

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. DFAT is 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 and other loans. 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. These programs are focussed on providing assistance to developing countries to reduce poverty and improve living standards.

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) for reporting periods ending on or after 1 July 2015, and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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*,
- AASB 12 *Disclosure of Interests in Other Entities*,
- AASB 13 *Fair Value Measurement*, and
- AASB 116 *Property, Plant and Equipment*.

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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.

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.

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.

There have been no events after 30 June 2017 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. When 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.

Significant Accounting Judgements and Estimates

Departmental

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 property, 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 2016-17 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.

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.

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Change in Accounting Policy – prior year adjustments

Consistent with division 6 section 48 of the FRR, DFAT now discloses special accounts as cash in the financial statements. This change in accounting treatment was made to improve accountability, transparency and consistency of the treatment of special accounts across the Commonwealth in accordance with the FRR.

The impacts of this change on the comparative figures in the financial statements for 2016-17 are as follows:

Departmental

To move the special account balance from receivable to cash and cash equivalents.

Comparative	2015-16 Audited (\$'000)	Movement (\$'000)	2015-16 Restated (\$'000)
<i>Statement of financial position</i>			
Cash and cash equivalents	57,295	103,889	161,184
Trade and other receivables	801,089	(103,889)	697,200

The cash flow statement has also been restated in light of the above.

Administered

To remove special account funds recognised in liabilities for aid related purposes and to recognise all special account balances in cash and cash equivalents.

Comparative	2015-16 Audited (\$'000)	Movement (\$'000)	2015-16 Restated (\$'000)
<i>Schedule of assets and liabilities</i>			
Cash and cash equivalents	257	25,426	25,683
Other payables	(965,376)	20,223	(945,153)
Net impact on:	(1,077,175)	(45,649)	(1,122,824)
<i>Reconciliation Schedule</i>			
Reflects inclusion of special account balances in the opening balances of assets and liabilities (increase \$20.601m) and the movement during 2015-16 in Special account payments to entities other than corporate Commonwealth entities (decrease of \$11.995m) and in transfers to OPA (decrease \$13.053m).			
Net impact on:			
<i>Cash flow statement</i>	257	25,426	25,683

Reflects inclusion of special account balances in the opening balances of cash (increase \$13.431m) and the movement during 2015-16 in cash used (IDA increase \$13.053m), and Cash to OPA (increase \$13.053m in Appropriations) and Cash from OPA (decrease \$11.995m Special accounts).