



OPINIONS

SUMMER 2012

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 2011 edition and lists performance audits scheduled for release in the January to March 2012 period.

ANAO AUDIT REPORTS RECENTLY TABLED AUDIT REPORTS

The following section contains the objectives of ANAO audit reports tabled from October to December 2011. 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. 7: Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund ▶

The focus of this audit is the Infrastructure Employment Projects stream of the Jobs Fund. Separate performance audits are underway that are examining the establishment, implementation and administration of the separate components of the Local Jobs stream of the Jobs Fund.

Audit Report No. 8: The National Blood Authority's Management of the National Blood Supply ▶

This audit focuses on the National Blood Authority's (NBA's) role in managing the nation's blood supply, bearing in mind the NBA's legislative responsibilities, national

policy objectives and ongoing blood sector reforms.

Audit Report No. 9: Indigenous Secondary Student Accommodation Initiatives ▶

The audit objective was to assess the extent to which the Department of Education, Employment and Workplace Relations and the Department of Families, Housing, Community Services and Indigenous Affairs have effectively managed the planning and consultation phases for the Indigenous Boarding Facilities program and the Indigenous Boarding Hostels Partnership program. The audit scope included consideration of the issues likely to affect the ongoing operation and sustainability of the facilities.

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RECENTLY TABLED AUDIT REPORTS (CONTINUED)

Audit Report No. 10: Administration of the National Partnership on Early Childhood Education

The audit objective was to assess the effectiveness of Department of Education, Employment and Workplace Relations' (DEEWR's) administration of the initial phases of the National Partnership on Early Childhood Education. The high-level criteria used to make this assessment were the appropriateness of DEEWR's:

- establishment of a sound foundation for implementation, including implementation plans, monitoring arrangements and an Indigenous strategy for universal access; and
- ongoing monitoring and support activities, including assessing progress reports, making payments, maintaining relationships, improving data quality and public reporting.

Audit Report No. 11: Implementation and Management of the Housing Affordability Fund

The objective of the audit was to assess the effectiveness of the Department of Families, Housing, Community Services and Indigenous Affairs' (FaHCSIA's) administration of the Housing Affordability Fund (HAF). To address this objective, the ANAO assessed FaHCSIA's

administration against a range of audit criteria, including the extent to which:

- assessment and approval processes were soundly planned and implemented, and were consistent with the requirements of the overarching financial management framework;
- appropriately structured funding agreements were established and managed for each approved grant; and
- the performance of the HAF, including each of the funded projects, was actively monitored and reported.

Audit Report No. 12: Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory

The objective of the audit was to assess the effectiveness of the implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory from the perspective of the Australian Government.

Audit Report No. 13: Tasmanian Freight Equalisation Scheme

The objective of the audit was to assess the effectiveness of the Department of Infrastructure and Transport's and Centrelink's administration of the Tasmanian Freight Equalisation Scheme.

Audit Report No. 14: Indigenous Protected Areas

The audit objective was to assess the effectiveness of the Department of Sustainability, Environment, Water, Population and Communities' management of the Indigenous Protected Areas (IPA) program in relation to the two primary targets of the IPA program under the Caring for our Country initiative (2008–13) which are to:

- expand the contribution of the IPA program to the National Reserve System by between 8 and 16 million hectares (an increase of at least 40 per cent), of which 1.8 million hectares are to be in northern and remote Australia; and
- ensure the continued use, support and reinvigoration of traditional ecological knowledge to underpin biodiversity conservation in the Plans of Management of 32 newly initiated projects.

Audit Report No. 15: Risk Management in the Processing of Sea and Air Cargo Imports

The objective of the audit was to assess Customs and Border Protection's use of risk management to assist in the processing of sea and air cargo imports.



RECENTLY TABLED AUDIT REPORTS (CONTINUED)

Audit Report No. 16: The Management of Compliance in the Small to Medium Enterprises Market ▶

The objective of the audit was to assess the effectiveness of the Australian Taxation Office's compliance management approach in the small to medium enterprises market.

Audit Report No. 17: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011 ▶

The ANAO is responsible for the audits of the financial statements of all Australian Government entities. This report provides a summary of the final audit results of these entities, including the Consolidated Financial Statements for the Australian Government.

Audit Report No. 18: Information and Communications Technology Security: Management of Portable Storage Devices ▶

The objective of the audit was to assess the effectiveness of the management of risks arising from the use of Portable Storage Devices (PSDs) in selected Australian Government agencies. The PSDs included within the scope of this audit were: USB flash drives; CDs and DVDs; external hard drives; laptop computers and smartphones.

Audit Report No. 19: Oversight and Management of Defence's Information and Communication Technology ▶

The objective of the audit was to assess the development of Defence's oversight and management of its portfolio of ICT investments and projects. In particular, the audit examined Defence's:

- governance, strategic processes and decision-making structures that set out, prioritise and coordinate the integrated ICT reform portfolio and programs;
- ICT risk management and capacity to identify and plan to achieve the benefits of its SRP ICT stream reforms (including methodologies to measure the realisation of savings and non-savings benefits);
- level of portfolio and program management maturity; and
- the impact of improvement efforts on Defence's ability to deliver the ICT services capacity required to support the Strategic Reform Program.

Audit Report No. 20: 2010-11 Major Projects Report ▶

The objective of this report was to provide:

- a formal conclusion on the review of the Project Data Summary Sheets (PDSSs) by the Auditor-General;

- comprehensive information on the status of projects as reflected in the PDSSs prepared by the Defence Materiel Organisation (DMO);
- ANAO analysis on the three key elements of the Major Projects Report: cost, schedule and capability, in particular longitudinal analysis of projects over time; and
- further insights and context by the DMO on issues highlighted during the year (not included in the scope of the review by the ANAO).

ANAO AUDIT REPORTS SCHEDULED TO BE TABLED JANUARY TO MARCH 2012

- Administration of Grant Reporting Obligations to the Finance Minister
- Administration of Government Advertising Arrangements
- National Greenhouse and Energy Reporting System
- Capacity Development for Indigenous Organisations
- Administration of the Gateway Review Process
- Project Wickenby
- Establishment and Use of Panel Procurement



ANAO BETTER PRACTICE GUIDES

RECENTLY PUBLISHED GUIDES (OCTOBER TO DECEMBER 2011)

Better Practice Guides are produced by the ANAO to assist public sector managers in the performance of their responsibilities. A copy of all ANAO Better Practice Guides can be obtained from the ANAO website at www.anao.gov.au.

For further details phone the Publications Officer on (02) 6203 7505.

No ANAO Better Practice Guides were published in the period October to December 2011.

GUIDES SCHEDULED TO BE PUBLISHED JANUARY TO MARCH 2012

- Developing and Managing Contracts Better Practice Guide

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 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.

Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine – November 2011

This Interpretation clarifies when stripping costs, incurred in the production phase of a surface mine, should lead to the recognition of an asset and how that asset should be initially and subsequently measured.

The Interpretation is applicable to reporting periods beginning on or after 1 January 2013.

AASB 2011-12 Amendments to Australian Accounting Standards Arising from Interpretation 20 – November 2011

This Standard makes consequential amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* arising from the issue of Interpretation 20.

The Standard is applicable to reporting periods beginning on or after 1 January 2013.

AASB 2011-13 Amendments to Australian Accounting Standard – Improvements to AASB 1049 – December 2011

The Standard makes a number of amendments flowing from a post-implementation review of AASB 1049. The amendments include:

- clarifying that GGS reports must be prepared and must be released at the same time as the whole-of-government report, with cross-references between the two reports;
- clarifying that budgeted financial statements, where included, must be restated as necessary to conform with AASB 1049 presentation and classification principles;
- clarifying that AASB 1049 does not require early adoption of Australian Accounting Standards;
- allowing other measures of key fiscal aggregates to be presented, but not as key fiscal aggregates; and
- providing additional guidance on the classification of items between transactions and other economic flows, where an item recognised in GAAP has no direct GFS equivalent.

The Standard is applicable to reporting periods beginning on or after 1 July 2012.



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 or by clicking on the links below.

ED 221 Government Loans – October 2011

ED 221 would apply to for-profit first-time adopters of Australian Accounting Standards with loans from government at below-market interest rates. It would provide the same transitional relief as made available under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

The AASB sought comments by 5 December 2011.

ED 222 Revenue from Contracts with Customers – November 2011

In July 2010, ED 198 Revenue from Contracts with Customers was issued to propose fundamental changes to the way entities record revenue from customers. The proposals had been developed jointly by the International Accounting Standards Board and the US Financial Accounting Standards Board and mainly related to entities applying AASB 118 *Revenue* and AASB 111 *Construction Contracts*. These proposals were discussed in *Opinions: Spring 2010*.

After significant feedback the boards decided to revise certain aspects of the proposals and re-expose the changes for further comment as ED 222. However,

ED 222 does not change the core principle that an entity should recognise revenue when control passes to the customer.

The AASB is currently considering to what extent these proposals can be applied to not-for-profit entities. Therefore, it is possible that the proposals in ED 222 may impact income recognition for not-for-profit entities in the future.

ED 222 proposes the following major changes from ED 198:

- entities will no longer be required to segment independently priced goods or services in a single contract into multiple contracts;
- entities will no longer be required to split a bundle of goods or services into separate performance obligations where they are highly interrelated and are significantly customised to fulfil the contract;
- revenue will no longer be adjusted for an initial estimate of bad debts expense;
- performance obligations are now separated into those satisfied over a time period and those satisfied at a point in time. ED 222 provides criteria to assist entities in determining the classification;
- accounting for product warranties are now more closely aligned with existing requirements;
- variable consideration will be recognised as revenue only when it is reasonably assured to be received; and
- a liability for onerous performance obligations will only be recognised

for obligations satisfied over a period greater than one year.

If adopted as a Standard, the boards have decided that an effective date for the proposed changes would be no earlier than reporting periods beginning on or after 1 January 2015.

The AASB seeks comments by 9 February 2012.

ED 223 Superannuation Entities – December 2011

This exposure draft is an updated version of ED 179 *Superannuation Plans and Approved Deposit Funds* released in May 2009. The comments received for ED 179 resulted in a number of changes which have warranted the issue of ED 223 *Superannuation Entities*. When released, the Standard will supersede AAS 25 *Financial Reporting by Superannuation Plans* issued in December 2005.

Like ED 179, ED 223 would align reporting by superannuation entities more closely with reporting by other entities subject to Australian Accounting Standards. There would still be some unique features of superannuation entity reporting, such as:

- a statement of changes in member benefits;
- measurement of assets and liabilities at fair value through the income statement, with limited exceptions;
- recognition of members' benefits as liabilities; and



EXPOSURE DRAFTS (EDs), INVITATIONS TO COMMENT (ITCs) AND CONSULTATION PAPERS (CONTINUED)

- additional disclosures, mainly around the nature of members' benefits and the associated liability.

It is proposed that the Standard resulting from ED 223 would first apply two years from the date of issue. Early adoption would not be permitted.

The AASB seeks comments by 30 April 2012.

ED 224 Transition Guidance (proposed amendments to AASB 10) – December 2011

ED 224 proposes to amend AASB 10 *Consolidated Financial Statements* in the light of requests to clarify the transition guidance in that Standard. The ED proposes specifically to:

- clarify the term 'date of initial application';
- explain that an entity is not required to make adjustments where consolidation rules in AASB 10 led to the same consolidation outcome as under the predecessor Standard; and
- clarify how an entity adjusts comparative data if the consolidation rules in AASB 10 lead to a different consolidation outcome.

The AASB seeks comments by 22 February 2011.

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.

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

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

Tier 2 Supplement to ED 222 – December 2011

This supplement proposes to make Tier 2 amendments to the proposed disclosures in ED 222 Revenue from Contracts with Customers.

The AASB seeks comments by 9 February 2012.



DEPARTMENT OF FINANCE AND DEREGULATION

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

Finance Circular 2011/06 CAC Act compliance: Departmental responsibilities ▶

This circular provides guidance to portfolio Departments assisting their portfolio Ministers to deal with compliance issues affecting Commonwealth authorities and wholly-owned Commonwealth companies (CAC Act bodies). Failures by a director or employee of a CAC Act body to comply with their duties under the CAC Act or Corporations Act are defined as compliance issues.

Finance Circular 2011/07 Certificate of Compliance – FMA Act Agencies ▶

This circular provides guidance and advice on the annual Certificate of Compliance process for FMA Act agencies. It is designed to give practical guidance to agency staff.

The Circular incorporates suggestions made in the ANAO Audit Report, *Management of the Certificate of*

Compliance Process in FMA Act Agencies – April 2011. In particular, the Circular includes an attachment mapping the key requirements of the FMA Act and Regulations, along with additional guidance on better practice processes, and frequently asked questions.

This Circular replaces *Finance Circular 2009/06: Certificate of Compliance – FMA Act Agencies* and *Finance Circular 2005/06: The financial framework – accountability for compliance and dealing with breaches*.

Finance Circular 2011/08 Clarification of the terms Audit and Assurance ▶

The terms audit and assurance have specific meanings under professional auditing standards and indicate that certain processes and procedures have been carried out. This circular is issued to clarify the meanings of the terms to assist in guiding Australian Government entities about the correct circumstances of use.

ACCOUNTING GUIDANCE NOTES

There were no Accounting Guidance Notes issued by the Department of Finance and Deregulation in the period October to December 2011.

FINANCEBRIEFS

There were no FinanceBriefs issued by the Department of Finance and Deregulation in the period October to December 2011.



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