Item 14: Checklist for restructures

From time to time, the government makes administrative changes, resulting in changes to the functions of public sector entities. Entities may be created, merged, split or abolished, or specific functions transfer from one entity to another. These Machinery of Government (MoG) changes, that are reflected in revised Administrative Arrangement Orders (AAO), vary greatly in their scale and complexity, from transfers of minor responsibility through to the creation of new entities. Particularly following an election, the changes may occur with little warning or little opportunity to undertake preparatory work, and the implementation of the changes is generally seen as a priority of government.

MoG changes may arise as a result of:

- a decision of the Cabinet or Prime Minister
- an AAO
- an Act of Parliament or a Regulation under an Act, or
- a written agreement between the relevant portfolio Minister(s) and the Finance Minister or the Prime Minister, as appropriate.

Some common examples of restructures are the:

- abolition or creation of an entity
- transfer of functions or responsibilities between entities, and
- movement of functions into, or out of, the Australian Public Service.

There is a substantial amount of guidance material available to assist receiving and losing entities in implementing restructures.

The FRR specifies a number of disclosure and accounting requirements when an entity has been involved in a restructuring of administrative arrangements during a reporting period. The terms, ‘losing’ and ‘receiving’ entities, are used to describe entities that relinquish/assume functions.

This checklist does not aim to provide an exhaustive guide to all aspects of implementing a restructure. It focuses on helping ‘receiving’ non-corporate entities prepare financial statements when there is a transfer of functions from another non-corporate entity during a reporting period.

The Accountable Authority of a receiving entity must ensure that the financial records of the functions transferred are sufficient to present fairly the entity’s financial position, financial performance and cash flows and can contribute to the timely and accurate completion of the entity’s financial statements.

Reference: Section 2.3.1, page 18.

64 Under the Constitution, the Governor-General, on the advice of the Prime Minister, appoints Ministers, establishes departments of state and formally allocates executive responsibility among Ministers through an AAO.

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<th>Topic</th>
<th>Key Action/Issue</th>
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| Agreement by senior management | Have the respective the Accountable Authorities of the losing and receiving entities reached agreement on the scope of the restructure and the responsibility for deliverables? **Issues for consideration include agreeing:**  
  ▶ key risks and issues that need to be managed  
  ▶ the deliverables, responsibilities and critical milestones  
  ▶ key dates, such as the effective date(s) of transfer for financial reporting purposes and a date(s) for the transfer of assets and liabilities and staff  
  ▶ items to transfer: appropriations, receipts, expenditure, assets, liabilities and off-statement of financial position items, and  
  ▶ conduct of a due diligence review and providing of supporting documentation, including management sign-offs for the information provided. | **Risk analysis** Has a financial statements risk analysis been conducted or updated to assess the impact of the transferred functions on each item of the gaining entity’s financial statements?  
**How are the identified risks being managed?**  
**Issues for consideration include:**  
  ▶ identify the reporting requirements, materiality, data sources and, systems and processes relevant to the transferred functions; and  
  ▶ assign a risk rating and implement controls where required.  
An example financial statements risk analysis is at Item 5 of the Toolkit (page 108). |
| Risk analysis | **Due diligence review** Has a due diligence or quality assurance review been performed to identify and verify the information provided?  
Is the information provided complete and accurate?  
Does it comply with FRR requirements and align with the accounting policies of the receiving entity?  
Has a certification or sign-off been provided by the CFO of the losing entity and agreed/confirmed by the CFO of the receiving entity?  
**Issues for consideration include:**  
  ▶ identify the necessary information to be collected  
  ▶ review of data and supporting documentation provided by the losing entity  
  ▶ agree the restructure note and other related disclosures with the losing entity to ensure consistency in financial reporting, and  
  ▶ obtain sign-off or certification from both CFOs of the losing and receiving entities.  
An example of documentation requirements is at Item 7. |  |
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<td>Financial statements work plan</td>
<td>Has the financial statements work plan been updated to incorporate additional tasks related to the transfer of functions?</td>
<td>The work plan that includes what is to be done, when it is to be accomplished, and who is responsible should be developed, periodically updated and monitored until completion.</td>
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<td>Have sufficient resources been allocated to develop, implement and monitor the plan?</td>
<td>The early involvement of appropriately skilled and experienced financial management personnel is necessary to ensure successful integration of the new functions.</td>
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<td>Examples of additional key tasks are:</td>
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<td>▶ agreement of scope of the restructure from senior management of losing and receiving entities, using an exchange of letters</td>
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<td>▶ develop and implement a memorandum of understanding detailing issues, such as, service delivery, shared service arrangements, recovery of moneys and transfer of assets, liabilities, revenues and expenses</td>
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<td>▶ determine and arrange for the transfer of annual appropriations in accordance with section 75 of the PGPA Act</td>
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<td>▶ complete the transfer of special accounts and special appropriations</td>
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<td>▶ obtain opening balances and related supporting documentation from the losing entity. Perform a due diligence on the documentation received</td>
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<td>▶ complete the transfer of assets, liabilities and off statement of financial position items</td>
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<td>▶ complete the transfer of staff under section 72 of the PS Act</td>
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<td>▶ integrate accounts of the new functions with the entity’s financial management information system and other systems (including Finance’s appropriation system), and</td>
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<td>▶ review and update financial delegations, policies and procedures, where required.</td>
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