



# OPINIONS

WINTER 2010

ANAO Opinions is published to provide our clients with information on developments in financial reporting and disclosure, together with details of recently completed performance audits and better practice guides. This edition of Opinions provides updated information since the Autumn 2010 edition and lists those audits scheduled for completion in the July to September 2010 period.

## ANAO AUDIT REPORTS RECENTLY TABLED AUDIT REPORTS

The following section contains the objectives of ANAO audit reports tabled from April to June 2010. A complete copy of all ANAO reports may be obtained from the ANAO website at: [www.anao.gov.au](http://www.anao.gov.au). For further details phone the Publications Officer on (02) 6203 7505.

### Audit Report No. 25: Security Awareness and Training

The objective of the audit was to assess the effectiveness of security awareness and training arrangements at selected Australian Government organisations, including whether they addressed selected security issues from the Protective Security Manual.

### Audit Report No. 26: Administration of Climate Change Programs

The objective of the audit was to assess the effectiveness of the administration of specific climate change programs by the Departments of the Environment, Water, Heritage and the Arts, and Resources, Energy and Tourism. Particular emphasis was given to the implementation of good administrative practice and the extent to which the program objectives were

being met. The audit followed four lines of inquiry:

- development of program objectives and assessment of program risks;
- assessment and approval of competitive grant applications;
- assessment and approval of rebate applications; and
- measurement and reporting of program outcomes.

### Audit Report No. 27: Coordination and Reporting of Australia's Climate Change Measures

The objective of the audit was to assess the coordination of Australian, State and Territory Government climate change programs and the integrity of measurement and reporting of Australia's greenhouse gas emissions

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## RECENTLY TABLED AUDIT REPORTS (CONTINUED)

and abatement. Particular emphasis was given to the:

- coordination of Australian Government and State/Territory climate change programs;
- integrity of the national inventory to measure Australia's greenhouse gas emissions; and
- integrity of measurement and reporting of government abatement measures.

### **Audit Report No. 28: The Australian Electoral Commission's Preparation for and Conduct of the 2007 Federal General Election**

The objective of the audit was to assess the efficiency and effectiveness of the Australian Electoral Commission's (AEC's) management of elections. The audit focused primarily on the AEC's administration of the *Commonwealth Electoral Act 1918* in the lead-up to and conduct of the 2007 general election.

### **Audit Report No. 29: Attorney-General's Department Arrangements for the National Identity Security Strategy**

The objective of the audit was to assess the effectiveness of the Attorney-General's Department's arrangements for coordinating the development of the National Identity Security Strategy (NISS).

The ANAO's assessment was based on the following criteria:

- governance arrangements for the NISS;

- progress to date of the six NISS elements; and
- AGD's administrative arrangements for developing the NISS.

### **Audit Report No. 30: Management of the Strategic Regional Program/Off-Network Program**

The objective of the audit was to assess the effectiveness of the Department of Infrastructure, Transport, Regional Development and Local Government's administration of funding for land transport. The audit is one of a series undertaken by the ANAO into land transport funding programs. Four audits have already been completed, namely:

- ANAO Audit Report No. 31 2005–06 Roads to Recovery;
- ANAO Audit Report No. 45 2006–07 The National Black Spot Program;
- ANAO Audit Report No. 22 2007–08 Administration of Grants to the Australian Rail Track Corporation; and
- ANAO Audit Report No. 29 2008–09 Delivery of Projects on the AusLink National Network.

### **Audit Report No. 31: Management of the AusLink Roads to Recovery Program**

The objective of the audit was to assess the effectiveness of the management of the Auslink Roads to Recovery Program including both the AusLink R2R Standard Program and the AusLink R2R Supplementary Program. It did

not include the Nation Building Roads to Recovery Program, which has only recently commenced. The audit also:

- assessed the delivery of the program and management of the funding, including the extent to which the program has provided additional (rather than substitute) funding for land transport infrastructure; and
- identified opportunities for improvements to the management of the program.

### **Audit Report No. 32: Management of the Overseas Owned Estate**

The objective of the audit was to assess the effectiveness of the Overseas Property Office's (OPO's) management of the overseas owned estate. In particular, the audit examined whether:

- sound arrangements are in place to effectively plan and oversight the management of the overseas estate;
- OPO effectively manages owned property on a day-to-day basis;
- the condition of the overseas owned estate is adequately maintained by structured and systematic repair and maintenance arrangements; and
- OPO has appropriate information to facilitate the effective management of the owned estate, and appropriately consults with stakeholders.



## RECENTLY TABLED AUDIT REPORTS (CONTINUED)

### **Audit Report No. 33: Building the Education Revolution – Primary Schools for the 21st Century**

The objective of the audit was to examine the effectiveness of the Department of Education, Employment and Workplace Relations's (DEEWR's) establishment of the Primary Schools for the 21st Century (P21) element of the Building the Education Revolution (BER) program. The audit focused on:

- the establishment of administrative arrangements for BER P21 in accordance with government policy;
- the assessment and approval of funding allocations; and
- the arrangements to monitor and report BER P21 progress and achievement of broader program outcomes.

An examination of individual BER P21 projects was outside the scope of the audit.

### **Audit Report No. 34: The Management and use of Double Taxation Agreement Information Collected through Automatic Exchange**

The objective of the audit was to review and assess the use and management of automatic exchanges of information under Double Taxation Agreements by the Australian Taxation Office.

### **Audit Report No. 35: Administration of the Superannuation Co-contribution Scheme**

The objective of the audit was to assess the effectiveness of the Australian Taxation Office's administration of the Superannuation Co-contribution Scheme.

### **Audit Report No. 36: Emergency Management and Community Recovery Assistance in Centrelink**

The objective of the audit was to assess the effectiveness of Centrelink's delivery of emergency management and community recovery assistance operations, with a specific focus on the 2009 North Queensland floods and Victorian bushfires. The Department of Families, Housing, Community Services and Indigenous Affairs's role during those disaster events was also considered, as it played a key role in both establishing the policy parameters of the services Centrelink delivered and in addressing issues arising from policy implementation.

### **Audit Report No. 37: Lightweight Torpedo Replacement Project**

The objective of the audit was to review the effectiveness of the Department of Defence's and the Defence Materiel Organisation's management of the acquisition arrangements for Joint Project 2070 Lightweight Anti-submarine Warfare Torpedo.

### **Audit Report No. 38: Campaign Advertising Review July 2009 – March 2010**

This report reviews the operation of the Government's campaign advertising arrangements from July 2009 to the end of March 2010 and compliance with the Guidelines on Campaign Advertising by Australian Government Departments and Agencies issued in June 2008. It follows Report No.2 2009–10 Campaign Advertising Review 2008–09.

### **Audit Report No. 39: Medicare Australia's Administration of the Pharmaceutical Benefits Scheme**

The objective of the audit was to examine the effectiveness of Medicare Australia's administration of the Pharmaceutical Benefits Scheme (PBS). The audit considered three key areas:

- Medicare Australia's relationship with the PBS policy agency (Department of Health and Ageing) and service delivery policy agency (Department of Human Services);
- the management arrangements and processes underpinning Medicare Australia's delivery of the PBS (including the means by which Medicare Australia gains assurance over the integrity of the PBS); and
- how Medicare Australia undertakes its three main responsibilities relating to the delivery of the PBS, namely: approving pharmacies; approving authority prescriptions; and processing PBS claims.



## RECENTLY TABLED AUDIT REPORTS (CONTINUED)

### **Audit Report No. 40: Application of the Core APS Values and Codes of Conduct to Australian Government Service Providers**

The audit objective was to assess the extent to which Australian Government agencies ensure that service providers are made aware of the core Australian Public Service (APS) Values and Code of Conduct and how these arrangements are monitored.

### **Audit Report No. 41: Effective Cross-Agency Agreements**

The audit objective was to assess whether agreements between Australian Government agencies reflect sound administrative practices. The audit reviewed current government policy and a range of better practice guidelines, conducted interviews with agencies and examined cross-agency agreements, to formulate suitable audit criteria and subsequently develop better practice principles.

### **Audit Report No. 42: Fraud Control in Australian Government Agencies**

The objective of the audit was to assess key aspects of Australian Government agencies' fraud control arrangements to effectively prevent, detect and respond to fraud. The scope of the audit included 173 agencies.

### **Audit Report No. 43: Army Individual Readiness Notice**

The objective of the audit was to assess Army's effectiveness in administering the Army Individual Readiness Notice.

### **Audit Report No. 44: Administration of the Tax Obligations of Non-Residents**

The audit objective was to assess the Australian Taxation Office's effectiveness in administering the taxation obligations of non-residents.

### **Audit Report No. 45: Contracting for Defence Force Recruiting Services**

The objective of the audit was to assess whether the Department of Defence effectively managed the procurement process for services related to the recruitment of personnel to the Australian Defence Force and the introduction of a new service provider.

### **Audit Report No. 46: Child Support Reforms: Building a Better Child Support Agency**

The objective of the audit was to assess the Child Support Agency's effectiveness in managing the implementation of the Building a Better Child Support Agency program.

### **Audit Report No. 47: Management of Live Animal Imports**

The audit objective was to examine how effectively the Department of Agriculture, Fisheries and Forestry manages the importation of live animals into Australia.

### **Audit Report No. 48: Community Intelligence – Collecting and Processing Tip-offs**

The objective of the audit was to assess the effectiveness of the management of community intelligence by the Australian Taxation Office.

### **Audit Report No. 49: Defence's Management of Health Services to Australian Defence Force Personnel in Australia**

The objective of the audit was to assess whether the Department of Defence is effectively managing the delivery of health services to Australian Defence Force personnel in Australia (chiefly Garrison Health Services).

### **Audit Report No. 50: Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies**

This report presents the results of the interim phase of the 2009–10 financial statement audits of all portfolio departments and other major General Government Sector (GGS) agencies that collectively represent 95 per cent of total GGS revenues and expenses.



## ANAO AUDIT REPORTS SCHEDULED TO BE TABLED JULY TO SEPTEMBER 2010

- Family Relationship Centres
- Conduct of the National Infrastructure Audit and Development of the Infrastructure Priority List
- General Practitioners – Policy and Planning
- National Security Hotline
- Centrelink Fraud Investigations and Compliance Review
- The Tax Office's Implementation of its Client Management System (Siebel)
- Capitalisation of Software
- Fixing Houses for Better Health
- Direct Sourcing Procurement Process
- Green Loans
- Administration of the Community Infrastructure Program – Strategic Projects Component
- Multifunctional Aboriginal Children's Services and Creches
- Implementation and Administration of CASA Safety Management System
- Senate Order for Departmental and Agency Contracts (Calendar Year 2009 Compliance)
- Digital Education Revolution

## ANAO BETTER PRACTICE GUIDES

*Better Practice Guides are produced by the ANAO to assist public sector managers in the performance of their responsibilities. A complete copy of all ANAO Better Practice Guides may be obtained from the ANAO website at: [www.anao.gov.au](http://www.anao.gov.au). For further details phone the Publications Officer on (02) 6203 7505.*

### RECENTLY PUBLISHED BETTER PRACTICE GUIDES

#### Planning and Approving Projects – an Executive Perspective

The successful delivery of government programs requires the projects that underpin their implementation to be well-managed from the point of inception through to full implementation.

This Guide provides an executive perspective on the planning and approval stage of projects for Australian Government entities. The Guide focuses on the most common types of projects – those aimed at program delivery, and on internal business operations. The Guide:

- discusses the role of executives in project planning and approval and typical elements of the project lifecycle;
- describes better practices in the overall arrangements of an entity for the planning and approval of projects, including aspects of strategic planning, people and culture, and governance;
- describes better practices for senior executives in the planning and approval of individual projects, including clarifying the project concept, preparing a business case and project approval; and
- provides an overview of implementation issues for projects.

#### Implementing Better Practice Grants Administration

Since 1994, the ANAO has published a Better Practice Guide on the administration of grants to encourage better administrative outcomes. This latest version of the Guide has been prepared to reflect the enhanced legislative and policy framework for grants administration that came into full effect on 1 July 2009. The new framework includes a number of mandatory requirements, as well as outlining, in the Commonwealth Grant Guidelines (CGGs), various better practice principles.

This revised Better Practice Guide has been designed to complement the CGGs by providing a companion reference point that will assist decision-makers and administering agencies to implement the new policy requirements and related guidance, which have a particular focus on decision-making processes for the awarding of grants.

### BETTER PRACTICE GUIDES SCHEDULED TO BE PUBLISHED JULY TO SEPTEMBER 2010

- Better Practice Guide on the Strategic and Operational Management of Assets by Public Sector Entities: Delivering agreed outcomes through an efficient and optimal asset base.



## AUSTRALIAN ACCOUNTING STANDARDS BOARD DEVELOPMENTS NEW, REVISED AND AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS

*Copies of Australian Accounting Standards and Interpretations are available from the AASB web site at [www.aasb.com.au](http://www.aasb.com.au).*

*Early adoption of new standards and interpretations by Australian Government agencies and authorities requires the approval of the Chief Executive of the Department of Finance and Deregulation.*

### **AASB 1053 Application of Tiers of Australian Accounting Standards**

AASB 1053 was released in June 2010 and implements a two-tiered reporting framework for general purpose financial reporting by Australian reporting entities. Tier 1 comprises Australian Accounting Standards. Tier 2 comprises the recognition and measurement requirements of Australian Accounting Standards, with substantially reduced disclosure requirements. Tier 2 will be known as Australian Accounting Standards – Reduced Disclosure Requirements.

For-profit private sector reporting entities with public accountability, and federal, state, territory and local governments, must report in accordance with Tier 1. Other entities, including all government-controlled entities, may report in accordance with Tier 1 or Tier 2, depending on the decision of their respective regulators.

This Standard is applicable to annual reporting periods beginning on or after 1 July 2013. It may be early adopted for annual reporting periods beginning on or after 1 July 2009.

### **AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements**

This Standard, released in June 2010, specifies the disclosure requirements that do not apply to entities reporting under the Tier 2 requirements introduced by AASB 1053 Application of Tiers of Australian Accounting Standards.

This Standard is applicable to annual reporting periods beginning on or after 1 July 2013. It may be early adopted for annual reporting periods beginning on or after 1 July 2009. If early adopted, AASB 1053 must be early adopted at the same time.

### **AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project**

This Standard, released in June 2010, is one of two implementing the changes arising from the IASB's annual improvement project. The Standard primarily makes changes to the measurement of the cost of a business combination under AASB 3 *Business Combinations*.

This Standard is applicable to annual reporting periods beginning on or after 1 July 2010.

### **AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project**

This Standard was also released in June 2010 and makes further changes flowing from the IASB's annual improvements project.

AASB 101 *Presentation of Financial Statements* has been amended to allow the reconciliation of each item of other comprehensive income to be presented either in the statement of changes in equity or in the notes.

AASB 7 *Financial Instruments: Disclosure* has been amended to clarify the requirements for the disclosure of credit risk and collateral and to remove the requirement to disclose the carrying amount of financial assets that would have been past due or impaired but for the fact that their terms were renegotiated.

This Standard is applicable to annual reporting periods beginning on or after 1 January 2011.



## EXPOSURE DRAFTS (EDs), INVITATIONS TO COMMENT (ITCS) AND CONSULTATION PAPERS

*Exposure Drafts, Invitations to Comment and Consultation Papers mentioned below can be downloaded from the AASB website at [www.aasb.com.au](http://www.aasb.com.au).*

### EXPOSURE DRAFTS

#### **ED 194 Request for Comment on IPSASB Exposure Draft 'Service Concession Arrangements: Grantor' – April 2010**

ED 194 proposes the accounting treatment to be adopted by a public service grantor in a service concession arrangement. The proposals are intended to mirror the requirements in Interpretation 12 which apply to the operator in such arrangements.

The proposals require the grantor to recognise both a service concession asset and corresponding liability when certain conditions are met. The liability may comprise any combination of a financial liability and a performance obligation (ie an obligation to grant the operator access to the asset).

It is proposed that the requirements would only apply to arrangements in which the grantor controls the service concession asset, and where the operator provides public services on behalf of the grantor. The proposals would not apply to Government Business Enterprises.

The AASB sought comments on this ED by 24 May 2010.

#### **ED 195 Defined Benefit Plans (proposed amendments to AASB 119) – May 2010**

ED 195 proposes changes to the accounting for long-term employee benefits. Changes in the net liability or asset arising from such benefits could no longer be deferred to future periods: all changes would be recognised when they occur.

The presentation of changes would be simplified and standardised using three categories: service cost, net interest and remeasurements. The first two categories would always be included in profit and loss, the last in other comprehensive income. Net interest would be determined by multiplying the net liability or asset balance for the year by the long term government bond rate (or corporate bond rate, if applicable).

Disclosures for defined benefit superannuation schemes would be re-focused on the risks arising from the entity's investment in its defined benefit superannuation schemes.

There are also proposed changes to the definitions of short- and long-term employee benefits. Short-term benefits would be those that the entity expects to become due to be settled within twelve months and before the completion of employment, other than termination benefits. All other non-termination benefits would be long-term employee benefits.

The AASB seeks comments by 9 August 2010.

#### **ED 196 Fair Value Option for Financial Liabilities – May 2010**

ED 196 is part of the first phase of the three phase project undertaken by the IASB to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase is concerned with classification and measurement. IFRS 9, issued in November 2009, addressed the classification and measurement of financial assets while ED 196 addresses financial liabilities.

The ED proposes a two-step approach when accounting for the change in fair value of financial liabilities an entity designates at fair value through profit or loss. The entire change in fair value would initially be recognised in profit and loss; the portion of the change attributable to the change in credit risk would then be reversed out and recognised in other comprehensive income. The latter amount would not be allowed to be transferred to profit or loss at a later date.

The proposals would not apply to financial liabilities required to be measured at fair value through profit or loss such as derivatives and liabilities held for trading, nor to financial liabilities measured at amortised cost.

The AASB sought comments on this ED by 2 July 2010.



## EDs, ITCs AND CONSULTATION PAPERS (CONTINUED)

### ED 197 Presentation of Items of Other Comprehensive Income (proposed amendments to AASB 101) – June 2010

ED 197 proposes amending AASB 101 to require all entities present a single statement of comprehensive income. The proposal would eliminate the current option to present two statements.

The proposed single statement would comprise two sections: profit and loss, and other comprehensive income. The title of the statement would be changed to 'Statement of Profit and Loss and Other Comprehensive Income', although the option for entities to use different titles would remain. In addition, items in other comprehensive income would be split into two groups: those which may be reclassified to profit or loss in subsequent periods, and those that would not. An entity that elects to present items before related tax effects would be required to allocate the tax between these two groups.

The AASB seek comments on this ED by 2 August 2010.

## INVITATION TO COMMENT

### Invitation to Comment ITC 23 Request for Comment on IASB Discussion Paper DP/2010/1 Extractive Activities – April 2010

This ITC invites comments from constituents on proposals for the development of a standard for extractive activities. It is proposed that a new standard would replace IFRS 6 *Exploration for and Evaluation of Mineral Resources* which was issued in 2004 as an interim measure only.

The paper seeks to address inconsistencies between IFRS 6 and the *Framework for the Preparation and Presentation of Financial Statements* as well as divergent practices in the international financial reporting of extractive activities.

Although IFRS 6 includes within its scope minerals, oil, natural gas and similar non-regenerative resources, the scope of the paper is limited to minerals, oil and natural gas. The paper discusses financial reporting issues arising from upstream activities such as exploration, development and extraction; it does not address downstream activities such as refining, processing, marketing and distribution.

The AASB sought comments on this ITC by 2 July 2010.

## DEPARTMENT OF FINANCE AND DEREGULATION

Copies of Finance Circulars, Finance Briefs and Accounting Guidance Notes are available from the Department of Finance and Deregulation website at [www.finance.gov.au](http://www.finance.gov.au).

### FINANCE CIRCULARS

No new Finance Circulars were released between April and June 2010.

### ACCOUNTING GUIDANCE NOTES

No new Accounting Guidance Notes were released between April and June 2010.

### FINANCE BRIEFS

#### Finance Brief 31 (Revised) AASB 7 Financial Instruments: Disclosures Standardisation of market risk sensitivity analysis

Finance Brief 31 is revised each year to update the standard parameters to be applied by Australian Government entities when undertaking sensitivity analysis of foreign exchange and interest rate risks in accordance with AASB 7 *Financial Instruments: Disclosures* in the preparation of annual financial statements.

As from 2009–10, the standard parameters are not incorporated in the *Finance Brief* but instead are provided in a separate document 'Standard Parameters for use in Financial Statements'.



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