performance in the next financial year.

#### ■ **Capital and Dividend Information**

- Shares, or options to purchase shares, issued during the year
- Significant loans entered into or repaid during the year
- Significant investments made during the year
- Dividends paid, or proposed for the year.

#### ■ **Director Information**

- Names of directors during the year, together with their directors fees, their director expenses and payments for other services provided to the entity
- Number of Board meetings during the year and attendance of each director at Board meetings
- Board committees, their membership and the number of meetings held for each committee.

#### ■ **CSO Obligations**

- Overview of progress with achieving CSO obligations.

#### ■ **Other Information**

- As required to be disclosed by the Public Bodies Act and Companies Act (where relevant).

### **4. Chief Executive’s Report**

The Chief Executive’s Report should link the actual operating and financial performance for the current year to the Statement of Corporate Objectives, and Corporate Plan and explain both changes from the previous financial year and whether the Corporate Plan and budget targets have been achieved.

It is recommended that the CEO Report follow a similar structure to that used by the Public Body in its quarterly reporting.

#### **4.1 Structure of the CEO Report**

It is suggested that the CEO Report be structured into the following sections:

- Highlights for the year date.
- Overview of operating performance and results.
- Overview of financial performance and results.
- Progress with the Corporate Plan.
- Capital expenditure and projects.
- Outlook for next year.
- Future risks and uncertainties.
- CSO implementation (where appropriate).

■ **Highlights for the year**

- What are the key achievements?
- What are the key issues that have arisen?

■ **Overview of operating performance and results for the year**

- What has been the level of business activity? (Where possible use KPIs that show the volumes of activity).
- What changes have occurred in the operating performance and business activity compared with last year and targets in the Corporate Plan and budget. Why have these changes occurred?

■ **Overview of financial performance and financial results for the year**

- What are the major items of revenue and expenses that differ from the previous year and targets in the Corporate Plan and budget
- For each major item of revenue and expenses explain what has caused the differences to have occurred?
- Comment on changes in the operating cash inflows and outflows
- Comment on changes to capital structure – including borrowings and equity injections.

## ■ Progress with implementing the Corporate Plan for the year

- Overview of progress with implementing the corporate plan.
- Summary of progress with the key objectives, strategies and performance measures included in the corporate plan.
- What changes have occurred in the activities, operations and environment since preparing the corporate plan and how will they impact on achieving the corporate plan, objectives, strategies and performance measures?

## ■ Capital expenditure and projects for the year

- List the major items of capital expenditure.
- Comment on the progress with major capital projects which the Public Body is or has undertaken. Include:
  - o Comments on any material delays and changes in the expected costs of completing any projects.

## ■ Outlook for next year

- Outline the overall level of business activity expected for next year by the Public Body and identify whether this differs from the assumptions used when preparing the Public Body corporate plan.
- Summarise the reasons for possible changes in future business activity and comment on their importance.

## ■ Future risks and uncertainties

- What are the major risks and uncertainties that the Public Body is facing over the next two years?
- Comment on the possible impact of each major risk and uncertainty that is identified.
- What would be required to reduce the impact of each risk or uncertainty?

## ■ CSO implementation (where applicable)

- Briefly describe each CSO for which the Public Body has funding.
- Identify the revenue and expenses relating to each CSO.
- Outline progress made in achieving the objective / purpose for granting the CSO.

## **5. Auditors Report**

The auditors report should comply with generally accepted auditing guidelines.

## **6. Audited Financial Statements**

Financial Statements should be prepared in accordance with International Accounting Standards and where appropriate, comply with the Companies Act.

The financial statements must include:

- Profit and loss statement
- Balance sheet
- Cash flow statement
- Statement of changes in equity.

The financial statements must include:

- Information relating to the current financial year
- Comparative data for the prior financial year.

Notes to the accounts must comply with the International Accounting Standards.

The principal purposes of disclosure in the financial statements and notes are to:

- Assist the Ministry of Finance (SOEMD) provide advice to Ministers about the financial performance and results of all Public Bodies.
- Enable Parliament to undertake an appropriate review and scrutiny of each Public Body.

For these reasons, a greater level of disclosure than the minimum required to meet the International Accounting Standards and the requirements of the Companies Act (where applicable) is encouraged. However, it is recognised that for the small number of Public Bodies operating in a competitive environment, the level of financial disclosure needs to balance achieving the above purposes with a need to protect competitively sensitive financial and operating information.

A suggested breakdown of information within the financial statements is provided below. [Note: This is the same as suggested for quarterly financial reporting.]

## a) Profit and Loss Statement

- **Revenue** – a breakdown of revenue into major sources of revenue (including Government, trading and CSOs) or into the revenue from different types of business and other activity undertaken by the Public Body.
- **Expenses** – a breakdown of expenses into major categories of expenses. These may include:
  - Purchases (for resale) or cost of sales
  - Salaries and wages
  - Communications (including telephone, fax, courier etc)
  - Utilities (including electricity and water)
  - Depreciation
  - Directors fees and expenses
  - Motor vehicle and IT operating expenses (e.g. repairs and maintenance, rental and lease, service contracts)
  - Occupancy expenses (i.e. expenses relating to building occupancy)
  - Marketing and sales (including advertising, selling, marketing and promotion)
  - Financial expenses
  - Audit
  - Other expenses

However, the most appropriate breakdown of expenses will reflect the business activity and operation of each Public Body. IAS provides guidance about classifying expenses into the functions of the expenses or the nature of the expenses.

## b) Balance Sheet

- **Current Assets** – a breakdown into the major types of current assets. These are likely to include:
  - Cash on hand
  - Cash deposits
  - Debtors / accounts receivable
  - Stock / inventory
  - VAGST receivable
- **Non Current Assets** – a breakdown into the major types of non current assets. These are likely to include:
  - Land
  - Buildings

- Plant, machinery, and equipment
- Office and computer equipment
- Furniture and fittings
- Motor vehicles
- Investments (a breakdown into the major types of investments).
- **Current Liabilities** – a breakdown into the major types of current liabilities. These are likely to include:
  - Accounts payable
  - Short term borrowings
  - Unearned revenue
  - Provisions.
- **Non Current Liabilities** – a breakdown into the major types of non current liabilities.
- **Equity** – a breakdown into the major types of equity. These are likely to include:
  - Reserves (including asset revaluation)
  - Retained earnings (accumulated profit / loss)
  - Capital (and equity instruments).

### **c) Cash Flow Statement**

The cash flow statement should provide for cash flows relating to operating, investing and financing activities.

### **d) Notes to the Financial Statements**

These should comply with International Accounting Standards and be complete so as to assist in the interpretation of the financial statements.

Note, in accordance with convention and IAS is a note on accounting policies. Annex 2 of this Guideline should be followed with respect to the application of specific accounting policies and the appropriate wording of the accounting policies note.



**ANNEX 1: FINANCIAL STATEMENTS**  
**(Illustration of required layout)**

**Balance Sheet**

	Notes	Current Year		Previous Year	
		Actual	Budget	Actual	Budget
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash on hand					
Cash deposits					
Debtors / accounts receivable					
Stock / inventory					
VSGST receivable					
<b>Non Current Assets</b>					
Land					
Buildings					
Plant and equipment					
Office and computer equipment					
Motor vehicles					
Furniture and fittings					
Investments					
<b>Total Assets</b>					
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable					
Short term borrowings					
Unearned revenue					
Provisions					
<b>Non-Current Liabilities</b>					
<b>Total Liabilities</b>					
<b>EQUITY</b>					
Reserves					
Retained earnings					
Capital and other equity					

## Profit and Loss Statement – Illustration only

	Notes	Current Year		Previous Year	
		Actual	Budget	Actual	Budget
<b>Revenue:</b>					
Government contribution					
Community service obligations					
Revenues from major business activities					
<b>Expenses:</b>					
Purchases / cost of sales					
Salaries and wages					
Communications					
Utilities					
Depreciation					
Directors fees and expenses					
Motor vehicle & IT operating expenses					
Occupancy expenses					
Marketing and sales					
Financial expenses					
Audit					
Other expenses					
<b>Net Profit Before Tax</b> <sup>(1)</sup>					
<b>Income Tax Expense</b> <sup>(1)</sup>					
<b>Net Profit After Tax</b> <sup>(1)</sup>					
<b>Transfer to Accumulated Funds</b>					

<sup>(1)</sup> **Note:** For Public Bodies that are beneficial or mutual the net profit will be replaced with surplus and income tax expense will not be applicable.

## Cash Flow Statement – Illustration only

	Current Year		Previous Year	
	Actual	Budget	Actual	Budget
<b>Operating Activities:</b>				
Cash received from customers				
Cash received from government (grant or CSO)				
Cash paid to suppliers and employees				
Net operating cash inflow (outflow)				
<b>Investing Activities:</b>				
Proceeds from sale of fixed assets				
Fixed asset purchased				
Other				
Net financing cash inflow (outflow)				
<b>Financing Activities:</b>				
Proceeds from term loan				
Loan repayment & interest				
Finance lease repayments				
Net financing cash inflow (outflow)				
<b>Net increase/(decrease) in cash</b>				
Opening Balance (cash and cash equivalents)				
<b>Balance at end of Quarter</b>				
<b>Represented by:</b>				
Overdraft at Bank				
Petty Cash				
Balance				

## **ANNEX 2:**

### **NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted are stated to assist in a general understanding of these financial statements. These policies have been consistently applied except as otherwise indicated.

#### **(a) Basis of accounting**

These financial statements have been prepared on the basis of historical costs using generally accepted accounting principles consistently applied.

These financial statements comply with International Accounting Standards.

Revenue is recognised in the period in which the sale transaction occurred and accrual accounting is used to match revenue and expenses in the same reporting period.

The financial statements are prepared on the going concern basis in the belief that the company will continue trading in its current business activity for the foreseeable future and will not dispose of or realise any material part of its assets or operations.

#### **(b) Current assets**

Stocks are valued at the lower of cost and estimated net realisable value after accounting for any provision due to obsolescence.

Debtors are stated net of any provision for any doubtful debts after writing off all bad debts identified during the period.

#### **(c) Property, plant and equipment**

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives using the following rates:

Buildings and (e.g. wharves etc)	2.5% - 5%
Plant & Machinery	10% - 20%
Office furniture and fixtures	10% - 20%
Office Equipment	25%
Motor Vehicles	25%

Profits and losses on disposals of property, plant and equipment are taken into account in determining the results for the period.

Property, plant and equipment are included in the financial statements at cost unless otherwise stated. It is not the policy of ABC Limited to revalue property, plant and equipment. Any decision to calculate and include revalued property costs in the financial statements is fully documented in note xxx and has only been **made after full consultation with experts and shareholders.**

**(d) Foreign currency**

All amounts are expressed in Tala.

Transactions in foreign currencies have been converted to Tala at rates approximating those ruling at the date the transaction was incurred. Assets and liabilities in foreign currency have been converted to Tala at rates approximating those ruling at the balance sheet date. Exchange gains and losses are brought to account in determining the profit for the year.

**(e) Leased assets**

Assets acquired under finance leases are capitalised. The initial amount of the leased asset and corresponding lease liability are recorded at the present value of minimum lease payments. Leased assets are amortised over the life of the relevant lease or, where it is likely the company will obtain ownership of the asset on expiration of the lease, the expected useful life of the asset. Lease liabilities are reduced by the principal component of lease payments. The interest component is charged against operating profit.

Operating leases are not capitalised and rental payments are charged against operating profit in the period in which they are incurred.

**(f) Taxation**

Income tax has been brought to account using the liability method of tax effect accounting.

Income tax on profit comprises current and deferred tax and is recognised in the profit statement. Provision for current tax is the expected tax payable on the earnings for the current year, using tax rates enacted at the balance sheet date, plus any adjustment to tax payable in respect of prior years.

Deferred tax provides for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

**(g) Provision for employee benefits**

Provision has been made in the financial statements for benefits accruing to employees in relation to such matters as annual leave and long service leave.

**(h) Borrowing costs**

All borrowing costs and interest payable are calculated to apply to the respective loans in the period of account and are charged as an expense item against profits for the period

**(i) Grants, aid and donations**

Monies received by way of grants, aid or donations are disclosed separately in the accounts from monies received as loan or equity finance. By definition grants, aid or donations are gratuitous receipts and not subject to repayment. Any caveats associated with the grants, aid or donations governing the use of the money are disclosed in note xxx

Grants aid or donations are treated as revenue in the period in which they are received.

**(j) Comparative figures**

Where necessary, comparative figures have been adjusted to conform with presentations adopted in the current year.

**ANNEX 3: ANALYSIS OF FINANCIAL AND NON FINANCIAL PERFORMANCE MEASURES**

**1. Background**

The quarterly reporting by Public Bodies to SOEMD (Ministry of Finance) forms the basis of advice given to Ministers. The primary focus is on comparing actual operating and financial performance for the reporting quarter and year to date with the budgets and performance measures for the quarter and year to date.

To complement this reporting, Public Bodies are required to provide a confidential attachment to their Annual Report that focuses on:

- The agreed set of financial and non financial performance indicators
- Comparison of performance for the current year with the previous financial year and with the Corporate Plan.

**2. Presentation of the Analysis**

**■ Table of Key Performance Measures**

<b>Performance Measures</b>	<b>This Year – Actual</b>	<b>Last Year – Actual</b>	<b>Corporate Plan – This Year</b>
List the key performance measures agreed with the Ministry of Finance			

**■ Comments on each Key Performance Measure (KPIs)**

It would be useful to provide your comments in a table as outlined below. For each KPI:

- Limit your comments to two to four sentences for each of those measures.

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<b>Performance Measures</b>	<b>Comments on Differences</b>
List the performance measures agreed with the Ministry of Finance	<ul style="list-style-type: none"><li>- Include comments for key each performance measure.</li><li>- Focus comments on why has this variance occurred and what action is being taken to eliminate the (negative) differences.</li></ul>