**NOTE 1: Summary of Significant Accounting Policies**

* 1. **Objectives of the Department of Communications**

The Department of Communications (the Department) is a Government controlled entity. It is a not-for-profit entity. The objective of the Department is to promote an innovative and competitive communications sector, through policy development, advice and program delivery, so all Australians can realise the full potential of digital technologies and communications services.

The Department is structured to meet one outcome:

**Outcome 1: Promote an innovative and competitive communications sector, through policy development, advice and program delivery, so all Australians can realise the full potential of digital technologies and communications services**

The continued existence of the Department in its present form and with its present programs is dependent on Government policy and on continuing funding by Parliament for the Department’s administration and programs. In the 2014-15 Budget, the Government announced the decision to transfer the functions of the Telecommunications Universal Service Management Agency (TUSMA) to the Department. The Department established a working group to identify and address matters related to the transition. The working group addressed issues including: governance, legal, finance, people, risk management, contract management, programme delivery and systems.

Department activities contributing toward its outcome are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the Department in its own right. Administered activities involve the management or oversight by the Department, on behalf of the Government, of items controlled or incurred by the Government.

The Department is structured to deliver its outcome through a single programme: Digital Technologies and Communications Services. The Department provides strategic advice on and administers programmes and initiatives that promote an innovative and competitive communications sector so all Australians can realise the full potential of digital technologies and communications services. This includes advising on and facilitating:

* Opportunities arising from the innovative adoption and use of digital technologies
* The delivery of competitive and efficient digital infrastructure to drive growth in the broader economy
* Promotion of competition, while ensuring access to basic services, making available socially valuable content, and safeguarding consumers from inappropriate content.
  1. **Compliance with statutory requirements**

The Australian Government continues to have regard to developments in case law, including the High Court’s most recent decision on Commonwealth expenditure in *Williams v Commonwealth [2014] HCA 23*, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

* 1. **Basis of Preparation of the Financial Statements**

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

The financial statements have been prepared in accordance with:

1. Financial Reporting Rule (FRR) for reporting periods ending on or after 1 July 2014; and
2. Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and 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.

Unless an alternative treatment is specifically required by an accounting standard or the FRR, assets and liabilities are recognised in the statement of financial position when and only when it is probable that future economic benefits will flow to the Department or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under executory contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the schedule of commitments or the contingencies note.

Unless an alternative treatment is specifically required by an accounting standard or FRR, income and expenses are recognised in the statement of comprehensive income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

* 1. **Significant Accounting Judgements and Estimates**

In the process of applying the accounting policies listed in this note, the Department has made some judgements that do have a significant impact on the amounts recorded in the financial statements. Estimates made in relation to the departmental financial statements are to: non-financial assets; employee provisions; lease incentives; and the make-good for leased properties.

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.

In relation to Administered Investments in Australia Post, management estimates are used to determine volume and price growth rates that underpin the discounted cash flow valuation at the end of the reporting period. Actual results may differ from these estimates under different assumptions and conditions and may materially affect the financial position reported in future periods.

* 1. **New Australian Accounting Standards**

*Adoption of New Australian Accounting Standard Requirements*

No accounting standard has been adopted earlier than the application date as stated in the standard. No new standards, revised standards, interpretations or amending standards that were issued prior to the signing of the Statement by the Accountable Authority and Chief Financial Officer and were applicable to the current reporting period had a material financial impact or were expected to have a material future financial impact on the Department.

The AASB 1055 *Budgetary Reporting* requires the Department to report on budgetary information and explanation of significant variances between actual results and budgeted amounts. The Department has applied the new disclosure within the financial statements as outlined in Note 32: Budgetary Reports.

*Future Australian Accounting Standard Requirements*

No new standards, revised standards, interpretations and amending standards that were issued prior to the signing of the Statement by the Accountable Authority and the Chief Financial Officer and are applicable to future reporting periods are expected to have a material future financial impact on the Department.

* 1. **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 Department.

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 associated with the transaction will flow to the Department.

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 impairment allowance. Collectability of debts is reviewed at balance date. Impairment allowances 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*.

*Revenue from Government*

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the Department gains control of the appropriation, 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. **Gains**

*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 agency or authority as a consequence of a restructuring of administrative arrangements (refer to Note 1.8).

*Sale of Assets*

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

* 1. **Transactions with the Government as Owner**

*Equity Injections*

Amounts appropriated that are designated as ‘equity injections’ for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

*Restructuring of Administrative Arrangements*

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

*Distributions to Owners*

The FRR require that distributions to owners be debited to equity unless they are in the nature of a dividend.

* 1. **Employee Benefits**

Liabilities for ‘short-term employee benefits’ (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of the end of reporting period 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.

*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 Department is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees’ remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the Department’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 has been determined by using the Department of Finance’s Short Hand Method as at 30 June 2015, as outlined in the FRR. The estimate of the present value of the liability takes into account expected attrition rates and pay increases through promotion and inflation.

*Separation and Redundancy*

Provision is made for separation and redundancy benefit payments. The Department recognises a payable or provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

*Superannuation*

Staff of the Department are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other superannuation fund as elected by staff.

The CSS and PSS are defined benefit schemes of the Government. 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. This liability is reported in the Department of Finance’s administered schedules and notes.

The Department makes employer contributions to the employees’ superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The Department accounts for the contributions as if they were contributions to defined contribution plans.

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

* 1. **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 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 an 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. A liability is 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 representative of the pattern of benefits derived from the leased assets.

Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

* 1. **Fair Value Measurement**

The Department deems transfers between levels of the fair value hierarchy to have occurred at the end of the reporting period.

* 1. **Cash**

Cash is recognised at its nominal amount. Cash and cash equivalents include:

* Cash on hand; and
* Cash in special accounts.
  1. **Financial Assets**

The Department classifies financial assets as ‘cash and cash equivalents’, ‘trade and other receivables’ and ‘other financial assets’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Loans and Receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘trade and other receivables’.

*Impairment of Financial Assets*

Financial assets are assessed for impairment at the end of each reporting period. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the estimated cash flows. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

* 1. **Financial Liabilities**

The Department’s financial liabilities are classified as ‘other financial liabilities’.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

*Supplier and Other Payables*

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

*Grants and Subsidies Payable*

Grants and subsidies made by the Department are recognised as liabilities and expenses only at the time that the recipient has met all obligations and conditions required in the grant or subsidy agreement.

*Parental Leave Payments Scheme*

The Department offsets amounts received under Parental Leave Payments Scheme (for payment to employees) by amounts paid to employees under that scheme, because these transactions are only incidental to the main revenue-generating activities of the Department. Amounts received by the Department not yet paid to employees are presented gross as cash and a liability (payable). Amounts attributable to the scheme only appear in the financial statements to the extent that they remain unpaid at year end.

* 1. **Contingent Liabilities and Contingent Assets**

Contingent liabilities and contingent assets are not recognised in the Statement of Financial Position but are reported in the notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

* 1. **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. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

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

* 1. **Property, Plant and Equipment**

*Asset Recognition Threshold*

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than $2,000, which are expensed in the year of acquisition (other than where they form part of a related group that is significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to ‘make-good’ provisions in property leases taken up by the Department where an obligation exists to restore the property to its original condition. These costs are included in the value of the Department’s leasehold improvements with a corresponding provision for the ‘make-good’ recognised.

*Revaluations*

Fair values for each class of asset are determined as shown below:

|  |  |
| --- | --- |
| ***Asset Class*** | ***Fair value measured at:*** |
| Land and buildings | Depreciated replacement cost |
| Property, plant and equipment | Market selling price or depreciated replacement cost |

Following initial recognition at cost, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets’ fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through the Statement of Comprehensive Income. Revaluation decrements for a class of assets are recognised directly through the Statement of Comprehensive Income, except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Assets purchased during the financial year are excluded from asset revaluation as they represent fair value.

*Depreciation*

Depreciable property, plant and equipment are written-off to their estimated residual values over their estimated useful lives to the Department using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2015** | 2014 |  |
| Land and Buildings |  |  |  |
| * Leasehold improvements | **Lower of 10 years or lease term** | Lower of 10 years or lease term |  |
| Property, Plant and Equipment |  |  |  |
| * Computer equipment | **3 to 5 years** | 3 to 5 years |  |
| * Plant, office equipment, furniture & fittings | **5 to 10 years** | 5 to 10 years |  |

*Impairment*

All assets were assessed for impairment at 30 June 2015. Where indications of impairment existed, the asset’s recoverable amount was estimated and an impairment adjustment made if the asset’s recoverable amount was less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset’s ability to generate future cash flows, and the asset would be replaced if the Department were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

*Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

* 1. **Intangibles**

The Department’s intangibles comprise software externally purchased and internally developed software. These assets are carried at cost less accumulated amortisation and accumulated impairment losses. Software is amortised on a straight-line basis over its anticipated useful life.

The useful lives of the Department’s software are:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2015** | 2014 |  |
| * Externally purchased software | **3 to 5 years** | 3 to 5 years |  |
| * Internally developed software | **3 to 5 years** | 3 to 5 years |  |

All software assets were assessed for indications of impairment as at 30 June 2015.

* 1. **Taxation**

The Department is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except:

* where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
* for receivables and payables.

**1.20 Reporting of Administered Activities**

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.

*Administered Cash Transfers to and from the Official Public Account*

Revenue collected by the Department for use by the Government rather than the Department is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of the Government. These transfers to and from the OPA are adjustments to the administered cash held by the Department on behalf of the Government and reported as such in the Schedule of Administered Cash Flows and in the Administered Reconciliation Schedule.

*Revenue*

All administered revenues are revenues relating to the course of ordinary activities performed by the Department on behalf of the Government. As such, administered appropriations are not revenues of the individual entity that oversees distribution or expenditure of the funds as directed.

Dividends are recognised when the right to receive payment is established.

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

Rental Income is recognised over the term of the Indefeasible Rights of Use granted by the Commonwealth to external parties for use of the Administered Property, Plant and Equipment.

*Administered Investments*

Administered investments in subsidiaries, joint ventures and associates are not consolidated because their consolidation is relevant only at the Whole of Government level.

Administered investments, other than those held for sale, are classified as 'available for sale' and are measured at their fair value as at 30 June 2015. Apart from the Australian Postal Corporation, fair value has been taken to be the Australian Government's proportional interest in the net assets of the entities as at end of reporting period.

For 2014-15, fair value estimates for the Australian Postal Corporation are based on a discounted cash flow valuation calculated using cash flow forecasts extracted from the Australia Post Corporate Plan 2015/16 - 2018/19. The forecasts use management estimates to determine volume and price growth rates. Actual results may differ from these estimates under different assumptions and conditions and may materially affect the financial position reported in future periods. For the 2013-14, fair value has been taken to be the net assets of Australia Post at the end of the reporting period, plus the difference between fair value and cost of Land and Buildings.

*Guarantees*

The amounts guaranteed by the Commonwealth have been disclosed in Note 25 to the extent that they are quantifiable.

At 30 June 2015, there is no reason to believe that the guarantees would be called upon and the likelihood of future settlement is considered remote, therefore, recognition of a liability is not required. The guarantees are in relation to NBN Co’s financial obligations under the Definitive Agreements and are measured as follows:

Telstra Financial Guarantee: the total of committed future payments during the contract term for infrastructure accessed at 30 June 2015, calculated based on current pricing.

NBN Co’s Equity Agreement: the sum of: total liabilities per NBN Co’s Statement of Financial Position and the discounted value of the minimum contractual commitments entered into at 30 June 2015.

Optus Financial Guarantee: NBN Co’s financial obligations under the Hybrid Fibre Coaxial (HFC) Subscriber Agreement for the period of the national broadband rollout in Optus Hybrid Fibre Coaxial areas at 30 June 2015.

*Grants and Subsidies*

The Department administers a number of grant and subsidy schemes on behalf of the Government.

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, but payments due have not been made. A commitment is recorded when the Commonwealth enters into an agreement to make these grants but services have not been performed or criteria satisfied.

Subsidy liabilities are recognised to the extent that the subsidy eligibility criteria have been satisfied, but payments due have not been made.

*Payments to corporate Commonwealth entities*

Payments to corporate Commonwealth entities from amounts appropriated for that purpose are classified as administered expenses, loans or an increase to the administered investment of the Department. The Department makes payments to both the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service Corporation (SBS). The appropriation to the Department is disclosed in Table A of the appropriations note.

*Loans and Receivables*

Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

*Property, Plant and Equipment*

Revaluations

Fair values for Regional Backbone Blackspots Program (RBBP) network infrastructure assets under property, plant and equipment category are determined based on the depreciated replacement cost methodology. The methodology is calculated for each individual part of the asset using a price per unit adjusted for inflation, a quantity of each component and a location factor before being aggregated to form the values for each identified component of the assets: fibre optic cable, CEV shelters and BPol cabinets.

Revaluation adjustments of RBBP assets are made on a component basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through the Statement of Comprehensive Income. Revaluation decrements for a class of assets are recognised directly through the Statement of Comprehensive Income, except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation rates applying to property, plant and equipment are based on a useful life of 25-30 years (2014: 25-30 years).

In 2014-15, an independent valuer conducted a revaluation of these assets as at 31 March 2015.

*Inventories*

Inventories held for distribution are valued at cost, adjusted for any loss of service potential.

**NOTE 2: Events after the Reporting Period**

**Departmental**The Telecommunications Universal Service Management Agency (TUSMA) was transitioned to the Department on 1 July 2015. The functions include the administration of the telecommunications universal service obligation, which provides for services such as public payphones and the National Relay Service for the hearing impaired. The reform is part of the Government’s *Smaller Government Reform Agenda,* which was announced in the 2014-15 Budget in order to streamline the delivery of public services.

The Digital Transformation Office (DTO) was established as a separate portfolio agency and commenced operation on 1 July 2015. It forms part of the Communications Portfolio from that date.

There are no other events that occurred after reporting date that would materially affect the departmental financial statements.

**Administered**  
The Telecommunications Universal Service Management Agency (TUSMA) was transitioned on 1 July 2015 with its functions transferred to the Department. The functions include the administration of the telecommunications universal service obligation, which provides for services such as public payphones and the National Relay Service for the hearing impaired. The reform is part of the Government’s *Smaller Government Reform Agenda*, which was announced in the 2014-15 Budget in order to streamline the delivery of public services.

There are no other events that occurred after reporting date that would materially affect the administered financial statements.