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In Brief...

Introduction

This is the third edition of an ANAO publication that provides information to Commonwealth organisations on the full range of ANAO auditing services. In addition to providing audit clients with information on developments in financial reporting and disclosure, *Opinions* provides details of recently completed performance audits and better practice guides as well as outlining those audits scheduled for completion in the immediate future.

100 Years of the ANAO

Professor John Wanna from Griffith University and his team are researching the history of the ANAO and are to publish the 100 year history. Key Parliamentary figures and public officials, past and present, have been invited to contribute to the publication. The book will be an important contribution to the history of public administration in Australia. Plans are to launch the publication during the 2001 Centenary of Federation celebrations, possibly in August 2001, the anniversary of the passage of the Audit Act 1901.

30 June 2000 financial statements

The ANAO audited 286 financial statements prepared by Commonwealth entities at 30 June 2000. Of these, audit reports on 271 were unmodified, 10 were qualified and five contained an emphasis of matter. The report on the result of these audits was tabled in Parliament earlier this month.

Benchmarking reports

Benchmarking the Internal Audit Function (*Audit Report No 14 2000-01*) is the first benchmarking report of a series of benchmarking studies being undertaken by the ANAO. Benchmarking the Finance Function (*Audit Report No 25 2000-01*) is the second study while benchmarking the human resources function is currently in progress. The primary purpose of these studies is to obtain and report quantitative data (metrics) on the performance of certain functions or business processes, usually in the sphere of financial management and control. The metrics produced by the benchmarking studies can be utilised by all public sector organisations to develop appropriate benchmarks for their own environment, comparing their own performance against each benchmark. Such analysis can be incorporated into continuous improvement programs, in business re-engineering or in market testing exercises.

Financial Reporting Seminars

Financial Reporting Seminars are held by the ANAO twice a year. The seminars held in November and December 2000 proved popular amongst organisations and were attended by over 150 people. At the seminars, participants were provided with information on changes in accounting standards and Finance Minister's Orders that will affect financial statements for the year ended 30 June 2001 and beyond. Thank you to those who attended as the contribution made by participants adds to the success of these seminars. The next seminars will be held in May 2001 with the details to be forwarded to agencies closer to the date.

Legal advice

Overdrawn bank accounts

The enabling legislation of statutory authorities often provides for how moneys of the authority should be discharged including provisions on borrowing moneys. The implications of overdrawing bank accounts when an authority's enabling Act prohibits borrowings was the basis of recent legal advice obtained by the ANAO.

The legal advice indicated that the drawing of a cheque when the funds in an account are insufficient to meet it, amounts to a request by the authority for an overdraft which constitutes borrowing from the bank. Accordingly, this represented a breach of enabling legislation. Options available to avoid this include instructing the bank not to treat the overdrawing of an account as a request for an overdraft or establishing a right of set-off between the cheque account and other authority bank accounts.

The following sections contain summaries of ANAO audit reports tabled since September 2000. A complete copy of all ANAO reports may be obtained from the ANAO web site at www.anao.gov.au

Audit Report No. 12 2000-01 Passenger Movement Charge – Follow-up Audit Australian Customs Service

Theme: Contract Management and Procurement, Financial Management and Controls, Legislative and/or Administrative Compliance

Action taken by the Australian Customs Service (ACS) to address the recommendations of the 1996 Audit Report in relation to the administration of the Passenger Movement Charge (PMC) was the focus of this report. The audit considered the appropriateness of formal arrangements between the ACS and the Regular Public Transport airlines and assessed the proposed arrangements being developed by the ACS. The audit report concluded that the ACS implemented all recommendations in the 1996 Audit Report with enhanced formal arrangements with airlines to collect and remit the PMC. Some recommendations for further improvement were made.

Audit Report No. 13 2000-01 Certified Agreements in the Australian Public Service. Across agencies

Theme: Accountability and Governance, Financial Management and Controls, Human Resource Management, Legislative and/or Administrative Compliance

Changing the workplace relations arrangements governing the Australian Public Service (APS) is a major element of the Government's ongoing APS reform agenda. This audit examined one aspect of the new arrangements - the development of certified agreements in the APS. The report provides an overview of the wages outcomes and funding of the certified agreements along with the reporting and accountability arrangements to measure the impact of certified agreements. The audit examined agencies' compliance with employment terms and conditions in their certified agreements as well as the role of the central co-ordinating agencies in reviewing certified agreements.

Audit Report No.14 2000-01 Benchmarking the Internal Audit Function. Across agencies

Theme: Accountability and Governance, Service Delivery

In 1997 the ANAO undertook an across-the-board review of internal audit within the Commonwealth. At that time it was concluded that the function in the public sector was significantly behind the private sector international best practice on the basis of a number of key performance measures.

This benchmarking study indicates that Commonwealth entities have maintained the positive elements of their internal audit function identified in the 1997-98 audit, and made satisfactory progress in many other aspects of internal audit operations between 1997 and 1999. However, the Commonwealth group reported lower than the international peer group in respect of the level of investment in training internal auditors and utilisation rates of formal client satisfaction surveys.

Audit Report No 15 2000-01 Agencies' Performance Monitoring of Commonwealth Government Business Enterprises. Across agencies

Theme: Contract Management and Procurement, Financial Management and Controls, Outsourcing and Privatisation, Service Delivery

This audit examined the monitoring by the Department of Finance and Administration and relevant portfolio departments of portfolio GBEs against the requirements of Commonwealth governance arrangements and relevant legislation. The audit concluded that the current GBE governance framework represents a marked improvement over the previous system. The highlight of the new framework includes the introduction of a model where the Commonwealth's ownership interest is to be represented by two 'Shareholder Ministers', the portfolio Minister and the Minister for Finance and Administration. It also includes an increasing emphasis on financial performance covering issues such as capital structure, dividend policy, risk management, financial targets and GBE borrowings. The new framework clarifies the application of the governance arrangements to GBEs involved in a sale or restructuring process and introduces a requirement for GBEs to table annually in the Parliament a Statement of Corporate Intent.

Audit Report No 16 2000-01 Internal Fraud Control Arrangements. Australian Taxation Office

Theme: Accountability and Governance, Information Technology, Legislative and/or Administrative Compliance

A series of performance audits on the management of fraud control in Commonwealth agencies is being undertaken by the ANAO including this audit of the ATO. The level of alleged fraud reported in the ATO has steadily increased over the last few years. The ATO attributes this increase to a significant improvement in staff awareness of fraud and ethics achieved through its conduct of a comprehensive fraud and ethics awareness program and increased staff confidence that reported matters will be handled appropriately. This report recommends the integration of the fraud control framework with the overall corporate governance framework, the adoption of a more holistic approach to risk management processes, and further refinement of the performance assessment framework to enable a quantitative and qualitative assessment of the performance of ATO's internal fraud control function.

Audit Report No. 17 2000-01 Administration of the Waterfront Redundancy Scheme. Department of Transport and Regional Services

Theme: Financial Management and Controls, Legislative and/or Administrative Compliance

This audit examined administration of the waterfront redundancy scheme by the Department of Transport and Regional Services, assessing compliance with

the *Stevedoring Levy (Collection) Act 1998* and *Stevedoring Levy (Imposition) Act 1998* as well as the effectiveness of the administrative and financial controls regarding the collection of the Stevedoring Levy. The audit also examined arrangements surrounding the provision of redundancy payments to eligible employees of stevedoring companies by the Maritime Industry Finance Company Limited (MIFCo). The ANAO concluded that substantial compliance with the *Stevedoring Levy (Collection) Act 1998*, *Stevedoring Levy (Imposition) Act 1998* and other relevant legislation had been achieved. Further, there is a high level of efficiency and effectiveness in the design and implementation of the administrative and financial controls governing the provision of redundancy payments to eligible employees of stevedoring companies by MIFCo. The audit made a number of recommendations aimed at further improving the administration of the scheme.

Audit Report No. 18 2000-01 Reform of Service Delivery of Business Assistance Programs. Department of Industry Science and Resources

Theme: Accountability and Governance, Service Delivery

This audit report provides an assessment of the management by the Department of Industry Science and Resources and, in particular, by AusIndustry, of the implementation of the change process in AusIndustry following the Government's policy statement on *Investing for Growth*. The report commented on delays in the change process and made recommendations aimed at strengthening project management for the remainder of the implementation of the new service delivery arrangements, providing accurate information on costs associated with the delivery of products and services and strengthening associated service level agreements.

Audit Report No. 19 2000-01 Management of Public Sector Travel Arrangements-Follow-up audit. Across Agencies

Theme: Accountability and Governance, Financial Management and Controls

The ANAO estimates that Commonwealth public sector travel costs approximately \$600 million annually. The objectives of this audit were to assess the extent to which recommendations and better practice principles of earlier audits of public sector travel arrangements (*Audit Report No. 14 (1997-98) Official Travel by Public Sector Employees* and *Audit Report No. 28 (1997-98) – Contracting Arrangements for Agencies' Air Travel*) had been implemented within the Commonwealth. This follow-up audit indicates that organisations have taken only limited advantage of the opportunities available to re-engineer and improve their travel management processes and that opportunities continue to exist to achieve substantial savings in travel costs.

Audit Report No. 20 2000-01 Second Tranche Sale of Telstra Shares.

Theme: Human Resource Management, Information Technology

The focus of this audit report was the Telstra 2 sale which involved the second sell-down by the Commonwealth of its shareholding in Telstra Corporation Limited (Telstra) offering for sale 2.13 billion shares representing some 16.6 per cent of the company. The objectives of the audit were to assess the extent to which the Government's sale objectives were achieved and assess the effectiveness of the management of the public share offer. It also identified principles of sound administrative practice to facilitate improved administrative arrangements for future Commonwealth public share offers.

*Audit Report No. 22 2000-01 Fraud Control in Defence
Department of Defence*

Theme: Accountability and Governance, Legislative and/or Administrative Compliance

The objective of this audit was to establish whether Defence has developed sound fraud control arrangements that are consistent with better practice and fulfil its responsibilities for the protection of public property, revenue, expenditure, and rights and privileges from fraudulent exploitation. The audit concluded that despite the level of detected fraud in or against Defence being low, fraud control could be improved, particularly in corporate governance and fraud intelligence, which underpin the fraud control process. It was recommended that the Defence Audit Committee could give more attention to monitoring and developing Defence's fraud control plans.

*Audit Report No. 23 2000-01 Audits of the Financial Statements of
Commonwealth Entities for the Period Ended 30 June 2000.
Across Agencies*

Themes: Financial

The results of the audits of the financial statements of all Commonwealth reporting entities, including the Commonwealth Government of Australia Consolidated Financial Statements are brought together in this report. The audit reports for 286 Commonwealth entities for the financial year ended 30 June 2000, have been issued by the ANAO. Of these audit reports 271 were unmodified, 10 were qualified and five contained an emphasis of matter. In addition, this report describes how organisations fared in meeting the challenges of implementing the new model of financial management in the public sector. The challenges included the timing of presenting financial information, interim reporting, resourcing the finance function and the introduction of agency banking. Control issues arising from the financial statement audits covered improvements to FMIS, IT and accounting systems.

*Audit Report No. 24 2000-01 Family Relationships Services Program.
Department of Family and Community Services*

Theme: Accountability and Governance, Contract Management and Procurement, Legislative and/or Administrative Compliance

The effectiveness and efficiency of the management of the Family Relationships Services Program was the objective of this audit report. It examines a range of

Program processes and components to determine risk management and business planning processes as well as procurement and contract management procedures and adequacy of the assessment of the performance of service providers as well as overall program outcomes. It was concluded that the key elements of a framework to manage the Program effectively and efficiently were either in place or being developed.

*Audit Report No. 25 2000-01 Benchmarking the Finance Function.
Across Agencies*

Theme: Accountability and Governance, Financial Management and Controls

This is the second benchmarking study produced by the ANAO and relates to the finance function activities as they operate in Commonwealth organisations. It examines aggregated benchmarking measures of cost, efficiency, quality and better practice reported by nineteen Commonwealth organisations for 1998–99 and provides aggregated benchmarking results. Organisations in the Commonwealth Group perform equal to or better than the Global Group at the median in relation to some aspects of the finance function while opportunities may exist where the Commonwealth Group reported less favourable results overall than the Global Group.

*Audit Report No. 26 2000-01 Defence Estate Facilities Operations.
Department of Defence*

Theme: Accountability and Governance, Contract Management and Procurement, Service Delivery

The Defence Estate comprises the land, buildings and other facilities that Defence uses across Australia and has a gross replacement value of \$14.8 billion. An assessment of the efficiency and effectiveness of selected Defence facilities operations, including tendering and contracting, was the centre of this report. The audit concluded that the Department has implemented many recommendations arising from the Defence Efficiency Review. Some improvements were recommended, particularly in relation to the management of contracts and resources.

*Audit Report No. 27 2000-01 Program Administration in Training and Youth Division - Business Process Reengineering
Department of Education Training and Youth Affairs*

Themes: Service Delivery

The application of Business Process Reengineering principles to improve the business processes of the Training and Youth Division, was the purpose of this audit. After assessing the processes it was concluded that opportunities exist for improvement. Improvements reported included the redirection of focus away from checking inputs to monitoring results in a number of the programs examined during this audit.

**ANAO Audit
Reports Scheduled
to be Tabled
December – March
2001**

Scheduled Reports

National Roads Management, Department of Transport and Regional Services
Contract Management Better Practice Guide
Management of Defence International Cooperation Activities
Information Technology, Health Insurance Commission
Information Technology, Department of Veterans' Affairs
Administration of Aged Pensions, Department of Family and Community Services, Centrelink
Delivery of Services via the Internet Better Practice Guide
FMIS Implementation
Management of Primary Industry Levies
Administration of Consular Services, Department of Foreign Affairs and Trade
National Cervical Cancer Screening Program, Department of Health and Aged Care
Decision Making in War Veterans' Compensation Cases
Commonwealth Estate Property Sales
Engagement of Consultants
Customer Services Officer Skilling, Centrelink
Work for the Dole, Department of Workplace Relations, Employment and Small Business
Information Technology, Centrelink
Management of Adult Migrant English Program Contracts, Department of Immigration and Multicultural Affairs
Return to Work Better Practice Guide
ADF Reserve Force

**ANAO Better
Practice Guides**

Guides under development

Better practice guides are produced by the ANAO to assist public sector managers in the performance of their responsibilities. A complete list of all ANAO better practice guides is available on the ANAO website.

A better practice guide on contract management, covering ongoing management, evaluation and succession phases, will be published in January.

The popular, AMODEL financial statements are currently being updated to take account of changes to financial reporting requirements taking effect for the current financial year. The AMODEL series will be distributed to agencies in late March/early April.

Finance Minister's Orders

Finance Minister's Orders for 2000-01

Changes have been made to Schedule 2 to the Finance Minister's Orders (FMOs) in respect of financial statements of Commonwealth agencies and authorities prepared for periods ending on or after 30 June 2001. The main changes are:

- the reporting requirements apply where their application is material to the statements. Disclosure of director, manager and auditor remuneration, waivers, and act of grace and defective administration payments are stated to be material by nature;
- the deprival method of valuation, to be employed progressively over each three year period, is to be used in revaluing all property, plant and equipment, including land;
- the policy on restructuring has been extended to cover a transfer made consequent to an agreement between the Minister for Finance and Administration and the portfolio Minister;
- clause 5 now requires assets to be attributed to an outcome only where the asset is wholly or substantially employed to produce that outcome. Disclosure of the revenues and expenses of major departmental activities is to be done by output rather than outcome;
- the mandatory format of agency and authority statements has changed, largely due to the application of new or revised accounting standards AAS 1 Statement of Financial Performance, AAS36 Statement of Financial Position and AAS 37 Financial Report Presentation and Disclosures;
- administered items will be presented as schedules rather than statements and are required to be placed after the agency/authority primary statements.

Accounting Standards Update

Australian Accounting Standards Board (AASB)

New or revised standards

The following table lists the effective date of new and revised accounting standards.

Periods beginning on or after 1 January 2000	AAS21 Acquisition of Assets AAS33 Presentation and Disclosure of Financial Information
Periods beginning on or after 1 July 2000	AAS1 Statement of Financial Performance AAS36 Statement of Financial Position AAS37 Financial Report Presentation and Disclosure AAS10 Recoverable Amount of Non-Current Assets AAS38 Revaluation of Non-Current Assets
Periods beginning on or after 30 June 2001	AAS35 & 35A Self-Generating and Regenerating Assets
Periods beginning on or after 1 July 2001	AASB1005 Segment Reporting AASB1027 Earnings Per Share AASB1029 Interim Financial Reporting AASB1042 Discontinued Operations
Periods beginning on or after 1 July 2002	AAS3 Income Taxes

The AASB has released revised Accounting Standards AASB 1029 "*Interim Financial Reporting*", AASB 1027 "*Earnings per Share*" and AASB 1029 "*Foreign Currency Translations*". The revised Standards are part of the AASB's program to achieve greater harmony with the Standards of the International Accounting Standards Committee.

The revised AASB 1029 "*Interim Financial Reporting*" applies to entities in both the public and private sectors preparing general purpose interim financial reports. It replaces the existing AASB 1029 "*Half-Year Accounts and Consolidated Accounts*" which applies only to disclosing entities under the Corporations Law. The revised standard provides a commentary on what constitutes an interim general purpose financial report. It notes, in part, that interim financial reports that are widely available but lack the characteristics of general purpose financial reports are not regarded as general purpose financial reports, for example, monthly or quarterly reports for the general government sector. It also notes that, in some cases, professional judgement is needed to determine whether a particular interim report is a general purpose financial report. The revised standard does not itself mandate the preparation of interim financial reports or the frequency with which they should be prepared. It becomes operative for interim reporting periods beginning on or after 1 July 2001.

The revised Standard AASB 1012 "*Foreign Currency Translation*" replaces the existing standards of the same name, AASB 1012 (as amended by AASB 1025) and AAS 20. It applies to annual reporting periods beginning on or after 1 January 2002, and may be applied earlier. The revised standard clarifies existing

requirements relating to hedging transactions. The AASB expects to review these requirements when the project on the recognition and measurement of financial instruments is further advanced. Other changes deal with requirements for the translation of items of equity denominated in a foreign currency and the accounting and disclosure requirements for foreign operations. The provisions of Urgent Issues Group Abstract 15 "*Early Termination of Foreign Currency Hedges*" are also incorporated.

AASB 1027 "*Earnings per Share*" applies to companies listed on the Australian Stock Exchange. The key changes in the revised AASB 1027 are the presentation of EPS on the face of the statement of financial performance and the requirement that earnings in the EPS calculation be inclusive of extraordinary items.

Urgent Issues Group

A number of accounting issues have been considered by the UIG at meetings held in September and November 2000 that are of interest to Commonwealth organisations.

Non-Monetary Contributions Establishing a Joint Venture Entity

Consensus was agreed at the November 2000 meeting that under the equity method of accounting a venturer should eliminate unrealised profit or loss arising on a venturer's contribution on the establishment of the joint venture entity to the extent of the venturer's ownership interest in the entity. Such unrealised profits or losses are to be recognised by the venturer as they are realised by the joint venture entity or, if not already realised, when the venturer disposes of its investment in the joint venture entity. This Consensus will apply to reporting periods ending on or after 2 November 2000.

Proposed Revised Abstracts

Revisions are proposed to Abstracts No. 15, 18, 25, 29 and 32 to make them consistent with Abstract 33 "*Hedging of Anticipated Purchases and Sales*". Abstracts No 15 and 18 deal with Early Termination of Foreign Currency Hedges and Gold Hedges respectively.

Other Items

The UIG has listed on its work program the following Issues:

- Contributions by Owners Made to Public Sector Entities;
- Accounting for Web Site Costs;
- Recognition of Grants as Revenue;
- Lessor Accounting for Operating Lease Incentives;
- Securitisation and Consolidation of Special Purpose Entities;
- Controlled Entity Becomes a Joint Venture Entity or an Associate;
- Determining the Fair Value of Equity Instruments Issued as Purchase Consideration

International Accounting Standards Committee (IASC)

The IASC published limited revisions to three International Accounting

Standards; IAS 12 "Income Taxes", IAS 19 "Employee Benefits" and IAS 39 "Financial Instruments: Recognition and Measurement." The revisions to IAS 39 are accompanied by consequential changes to other IASC standards.

The Standing Interpretations Committee (SIC) of the IASC has released two new Interpretations to clarify accounting issues under International Accounting Standards. The new Interpretations are:

- SIC - 19: Reporting Currency - Measurement and Presentation of Financial Statements Under IAS 21 and IAS 29; and
- SIC - 24: Earnings Per Share - Financial Instruments and Other Contracts that May Be Settled in Shares.

Guidance material has been published by the IASC on implementing IAS 39, "Financial Instruments: Recognition and Measurement" called *IAS 39 Implementation Guidance – Questions and Answers*. This publication contains 100 questions and answers on application of the standard.

G4 + 1 Position Papers

The G4 + 1 organisations are the standard setters of Australia, Canada, the US, the UK, NZ and the IASC. Among their objectives is a desire to further analysis and discussion of financial reporting issues.

Accounting issues under consideration by the Group include:

- New basis measurement in the individual entity financial statements of members of a consolidated group;
- Measurement alternatives for non-financial items;
- Definitional aspects of intangible assets;
- Prospects for convergence of accounting standards;
- Liability recognition;
- A series of revenue recognition issues; and
- On-going discussion papers on "Leases: Implementation of a New Approach", and "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities".

International Federation of Accountants (IFAC) - Public Sector Committee

The IFAC is seeking to improve government accountability internationally through its Public Sector Committee (PSC). This committee has undertaken a multi-year initiative to develop a series of recommended public sector accounting standards and related guidance. The September 2000 issue of *Opinions* listed the six new Exposure Drafts released for comment by the committee.

Auditing and Assurance Standards Board (AuASB)

The Auditing & Assurance Standards Board (AuASB) of the AARF has released Auditing Guidance Statement (AGS 1056) "Electronic Commerce: Audit Risk Assessments and Control Considerations". E-com business risks considered by AGS 1056 include risks arising from:

- the identity and nature of relationships with e-com trading partners;
- the integrity of transactions;
- electronic processing of transactions;
- systems' reliability;
- privacy issues;
- return of goods and product warranties; and
- taxation and regulatory issues.

Exposure Draft 75 "*Materiality and Audit Adjustments*" has been issued by AuASB. This Exposure Draft clarifies existing practice regarding the auditor's consideration of materiality in planning and evaluating audit evidence. The ED examines establishing a preliminary assessment of materiality, the importance of qualitative considerations, the impact of misstatement upon internal control and reporting responsibilities arising from the auditor's identification of misstatements.

Australian Auditing Exposure Draft ED 76 "*Auditing Derivative Financial Instruments*" recently sought comment on the International Auditing Practices Committee (IAPC) Exposure Draft of the same title. This ED applies a risk-based approach to auditing derivatives. It considers the relevant economic indicators (such as interest rates, inflation or exchange rates), firstly in the context of the relevant industry, and then as applicable to the individual entity, by taking into account the nature of its business and its control environment. Its focus is on the nature of the derivative rather than on particular products, thereby recognising a dynamic financial market, which permits the introduction of new products to match situations.

The AuASB has also issued an addendum to Audit Guide No 4 "*The Audit of Superannuation Funds*". The addendum incorporates changes to the *Superannuation Industry (Supervision) Act 1993* and Regulations in respect of self-managed funds, changes to capital gains tax and investments.



