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 Spring 2013 edition and lists performance audits scheduled for release in the January to March 2014 period.

ANAO AUDIT REPORTS
RECENTLY TABLED AUDIT REPORTS

The following section contains the objectives of ANAO audit reports tabled from October to December 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 5: Administration of the Taxation of Personal Services Income

The objective of the audit was to assess the effectiveness of the Australian Taxation Office’s (ATO’s) administration of the personal services income (PSI) regime.

The audit examined whether the ATO’s:
• governance arrangements for the PSI regime are appropriate and effective;
• systems and processes to identify and assess compliance risks are adequate and effective; and
• strategies to promote compliance and address noncompliance are appropriate and effective.

Audit Report No 6: Capability Development Reform

The objective of the audit was to examine the effectiveness of Defence’s implementation of reforms to capability development since the introduction of the two-pass process for government approval of capability projects and government’s acceptance of the reforms recommended by the Mortimer Review. The scope of this audit included the requirements phase and, to a limited extent, the acquisition phase of major capability development projects, focusing upon changes flowing from the major reforms.

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• New, revised and amending Accounting Standards and Interpretations
• Exposure Drafts, Invitations to Comment and Consultation Papers

Department of Finance Publications
• Finance Circulars
• Accounting Guidance Notes
• FinanceBriefs
Audit Report No 7: Agency Management of Arrangements to Meet Australia’s Treaty Obligations

The objective of the audit was to assess the effectiveness of Australia’s arrangements to meet its treaty obligations under the following three treaties:

- International Convention on Civil Liability for Bunker Oil Pollution Damage 2001;
- Agreement between Australia and the International Atomic Energy Agency for the Application of Safeguards in connection with the Treaty on the Non-Proliferation of Nuclear Weapons of 1 July 1968 and Additional Protocol; and

Audit Report No 8: The Australian Government Reconstruction Inspectorate’s Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland

The objective of the audit was to examine 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 respect of Queensland reconstruction projects.

Audit Report No 9: Determination and Collection of Financial Industry Levies

The objective of the audit was to assess the effectiveness of the administration of Australian Prudential Regulation Authority (APRA) financial industry levies.

The audit examined:

- the Treasury’s consultation practices, and APRA’s support, in relation to the formulation of levies, and the extent to which they were appropriate and effective;
- APRA’s policies, procedures and resources in place to effectively support the implementation of the financial levies legislation, consistent with the Australian Government Cost Recovery Guidelines; and
- APRA’s processes for calculating and collecting levies, including minimising the risk of cross-subsidisation between industry sectors and entities.

Audit Report No 10: Torres Strait Regional Authority – Service Delivery

The objective of the audit was to assess the effectiveness of the Torres Strait Regional Authority’s (TSRA’s) administration of its program and service delivery functions. The ANAO’s high-level criteria included assessing the TSRA’s arrangements to identify service delivery needs, coordinate and deliver services as well as the arrangements to monitor and report on performance.

Audit Report No 11: Delivery of the Filling the Research Gap under the Carbon Farming Futures Program

The objective of the audit was to assess the effectiveness of the delivery of the first and second funding rounds of the Filling the Research Gap program by the Department of Agriculture. The audit criteria reflected relevant policy and legislative requirements for the expenditure of public money and the grant administration framework, including the Commonwealth Grant Guidelines.

Audit Report No 12: 2012-13 Major Projects Report

The objective of this report is to provide the Auditor-General’s independent assurance over the status of selected Major Projects, as reflected in the Project Data Summary Sheets (PDSSs) prepared by the Defence Materiel Organisation (DMO), and the Statement by the Chief Executive Officer of DMO. Assurance from the ANAO’s review of the preparation of the PDSSs by the DMO is conveyed in the Auditor-General’s Independent Review Report, prepared pursuant to the endorsed Guidelines.


This report provides a summary of the final audit results of the audits of the annual financial statements of all Australian Government entities, including the Consolidated Financial Statements for the Australian Government.
RECENTLY TABLED AUDIT REPORTS (CONTINUED)

Audit Report No 14: Explosive Ordnance and Weapons Security Incident Reporting
The audit objective was to assess the effectiveness of the Department of Defence’s arrangements for monitoring and reporting explosive ordnance and weapons security incidents.

Audit Report No 15: The Indigenous Land Corporation’s Administration of the Land Acquisition Program
The objective of the audit was to assess the effectiveness of the Indigenous Land Corporation’s administration of the Land Acquisition Program.

ANAO AUDIT REPORTS SCHEDULED TO BE TABLED JANUARY TO MARCH 2014
- Administration of Smart Grid, Smart City Program
- Policing at Australia’s Major Airports
- Strengthening Basin Communities Grant Program
- Air Warfare Destroyer Project – SEA 4000 Phase 3
- BOM’s Improving Water Information Program
- Indigenous Employment in Australian Government Agencies
- Management of Complaints and Other Feedback (ATO)
- Management of the Central Movement Alert List: Follow up audit
- Managing Conflict of Interest in FMA Agencies
- Management of Services Delivered by Job Services Australia
- Defence Assistance to the Civil Community
- TGA: Administering the Code of Good Manufacturing Practice for Prescription Medicines
- Medicare Compliance Audits
- Review of Child Support Objections.

ANAO BETTER PRACTICE GUIDES

Implementing Better Practice Grants Administration
Grants administration is an important activity for many Commonwealth entities, involving the payment of billions of dollars each year. In the light of the significant outlay of public funds and the issues arising from our audit coverage, the ANAO publishes a Better Practice Guide on the administration of grants to encourage better administrative outcomes. Although this updated Guide has similar purposes to the previous versions, it has been prepared in a different environment.

Revised Commonwealth Grant Guidelines (CGGs) took effect on 1 June 2013. The updated CGGs include a renewed focus on risk management and the achievement of outcomes. The CGGs establish a number of mandatory requirements, as well as outlining various better practice principles.

One of the recurring themes in ANAO audits of grant programs in recent years has been the importance of grant programs being implemented in a manner that accords with published guidelines. Accordingly, this Better Practice Guide includes additional guidance to assist agencies introduce assessment practices that are consistent with the published guidelines, particularly where grant funding is awarded following a competitive application process.

Guides scheduled to be published January to March 2014
There are no Better Practice Guides scheduled to be published in the period January to March 2014.
AASB 2013-7 Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders

This standard removes the consolidation requirements from AASB 1038 Life Insurance Contracts, thereby leaving AASB 10 Consolidated Financial Statements as the sole source for consolidation requirements applicable to life insurer entities.

AASB 2013-7 applies to annual reporting periods beginning on or after 1 January 2014.

AASB 2013-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities

This Standard adds a mandatory appendix to each of AASB 10 Consolidated Financial Statements and AASB 12 Disclosure of Interests in Other Entities. The appendix to AASB 10 explains and illustrates how the control criteria should be applied by not-for-profit private and public sector 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.

AASB 10 states that an investor has power when it has existing rights that give it the current ability to direct activities that significantly affect its returns from the investee. In the for-profit sector, power often arises from voting rights or contractual arrangements. In the not-for-profit sector, power often arises from existing statutory provisions, policy directions and rights to approve or veto operating and capital budgets. 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 an 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.

In the not-for-profit sector, almost anything that provides a financial benefit to the investor, or advances its objectives, will meet the definition of a ‘return’. The concept of ‘return’ to a not-for-profit investor is broad. It may be financial or non-financial, direct or indirect, and may give either positive or negative results. A return may also arise when an investor directs its investee to work with it to further the investor’s objectives.

AASB 12 requires additional disclosures 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. The new appendix to AASB 12 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 in AASB 12.

AASB 2013-8 applies to annual reporting periods beginning on or after 1 January 2014.
AASB DEVELOPMENTS
(CONTINUED)

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.gov.au or by clicking on the links below.

ED 246 Equity Method in Separate Financial Statements – December 2013

This exposure draft proposes to amend AASB 127 Separate Financial Statements to allow entities the option of using the equity method in accounting for investments in subsidiaries, joint ventures and associates in separate financial statements. Under AASB 127, entities currently account for these investments either at cost, or as financial instruments.

If the equity method is adopted, it is to be applied retrospectively.

The AASB seeks comment on this exposure draft by 24 January 2014.


This exposure draft proposes to amend a number of standards as a result of the International Accounting Standards Board’s annual improvements process. The key changes proposed are:

• clarifying that the accounting treatment of assets held for distribution to owners is the same as those for assets held for sale;
• clarifying that the disclosures required for continuing involvement in transferred financial assets would generally be triggered where the transferring entity receives a fee for servicing those assets; and
• amending AASB 119 Employee Benefits to require employee benefits to be discounted using yields on bonds issued in the same currency that will be used to pay those benefits.

The AASB seeks comments on this exposure draft by 27 February 2014.

DEPARTMENT OF FINANCE

Copies of Finance Minister’s Orders, Finance Circulars, FinanceBriefs and Accounting Guidance Notes are available from the Department of Finance 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 in the period October to December 2013.

FINANCEBRIEFS

There were no FinanceBriefs issued by the Department of Finance in the period October to December 2013.

ACCOUNTING GUIDANCE NOTES

There were no Accounting Guidance Notes issued by the Department of Finance in the period October to December 2013.

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