Opinions is published each quarter to provide our clients with information on developments in financial reporting and disclosure, together with details of recently tabled ANAO performance audits and better practice guides. This edition of Opinions provides updated information since the Summer 2013 edition and lists performance audits scheduled for release in the April to June 2013 period.

**ANAO AUDIT REPORTS**

**RECENTLY TABLED AUDIT REPORTS**

The following section contains the objectives of ANAO audit reports tabled from January to March 2013. To view an electronic copy of the full audit report left click the symbol (▶) next to the relevant title. A complete copy of all ANAO reports can be obtained from the ANAO website at: www.anao.gov.au. For further details phone the Publications Officer on (02) 6203 7505.

**Audit Report No 17: Design and Implementation of the Energy Efficiency Information Grants Program ▶**

The objective of the audit was to assess the effectiveness of the design and implementation of the Energy Efficiency Information Grants program. The focus of the audit was the preparation for, and conduct of, the first funding round of the program.

**Audit Report No 18: Administration of Communities for Children under the Family Support Program ▶**

The objective of the audit was to assess the effectiveness of Department of Families, Housing, Community Services and Indigenous Affairs’ (FaHCSIA’s) administration of Communities for Children under the Family Support Program.

**Audit Report No 19: Administration of New Income Management in the Northern Territory ▶**

The audit objective was to assess the effectiveness of FaHCSIA’s and the Department of Human Services’ (DHS) administration of New Income Management in the Northern Territory.

The departments’ performance was assessed against the following criteria:

- New Income Management was effectively planned and implemented;
- DHS has developed effective processes for servicing customers and managing third party organisations;
- DHS has established effective performance monitoring and reporting arrangements, which are used to improve service delivery; and
- FaHCSIA effectively monitors, evaluates and reports on the performance of Income Management.
RECENTLY TABLED AUDIT REPORTS (CONTINUED)

Audit Report No 20: Administration of the Domestic Fishing Compliance Program

The objective of the audit was to assess the effectiveness of the Australian Fisheries Management Authority’s (AFMA’s) administration of its Domestic Fishing Compliance Program. The ANAO assessed the extent to which AFMA has:

• an effective risk management framework, including the use of available intelligence, to identify domestic compliance risks and guide its compliance activities;
• developed and implemented a compliance program that effectively meets its domestic fishing regulatory obligations; and
• appropriate measures to determine whether the Domestic Compliance Fishing Program is meeting its planned objectives.

Audit Report No 21: Individual Management Services Provided to People in Immigration Detention

The objective of the audit was to assess the effectiveness of the Department of Immigration and Citizenship’s (DIAC’s) management of individual management services provided to people in immigration detention.

The ANAO assessed whether:

• appropriate individual management services were provided to people in immigration detention;
• DIAC effectively monitored the individual management services provided to people in immigration detention and managed service provider performance; and
• DIAC’s administrative arrangements facilitated the cohesive provision of individual management services to people in immigration detention.

Audit Report No 22: Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program

The objective of the audit was to examine the effectiveness of the Department of Agriculture, Fisheries and Forestry’s administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program. The audit assessed whether the Department had:

• effectively designed the program;
• appropriate processes for assessing and approving grant applications received for program funding;
• effectively negotiated and managed compliance with the program funding deeds; and
• monitored and reported performance against the program’s objectives.

Audit Report No 23: The Australian Government Reconstruction Inspectorate’s Conduct of Value for Money Reviews of Flood Reconstruction Projects in Victoria

The objective of this audit was to assess the effectiveness of the Australian Government Reconstruction Inspectorate, supported by the National Disaster Recovery Taskforce, in providing assurance that value for money is being achieved in recovery and reconstruction expenditure in Victoria.

Audit Report No 24: The Preparation and Delivery of the Natural Disaster Recovery Work Plans for Queensland and Victoria

The objective of this audit was to assess the extent to which the disaster recovery work plans for Queensland and Victoria were prepared, and appropriate monitoring reports provided, in accordance with the relevant National Partnership Agreement.

Audit Report No 25: Defence’s Implementation of Audit Recommendations

The objective of the audit was to assess the effectiveness of Defence’s monitoring of the implementation of ANAO and internal audit recommendations. The audit also examined a sample of ANAO and internal audit recommendations—reported as being complete by Defence—to assess the extent to which these recommendations had been implemented by Defence.

Audit Report No 26: Remediation of the Lightweight Torpedo Replacement Project

The objective of the audit was to assess the effectiveness of arrangements put in place by Defence and Defence Materiel Organisation to resolve issues impacting on the achievement of the desired lightweight torpedo capability. It focused on project management and contractual arrangements, and the progress made with platform integration and test and evaluation.
ANAO AUDIT REPORTS SCHEDULED TO BE TABLED APRIL TO JUNE 2013

- Administration of the Research Block Grants Program;
- Management of Detained Goods;
- Administration of the Veterans’ Children Education Schemes;
- National Partnership Agreement on Homelessness;
- Tax Expenditure Statements;
- The Regulation of Tax Agents by the Tax Practitioners Board;
- Administration of Grants from the Education Investment Fund;
- Management of Credit Cards;
- Capability Development Reform in Defence 2000–12;
- Grants for the Construction of the Adelaide Desalination Plant;
- AusAID’s Management of Aid to Indonesia;
- Targeted Community Care (Mental Health);
- Management of Property Portfolio (ATO);
- Recovery of Centrelink Payment Debts by External Collection Agencies;
- AUSTRAC’s Administration of its Financial Intelligence Function;
- Administration of the F-111 Fuel Tank Workers’ Package of Support;
- Indigenous Early Childhood Development: Children and Family Centres;
- Commonwealth Environmental Water Holder;
- Administration of the Mersey Community Hospital Agreements;
- Implementation of DHS Service Delivery Reform Program Co-location of Services;
- DEEWR - DHS Cross-Agency Coordination: Delivery of Employment Programs;
- The Australian Employment Covenant;
- Local Jobs Stream of the Jobs Fund: Non Quarantined General Component (DEEWR);
- Agencies’ Implementation of ANAO Audit Report Recommendations;
- ATO’s Management and Reporting of GST, FBT and FTC Information;
- Administration of the Taxation of Personal Services Income;
- Management of Debt Relief Arrangements;
- AIR 8000 Phase 2 - C-27J Spartan Battlefield Airlift Aircraft;
- Administration of Government Advertising Arrangements since August 2011;
- Administration of the GP Super Clinics Program;
- Agency Management of Arrangements to meet Australia’s International Obligations under Selected Treaties;
- The Award of Grants Under the Supported Accommodation Innovation Fund;
- Australian Government Reconstructions Inspectorate (Old);
- and
- Determination and Collection of Financial Industry Levies.

ANAO BETTER PRACTICE GUIDES

There were no Better Practice Guides issued in the period January to March 2013.

GUIDES SCHEDULED TO BE PUBLISHED APRIL TO JUNE 2013

- Public Sector Governance;
- Human Resource Management Information System; and
- Preparation of Financial Statements.

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

Copies of the Australian Accounting Standards and Interpretations are available on the AASB website at www.aasb.gov.au or by clicking on the links below. Early adoption of standards and interpretations by Australian Government agencies and authorities requires the approval of the Chief Executive of the Department of Finance and Deregulation.
AASB 1055 Budgetary Reporting

The objective of AASB 1055 is to set out budgetary disclosure requirements for the whole-of-government, the General Government Sector (GGS) and not-for-profit entities within the GGS of each government.

This Standard will require:
- disclosure of the entity’s original budgeted financial statements for controlled and administered items;
- explanation of major variances between the actual amounts presented in the financial statements and the corresponding original budgeted amounts for controlled and administered items; and
- disclosure of the budgeted information on the same presentation and classification bases adopted in the financial statements.

Explanations of major variances should be high-level explanations which are relevant to an assessment of the discharge of accountability and to the analysis of performance.

AASB 1055 is effective for the annual periods beginning on or after 1 July 2014.

AASB 2013-1 Amendments to AASB 1049 - Relocation of Budgetary Reporting Requirements

The objective of AASB 2013 – 1 is to relocate the requirements relating to the disclosure of budgetary information by governments from AASB 1049 Whole of Government and General Government Sector Financial Reporting into one topic-based standard, AASB 1055 Budgetary Reporting.

AASB 2013-1 is effective for the annual periods beginning on or after 1 July 2014.

AASB 2013-2 Amendments to AASB 1038 – Regulatory Capital

AASB 2013-2 makes amendments to AASB 1038 Life Insurance Contracts as a result of changes to the Australian Prudential Regulations Authority’s reporting requirements relating to life insurers. Specifically, amendments align terminology by changing references to ‘solvency’ in AASB 1038 to ‘capital’ and removing a related explanatory paragraph.

AASB 2013-2 is effective for the annual periods ending on or after 31 March 2013.

ED 235 Recoverable Amount Disclosures for Non-Financial Assets (Proposed Amendments to AASB 136) - January 2013

This exposure draft proposes amendments to AASB 136 Impairment of Assets to require disclosure of the recoverable amount of an asset (including goodwill) or a cash-generating unit for which an entity has recognised or reversed an impairment loss during the period. This exposure draft proposes additional disclosures about the fair value measurement when the recoverable amount is based on fair value less costs of disposal.

The AASB sought comment on this exposure draft by 28 February 2013.

ED 236 Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to AASB 9 and AASB 139) - March 2013

This exposure draft proposes changes to AASB 139 Financial Instruments: Recognition and Measurement to require an entity to continue hedge accounting for novated hedging instruments when the following criteria are met:
- the novation is required by laws and regulations;
- the novation results in a central counterparty becoming the new counterparty to each of the parties to the novated derivative; and
- the novation changes the terms of the hedged item but not the primary risk being hedged.

Exposure Drafts, Invitations to Comment and Consultation Papers mentioned below can be downloaded from the AASB website at www.aasb.gov.au or by clicking on the links below.
The changes in terms of the novated derivative are limited to those necessary to effect the terms of the novated derivative.

The AASB sought comment on this exposure draft by 25 March 2013.

**ED 237 Financial Instruments: Expected Credit Losses - March 2013**

This exposure draft proposes to replace the current ‘incurred loss’ impairment model under AASB 139 *Financial Instruments: Recognition and Measurement* with an ‘expected loss’ impairment model. Under the proposed model, an entity would recognise expected credit losses on financial assets and on commitments to extend credit, using current estimates of expected shortfalls in cash flows on those financial instruments as at reporting date. The proposal would require an entity to distinguish between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk – only recognise losses expected in the next 12 months; and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and most trade receivables – recognise lifetime expected credit losses.

The proposed model will apply to financial assets measured at amortised cost and other financial instruments that are subject to credit risk.

The AASB seeks comment by 10 May 2013.

**ED 238 Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities - March 2013**

ED 238 proposes to add Australian implementation guidance to explain how not-for-profit entities should apply AASB 10 *Consolidated Financial Statements* and AABS 12 *Disclosure of Interests in Other Entities*.

AASB 10 requires an investor to determine whether it controls an investee. An investor controls an investee when it has power to affect the returns from its involvement with the investee.

ED 238 proposes a broad concept of returns that encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the furtherance of the investor’s objectives.

AASB 10 states that an investor has power when it has existing rights to direct activities that affect its returns. In the for-profit sector, power often arises from voting rights or contractual arrangements. ED 238 explains that power may also arise from existing statutory arrangements, policy directions and rights to approve or veto operating and capital budgets. In addition, an investor can have power over an investee even if it does not have responsibility for day-to-day operations.

The following do not usually result in the investor having power over an investee:

- regulatory oversight powers;
- economic dependence of the investee on the investor; and
- the fact that the investor and investee have similar objectives.

AASB 12 requires additional disclosure for structured entities, which are defined as entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. ED 238 explains that administrative arrangements or statutory provisions are similar to voting rights. Therefore, entities controlled in these ways will not be subject to the disclosure requirements of AASB 12.

It is proposed that these amendments will apply to annual reporting periods beginning on or after 1 January 2014.

The AASB seeks comment by 30 June 2013.
The Reduced Disclosure Regime

From 1 July 2013, a two-tiered reporting framework will exist in Australia, due to the introduction of the Reduced Disclosure Regime (RDR). Tier 1 entities will be required to comply with all requirements of Australian Accounting Standards (AASs). Tier 2 entities will be required to comply with the recognition and measurement requirements of AASs but with substantially 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 decisions of their respective regulators.

New, Revised and Amending Accounting Standards and Interpretations

The following standards amend the requirements of the Reduced Disclosure Regime applicable for reporting periods on or after 1 July 2013.

There were no new, revised and amending accounting standards for the Reduced Disclosure Regime in the period January to March 2013.

Exposure Drafts (EDs), Invitations to Comment (ITCs) and Consultation Papers

The following exposure drafts propose changes to the Reduced Disclosure Regime applicable for reporting periods on or after 1 July 2013.

There were no Exposure Drafts for the Reduced Disclosure Regime in the period January to March 2013.

ED 239 Defined Benefit Plans: Employee Contributions (proposed amendments to AASB 119) - March 2013

The AASB proposes to amend AASB 119 Employee Benefits to allow contributions from employees or third parties, set out in a defined benefit plan, to be recognised as a reduction in service cost, rather than being attributed to periods of service. However, this is allowed only if the contributions are linked solely to the employee’s service rendered in the same period in which they are payable, eg if contributions are in proportion to salary in each period.

The AASB seeks comments by 24 June 2013.
Copies of Finance Minister’s Orders, Finance Circulars, FinanceBriefs and Accounting Guidance Notes are available from the Department of Finance and Deregulation website at www.finance.gov.au or by clicking on the links below.

FINANCE CIRCULARS

There were no Finance Circulars issued by the Department of Finance and Deregulation in the period January to March 2013.

ACCOUNTING GUIDANCE NOTES

Accounting Guidance Note No. 2013/1 Annual Appropriations Reporting

The purpose of this AGN is to provide guidance on the reporting and disclosure of annual appropriations in the annual financial statements of Australian Government reporting entities.

This AGN is relevant to FMA Act agencies.

FINANCEBRIEFS

FinanceBrief 40 Deeming or designating transfers of assets and liabilities as ‘contributions by owners’ (equity)

This FinanceBrief sets out criteria for Commonwealth entities to use when designating transfers of assets and/or liabilities as ‘contributions by owners’ (equity) under Interpretation 1038 Contributions by owners made to wholly-owned public sector entities.

A transfer of assets/liabilities can only be designated as a contribution by owners if it:

- is made for no consideration;
- is between wholly-owned entities;
- has written agreement by both Portfolio Ministers and, if the value exceeds the Gateway threshold, by the Finance Minister; and
- occurs after signing of the agreements.
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