

AUSTRALIAN INSTITUTE OF HEALTH AND WELFARE
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 For the year ended 30 June 2005

2 Adoption of Australian Equivalents to International Financial Reporting Standards from 2005-2006

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the Australian Equivalents to International Financial Reporting Standards (AEIFRS). The International Financial Reporting Standards are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime, including reporting periods ending on 30 June 2005.

The purpose of issuing AEIFRS is to enable Australian reporting entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

For-profit entities complying with AEIFRS will be able to make an explicit and unreserved statement of compliance with International Financial Reporting Standards (IFRS) as well as a statement that the financial report has been prepared in accordance with Australian Accounting Standards.

AEIFRS contain certain additional provisions that will apply to not-for-profit entities, including not-for-profit Australian Government Authorities. Some of these provisions are in conflict with IFRSs, therefore the Institute will only be able to assert that the financial report has been prepared in accordance with Australian Accounting Standards.

AAS 29 *Financial Reporting by Government Departments* will continue to apply under AEIFRS. Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial report for 2004-05 disclose:

- an explanation of how the transition to AEIFRS is being managed;
- narrative explanations of the key policy differences arising from the adoption of AEIFRS;
- any known or reliably estimable information about the impacts on the financial report had it been prepared using the Australian equivalents to IFRS; and
- if the impacts of the above are not known or reliably estimable, a statement to that effect.
- Where an entity is not able to make a reliable estimate, or where quantitative information is not known, the entity should update the narrative disclosures of the key differences in accounting policies that are expected to arise from the adoption of AEIFRS.

The purpose of this Note is to make these disclosures.

Management of the transition to AEIFRS

- The Institute has taken the following steps for the preparation towards the implementation of AEIFRS:
- The Chief Executive Officer is tasked with oversight of the transition to and implementation of AEIFRS. The Chief Finance Officer is formally responsible for the project and reports regularly to the Audit Committee on progress against the formal plan.
- The plan requires the following key steps to be undertaken and sets deadlines for their achievement:
- All major accounting policy differences between current AASB standards and AEIFRS were identified by 30 June 2004;
- System changes necessary to be able to report under the AEIFRS, including those necessary to capture data under both sets of rules for 2004-05 were completed in September 2004. This included the testing and implementation of those changes;

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- No material adjustments were identified in relation to the AEIFRS transitional balance sheet as at 1 July 2004.
- An AEIFRS compliant balance sheet was also prepared during the preparation of the 2004-05 statutory financial reports; and
- The 2004-05 Balance Sheet under AEIFRS will be reported to the Department of Finance and Administration in line with their reporting deadlines.

Major changes in accounting policy

The Institute believes that the first financial report prepared under AEIFRS i.e. at 30 June 2006, will be prepared on the basis that the Institute will be a first time adopter under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Changes in accounting policies under AEIFRS are applied retrospectively i.e. as if the new policy had always applied except in relation to the exemptions available and prohibitions under AASB 1. This means that an AEIFRS compliant balance sheet has to be prepared as at 1 July 2004. This will enable the 2005-06 financial statements to report comparatives under AEIFRS.

A first time adopter of AEIFRS may elect to use exemptions under paragraphs 13 to 25E. When developing the accounting policies applicable to the preparation of the 1 July opening balance sheet, no exemptions were applied by the Institute.

Changes to major accounting policies are discussed in the following paragraphs.

Management's review of the quantitative impacts of AEIFRS represents the best estimate of the impacts of the changes as at reporting date. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- continuing review of the impacts of AEIFRS on the Institute operations;
- potential amendments to the AEIFRS and AEIFRS Interpretations; and
- emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

Property, plant and equipment

It is expected that the 2005-06 Finance Minister's Orders will continue to require property plant and equipment assets to be valued at fair value in 2005-06.

Intangible Assets

The Institute currently recognises internally-developed software assets on the cost basis.

The AEIFRS standard on Intangibles does not permit intangibles to be measured at valuation unless there is an active market for the intangible. The Institute's internally-developed software is specific to the needs to the Institute and is not traded. The Intangible assets of the Institute have not been subject to prior revaluation processes. As a result there will be no impact on the measurement of this item.

Impairment of Intangibles and Property, Plant and Equipment

The Institute's policy on impairment of non-current assets is at Note 1.12.

Under AEIFRS these assets will be subject to assessment for impairment and, if there are indications of impairment, measurement of any impairment (impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. 'Value in use' is the net present value of net cash inflows for cash generating units assets of the Institute and depreciated replacement cost for other assets that would be replaced if the Institute were deprived of them.

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The most significant changes are that, for the Institute's cash generating units, the recoverable amount is only generally to be measured where there is an indication of impairment. Previously all assets' recoverable amount was tested.

However, an impairment assessment of the Institute's intangible assets indicated that no adjustments will be required.

Decommissioning, Restoration and Make-good

An assessment of accommodation leases for the preparation of the opening balance sheet has been completed with obligations for makegood identified in both leases held by the Institute.

The Institute is required to recognise a provision for decommissioning and removal of assets and site restoration in regard to accommodation leases. The value of the provision must be recognised as part of the cost of the underlying asset (deferred expense).

The impact of this change is an increase in Leasehold Improvement assets by \$250,433, an increase in other provisions of \$281,170 and an increase in accumulated deficits of \$30,737

Inventory

The new AEIFRS standard will require inventory held for distribution for no consideration or at a nominal amount to be carried at the lower of cost or current replacement cost. No material holdings of inventory held for distribution have been identified by the Institute and no impact is expected.

Employee Benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds.

The 2003-04 Financial Report noted that AEIFRS may require the market yield on corporate bonds to be used. The AASB has decided that a deep market in high quality corporate bonds does not exist and therefore national government bonds will be referenced.

AEIFRS also require that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. After assessing the staff leave profile, the impact of this change would have the effect of reducing Employee Provisions by \$44,031 and decreasing accumulated deficits by \$44,031.

Financial Instruments

AEIFRS include an option for entities not to restate comparative information in respect of financial instruments in the first AEIFRS report. It is expected that Finance Minister's Orders will require entities to use this option. Therefore, the amounts for financial instruments presented in the Institute's 2004-05 primary financial statements are not expected to change as a result of the adoption of AEIFRS.

The Institute will be required by AEFIRS to restate the carrying amount of financial instruments at 1 July 2005 to align with the accounting policies required by AEIFRS. It is expected that the carrying amounts of most financial instruments held by the Institute will be unaffected by this requirement.

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Reconciliation of Impacts – AGAAP to AEIFRS

	30 June 2005 *	30 June 2004
	\$'000	\$'000
Reconciliation of the Australian Institute of Health and Welfare Equity		
Total Equity under AGAAP	1,669	1,673
Adjustments to accumulated results	13	32
Adjustments to other reserves	-	-
Total Equity under AEIFRS	<u>1,682</u>	<u>1,705</u>
Reconciliation of the Australian Institute of Health and Welfare Accumulated Results		
Total Accumulated Results under AGAAP	(233)	(241)
Adjustments:		
Liabilities - Employee Provisions	44	32
Depreciation and amortisation	(31)	-
Total Accumulated Results under AEIFRS	<u>(220)</u>	<u>(209)</u>
Reconciliation of the Australian Institute of Health and Welfare Reserves		
Total Reserves under AGAAP	756	768
Adjustments	-	-
Total Reserves under AEIFRS	<u>756</u>	<u>768</u>
Reconciliation of the Australian Institute of Health and Welfare Contributed Equity		
Total Contributed Equity under AGAAP	1,146	1,146
Adjustments	-	-
Total Contributed Equity under AEIFRS	<u>1,146</u>	<u>1,146</u>
Reconciliation of the Australian Institute of Health and Welfare Net Profit for the year ended 30 June 2005		
Net Profit under AGAAP	8	49
Adjustments:		
Employee expenses	12	-
Depreciation and amortisation	(31)	-
Net Profit under AEIFRS	<u>(11)</u>	<u>49</u>

* 30 June 2005 total represents the accumulated impacts of AEIFRS from the date of transition.