

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2001

NOTE 1

OBJECTIVES OF DEPARTMENT OF FINANCE AND ADMINISTRATION

The objectives of the Department of Finance and Administration are detailed in the body of this annual report.

The Department is structured to meet the following outcomes:

Outcome 1: Sustainable Government Finances

Outcome 2: Improved and More Efficient Government Operations

Outcome 3: Efficiently Functioning Parliament

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- *Requirements for the Preparation of Financial Statements of Commonwealth Agencies and Authorities* made by the Minister for Finance and Administration (Schedule 1 of the Financial Management and Accountability (FMA) Orders).
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Boards;
- Other authoritative pronouncements of the Australian Accounting Standards Boards; and
- the Consensus Views of the Urgent Issues Group.

The statements have been prepared having regard to:

- Statements of Accounting Concepts; and
- the Explanatory Notes to Schedule 1 issued by the Department of Finance and Administration.

These financial statements have been prepared on an accrual basis and in accordance with the historical cost convention except for certain assets which, as noted, are at valuation. They do not take account of changing money values on the results or the financial position, except where stated.

Assets and liabilities are recognised in the Agency Statement of Financial Position when and only when it is probable that future Department's economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are however not recognised unless required by an Accounting Standard. Liabilities and assets which are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than remote contingencies, which are reported at Note 33).

Revenues and expenses are recognised in the Agency Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The continued existence of the Department in its present form, and with its present outcomes, is dependent on Government policy, and on continuing appropriations by Parliament for the Department's administration and outcomes.

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(b) Principles of Consolidation

The financial statements of the Department's business operations are consolidated into the Agency's financial statements. All balances and transactions between the Agency and the various business operations have been eliminated on consolidation.

(c) Changes in Accounting Policy

Changes in accounting policy have been identified in this note under their appropriate headings.

(d) Agency and Administered Items

Agency assets, liabilities, revenues and expenses are those items that are controlled by the Department. They are used by the Department in producing its outputs, including:

- ┆ land and buildings, computers, plant and equipment used in providing goods and services;
- ┆ liabilities for employee entitlements;
- ┆ revenues from running cost appropriations;
- ┆ revenues from user charging and profits on sales deemed to be appropriated under section 31 of the *Financial Management and Accountability Act 1997*; and
- ┆ employee expenses and other administrative expenses incurred in providing goods and services.

Administered assets, liabilities, revenues and expenses are those items which are controlled by the Government and managed or oversighted by the Department on behalf of the Government including:

- ┆ Natural Disaster Relief Arrangements;
- ┆ investments for former superannuation schemes;
- ┆ entitlements and services provided to Members of Parliament;
- ┆ grants and benefits payable;
- ┆ fees, fines and interest;
- ┆ loans; and
- ┆ transactions relating to the administration of the Official Public Account.

The purpose of separating administered and agency items is to provide for the separate scrutiny of the items and enable assessment of the Department's administrative efficiency in providing goods and services.

The basis of accounting described in this note applies to both agency and administered items.

Administered items are distinguished from agency items in the financial statements by a white keyline box.

(e) Reporting by Outcomes

A comparison of Budget and Actual figures by outcome specified in the Appropriation Acts relevant to the Department is presented in Note 31. The net cost to Budget outcomes shown includes intra-government costs that are eliminated in calculating the actual budget outcome for the Government overall.

(f) Revenues from Government

(i) Agency Appropriations

Appropriations for departmental outputs are recognised as revenue to the extent that the Finance Minister is prepared to release appropriations for use (that is, the full amount of the appropriation passed by the Parliament less any savings offered up at Additional Estimates and not subsequently released).

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Where appropriations recognised as revenue under this policy effectively fund an activity that has been deferred to a future reporting period, an amount is transferred from the current year surplus to a Deferred Activity Reserve. This represents a change in accounting policy from previous years where such amounts were recorded as an unearned revenue liability in the Statement of Financial Position. This change in accounting policy has resulted in an increase of \$17,869,000 in appropriation revenue in the Statement of Financial Performance for the current financial year and a corresponding decrease in unearned revenue liability in the Statement of Financial Position at 30 June 2001.

The \$17,869,000 is represented by \$11,773,000 being revenue received in advance by Comcover in a prior accounting period to fund insurance premiums for some Commonwealth agencies. In addition, \$6,095,000 represents revenue received in advance to fund Defence property sales which have been deferred to a subsequent accounting period.

(ii) Administered Appropriations

All revenues described in this note are revenues relating to the core operating activities performed by the Agency on behalf of the Commonwealth. These amounts are netted with transfers to agencies and are disclosed at Note 18a.

Appropriations for administered expenses may be unlimited or limited as to amounts. Where the appropriation is an annual appropriation and limited as to amount, revenue is recognised to the extent of the lesser of:

- l the amount appropriated by the Parliament; and
- l an amount determined by the Finance Minister—this amount is determined having regard to the expenses incurred for the reporting period.

Where unlimited, revenue is recognised to the extent that expenses have been incurred.

(g) Revenue

Amounts disclosed as revenue are, unless specified, net of returns and allowances. Revenues are recognised from major activities as follows:

Revenue from Property Portfolio

Rental revenues from the Property Portfolio are recognised systematically over the period of the lease. Other revenue is recognised at such time as the good or service has been provided.

Sales of Goods

A sale is recorded when goods have been provided to a customer pursuant to a sales order and the associated risks have passed to the carrier or the customer.

Provision of Services

Revenue is recognised from services at the time the service is provided.

Dividend Revenue

Administered dividend revenue is recognised for dividends received from FMA agencies (including the Department of Finance and Administration) and other entities which are recognised by the Department as administered investments. They are recognised when the right to receive a dividend has been established.

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Interest Revenue

Interest revenue is recognised on a time proportional basis taking into account the interest rates applicable to the financial assets.

Disposal of Assets

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Please refer to Note 2(f) for appropriations revenue, 2(k) for revenue from general insurance activities, 2(s) for contributions revenue from Superannuation schemes and 2 (za) for resources received free of charge.

All revenue referred to in this note are revenues relating to core operating activities of the Department, whether in its own right or on behalf of the Commonwealth. Details of revenue amounts are given in Note 3 (Agency) and Note 14 (Administered).

(h) Assets Sales program

Schedule 1 effectively provides for sales of Commonwealth interests in controlled entities conducted by the Office of Asset Sales and Commercial Support (OASACS) to be fully reported by the OASACS. There have been no such sales in 2000–01. (During 1999–2000 the Department disposed of the Removals Australia business. The remaining administered investment recognised in Removals Australia after repayment of capital was written off as a direct adjustment to equity.)

(i) Taxation

The Department is not subject to income tax, nor to most indirect taxes and charges. It is however subject to fringe benefits tax, amounts in lieu of indirect taxes on work for non-Commonwealth clients and goods and services tax.

In addition, an amount equivalent to Customs Duty on imports is payable by all commercial activities and is included in the cost of the imported goods. Where these goods are recognised as assets, the amount is included in their cost.

(j) Capital-use Charge

A Capital-use Charge of 12% is imposed by the Commonwealth on the net departmental assets of the agency which are not attributable to Business Operations. Assets attributable to Business Operations are subject to a rate of return appropriate to the activity and are returned to the Commonwealth by way of dividend and capital returns. As the Agency's appropriations were not supplemented for Capital-use Charge, the amount payable is based on the increase, if any, of the net assets of non-business operations adjusted to take account of asset gifts and revaluation increments.

(k) General Insurance Activities

On 1 July 1998 Comcover was established within the Department as the Commonwealth's self managed fund for insurable risks. The Department and other Commonwealth agencies have insured with the fund for risks other than workers compensation, which is dealt with via continuing arrangements with Comcare. Comcover is obliged to provide cover under the *Financial Management and Accountability Act 1997* pursuant to Section 6.3.2 of the *Financial Management Orders*.

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As Comcover operates a 'general insurance' business, the accounting requirements of AAS 26—"Financial Reporting of General Insurance Activities" have been applied in these financial statements to all transactions which relate specifically to general insurance business. Accounting policies in relation to these items are as follows:

Premium Revenue

Premiums comprise amounts charged to the fund member. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premiums are treated as earned from the date of attachment of risk.

The pattern of recognition over the policy or indemnity periods is based on time, which is considered to closely approximate the pattern of risks underwritten. Unearned premiums are determined using the pro-rata method.

Outwards Reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premiums is treated at the reporting date as a prepayment. Reinsurance recoveries are recognised as revenue for claims incurred. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of all business. The liability covers claims incurred but not yet paid, incurred but not reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by an independent actuary reviewing aggregated claim data and estimating unnotified claims and settlement costs using statistics based on past experience and trends.

The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on investment opportunities available to the Department on the amounts of funds sufficient to meet claims as they become payable. The details of the rates applied are included in Note 11c.

Investments—specific to general insurance activities

Investments are measured at net market value at the reporting date. Differences between the net market values of investments at the reporting date and their net market values at the previous reporting date (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the Statement of Financial Performance.

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(l) Receivables

A provision is raised for any doubtful debts based on a review of all outstanding accounts as at the end of the reporting period.

Bad debts are recognised as an expense, or as a reduction in the doubtful debts provision, during the reporting period in which they are identified.

(m) Cash

Cash includes notes and coins held and deposits held at call with a bank.

(n) Intangibles

Internally generated software is measured at current reproduction cost and is recognised as an asset when it can be reliably measured. It is amortised on a straight-line basis to reflect its estimated useful life to the Department. All purchased software, which meets the asset recognition threshold, is recognised as an asset and measured at cost less any accumulated amortisation.

(o) Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring administrative arrangements. In the latter case, assets are initially recognised at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

(p) Measurement of Property, Plant and Equipment (land and buildings, and infrastructure, plant and equipment)

Asset Recognition Threshold

All items of infrastructure, plant and equipment with a historical cost equal to or in excess of \$5,000 are recognised as assets in the reporting period in which they are acquired. Items costing less than \$5,000 are recognised as an expense at the time of purchase.

Revaluations

In accordance with Schedule 1, land, buildings, infrastructure, and plant and equipment are revalued progressively in accordance with the 'deprival' method of valuation in successive 3-year cycles. The Department has determined that these values do not differ materially from fair value.

Assets in each class acquired after the commencement of a progressive revaluation cycle are captured by the following 3-year revaluation cycle.

The application of the deprival method by the Department values land and buildings and specialised assets at their current market value and its specialised assets at their depreciated replacement costs. Any assets which would not be replaced or are surplus to requirements are valued at the higher of net present value and net realisable value.

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The gain or loss on disposal of items of land, buildings, infrastructure, and plant and equipment is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds from disposal.

All valuations are independent.

Recoverable Amount Test

Schedule 1 requires the application of the recoverable amount test to departmental non-current assets in accordance with AAS 10 *Accounting for the Revaluation of Non-Current Assets*. The carrying amounts of these non-current assets have been reviewed to determine whether they are in excess of their recoverable amounts. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value using the long term Commonwealth Bond rate (5.32%).

Buildings under Construction

Buildings under construction are classified as "Construction work in progress" under "Land and buildings", are measured at cost, and are not depreciated.

(q) Depreciation and Amortisation of Infrastructure, Plant and Equipment

All infrastructure, plant and equipment assets, other than leasehold improvements, are depreciated to their estimated residual values over their estimated useful lives to the Department using, in all cases, the straight-line method of depreciation. Depreciation commences from the time the assets are first held ready for use.

Leasehold improvements are amortised on a straight-line basis over the lesser of the unexpired period of the lease or their estimated useful life.

The useful life of each asset is the estimated period of time over which it is expected to be able to be used, or the benefits represented by it are expected to be derived, by the Department.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	2000-01	1999-00
Buildings on freehold land	3 to 97 years	9 to 50 years
Leasehold improvements	Lease Term	Lease Term
Plant and equipment	2 to 10 years	3 to 10 years
Intangibles	3 to 7 years	7 years

The aggregate amount of depreciation and amortisation allocated for each class of asset during the reporting period is disclosed in Note 4c (Agency) and Note 15b (Administered).

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(r) Inventories

Inventories comprise goods held for sale and are recorded at the lower of cost and net realisable value.

Costs incurred in bringing each item to its present location and condition are allocated as follows:

- Finished goods and work in progress—purchase cost on a weighted average cost basis.

(s) Superannuation Schemes

The Department recognises an administered liability for the present value of the Commonwealth's expected future payments arising from the Parliamentary Contributory Superannuation Scheme, South Australian Superannuation Fund and the Tasmanian Retirement Benefits Fund and the unfunded components of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation (PSS) Scheme.

The funded components of the CSS and PSS Schemes are reported in the financial statements of the respective scheme.

The Department also has the responsibility to record the Commonwealth's transactions in relation to the CSS and PSS schemes. Accounting policies in relation to these items are as follows:

Employer Contributions

Employer contributions received from Commonwealth agencies and entities are recorded as administered revenues.

Benefits Paid and Employee Contributions

Gross benefits paid less employee contributions and employer productivity contributions (offsets) received are recognised as a net reduction in the liability.

Increases in the Accrued Benefits Liability

Increases in the accrued benefits liability, pursuant to regular estimates of the liability taking account of actuarial reviews, are recognised as an expense and classified as employee superannuation expense.

(t) Grants

The Department administers a number of grant schemes on behalf of the Commonwealth. Grant liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied. A commitment is recorded when the Commonwealth has a binding agreement to make the grants but services have not been performed or criteria satisfied. Where grant moneys are paid in advance of performance or eligibility, a prepayment is recognised. Payments made for non-reciprocal grants, where those grants are not subject to future criteria, are fully expensed in the year of payment.

(u) Unearned Income

Deposits and prepayments for services yet to be rendered are recognised as a liability at the time of receipt. Revenues are recognised in relation to these items at the time the service is provided.

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(v) Leases

Finance Leases

Leases of non-current assets, where substantially all risks and benefits incidental to ownership effectively pass to the Department, are classified as finance leases.

The asset is measured at the present value of the minimum lease payments at the inception of the lease, and amortised over the period of the lease.

A corresponding liability is also recognised at the same value as the asset, with each lease payment allocated between reduction of the principle component of the lease liability and interest expense.

Operating Leases

Leases where the lessor retains all the risks and benefits incidental to ownership are classified as operating leases. Operating lease payments are recognised as expenses in the reporting period in which they are incurred, being representative of the pattern of benefits derived from the leased assets.

(w) Surplus Leased Space and Lease Incentives

The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

Lease incentives received taking the form of 'free' leasehold improvements and rent holidays are also recognised as liabilities, and are reduced by allocating the lease payments between rental expense and reduction of the liability when rental payments occur.

(x) Borrowing Costs

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in a reporting period does not exceed the amounts of costs incurred in that period.

The Department has no qualifying asset for which funds were borrowed specifically.

(y) Financial Instruments

Accounting policies for financial instruments are stated at Note 32.

(z) Employee Entitlements

This policy applies to both agency and administered employee entitlements. Administered employee entitlements relate to the entitlements owed to Senators and Members and their staff, the administration of which is managed by the Ministerial and Parliamentary Services Group.

The liability for employee entitlements encompasses unpaid wages and salaries, annual leave, long service leave and redundancy. Provision is made for separation and redundancy payments in circumstances where a reliable estimate of the amount of those payments can be determined.

No provision is made for sick leave as all sick leave is non-vesting and the average sick leave estimated to be taken by employees each year is less than the annual entitlement for sick leave.

Liabilities for employee entitlements for wages and salaries, annual leave and redundancy are measured on the basis of current wage and salary rates.

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The non-current provision for long service leave reflects the present value of the estimated future cash flows to be paid. In determining the present value of the liability, expected attrition rates and future pay increases through promotion and inflation as determined by the Government Actuary are taken into account.

The determination of current and non-current portions of the long service leave provision is based on past history of payments.

Staff of the Department contribute to the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). Employer contributions amounting to \$5,064,790 (1999–2000: \$8,713,664) in relation to these schemes are recognised as an expense as incurred.

No liability is shown for superannuation in the Agency Statement of Financial Position as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth (refer Note 1(s)).

Employer Superannuation Productivity Benefit contributions totalled \$929,585 (1999–2000: \$1,212,340).

(za) Resources Received Free of Charge

Services received free of charge are recognised in the Statement of Financial Performance as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements.

In the latter case, the assets are initially recognised at the amounts at which they were recognised by the transferring agency immediately prior to the transfer.

(zb) Comparative Figures

Comparative figures are provided and, where necessary, have been adjusted to conform with changes in presentation in these financial statements. Where it has not been possible to adjust comparative figures, amounts have been bracketed together or n/a has been shown, as applicable.

(zc) Administered Investments

Administered investments are measured at the aggregate of the Commonwealth's share of the net assets or net liabilities of each entity, as adjusted for any subsequent capital contributions or withdrawals. The carrying amounts of administered investments have been reviewed to determine whether they are in excess of their recoverable amounts. Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the whole-of-government level.

The Department also recognises as administered investments, Commonwealth companies of which the Minister for Finance and Administration was the sole shareholder under the Commonwealth single shareholder arrangements. Companies which are not subject to these arrangements are recorded as an administered investment in their respective portfolio Department's financial statements.

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(zd) Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate on the date of payment and receipt. Foreign currency receivables and payables are converted at the exchange rates current as at the end of the reporting period. Resulting exchange differences are brought to account in the Agency Statement of Financial Performance. The Department hedges its exposure to foreign currency wherever possible. Refer to Notes 3f and 4e (Agency) and Note 14d (Administered).

(ze) Tuggeranong Office Park

The Department has recognised an agency liability in respect of the expected shortfall in the sinking fund of Tuggeranong Office Park at 20 August 2008, when the bonds that financed construction of the building are due to be redeemed from the funds available in the sinking fund. The Commonwealth has guaranteed any shortfall. The liability recognised is an estimate of the shortfall based on various assumptions about the future cash flows of the sinking fund and is measured at net present value.

(zf) Rounding

Amounts have been rounded to the nearest \$1,000, unless stated otherwise.

(zg) Dividends

Dividends paid by the Department from commercial business activities are based on a required rate of return. Dividends are paid from current year surpluses.

(zh) Environmental Liabilities

Where the Commonwealth has a contractual obligation for remediation works to restore the environmental status of properties, the cost of that work has been recognised for the amount incurred. Where there are contracts in place for future works, the value of the contracts have been included in the commitments note. Other exposures which are of a significant nature are disclosed in the contingent liabilities note.

(zi) GST Policy

The financial statements are prepared consistent with GST accounting requirements as outlined by the Urgent Issues Group (UIG). The UIG consensus requires that expenses and assets be accounted for net of recoverable GST, revenues be accounted for net of GST payable, and that cash-flows, accounts payable and receivable be reported gross.

(zj) Transactions by the Government as Owner

Appropriations designated as 'Capital—equity injections' are recognised directly in equity to the extent drawn down as at the reporting date.

Net assets received under a restructuring of administrative arrangements are designated by the Finance Minister as contributions by owners and adjusted directly against equity. Net assets relinquished are designated as distributions to owners. Net assets transferred are initially recognised at the amounts at which they were recognised by the transferring agency immediately prior to the transfer.