

Notes

to and forming part of the financial statements for the year ended 30 June 1998

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Note 1

Objectives of the Department

The objective of the Department of Immigration and Multicultural Affairs is to manage the movement of people into and out of Australia.

The Agency is structured into seven programs:

Program 1: Migration and Temporary Entry;

Program 2: Border Control and Compliance;

Program 3: Refugee and Humanitarian;

Program 4: Multicultural Affairs and Citizenship;

Program 5: Legal;

Program 6: Corporate Management; and

Program 7: Independent Review Tribunals.

Program 1:

Migration and Temporary Entry

Objective

To support the development of migration and temporary entry programs that contribute to Australia's economic, social and international interests.

Program 2:

Border Control and Compliance

Objective

To protect the Australian community by promoting acceptance of and adherence to entry and stay requirements, and enforcing such requirements including through interdiction, detention and removal of unlawful non-citizens.

Program 3: Refugee and Humanitarian

Objective

In accordance with Australia's international obligations, assist in alleviating the plight of refugees and others in humanitarian need, including through resettling persons under the Government's Humanitarian Program.

Program 4: Multicultural Affairs and Citizenship

Objective

To increase the capacity of migrants to participate equitably in Australian society, including through the grant of citizenship to eligible persons, and to foster appreciation of Australia's cultural diversity within a framework of national unity.

Program 5: Legal

Objective

To provide appropriate and effective legal services in support of the development and implementation of immigration, citizenship and multicultural affairs policies and programs.

Program 6: Corporate Management

Objective

To provide strategic direction for the Portfolio and a framework for achieving quality assurance and high level accountability.

Program 7: Independent Review Tribunals

Objective

To provide independent merits review of migration and refugee status decisions which accords with the statutory objective of providing review which is fair, just, economical, informal and quick.

Note 2 **Summary of significant accounting policies**

2.1 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 Schedule 2 to the Financial Management and Accountability (FMA) Orders made by the Minister for Finance and Administration. Schedule 2 requires that the financial statements are prepared:

- in compliance with Australian Accounting Standards, Accounting Guidance Releases and Urgent Issues Group consensus views; and
- having regard to Statements of Accounting Concepts.

The financial statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

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

2.2 Changes in accounting policy

During 1997–98, the treatment of costs relating to software developed in-house has been reconsidered. In prior years the Agency has expensed the costs of developing internally developed software. In 1997–98 the Agency has commenced a progressive valuation program to capitalise the costs of internally developed software previously expensed. This program will continue in 1998–99. Details of the valuation obtained as at 30 June 1998 are at Note 11C. The reassessment of these costs has resulted in

the valued software assets being first recognised in 1997–98.

The changes in accounting policy qualify for adjustment against accumulated results under transitional provisions available under AAS29.

2.3 Agency and Administered items

Agency assets, liabilities, revenues and expenses are those items that are controlled by the Agency including:

- computers, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from running costs appropriations;
- revenue from user charging etc where the proceeds are deemed 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 items are those which are controlled by the Government and managed or oversighted by the Agency on behalf of the Government. These items include grant payments and other taxes, fees and fines.

The purpose of the separation of Agency and Administered items is to enable assessment of the administrative efficiency of the Agency in providing goods and services.

The basis of accounting described in Note 2.1 applies to both Agency and Administered items.

Schedule 2 requires that Administered transactions are accounted for on a double entry basis. The effect of this requirement is that transfers of cash to and from the Official Commonwealth Public Account (CPA) will be reported on the face of the statement of Administered Revenues and Expenses where operating transactions are involved, and that, where transactions involving financial assets and liabilities not arising from operations are involved, receivables from and payables to the CPA will be recognised in the statement of Administered Assets and Liabilities.

Administered items are distinguished from Agency items in the financial statements by shading.

2.4 Principles of consolidation

In the process of reporting the Agency as a single unit, and in preparation of the program statements, all intra and inter-program transactions and balances have been eliminated in full.

2.5 Allocation of costs and revenues to primary programs

The cost of goods and services provided by programs to other programs within the Agency (including overhead costs) and any revenues have been attributed to those other programs. Where these costs have been allocated for the first time in 1997–98, there has been no allocation of the 1996–97 costs for comparative purposes. Total amounts allocated in 1997–98 were expenses of \$108.9 million and revenue of \$126.2 million.

2.6 Appropriations

Appropriations for Agency operations other than running costs are recognised as revenue to the extent that the appropriations are spent.

Schedule 2 requires that amounts received as appropriations for running costs operations are to be recognised according to their nature under the Running Costs Arrangements. Under these arrangements, the Agency receives a base amount of funding by way of appropriation for running costs each year. The base amount may be supplemented in any year by a carryover from the previous year of unspent appropriations up to allowable limits, as well as by borrowing at a discount against future appropriations of the base amount. The repayment of a borrowing is effected by an appropriate reduction in the appropriation actually received in the year of repayment. Interest may also be charged on borrowings.

The Agency recognises:

- as revenue, an amount equal to the base funding spent in the year or carried over to the next year;
- as a receivable, an amount equal to the amount of unspent appropriation carried over to the next financial year; and

- as a liability outstanding amounts of running costs borrowings. The interest cost of the borrowing is expensed over the life of the borrowing.

2.7 Resources received free of charge

Services received free of charge are recognised in the statement of Agency Revenues and Expenses 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 in the Net Cost of Services.

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.

2.8 Asset sales program

The Agency had no major asset sales through the Office of Asset Sales and Information Technology Outsourcing to report for 1997–98.

2.9 Grants (Administered)

The Agency administers a number of grant schemes on behalf of the Commonwealth. Grants to not-for-profit organisations, such as Migrant Resource Centres, are recognised by the Agency as expenses at the time of payment. The grants are for a 12 month period.

2.10 Employee entitlements

Leave

The liability for employee entitlements includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting sick leave and the average sick leave taken in future years by employees of the Agency is estimated to be less than the annual entitlement for sick leave.

The liability for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 1998 and is recognised at the nominal amount.

Employee entitlements for locally engaged staff at overseas posts is estimated by reference to average entitlements based on the Department of Foreign Affairs and Trade data.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees with three or more years of completed service. In determining the present value of the liability, the Agency has taken into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is also made for separation and redundancy payments in circumstances where the Agency has formally identified positions as excess to requirements and a reliable estimate of the amount of the payments can be determined.

Superannuation

Staff of the Agency contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$16 454 758 (1996–97 \$16 021 325) in relation to these schemes have been expensed in these financial statements.

No liability is shown for superannuation in the Statement of Agency Assets and Liabilities as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

Employer Productivity Superannuation Benefit contributions totalled \$3 172 455 (1996–97 \$3 318 091).

2.11 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are

amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are charged to the statement of Agency Revenues and Expenses on a basis which is representative of the pattern of benefits derived from the leased assets. 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 taking the form of 'free' leasehold improvements and rent free holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability.

2.12 Cash

Cash includes notes and coins held, and deposits held at call with a bank or financial institution.

2.13 Financial instruments

Accounting policies for financial instruments are stated at Note 21. The Agency is complying with the requirements of AAS33 Presentation and Disclosure of Financial Instruments, which applies to the Agency for the first time in 1997-98.

2.14 Acquisition of assets

Assets are recorded at cost of 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 department's accounts immediately prior to the restructuring.

2.15 Property, plant and equipment

Infrastructure, plant and equipment

Although a partial stocktake of infrastructure, plant and equipment was undertaken in 1997-98 there has been a breakdown in procedures for the

recording and control of assets during 1997-98. As a result, the Department's asset register cannot be relied upon as a complete and accurate record of infrastructure, plant and equipment and therefore the amounts for infrastructure, plant and equipment, the write down of assets, loss on sale of non-financial assets and depreciation as disclosed in the financial statements have not been able to be reliably determined.

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the statement of Agency Assets and Liabilities, except for purchases costing less than \$2000 which are expensed in the year of acquisition. Personal computers, regardless of cost, are recognised as assets.

Revaluations

Schedule 2 requires that the property plant and equipment be progressively revalued in accordance with the 'deprival' method of valuation by 1 July 1999 and thereafter be revalued progressively on that basis every three years.

The Agency is implementing a progressive revaluation of property, plant and equipment as follows:

- freehold land and buildings are being revalued progressively over the financial year 1997-98 and 1998-99, and thereafter over successive three year periods;
- leasehold improvements will be revalued during the financial year 1998-99; and
- plant and equipment assets are being revalued over the 1998-99 financial year, and thereafter over successive three year periods by type of asset. None of the IT assets are subject to finance leases.

Assets in each class acquired after the commencement of the progressive revaluation cycle will be reported at cost for the duration of the progressive revaluation then in progress.

The financial effect of the move to progressive revaluations is that the carrying amounts of assets will reflect current values and that depreciation charges will reflect the current cost of the service potential consumed in each period.

The application of the deprival method by the Agency values its land at its current market buying price and its other assets at their depreciated

replacement cost. Any assets which would not be replaced or are surplus to requirements are valued at net realisable value. All valuations are independent.

Depreciation and amortisation

Depreciable property, plant and equipment assets are written-off to their estimated residual value over their estimated useful lives to the Agency using, in all cases, the straight line method of depreciation. Leasehold improvements are amortised on a straight line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

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 price only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are as follows:

	1997–98	1996–97
Building and freehold land	60 years	60 years
Leasehold improvements	Lesser of lease term and 7 years	Lesser of lease term and 7 years
Plant and equipment	3 to 7 years	3 to 7 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 4C.

2.16 Intangibles

Intangibles consist of software used by the Agency which is amortised over their estimated useful life. Software applications developed by the Agency are for the management of the particular business of the Agency, such as the movement of people in and out of Australia, and are therefore developed with long term business requirements in mind. As part of the valuation plan for the internally developed software, the Agency is reviewing its present depreciation policy, which is three years.

2.17 Inventories

The Agency does not hold inventories for sale. Inventory not held for resale is valued at cost, unless they are no longer required, in which case

they are valued at net realisable value.

2.18 Administered investments

The Agency does not have Administered investments.

2.19 Taxation

The Agency is exempt from all forms of taxation except fringe benefits tax.

2.20 Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date. Associated currency gains or losses are not material.

2.21 Insurance

In accordance with Commonwealth Government policy, assets are not insured and losses are expensed as they are incurred. During 1998–99, an insurance scheme is being developed by the Department of Finance and Administration.

2.22 Comparative figures

With the exception of the allocation of costs and revenues to primary programs (refer Note 2.5), and those items noted below, comparative figures have been adjusted to conform with changes in presentation in these financial statements.

Agency Revenues and Expenses

1996–97 ordinary annual services (net appropriations) has a component which has been reclassified as Other revenues from independent sources.

Revenues and Expenses by program

1996–97 figures have been amended to reflect a revised program structure which was implemented in November 1997.

Note 7A – Employee provisions

The 1996–97 separation and redundancy provision included an amount for resignation benefits for locally engaged staff at overseas posts. These costs are now classified as locally engaged staff resignation benefits.

The 1996–97 North American Pension Scheme provision has similarly been adjusted.

2.22 Rounding

Amounts have been rounded to the nearest \$1000 except in relation to the following items:

- transactions of the Consolidated Revenue Fund, the Commercial Activities Fund, the Reserved Money Fund and Special Public Moneys;
- Act of Grace payments, Waivers;
- remuneration of executives; and
- remuneration of auditors.

Note 3

Events occurring after balance date

During the 1997–98 financial year the Agency decided to outsource the provision of IT infrastructure and services. Under the terms of the contract on 1 July 1998 certain IT assets with a written down value of \$12.6 million were sold to the service provider for \$3.8 million. As at 30 June 1998 those assets have been written down to reflect their recoverable amount.

Note 4

Goods and services expenses

	1997–98 \$'000	1996–97 \$'000
Remuneration	188 247	169 204
Separation and redundancy payments	<u>6 984</u>	<u>11 196</u>
Total	<u>195 231</u>	<u>180 400</u>

Note 4A Employee expenses

Remuneration	188 247	169 204
Separation and redundancy payments	<u>6 984</u>	<u>11 196</u>
Total	<u>195 231</u>	<u>180 400</u>

Note 4B Suppliers expenses

Supply of goods and services	134 391	127 768
Operating lease rentals	<u>35 447</u>	<u>18 006</u>
Total	<u>169 838</u>	<u>145 774</u>

Note 4C Depreciation and amortisation

Land and buildings	80	145
Infrastructure, plant and equipment	16 416	15 295
Intangibles	<u>632</u>	<u>4 482</u>
Total	<u>17 128</u>	<u>19 922</u>

Note 4D Write down of assets

Financial assets		
Receivables	0	252
Non-financial assets		
Land and buildings	0	93
Plant & equipment write down to realisable value	8 268	0
Infrastructure, plant and equipment	0	1 198
Intangibles write down to realisable value	<u>733</u>	<u>0</u>
Total	<u>9 001</u>	<u>1 543</u>

Abnormal write down of infrastructure, plant & equipment (IT Assets)

Under the terms of the contract, on 1 July 1998, certain IT assets were sold for \$3.8 million to an external service provider to undertake the provision, operation, management and support of IT services and equipment to the Agency. The written down value of the equipment sold was \$12.6 million and this has been reduced to \$3.8 million to reflect the recoverable amount of those assets.

1997-98	1996-97
\$'000	\$'000

Note 4E Write down of assets – Administered

Financial assets		
Receivables	4 193	1 611
Non-financial assets		
Infrastructure, plant and equipment	1 083	0
Intangibles	<u>761</u>	<u>0</u>
Total non-financial assets	<u>1 844</u>	<u>0</u>
Total	<u>6 037</u>	<u>1 611</u>

The write down of non-financial assets represents a transfer of Administered assets to the statement of Agency Assets and Liabilities.

Note 4F Net losses from sale of assets

Non-Financial assets		
Buildings	426	0
Infrastructure, plant and equipment	<u>265</u>	<u>120</u>
Total	<u>691</u>	<u>120</u>

Note 4G Other expenses – Administered

Contributions to other organisations	11 855	1,222
Operating lease rentals	7 006	7 873
Adult Migrant English Program	105 433	71 744
Compensation and Legal	2 496	1 635
Refugee maintenance, accommodation & humanitarian expenses	4 094	7 452
Migration detention centres	2 507	4 112
Other Administered expenses	<u>2 560</u>	<u>1 246</u>
Total	<u>135 951</u>	<u>95 284</u>

Note 5

Subsidies, benefits and grants

Note 5 Subsidies, benefits and grants – Administered

Grants to non profit institutions	32 589	37 414
Other	<u>2 005</u>	<u>1 882</u>
Total	<u>34 594</u>	<u>39 296</u>

Note 6

Debt

6A Loans from future running costs

Debt/loan	0	8 486
Financial asset – receivable	<u>0</u>	<u>6 428</u>
Net loan	<u>0</u>	<u>2 058</u>
Maturity schedule for loans		
Payable: within one year	0	2 058

	1997-98 \$'000	1996-97 \$'000
6B Other debt		
Lease incentives	<u>123</u>	<u>168</u>

Note 7

Provisions and payables

Note 7A Employee provisions

Salaries and wages	4 064	2 327
Leave	53 995	45 634
Separation and redundancies	2 096	869
Locally engaged staff resignation benefits	<u>11 270</u>	<u>8 993</u>
Aggregate employee entitlement liability	<u><u>71 425</u></u>	<u><u>57 823</u></u>

Note 7B Suppliers

Trade creditors	2 704	4 270
Operating lease rentals	<u>57</u>	<u>395</u>
Total	<u><u>2 761</u></u>	<u><u>4 665</u></u>

Note 7C Suppliers – Administered

Trade creditors	1 559	1 616
Operating lease rentals	<u>79</u>	<u>4</u>
Total	<u><u>1 638</u></u>	<u><u>1 620</u></u>

Note 8

Equity

8A Equity – Agency

	Capital \$'000	Accumulated results \$'000	Asset revaluation reserve \$'000	Total reserves \$'000	TOTAL EQUITY \$'000
Balance 1 July 1997	0	8 861	0	0	8 861
Change in accounting policy – recognition of assets previously expensed	0	15 337	0	0	15 337
Operating result	0	3 235	0	0	3 235
Net revaluation increases/(decreases)	0	0	91	91	91
Balance 30 June 1998	<u>0</u>	<u>27 433</u>	<u>91</u>	<u>91</u>	<u>27 524</u>

8B Equity – Administered

	Capital \$'000	Accumulated results \$'000	Asset revaluation reserve \$'000	Total reserves \$'000	TOTAL EQUITY \$'000
Balance 1 July 1997	0	2 546	0	0	2 546
Operating result	0	6 251	0	0	6 251
Balance 30 June 1998	<u>0</u>	<u>8 797</u>	<u>0</u>	<u>0</u>	<u>8 797</u>