Appendix 1 — Financial statements

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Health and Ageing

Scope

I have audited the accompanying financial statements of the Australian Institute of Health and Welfare (the Institute) for the year ended 30 June 2007, which comprise: a statement by the Directors; income statement; balance sheet; statement of changes in equity; cash flow statement; schedules of commitments and contingencies; a summary of significant accounting policies; and other explanatory notes.

The Responsibility of the Directors for the Financial Statements

The Directors of the Institute are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and the Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial

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statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Institute, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial statements of the Australian Institute of Health and Welfare:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* and the Australian Accounting Standards (including the Australian Accounting Interpretations); and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian Institute of Health and Welfare's financial position as at 30 June 2007 and of its financial performance and its cash flows for the year then ended.

Australian National Audit Office

Carla Jago
Executive Director

Delegate of the Auditor-General
Canberra

18 September 2007

Australian Government
Australian Institute of Health and Welfare

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STATEMENT BY DIRECTORS

In our opinion, the attached financial statements for the year ended 30 June 2007 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Institute will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the directors.

Ian Spicer, AM	Penny Allbon
Acting Chair	Director
17 September 2007	17 September 2007

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Australian Institute of Health and Welfare

INCOME STATEMENT

for the period ended 30 June 2007

	Notes	2007 $'000	2006 $'000
INCOME			
Revenue			
Revenues from Government	3A	**8,625**	8,549
Sale of goods and rendering of services	3B	**16,300**	14,332
Interest	3C	**353**	280
Other revenues	3D	**8**	114
Total revenue		**25,286**	23,275
TOTAL INCOME		**25,286**	23,275
EXPENSES			
Employee benefits	4A	**15,426**	15,072
Suppliers	4B	**9,400**	7,485
Depreciation and amortisation	4C	**588**	659
Write-down of assets	4D	**187**	35
Net losses from sale of assets	4E	**9**	5
TOTAL EXPENSES		**25,610**	23,256
Surplus/(Deficit)		**(324)**	19

The above statement should be read in conjunction with the accompanying notes.

Australian Institute of Health and Welfare

BALANCE SHEET

as at 30 June 2007

	Notes	2007 $'000	2006 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	5A	**7,133**	4,906
Receivables	5B	**4,601**	4,348
Total financial assets		**11,734**	9,254
Non-financial assets			
Buildings	6A,D	**1,492**	1,124
Infrastructure, plant and equipment	6B,D	**363**	573
Library collection	6C,D	**350**	501
Intangibles	6E	**478**	662
Inventories	6F	**66**	68
Other non-financial assets	6G	**377**	210
Total non-financial assets		**3,126**	3,138
Total Assets		**14,860**	12,392
LIABILITIES			
Payables			
Suppliers	7A	**920**	466
Other payables	7B	**397**	325
Contract income in advance	7C	**6,705**	4,761
Total payables		**8,022**	5,552
Provisions			
Employee provisions	8A	**4,237**	4,234
Other provisions	8B	**423**	436
Total provisions		**4,660**	4,670
Total liabilities		**12,682**	10,222
Net Assets		**2,178**	2,170
EQUITY			
Contributed equity		**1,146**	1,146
Reserves		**1,600**	1,268
Retained surpluses/(accumulated deficits)		**(568)**	(244)
Total Equity		**2,178**	2,170
Current Assets		**12,178**	9,532
Non-current Assets		**2,682**	2,860
Current Liabilities		**11,788**	9,355
Non-current Liabilities		**894**	867

The above statement should be read in conjunction with the accompanying notes.

Australian Institute of Health and Welfare

STATEMENT OF CHANGES IN EQUITY

as at 30 June 2007

	Retained Earnings		Asset Revaluation Reserve		Contributed Equity/Capital		Total Equity	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening Balance								
Balance carried forward from previous period	**(244)**	(263)	**1,268**	756	**1,146**	1,146	**2,170**	1,639
Adjustment for errors	**-**	-	**-**	-	**-**	-	**-**	-
Adjustment for changes	**-**	-	**-**	-	**-**	-	**-**	-
Adjusted opening balance	**(244)**	(263)	**1,268**	756	**1,146**	1,146	**2,170**	1,639
Income and Expense								
Income and expense recognised Directly in Equity	**-**	-	**332**	512	**-**	-	**332**	512
Sub-total income and expenses recognised directly in equity	**-**	-	**332**	512	**-**	-	**332**	512
Surplus (Deficit) for the period	**(324)**	19	**-**	-	**-**	-	**(324)**	19
Total income and expenses	**(324)**	19	**332**	512	**-**	-	**8**	531
Transactions with Owners								
Distributions to owners								
Return on Capital: Dividends	**-**	-	**-**	-	**-**	-	**-**	-
Contributions by Owners								
Appropriation (equity injection)	**-**	-	**-**	-	**-**	-	**-**	-
Restructuring	**-**	-	**-**	-	**-**	-	**-**	-
Sub-total Transactions with Owners								
Closing balance at 30 June	**(568)**	(244)	**1,600**	1,268	**1,146**	1,146	**2,178**	2,170

The above statement should be read in conjunction with the accompanying notes.

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Australian Institute of Health and Welfare

CASH FLOW STATEMENT

for the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		**19,692**	16,211
Appropriations		**8,625**	8,549
Interest		**365**	266
Other		**8**	114
Total cash received		**28,690**	25,140
Cash used			
Employees		**15,563**	15,202
Suppliers		**9,860**	8,442
Net GST paid		**826**	675
Total cash used		**26,249**	24,319
Net cash from or (used by) operating activities	9	**2,441**	821
INVESTING ACTIVITIES			
Cash received			
Sale of property, plant and equipment		**1**	-
Total cash received		**1**	-
Cash used			
Purchase of property, plant and equipment		**215**	270
Total cash used		**215**	270
Net cash from or (used by) investing activities		**(214)**	(270)
Net Increase or (Decrease) in Cash Held		**2,227**	551
Cash at the beginning of the reporting period		**4,906**	4,355
Cash at the end of the reporting period	5A	**7,133**	4,906

The above statement should be read in conjunction with the accompanying notes.

Australian Institute of Health and Welfare

SCHEDULE OF COMMITMENTS

as at 30 June 2007

	2007 $'000	2006 $'000
BY TYPE		
Commitments		
Operating leases [1]	**10,146**	1,457
Other [2]	**2,776**	2,894
Total commitments	**12,922**	4,351
Commitments receivable	**(17,363)**	(12,264)
Net commitments by type	**(4,441)**	(7,913)
BY MATURITY		
Operating lease commitments		
One year or less	**1,519**	1,355
From one to five years	**5,752**	102
Over five years	**2,875**	-
Total operating lease commitments	**10,146**	1,457
Other commitments		
One year or less	**2,384**	1,605
From one to five years	**392**	1,289
Total other commitments	**2,776**	2,894
Total commitments payable	**12,922**	4,351
Commitments receivable		
Contract work commitments [2]		
One year or less	**(9,960)**	(6,677)
From one to five years	**(6,231)**	(5,195)
Total contract work commitments	**(16,191)**	(11,872)
Goods and Services Tax (GST)	**(1,172)**	(392)
Total commitments receivable	**(17,363)**	(12,264)
Net commitments by maturity	**(4,441)**	(7,913)

NB: Commitments are GST inclusive where relevant.

[1] Operating leases are effectively non-cancellable and comprise:

Leases for office accommodation

- Lease payments are subject to annual increases or reviews until the end of the lease.
- The lease term is seven years.
- Current leases expire in July and August 2014.

Computer equipment lease

- The lease term is three years, on expiry of the lease term, the Institute has the option to extend the lease period, return the computers, or trade in the computers for more up-to-date models.

Agreements for the provision of motor vehicles to Senior Executive Officers.

- No contingent rentals exist. There are no renewal or purchase options available to the Institute.

[2] Other commitments are primarily amounts relating to the Institute's contract work.

The above schedule should be read in conjunction with the accompanying notes.

Australian Institute of Health and Welfare

SCHEDULE OF CONTINGENCIES

as at 30 June 2007

	2007 $'000	2006 $'000
CONTINGENCIES	**Nil**	Nil

As at 30 June 2007, the Institute has no contingent assets, remote contingencies or unquantifiable contingencies (2006: Nil).

The above schedule should be read in conjunction with the accompanying notes.

Australian Institute of Health and Welfare

Notes to and forming part of the Financial Statements

Australian Institute of Health and Welfare

Notes to and forming part of the Financial Statements

Note 1: Summary of Significant Accounting Policies

1.1 Basis of Preparation of the Financial Statements

The financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a General Purpose Financial Report.

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

The Financial Statements have been prepared in accordance with:
- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2006; and
- Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period.

The financial report has been prepared on an accrual basis and is in accordance with historical cost convention, except for certain assets 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 report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless an alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the Institute and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrealised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable).

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when and only when the flow or future economic benefits or consumption or loss of future economic benefits resulting in a reduction in assets or an increase in liabilities has occurred and can be reliably measured.

1.2 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the Institute has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of leasehold improvements has been taken to be the depreciated replacement cost as determined by an independent valuer.

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

1.3 Statement of Compliance

Australian Accounting Standards require a statement of compliance with International Financial Reporting Standards (IFRSs) to be made where the financial report complies with these standards. Some Australian equivalents to IFRSs and other Australian Accounting Standards contain requirements specific to not-for-profit entities that are inconsistent with IFRS requirements. The Institute is a not for profit entity and has applied these requirements, so while this financial report complies with Australian Accounting Standards including Australian Equivalents to International Financial Reporting Standards (AEIFRSs) it cannot make this statement.

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the effective date in the current period.

The Institute is required to disclose Australian Accounting Standards and Interpretations which have been issued but are not yet effective that have not been early adopted by the Institute. The following adopted requirements have resulted in a change to the Institute's accounting policies or have affected the amounts reported in the current or prior periods or are estimated to have a financial affect in future reporting periods.

Other effective requirement changes

The following amendments, revised standards or interpretations have become effective but have had no financial impact or do not apply to the operations of the Institute.

Amendments:
- 2004-3 Amendments to Australian Accounting Standards [AASBs 1, 101, 124]
- 2005-6 Amendments to Australian Accounting Standards [AASB 3]

- 2006-1 Amendments to Australian Accounting Standards [AASB 121]
- 2006-3 Amendments to Australian Accounting Standards [AASB 1045]
- 2005-4 Amendments to Australian Accounting Standards (AASB 139, AASB132, AASB 1, AASB 1023 and AASB 1038)
- 2005-5 Amendments to Australian Accounting Standards (AASB 1 and AASB139)
- 2005-9 Amendments to Australian Accounting Standards (AASB 4, AASB 1023, AASB 139 and AASB 132)

Interpretations:

- UIG 4 Determining whether an Arrangement contains a Lease
- UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
- UIG 8 Scope of AASB 2
- UIG 9 Reassessment of Embedded Derivatives

UIG 4 and UIG 9 might have impacts in future periods, subject to existing contracts being renegotiated.

Future Australian Accounting Standard requirements

The following new standards, amendments to standards or interpretations have been issued by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of adopting these pronouncements when effective will have no material financial impact on future reporting periods.

Financial instrument disclosure

AASB 7 *Financial Instruments: Disclosures* is effective for reporting periods beginning on or after 1 January 2007 (the 2007-08 financial year) and amends the disclosure requirements for financial instruments. In general AASB 7 requires greater disclosure than that presently associated with the introduction of AASB 7. A number of accounting standards were amended to reference the new standard or remove the present disclosure requirements through 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]. These changes have no financial impact but will affect the disclosure presented in future financial reports.

Other

The following standards and interpretations have been issued but are not applicable to the operations of the Institute.
• AASB 1049 Financial Reporting of General Government Sectors by Governments
• UIG 10 Interim Financial Reporting and Impairment

1.4 Revenue

Revenue from the sale of goods is recognised when:

- The risks and rewards of ownership have been transferred to the buyer;
- The seller retains no managerial involvement nor effective control over the goods;
- The revenue and transaction costs incurred can be reliably measured; and·
- It is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- The amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- The probable economic benefits with the transaction will flow to the entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement.*

Revenues from Government

Amounts appropriated for outputs appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. Appropriations receivable are recognised at their nominal amounts.

1.5 Gains

Other Resources Received Free of Charge

Resources received free of charge are recognised as gains 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 as gains at their fair value when the asset qualifies for recognition, unless received from another Government Authority or Authority as a consequence of a restructuring of administrative arrangements (Refer to Note 1.6).

Sale of Assets

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

1.6 Transactions with the Government as Owner

Equity injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) are recognised directly in Contributed Equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Commonwealth agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Other distributions to owners

The FMOs require that distributions to owners be debited to contributed equity unless in the nature of a dividend.

1.7 Employee Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for 'short-term employee benefits' (as defined in AASB 119) and termination benefits due within twelve months are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

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

The leave liabilities are calculated on the basis of employees' remuneration, including the Institute's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave is recognised and measured at the present value of the estimated future cashflows to be made in respect of all employees at 30 June 2007. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and Redundancy

Provision is also made for separation and redundancy benefits in cases where positions have been formally identified as excess to requirements, the existence of an excess has been publicly communicated, and a reliable estimate of the amount payable can be determined.

Superannuation

Staff of the Institute are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Commonwealth. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

The Institute makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Institute's employees. The Institute accounts for the contributions as if they were contributions to defined contribution plans.

From 1 July 2005, new employees are eligible to join the PSSap scheme.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.8 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, 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 either the fair value of the lease property or, if lower, the present value of minimum lease payments at the inception of the contract and a liability recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. 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 expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

1.9 Borrowing Costs

All borrowing costs are expensed as incurred.

1.10 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

1.11 Financial Risk Management

The Institute's activities expose it to normal commercial financial risk. As a result of the nature of the Institute's business and internal and Australian Government policies dealing with the management of financial risk, the Institute's exposure to market, credit, liquidity and cash flow and fair value interest rate risk is considered to be low.