

Department of Foreign Affairs and Trade

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Overview

Objectives of the Department of Foreign Affairs and Trade

The Department of Foreign Affairs and Trade (DFAT) is an Australian Government controlled entity. It is a not-for-profit, non-corporate Commonwealth entity. The continued existence of DFAT in its present form and with its present outcomes and programs is dependent on Government policy and on continuing funding by Parliament for DFAT's administration and programs.

DFAT's role is to advance the interests of Australia and Australians internationally, providing foreign, trade and investment, development and international security policy advice to the Government. DFAT works with other Government agencies to ensure that Australia's pursuit of its global, regional and bilateral interests is coordinated effectively. DFAT's role involves working to strengthen Australia's security, enhancing Australia's prosperity, delivering an effective and high quality aid programme and helping Australian travellers and Australians overseas. The DFAT Portfolio Budget Statements are structured to meet three outcomes:

- **Outcome 1:** The advancement of Australia's international strategic, security and economic interests including through bilateral, regional and multilateral engagement on Australian Government foreign, trade and international development policy priorities,
- **Outcome 2:** The protection and welfare of Australians abroad and access to secure international travel documentation through timely and responsive travel advice and consular and passport services in Australia and overseas, and
- **Outcome 3:** A secure Australian Government presence overseas through the provision of security services and information and communications technology infrastructure, and the management of the Commonwealth's overseas property estate.

DFAT's activities that contribute towards these outcomes are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by DFAT in its own right. Administered activities involve the management or oversight by DFAT, on behalf of the Government, of items controlled or incurred by the Government.

DFAT conducts the following administered activities on behalf of the Government:

- Official development assistance,
- Consular and passport services,
- Public information services and public diplomacy,
- International climate change engagement,
- The New Colombo Plan,
- Programs to promote Australia's international tourism interests, and
- Payments to international organisations.

Official development assistance administered by DFAT includes international development assistance and multilateral replenishments. Appropriation funding is allocated through country, regional and global programs, and includes payments to international organisations, emergency and humanitarian programs, contributions to non-Government organisations (NGOs) and volunteer programs. The aid program promotes Australia's national interest by contributing to sustainable economic growth and poverty reduction, particularly in the Indo-Pacific.

Basis of Preparation

The financial statements and notes are general purpose financial statements and are required by section 42 of the Public Governance, Performance and Accountability Act 2013.

The financial statements and notes have been prepared in accordance with:

- a) the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR), and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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The Department has applied the Reduced Disclosure Requirements issued by the AASB with the exception of disclosures prepared under the following accounting standards, as required under subsection 18(3) of the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR):

- AASB 7 Financial Instruments: Disclosure (administered only),
- AASB 12 Disclosure of Interests in Other Entities (administered only),
- AASB 13 Fair Value Measurement (administered and departmental), and
- AASB 116 Property, Plant and Equipment (administered and departmental).

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

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified. 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 at the end of the reporting period. Exchange gains and losses are reported in the Statement of Comprehensive Income. DFAT does not enter into hedging arrangements for its foreign currency transactions and all foreign exchange gains or losses are considered non-speculative in nature.

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes. Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Taxation

DFAT is exempt from all forms of Australian taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Overseas, DFAT may be subject to Value Added Tax (VAT) or similar on the purchase of goods and services. Revenues, expenses, assets and liabilities are recognised net of GST / VAT except:

- a) where the amount of GST or VAT incurred is not recoverable from the Australian Taxation Office or overseas taxation authority, and
- b) for receivables and payables.

Events After the Reporting Period

There have been no events after 30 June 2019 which will affect the financial position of DFAT materially at the reporting date.

New Accounting Standards

No accounting standard has been adopted earlier than the application date as stated in the standard. Where transitional provisions apply, all changes in accounting policy are made in accordance with their respective transitional provisions.

All new / revised / amending standards and / or interpretations that were issued prior to the signing of the statement by the Secretary and Chief Financial Officer and are applicable to the current reporting period did not have a material effect on DFAT's financial statements.

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Future Accounting Standards

New accounting standards which will have a future impact on DFAT financial statements are detailed below.

| Accounting Standard | Effective Date | Nature of Change |
|--|--|--|
| AASB 16 Leases | 1 January 2019, therefore applied from the 2019-20 financial year. | <p>AASB 16 requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains substantially unchanged.</p> <p>DFAT will first apply the accounting standard to leases in the 2019-20 financial reporting period. As outlined by Department of Finance, DFAT will adopt cumulative catch up transitioning application option to the new standard where it does not result in restatement of comparatives.</p> <p>Likely impact: The adoption of the new standard and related amendments will result in total assets and liabilities increasing by approximately \$1.112B, which is primarily due to recognising operating lease assets and liabilities.</p> <p>The standard also impacts the Statement of Comprehensive Income. Under the existing standard operating lease costs are measured on a straight line basis and disclosed as operating lease minimum payments. The application of new standard results in finance costs and depreciation charges disclosed in the Statement of Comprehensive Income. Under the new standard the same total expenses are recognised over the lease term as the previous standard AASB 17. However, the timing of recognised expenses differs, with greater expenses recorded earlier in the lease term under AASB 16.</p> <p>There is no change to the cash flow statement other than reclassification of lease payments from operating activities as interest payment portion as operating activities and principal repayment as investing activities.</p> |
| AASB 1058 Income of Not-for-Profit Entities AASB 15 Revenue from Contracts with Customers | 1 January 2019, therefore applied from the 2019-20 financial year. | More closely recognises not-for-profit income transactions that are not contracts with customers in accordance with their economic reality. The timing of income recognition will depend on whether there is any performance obligation or other liability, which will result in better matching of income and related expenses. |

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Significant Accounting Judgements and Estimates

In the process of applying the accounting policies detailed in these statements, DFAT has made the following estimates and judgements that have a significant impact on the amounts recorded in the departmental financial statements:

- The fair value of land and buildings has been taken to be the market value of similar properties as determined by an independent valuer. In some instances, DFAT's buildings are purpose built and may in fact realise more or less in the market.
- The fair value of plant and equipment has been taken to be the market value of similar assets or depreciated replacement value as determined by an independent valuer.
- The employee provisions have been determined by reference to advice from the Australian Government Actuary and standard parameters provided by the Department of Finance.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next reporting period.

Administered

In the process of applying the accounting policies detailed in these statements, DFAT has made the following estimates and judgements that have a significant impact on the amounts recorded in the Administered financial statements:

- The fair value of the administered financial instruments in 2018-19 has been determined on a basis consistent with previous years, using professional valuation advice. The fair value of the financial instruments reported in future periods will be affected by variables such as discount rates, exchange rates and possible impairment.
- A number of debts recorded on the Efic National Interest Account (NIA) are impaired, with the impairment assessment based on judgement of the risks to repayment of the debts. For some debts the judgement is discussed and agreed between DFAT and Efic, and is informed by assessment of the economic and political environment and previous repayment history.
- The fair value of DFAT's defined benefit obligations have been determined on a basis consistent with previous years using professional actuarial calculations that require assumptions about future events. The fair value of the defined benefit schemes reported in future periods will be affected by variables such as discount rates, exchange rates, salary fluctuations and inflation rates.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next reporting period.

Changes in Accounting policy

Certain comparative amounts have been reclassified or adjusted to conform with current financial reporting guidelines. These are reflected as minor changes in the comparative figures in the statement of comprehensive income and notes 1.1C: Impairment loss allowance on financial instruments, 1.1D: Write-down and impairment of other assets, 3.1B: Trade and other receivables, 3.3A: Suppliers, 6.2: Key management personnel remuneration and 7.3A: Categories of financial instruments.

Administered

Certain comparative amounts have been reclassified or adjusted to conform with current financial reporting guidelines. These are reflected as minor changes in the comparative figures in the administered schedule of assets and liabilities, administered reconciliation schedule, administered cashflow statement, and notes 2.1D: Impairment loss allowance on financial instruments, 2.1E: Other expenses, 4.1A: Cash and cash equivalents, 7.5A: Categories of financial instruments and 7.5D: Fair value of financial instruments.

With the introduction of AASB 9 the multilateral International Development Association (IDA) and Asian Development Fund (ADF) subscription assets have changed classification from non-monetary available for sale debt instruments to non-monetary equity instruments at Fair Value through Other Comprehensive Income (FVOCI). Net valuation changes resulting from foreign exchange variations, discounting and impairment are now reflected in Other Comprehensive Income for 2018-19. There was no change in the recognition of valuation changes for liabilities.

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Changes in Accounting policy – prior year adjustments

Administered

Consistent with Division 6 section 48(8) of the FRR, DFAT discloses trust balances held within the special account in the footnote to the special account note and has not included trust balances as cash or cash equivalents in the financial statements or in any statement or notes required by AASB 7 Financial Instruments: Disclosures or AASB 9 Financial Instruments. This change in accounting treatment was made to improve accountability, transparency and consistency of the treatment of trust transactions held within special accounts across the Commonwealth in accordance with the FRR.

The impacts of this change on the comparative figures in the financial statements for 2018-19 are as follows:

| Comparative | 2017-18 Audited (\$'000) | Movement (\$'000) | 2017-18 Restated (\$'000) |
|---|--------------------------------|----------------------|---------------------------------|
| <i>Schedule of assets and liabilities</i> | | | |
| Cash and cash equivalents | 9,453 | (7,866) | 1,587 |
| Net impact on: | | | |
| Reconciliation Schedule | 9,453 | (7,866) | 1,587 |
| Reflects the removal of trust balances held in the special accounts (see Note 4.1B) from the opening balances of assets and liabilities (decrease of \$8.646m) and the movement during 2017-18 in the Special account payments to other entities other than corporate Commonwealth entities (increase of \$19.415m) and transfer to OPA (increase \$20.195m). | | | |
| Net impact on: | | | |
| Cash flow statement | 9,453 | (7,866) | 1,587 |

The net impact of the above is included in the comparative “Cash to Official Public Account – Appropriations” and reflects the exclusion of trust balances held in the special accounts from the opening balances of cash (reduction of \$8.646m) and the movement during 2017-18 in cash used (IDA decrease \$20.195m) and Cash to OPA (decrease \$19.415m in Appropriations).

As part of the transfer of the Asian Development Fund (ADF) into the Asian Development Bank’s (ADB) Consolidated Capital Reserve (OCR) on 1 January 2017 all subscription rights were fixed based on cash contributions paid at the time of transfer. All outstanding pledge payments from this date no longer attract a right to a subscription asset. This change was advised during the preparation of the 2018-19 financial statements. For comparative purposes therefore the outstanding pledge payments of \$129.662m have been moved from Other Payables: Multilateral contributions - FV through profit and loss to Grants: Multilateral grants payable – FV through profit and loss to better enable comparison with the 2018-19 numbers.