

## FMM 04.2 Definition of a Reporting Entity

Under the International Public Sector Accounting Standards (IPSAS), a *reporting entity* is typically defined as:

*“An entity that prepares (or is required to prepare) general purpose financial statements. A reporting entity can be a single entity (such as a ministry or statutory authority) or a group of entities (such as a government-wide consolidation) where there exists the ability to exercise control over other entities and a need to present financial information about that group.”*

A *government* (national, provincial and local-level)) is a reporting entity according to the PFMA, as it provides consolidated financial information about all agencies or entities under its control.

Individual departments, statutory bodies, State owned enterprises, and trust funds can also be separate reporting entities—where there is a reporting obligation for external users such as Parliament, under donor agreements or the general public.

When determining if your agency is a reporting entity, key points are:

- Clearly defined accountability obligation for the agency to report financial information to users (Parliament, public, lenders, donors) who rely on general purpose financial statements to obtain information about the entity’s finances and performance. This may be clearly defined in legislation or an obligation under an agreement.
- Public accountability and service delivery for government agencies and their controlled entities for obligations to demonstrate stewardship of public resources and compliance with budgets or legislative mandates.
- IPSAS 35 (Consolidated Financial Statements) states that an entity should consolidate all entities over which it has *control*. A government (or a higher-level public entity) is deemed to control another entity if it:
  1. Has power over the other entity’s relevant activities,

2. Is exposed, or has rights, to variable benefits (not necessarily financial returns but also service potential) from its involvement with the other entity,
3. And can use its power to affect the nature or amount of those benefits.

If an entity meets those criteria, it is part of the reporting entity for consolidation purposes.

## **2.1 Mandatory Policy**

1. **All Provincial and Local-Level Governments are a reporting entity to produce general purpose financial statements (GPFS) in accordance with Section 71 of the PFMA and Section 114 of the *Organic Law on Provincial Governments and Local-level Governments*.**
2. **Any Public or Statutory Body operating under its own Act or Authority is a reporting entity to produce GPFS in accordance with Section 47L or Section 63 of the PFMA and is required to consolidate any subsidiary statutory bodies under Section 49 of the PFMA.**
3. **A National Department is considered part of the National Public Services under Section 188(2) and is not an individual reporting entity.**
4. **For the purposes of Section 47L of the PFMA, the term ‘public body’ refers to statutory authorities and other entities legally distinct from the National Public Service and are consider a reporting entity to produce GPFS.**
5. **The Finance Minister (Section 3) or the Finance departmental head (Section 4) may make a determination that an agency is a reporting entity and is required to produce GPFS under the PFMA.**

### **2.1.1 Consolidation**

6. **In line with IPSAS 35 and Section 49 of the PFMA, any public body (agency) that the Government (National, Provincial, or Local Level) controls must be included in consolidated GPFS of that agency. This notion of “control” arises if:**

- The entity is established by legislation that vests majority or significant control in the hands of the Government or an appointed board,
- The Government can appoint or remove majority board members, direct the entity's relevant activities, or substantially determine its budget or policy,
- The entity is primarily funded by or reliant on Government appropriations, and the Government can direct how those funds are used,
- The Government bears residual risks or has residual benefits from the entity's activities (e.g., surpluses returned to consolidated revenue, deficits covered by Government).
- Where there are voting powers, the agency controls, directly or indirectly, 50% or more of the voting powers of that body, or holds 50% or more of the issues shares or share capital of the body.

Entities satisfying these control conditions are generally within the Government reporting boundary.

### **2.1.2 Register of reporting entities**

7. The Department of Finance is required to identify those Public Entities on its Register of Public Entities (refer to FMM 01.10) that are reporting entities for GPFS and publish on the Department of Finance website.
8. The Department of Finance is required to review the nominated reporting entities on an annual basis.

### **2.1.3 Reporting Entities consolidated in the Government of PNG Public Accounts**

9. The National Departments and their subsidiary statutory bodies including held trusts are considered a consolidated reporting entity for GPFS (Economic Entity) and will be part of the Government of PNG Public Accounts GPFS. Under IPSAS "*consolidated financial statements of an economic entity in which cash receipts, cash payments and cash balances of the controlling entity and its controlled entities are presented as that of a single entity*".

## **2.2 Non-Mandatory Guidance**

The IPSAS Financial Reporting Under the Cash Basis of Accounting is freely available and provides comprehensive detail on preparing GPFS using Cash Basis and guidance for additional elected disclosures.

### **2.2.1 Entities Not Consolidated**

If an entity does *not* meet the control definition, it is not consolidated in the public accounts. Examples might include:

1. Private-sector or non-governmental organisations that receive public grants or contracts but are not under Government's power to govern financial/policy decisions,
2. Associations or Committees where Government is a partner but does not have the ability to direct the entity's relevant activities or access a majority share of its benefits,
3. Joint ventures or co-financed projects in which Government's influence does not rise to the level of control (though these may require proportionate consolidation or note disclosure under IPSAS, depending on the arrangement).

### **2.2.2 Special Cases and Disclosure**

- If the Government or a public body holds shares in a company but does not control that company's strategic decisions, it is reported as an investment rather than being consolidated.
- Public-Private Partnerships (PPPs) is only consolidated if the Government meets the "control" criteria over an infrastructure asset or SPV (Special Purpose Vehicle), the asset and relevant liabilities should be included in the consolidated accounts. Otherwise, the arrangement may only appear as note disclosures.
- Sovereign Wealth Fund and Landowner Trusts (or similar trusts) are only consolidated if the Government has control over the sovereign wealth fund or trust fund; if not, it may be reported as a special purpose arrangement with separate financial statements, plus note disclosures in the Government's accounts.

### 2.2.3 Government Public Accounts (GPFS)

The National Public Accounts constitute the general purpose financial statements of the National Government's Public Fund, comprising the Consolidated Revenue Fund and Trust Fund. These accounts are prepared annually by the Department of Finance in accordance with the PFMA and Cash Basis IPSAS.

The Public Accounts provide a full statement of the government's revenue, expenditure, trust activities, and balances, and fulfil the legal obligation to publicly report on the financial performance and position of the National Government's Public Fund.

The National Public Accounts represent the financial statements of the National Government's Public Fund only. They do not include the financial results of public bodies such as statutory authorities or State-Owned Enterprises, which are legally and financially autonomous. These entities are required to report separately under Section 47L of the PFMA and are not consolidated into the Public Accounts. A future transition to full IPSAS accrual accounting would enable whole-of-government consolidation.

If an entity is partially owned or not controlled, it may only be disclosed as an investment in the notes.

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