

The Auditor-General  
Audit Report No.17 2011–12  
Financial Statement Audit

**Audits of the Financial Statements of  
Australian Government Entities for the  
Period Ended 30 June 2011**

Australian National Audit Office

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Canberra ACT  
15 December 2011

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the 2010–11 financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities in accordance with the authority contained in the *Auditor-General Act 1997*.

Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present this report and the accompanying brochure that reports on the results of these audits. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.  
Yours sincerely

Ian McPhee  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## **AUDITING FOR AUSTRALIA**

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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## Abbreviations and Acronyms

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AAO	Administrative Arrangements Order
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
AGD	Attorney-General's Department
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
ASA	Australian Auditing Standard
ATO	Australian Taxation Office
AUASB	Australian Auditing and Assurance Standards Board
BCM	Business Continuity Management
BCP	Business Continuity Plan
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CEIs	Chief Executive's Instructions
CE	Chief Executive
CFO	Chief Finance Officer
CFS	Consolidated Financial Statements
CoC	Certificate of Compliance
CRF	Consolidated Revenue Fund
Customs	Australian Customs and Border Protection Service
DMO	Defence Materiel Organisation

DAFF	Department of Agriculture, Fisheries and Forestry
DBCDE	Department of Broadband, Communications and the Digital Economy
DCCEE	Department of Climate Change and Energy Efficiency
Defence	Department of Defence
DEEWR	Department of Education, Employment and Workplace Relations
DFAT	Department of Foreign Affairs and Trade
DIAC	Department of Immigration and Citizenship
Infrastructure	Department of Infrastructure and Transport
DIISR	Department of Innovation, Industry, Science and Research
DoHA	Department of Health and Ageing
DHS	Department of Human Services
DRET	Department of Resources, Energy and Tourism
DSEWPAC	Department of Sustainability, Environment, Water, Population and Communities
DVA	Department of Veterans' Affairs
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FASB	United States Financial Accounting Standards Board
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
FRSB	New Zealand Financial Reporting Standards Board
GAAP	Generally Accepted Accounting Principles

GFS	Government Finance Statistics
GGs	General Government Sector
GST	Goods and Services Tax
HRMIS	Human Resources Management Information System
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
PM&C	Department of the Prime Minister and Cabinet
RBA	Reserve Bank of Australia
Treasury	Department of the Treasury

# Summary

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## Introduction

1. The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake financial statement audits of all Australian Government entities including those of government agencies, statutory authorities and government business enterprises.
2. The preparation of audited financial statements in compliance with the Finance Minister's Orders<sup>1</sup> (FMOs) is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unmodified audit opinion. Australian Government entities, in cooperation with the Australian National Audit Office (ANAO), devote considerable effort to achieving timeliness in financial reporting.
3. ANAO financial statement audits are an independent examination of the financial accounting and reporting of public sector entities. The results of the examination are presented in an auditor's report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein fairly present each entity's financial position and the results of its operations and cash flows. The accounting treatments and disclosures reflected in the financial statements by the entity are assessed against relevant Accounting Standards and legislative reporting requirements.
4. In addition to undertaking financial statement audits, the ANAO tables two reports annually addressing the outcomes of the financial statement audits of public sector entities. The first of these, *Audit Report No.54 2010–11 Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2011*, outlined the ANAO's assessment of audit findings relating to the internal controls of major agencies, including governance arrangements, information systems and control procedures. The

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<sup>1</sup> The Finance Minister's Orders (FMOs) made by the Minister for Finance and Deregulation set out the requirements for the preparation of financial statements of all reporting entities covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

findings summarised in that report are the results of the interim phase of the financial statement audits of major General Government Sector agencies.

5. This report complements the interim phase report referred to above, and provides a summary of the final audit results of the audits of the financial statements of all Australian Government entities, including the Consolidated Financial Statements for the Australian Government.

6. The audit findings in this report have been reported to the management of each entity, and to the responsible Minister(s).

### **Accounting and auditing framework developments**

7. There were few changes to Australian Accounting Standards in 2010–11. One noteworthy change was the requirement that long-term leases of land should be assessed and, where they transfer substantially all the risks and rewards of ownership, the land be included as an asset on the lessee's balance sheet.

8. While, for the foreseeable future, changes to Australian Accounting Standards will be driven mainly by major developments in Accounting Standards internationally, the Australian Accounting Standards Board (AASB) has also initiated a number of domestic projects. The project to harmonise reporting by government entities with the Australian Bureau of Statistics' Government Finance Statistics (GFS) framework is continuing, the focus is now turning from whole-of-Government reporting to consideration of Government-controlled entities. Australian Accounting Standards harmonising financial reporting requirements of Australian and New Zealand for-profit entities have also been released. The AASB is also considering applying to not-for-profit entities similar disclosures of related party transactions and executive remuneration that already apply to for-profit entities.

9. At the international level, significant changes to Accounting Standards and the conceptual frameworks used to develop Standards are underway. A suite of new and revised Standards is expected to begin to come into effect from 2013–14, changing reporting requirements in important areas such as financial instruments, revenue, leases, fair value measurement and reporting by groups of entities. During 2010–11, work continued on new conceptual frameworks for financial reporting, in order to provide a sound base for the development of future Accounting Standards.

10. The 2010–11 financial year was the first year of the full application to the audit of the financial statements of Australian Government entities of the revised and re-drafted Clarity Auditing Standards issued by the Australian Auditing and Assurance Standards Board (AUASB).

## Summary of audit findings

11. The ANAO is responsible for the audits of the financial statements of all the Australian Government entities. For the 2010–11 financial year, the Auditor-General and senior staff, delegated to issue audit reports, issued 254 audit reports (unmodified audit opinions); no modified audit reports; five reports included an emphasis of matter<sup>2</sup> and 48 reports contained a reference to other legal and regulatory requirements.<sup>3</sup>

12. Three reports referred to breaches of section 83 of the Constitution together with a risk of breaches of section 83. In addition, 45 reports referred to a risk of breaches of section 83, or the need to undertake risk assessments, in relation to payments from special appropriations and special accounts. A breach of section 83 of the Constitution occurs if payments are not made in accordance with conditions required by law. Relevant agencies have indicated that the circumstances giving rise to this issue will be investigated.

## Consolidated Financial Statements

13. The Consolidated Financial Statements that presents the consolidated whole-of-government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector financial report, was signed by the Minister for Finance and Deregulation (Finance Minister) on 30 November 2011.

14. In 2010–11, the Consolidated Financial Statements incorporates both the whole-of-government and General Government Sector financial reports required by AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

15. As a AASB 1049-compliant General Government Sector report was prepared for the first time in 2009–10, this is the first year that explanations of variances between the original budget and 2009–10 actuals have been included

<sup>2</sup> An emphasis of matter is included in the auditor's report to draw the reader's attention to a matter that is of such importance that it is fundamental to the users' understanding of the financial statements.

<sup>3</sup> All numbers are as at 30 November 2011.

in an audited set of Australian Government financial statements. The Consolidated Financial Statements continues the prior year approach of incorporating aggregate disclosure of ministerial remuneration.

16. The auditor's report on the 2010–11 Consolidated Financial Statements was also issued on 30 November 2011 and expressed the opinion that the statements give a true and fair view of the Australian Government's and the General Government Sector's financial position as at 30 June 2011 and their financial performance and cash flows for the year then ended.

### **Entity financial statements**

17. There was a reduction in the number and significance of issues arising from the final phase of the 2010–11 financial statement audits of individual entities. The number of significant and moderate audit findings decreased from 50 in 2009–10 to 36 in 2010–11, a reduction of some 28 per cent. This is consistent with the trend in relation to the results of our audits in recent years, which has seen a significant reduction in the number of significant and moderate audit issues. Issues that are common across a number of entities that were identified in the final audit phase as requiring attention by entities were in respect of: support for a range of provisions relating to payments to the States and Territories in accordance with the provisions of the *Federal Financial Relations Act 2009*; controls in entities' IT environments, such as user access and the segregation of duties; asset management processes including accounting for assets under construction, asset stocktakes and the integrity of asset registers; and business system processing controls. These issues are generally consistent with our audit findings in previous years.

18. Generally, our audits also found that entities have made good progress in addressing and resolving, where possible, issues identified during the interim audit phase.

19. The ANAO continues to include an assessment of compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public moneys in its financial statement audits. There continues to be a high level of compliance in most of these areas. However, as mentioned above, the auditor's report on the financial statements of a large number of agencies mentioned a risk of breaches of section 83 of the Constitution.



## **Financial statements preparation**

20. Consistent with previous years, the large majority of entities' financial statements were completed within three months of the end of the financial year. This reflects positively on the priority entities give to meeting their financial reporting responsibilities and on the financial stewardship of the public sector generally.

21. There has also been an increase in the number of entities that met the deadlines for the submission of audit cleared financial information to the Department of Finance and Deregulation.

## **Future audit coverage**

22. The ANAO will continue to work closely with entity audit committees and management with the aim of assisting entities to continue to meet their financial management responsibilities including addressing areas where improvements are warranted.

# 1. Introduction

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*This chapter provides background to the audits of the financial statements of Australian Government entities, sets out the structure of this report and acknowledges the contribution of staff of the ANAO and entities in the preparation of this report.*

## Background

**1.1** Each year the results of the annual financial statement audit work undertaken by the ANAO are reported to the Parliament in two reports. This report provides the final results of the audit of the financial statements of all Australian Government entities and the Consolidated Financial Statements of the Australian Government, for the financial year ended 30 June 2011. The results of the interim phase<sup>4</sup> of the audits of significant entities were reported in Audit Report No.54 2010–11 *Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ended 30 June 2011*.<sup>5</sup> These reports also discuss contemporary issues and practices impacting on public sector entities' financial reporting responsibilities, and the ANAO's responsibilities.

**1.2** The preparation of audited financial statements in compliance with the FMOs<sup>6</sup>, which require adherence to the Australian Accounting Standards, is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unmodified audit opinion. Australian Government entities in cooperation with the ANAO devote considerable effort to achieving timeliness in financial reporting.

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<sup>4</sup> Financial statement audits are generally performed in two phases; interim and final. The interim phase focuses on an assessment of agencies' key internal controls; in the final audit phase the ANAO completes its assessment of the effectiveness of key controls for the full year, substantively tests material balances and disclosures in the financial statements, and finalises its opinion on the agencies' financial statements.

<sup>5</sup> The 27 agencies covered in Audit Report No.54 2010–11 represent approximately 95 per cent of total General Government Sector revenues and expenses.

<sup>6</sup> The FMOs made by the Finance Minister set out the requirements for the preparation of financial statements of all reporting entities covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

**1.3** The ANAO conducts its financial statement audits in accordance with the ANAO Auditing Standards that incorporate the Australian Auditing Standards. An audit performed in accordance with the Australian Auditing Standards is designed to provide reasonable assurance that a financial report taken as a whole is free from material misstatement whether due to fraud or error. Reasonable assurance as defined in the Australian Auditing Standards means a high, but not absolute, level of assurance. It is reached when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial report is materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit as most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion is persuasive rather than conclusive.<sup>7</sup>

## Report structure

**1.4** The report is organised as follows:

- Chapter Two - Financial Reporting and Auditing Frameworks: provides commentary on recent developments in the financial reporting and auditing frameworks relevant to the Australian Government and its reporting entities.
- Chapter Three - Results of the Audit of the Consolidated Financial Statements: outlines the results of the audit of the Consolidated Financial Statements, which includes the Whole of Government and the General Government Sector Financial Reports, of the Australian Government for the year ended 30 June 2011.
- Chapter Four - Summary of Audit Results and Related Issues: provides a summary of issues included in our reports on entities' 2010–11 financial statements including: a commentary on the risk of breaches of section 83 of the Constitution in a number of agencies; a summary of other audit findings identified in the 2010–11 audits; an analysis of entities' operating results; and commentary on the preparation of entity 2010–11 financial statements and the 2010–11 Certificate of Compliance process.

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<sup>7</sup> ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards, paragraph 5.

- Chapter Five - Results of Financial Statement Audits by Portfolio: summarises the results of the 2010–11 financial statement audits of individual Australian Government entities. The chapter is structured in accordance with the portfolio arrangements established by the Administrative Arrangements Orders (AAOs) of 14 October 2010. For reporting purposes, this reflects the portfolio arrangements that existed on 30 June 2011.

## Acknowledgements

**1.5** I would like to acknowledge the professionalism and commitment of my staff in finalising the audits of some 254 entities' financial statements in the tight timeframes required. This work has enabled the tabling of this report in a timely manner for the information of the Parliament. I would also like to acknowledge the important role that Audit Committees, Chief Financial Officers and other entity staff involved in financial statement preparations continue to play. Their efforts in providing information and assistance to the ANAO were much appreciated.

## 2. Financial Reporting and Auditing Frameworks

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*This chapter provides commentary on recent developments in the financial reporting and auditing frameworks relevant to the Australian Government and its reporting entities. The financial reporting and auditing frameworks are illustrated at Appendices 2 and 3 of this Report.*

### Introduction

**2.1** The Australian Government's financial reporting framework is based, in large part, on Standards made independently by the AASB. This framework is designed to support the decision-making and accountability needs of the Parliament and other external users.

**2.2** The AASB bases its Accounting Standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) but also takes account of Standards issued by the International Public Sector Accounting Standards Board. Because IFRS are designed for for-profit organisations, the AASB adds material to address the financial reporting needs of the public and not-for-profit private sectors. Additional financial reporting requirements for Australian Government agencies and authorities are prescribed by the Finance Minister in the FMOs.

**2.3** There were few changes to Australian Accounting Standards in 2010–11. One noteworthy change was the requirement that long-term leases of land should be assessed and, where they transfer substantially all the risks and rewards of ownership, the land be included as an asset on the lessee's balance sheet.

**2.4** While, for the foreseeable future, changes to Australian Accounting Standards will be driven mainly by major developments in Accounting Standards internationally, the AASB has also initiated a number of domestic projects. The project to harmonise reporting by government entities with the Australian Bureau of Statistics' GFS framework is continuing, the focus now turning from whole-of-Government reporting to consideration of Government-controlled entities. Australian Accounting Standards harmonising financial reporting requirements of Australian and New Zealand for-profit entities have also been released. The AASB is also considering applying to not-for-profit

entities the disclosures of related party transactions and executive remuneration that already apply to for-profit entities, modified as necessary.

**2.5** At the international level, significant changes to Accounting Standards and the conceptual frameworks used to develop Standards are underway. A suite of new and revised Standards is expected to begin to come into effect from 2013–14, changing reporting requirements in important areas such as financial instruments, revenue, leases, fair value measurement and reporting by groups of entities. During 2010–11, work continued on new conceptual frameworks for financial reporting, in order to provide a sound base for the development of future Accounting Standards.

**2.6** ANAO Auditing Standards incorporate by reference the auditing and assurance Standards made by the AUASB, which in turn are based on International Standards. The 2010–11 financial year was the first year of the full application of the revised and re-drafted 'clarity' Auditing Standards to the audit of the financial statements of Australian Government entities.

## **Recent changes to the Australian public sector reporting framework**

### **Long-term leases of land**

**2.7** Assets are sometimes leased in a way that effectively transfers the risks and rewards of ownership to the lessee. Accounting Standards have long required that such assets generally be included on the balance sheet of the lessee, with the lessor recognising the right to receive rentals, rather than the physical asset. Until recently, an exception was made for land, on the basis that the risks and rewards of land could never be fully transferred by a lease, since land has an unlimited life. However, because some leases of land can be for very long periods, Accounting Standard setters decided that it was possible to transfer substantially all the risks and rewards of ownership. The exception has therefore been removed<sup>8</sup> and all leases must now be assessed on the same basis.

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<sup>8</sup> This change was made by Australian Accounting Standard AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (AASB 5, AASB 8, AASB 101, AASB 107, AASB 117, AASB 118, AASB 136 & AASB 139), effective from reporting periods beginning on or after 1 January 2010.

## Relief from preparing two sets of financial statements

**2.8** Prior to 2009–10, Australian companies with subsidiaries were required by the *Corporations Act 2001* (the Corporations Act) to present two types of financial statements: one showing the consolidated results for all companies in the group (consolidated statements) and another showing the results for the company alone (parent statements). In 2009–10, the Corporations Act was amended to allow companies to omit the parent entity financial statements, on condition that certain information about the parent entity was included in the consolidated statements. From 2010–11, the Finance Minister has extended this relief, with the same conditions, to Australian Government agencies and authorities. This means that all Australian Government entities with subsidiaries may now choose to prepare a single, consolidated financial report.

## Use of Australian Bureau of Statistics' GFS Manual in Whole of Government Reporting

**2.9** In May 2011, the AASB amended AASB 1049 *Whole of Government and General Government Sector Financial Reporting*<sup>9</sup>. The key amendment relates to the requirement to include information prepared in accordance with the Australian Bureau of Statistics' GFS Manual. The Manual is updated from time to time, and governments will now be permitted to use any version that was in force up to two years before reporting date. This amendment will give governments sufficient time to reflect changes to the Manual in their financial statements. This change is part of a broader post-implementation review of AASB 1049, which is expected to result in further amendments to the Standard by the end of 2011.

## Future developments in the Australian public sector reporting framework

### Superannuation

**2.10** AASB 119 *Employee Benefits* has been reissued and is applicable to reporting periods beginning on or after 1 January 2013. The revised Standard introduces a single approach for the recognition and measurement of certain superannuation plans. Previously, entities were permitted a number of measurement options, including the ability to defer some gains and losses to

<sup>9</sup> The amendments were made by AASB 2011-2 *Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments*, which were able to be adopted for annual reporting periods beginning from 1 January 2009.

future periods. Under the revised AASB 119, all gains and losses will be recognised in the period in which they occur. Disclosure requirements have also been revised and include disclosure of fair value information for plan assets, sensitivity analysis for major assumptions and descriptions of the risks associated with the plan.

## **Transactions with related parties**

**2.11** Australian for-profit entities must comply with AASB 124 *Related Parties*, which requires entities to disclose information about transactions with related parties. Related parties of an entity are generally those entities or persons that manage, control or significantly influence the entity, together with their close family members.

**2.12** Commencing for reporting periods on or after 1 July 2011, AASB 124 has been amended to introduce more targeted disclosure of transactions between government entities. These disclosures will provide detailed information on significant inter-government transactions, with summarised information for less significant and routine transactions.

**2.13** In July 2011, the AASB released a proposal to extend these requirements to not-for-profit entities. This would mean that all Australian Government entities would be required to disclose transactions with key management personnel and Ministers. The proposed commencement date is 1 July 2013.

## **Non-exchange transactions**

**2.14** Since 2009, the AASB has been exploring alternatives to the current requirements for accounting for revenue from government, taxes and grants, known collectively as non-exchange transactions. In February 2011, the AASB decided to broaden the focus of the project to all revenue of not-for-profit entities. The revenue accounting rules for not-for-profit entities will be based on the IASB's work in developing an Accounting Standard on Revenue from Contracts with Customers (see below) but with modifications, where necessary, to address not-for-profit-specific issues. Revenue from Government, taxes and grants are major transactions for many Australian Government entities and changes to the Accounting Standards could have a significant impact on the recognition of some items of revenue and expense.



## Further relief from preparing two sets of financial statements

**2.15** AASB 2011-5 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* (AASB 127, AASB 128 & AASB 131) was issued by the AASB in July 2011 and is applicable to reporting periods beginning on or after 1 July 2011.

**2.16** AASB 127 *Consolidated and Separate Financial Statements* already provides certain entities with relief from presenting consolidated statements where their intermediate or ultimate parent complies with IFRS. AASB 2011-5 extends this relief to similar not-for-profit entities, which includes all government-controlled not-for-profit entities. Entities applying the relief only need to present parent statements and will not be subject to the consolidation requirements of AASB 127. However, this relief will not apply to the General Government Sector financial statements. In addition, the FMOs currently do not allow Australian Government entities to omit consolidated statements.

## GFS-GAAP Harmonisation

**2.17** As part of a post-implementation review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, the AASB has sought comments on proposals to improve that Standard. The AASB proposals include:

- removing any ambiguity about whether financial reports are required for the General Government Sector;
- requiring General Government Sector and whole of Government reports to be made available at the same time and cross-referenced;
- clarifying the requirements for recasting budget information included in the General Government Sector and whole of Government reports; and
- requiring all aggregates of government financial performance to be measured in accordance with Australian Accounting Standards and to clearly identify those that do not meet the definition of key fiscal aggregates in AASB 1049.

**2.18** The AASB has also progressed its project to consider the application of some of the principles in AASB 1049 to the financial reports of not-for-profit entities within the General Government Sector. In June 2011, the AASB released the following key proposals:

- entities to recognise and measure assets and liabilities in accordance with the GFS Manual, where a choice is permitted under Australian Accounting Standards;
- presentation of financial information in line with the GFS Manual, to the extent this does not conflict with Australian Accounting Standards. The content may be presented in the main financial statements or as supplementary note disclosure. Both items controlled by the entity and those administered on behalf of government would be presented together; and
- a comparison of the original budget with the outcome for the year, explaining major variances from the budget.

### **Differential financial reporting - reduced disclosure requirements**

**2.19** The AASB has implemented a differential financial reporting regime that provides an option for the majority of reporting entities to reduce their reporting burden. While the regime was promulgated in late 2009–10, the relevant Standards do not come into effect until 2013–14.

**2.20** The regime distinguishes two tiers of reporting requirements. Entities in the first tier will prepare financial statements in accordance with the full suite of Australian Accounting Standards. Federal, state and territory governments are in the first tier. Entities in the second tier will prepare similar financial statements, but with substantially reduced disclosure requirements. Government controlled entities and universities may opt for either tier, subject to the requirements of their regulator. The Finance Minister is the regulator for Australian Government entities, and has not yet made a decision to allow the adoption of the reduced disclosure regime.

**2.21** As new Accounting Standards are developed, or existing Standards are amended, the AASB considers which disclosures should not be required of Tier 2 entities.

**2.22** The differential reporting regime provides an opportunity to reduce the administrative workload of some Australian Government entities and make their financial reports easier to read, while preserving sufficient disclosures to satisfy the needs of the Parliament.

## International Developments

### IASB - Second wave of changes

**2.23** The IASB is planning significant changes to Accounting Standards that are expected to come into effect over the next several years. Many of these changes are being developed jointly with the United States Financial Accounting Standards Board (FASB), in the interests of global harmonisation of Accounting Standards. Because Australian Accounting Standards are based on the IASB Standards, the proposed changes are likely to have a major impact on Australian financial reporting, including by the public sector.

#### *Financial Instruments*

**2.24** The IASB is progressing a project to improve the usefulness of financial statements by simplifying the classification and measurement requirements for financial instruments. Measurement rules for financial assets will be considerably simplified and more financial assets are likely to be measured at current market values, rather than historical cost. However, requirements relating to financial liabilities are largely unchanged. The IASB is now developing requirements for writing down assets and accounting for hedging transactions.

**2.25** The IASB expects to finalise the new financial instruments standard in 2012.

#### *Leases*

**2.26** The IASB is conducting a project to develop a new approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognised in the balance sheet. Currently many shorter-term leases are not shown as assets or liabilities on the balance sheet; instead, lease payments relating to such leases are expensed over the lease term. Under the proposals, entities including many Australian Government entities with shorter-term leases, would record the present value of lease payments as assets on their balance sheets, together with corresponding liabilities.

**2.27** The new Accounting Standard resulting from this project is expected to be released in 2012.

### **Fair value measurement**

**2.28** Several Accounting Standards require entities to disclose the fair value of their assets and liabilities. However, guidance on measuring fair value is spread among several Standards and is often high-level, and there are some inconsistencies between Standards. In May 2011, the IASB issued an Accounting Standard to provide a single source of fair value measurement guidance that clarifies the definition of fair value, provides a clear framework for measuring fair value and enhances the disclosures about fair value measurements. In September 2011, the AASB issued AASB 13 *Fair Value Measurement*, replicating the IASB standard. AASB 13 takes effect from 1 January 2013.

### **Revenue**

**2.29** The IASB has initiated a project to provide clear principles on when revenue should be recognised from contracts with customers and how such revenue should be reported. These principles would apply to all contracts with customers except leases, financial instruments and insurance contracts.

**2.30** The main objectives of this project are to:

- remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework;
- provide a single revenue recognition model which will improve comparability over a range of industries, companies and geographical boundaries; and
- simplify the preparation of financial statements by reducing the number of requirements to which preparers must refer.

**2.31** The key principles on which the proposed model is based – revenue is recognised on transfer to the customer and measured at transaction price – are generally consistent with current Australian practice.

**2.32** A new standard is expected to be released in 2012.

## Consolidation

**2.33** In May 2011, the IASB released three Accounting Standards tightening the requirements for the consolidation of subsidiaries and special purpose vehicles and requiring the substance of joint arrangements to be disclosed. The changes are intended to give investors a clearer picture of the nature and extent of an entity's involvement with other entities. In August 2011, the AASB released three Accounting Standards to replicate the IASB Standards. These Standards will not apply to the not-for-profit sector until the AASB has undertaken appropriate modifications.

## Conceptual frameworks

**2.34** AASB Standards comprise mainly Australian equivalents to IFRS. The conceptual framework that underpins AASB Standards is also largely based on the IASB's Conceptual Framework.

**2.35** The IASB Conceptual Framework is currently under review by the IASB in partnership with the FASB. The Conceptual Framework project aims to update and refine the existing concepts to reflect the changes in markets, business practices and the economic environment that have occurred in the two or more decades since the concepts were first developed. The project's overall objective is to create a sound foundation for future Accounting Standards that are principles-based, internally consistent and internationally converged.

**2.36** The project is progressing in eight phases. To date, the IASB has finalised the first phase, releasing updated chapters dealing with the objective of general purpose financial reporting and the qualitative characteristics of useful financial information. The revised chapters state that the objective of financial statements is to provide information to assist investors, lenders and creditors in making decisions about providing resources to the entity.

**2.37** The AASB has decided that the revised chapters will be applicable to all Australian reporting entities, although the project's primary focus is on for-profit entities. The AASB will add to the framework so that it can be applied by not-for-profit entities. It is only in the latter stages of the project that the IASB will consider the applicability of the framework to not-for-profit entities. In light of this, the International Public Sector Accounting Standards Board (IPSASB), in conjunction with the AASB and other national Accounting Standards boards, has embarked on a separate project for developing a Public Sector Conceptual Framework. IPSASB has to date released a range of

consultation papers addressing: the objectives and scope of financial reporting; the qualitative characteristics of financial information; the nature of the reporting entity; and the recognition and measurement of elements of the financial statements.

## **Australia-New Zealand convergence**

**2.38** Following an agreement between the Australian and New Zealand governments to promote single market outcomes between the two countries, the AASB and New Zealand Financial Reporting Standards Board (FRSB) plan to remove differences between their respective suites of Accounting Standards. The initial focus is on Accounting Standards relating to the for-profit sector and consideration will also be given to existing not-for-profit differences at a later date.

**2.39** In May 2011, the AASB and the FRSB released new Accounting Standards<sup>10</sup> as a first step towards full harmonisation. These Standards remove many of the differences between Australian and New Zealand Accounting Standards relating to for-profit entities.

**2.40** Among the changes is a clause permitting entities to depart from an Australian Accounting Standard where compliance with the standard would be so misleading that it would conflict with the objective of financial statements, provided that the relevant regulatory framework does not prohibit departure. However, this provision is not available to entities reporting under the Corporations Act, not-for-profit entities, including governments, and entities using Tier 2 of the reduced disclosure regime.

## **Public-Private Partnerships**

**2.41** In September 2011, the IPSASB finalised an Accounting Standard dealing with accounting by governments in respect of their involvement in public-private partnerships. This standard, IPSAS 32 Service Concession Arrangements: Grantors, takes effect from 1 January 2014. The AASB is considering developing an Australian Accounting Standard based on the IPSASB Standard.

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<sup>10</sup> The Australian Standards are AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*, AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements* and AASB 1054 – *Australian Additional Disclosures*.

## Developments in Auditing Standards

**2.42** Section 24 of the *Auditor-General Act 1997* requires the Auditor-General to set Auditing Standards with which persons performing ANAO audits must comply. The ANAO Auditing Standards establish mandatory requirements and provide explanatory guidance for persons performing the functions specified in section 24, including the statutory audits of the financial statements of Australian Government bodies.

**2.43** The Auditor-General issued the current ANAO Auditing Standards on 25 June 2009.

**2.44** The ANAO Auditing Standards incorporate, by reference, the current version of the Australian Auditing Standards. As a result, financial statement audits conducted by the ANAO conform with the Standards that apply to the broader auditing profession in Australia.

**2.45** The AUASB uses International Standards on Auditing (ISAs) as the basis for making Australian Auditing Standards. ISAs are made by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

**2.46** Previous reports have referred to the IAASB and the AUASB releasing revised and redrafted Standards in 2009 following the IAASB's Clarity Project. The ANAO updated its financial statement audit methodology and associated policies for the 2010–11 audits to align with the updated and re-issued Clarity Standards.

**2.47** In October 2011, the IAASB published its *Plan for a Post-Implementation Review of the Clarified International Standards on Auditing*. The objective of the review is to assess whether the clarified ISAs are being consistently understood and implemented in a manner that achieves the IAASB's goals in revising them. Feedback from the implementation is being sought from stakeholders, with the findings of the review to be released in June 2013.

**2.48** In its 2010 Annual Report, published in March 2011, the IAASB identified a number of future directions following the completion of its Clarity Project. In relation to financial statements, these directions include:

- A continued focus on audit quality and the role of Standards as an important element in achieving audit quality. A paper *Audit Quality: An IAASB Perspective* was released in early 2011 to stimulate discussion.

The IAASB is working towards releasing in due course a consultation paper on a proposed international audit quality framework.

- Other projects linked to audit quality, including work to enhance auditor communication. In September 2011, the IAASB closed for comment a consultation paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, released to obtain views on enhancing internationally the quality, relevance and value of auditor reporting. Comments received are expected to be considered by the IAASB in December 2011.
- Consideration of the auditing implications of having disclosures in financial statements that are highly relevant and more detailed, but may be more subjective and less reliable. Such disclosures include disclosures of assumptions, models, alternative measurement bases and sources of estimation uncertainty. In January 2011, a discussion paper *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications* was released for comment.

**2.49** The IAASB's work program also includes the development of new and revised Standards and guidance for assurance and related services engagements other than financial statement engagements. These include:

- A proposal for a new International Standard on Assurance Engagements (ISAE) 3410 *Assurance Engagements on Greenhouse Gas Statements* was released in January 2011. The new Standard addresses professional accountants' responsibilities with respect to assurance engagements on a Greenhouse Gas Statement. The Standard is expected to be issued in 2012.
- A proposal to revise ISAE 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* was released in April 2011. Like the existing Standard, this is an overarching document that would apply to a broad range of engagements providing assurance, for example, on the effectiveness of internal control, value for money or corporate social responsibility reporting. The proposed ISAE 3000 also introduces guidance on the nature of reasonable and limited assurance engagements. The IAASB expects to consider comments received at its March 2012 meeting, with a revised standard planned for release in late 2012.



**2.50** The AUASB consults formally with organisations representing stakeholders, including users of financial statements, regulators and the accounting profession, in the development of Australian Auditing and Assurance Standards and guidance. This due process is timed so that the AUASB can consider stakeholder views in making submissions on proposals from the IAASB such as those mentioned above.

**2.51** The AUASB's planned work in relation to Auditing and Assurance Standards is detailed in its Annual Regulatory Plan for 2011–2012. The Plan includes the provision of guidance to auditors in areas relevant to financial statement auditing in the public sector, including the application of Auditing Standards to smaller audits, auditing complex financial instruments and auditing grant acquittals. The Plan also includes the development of new Standards in the area of environmental reporting, and the revision of existing Standards relating to the effectiveness of controls and for assurance engagements other than audits or reviews of historical financial information.

**2.52** The AUASB expects the proposed guidance in relation to the audit of smaller entities to draw mainly on material in the Australian Auditing Standards and to provide, for example, details of the nature and level of documentation expected in such audits. The guidance on auditing complex financial instruments will be issued in conformity with a revised IAASB Practice Statement currently being developed. The new guidance on grant acquittals is proposed because of the variety of grant arrangements in Australia.

**2.53** The AUASB is working with the Water Accounting Standards Board (an independent advisory body to the Bureau of Meteorology) on the development of a standard for *Assurance Engagements on General Purpose Water Accounting Reports*. Additionally, the AUASB is planning to replace AUS810 *Special Purpose Reports on the Effectiveness of Control Procedures* with a new assurance engagement standard on the subject. Both projects are expected to be completed by the end of the 2012 calendar year.

**2.54** Finally, the AUASB is proposing to release, in mid-2012, Australian Standards equivalent to the IAASB's revision of ISAE 3000 and the new ISAE 3410, mentioned above.

## Conclusion

**2.55** Ongoing developments in Accounting and Auditing Frameworks and Standards continue to have an impact on the financial reporting responsibilities of public sector entities and on the ANAO's auditing methodology. The ANAO continues to devote additional resources to the implementation of revised auditing and accounting requirements.

**2.56** In 2010–11, changes took effect to increase the relevance of reporting, allowing long-term leases to be reported in accordance with their economic substance. Reporting was made less burdensome by removing the requirement to prepare two sets of financial statements and by relaxing the requirement that only the latest version of the GFS Manual be used in the preparation of government financial statements.

**2.57** Looking to the future, significant changes to financial reporting are under development, both internationally and in Australia. These will impact the Australian public sector over the next few years. Changes are expected, not only in the suite of Accounting Standards, but also in the Conceptual Frameworks that underpin those Standards.

**2.58** The key change in the Auditing Framework was the Clarity Project revisions to Australian Auditing Standards. These took full effect in 2010–11 and have been applied by the ANAO in its audits of Australian Government entities. Further measures continue to be developed by standard-setters to enhance the quality of financial auditing and to extend the reach of Auditing and Assurance Standards into new areas of non-financial reporting.

## 3. Results of the Audit of the Consolidated Financial Statements

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*This chapter outlines the results of the audit of the Consolidated Financial Statements of the Australian Government, which includes the Whole of Government and the General Government Sector Financial Reports for the year ended 30 June 2011.*

### Background

**3.1** The preparation and audit of the Australian Government's Consolidated Financial Statements support government accountability and transparency. The Consolidated Financial Statements and the associated financial analysis provide information to assist users in assessing the annual financial performance and position of the Australian Government.

**3.2** The Consolidated Financial Statements present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector financial report. The Consolidated Financial Statements are prepared in accordance with the regulations of the FMA Act and the requirements of the Australian Accounting Standards.

**3.3** In 2008–09 the Australian Government adopted the whole of government financial reporting requirements of AASB 1049 *Whole of Government and General Government Sector Reporting* in the preparation of the Consolidated Financial Statements. A General Government Sector financial report prepared in accordance with AASB 1049 was first presented for audit in 2009–10, when the Consolidated Financial Statements incorporated both the whole of government and General Government Sector financial reports required by AASB 1049. The 2010–11 Consolidated Financial Statements again include the whole of government and General Government Sector financial reports required by AASB 1049. This Standard, by incorporating elements of Government Financial Statistics provides a single framework for financial reporting by governments in Australia.

**3.4** The Consolidated Financial Statements and the associated auditor's report can be accessed from the Department of Finance and Deregulation's website<sup>11</sup>.

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<sup>11</sup> [www.finance.gov.au](http://www.finance.gov.au)

**3.5** This chapter discusses the ANAO's auditor's report on the 2010–11 Consolidated Financial Statements, the high level impact of the economic conditions and associated Government measures and decisions on the Australian Government's financial position as represented in the Consolidated Financial Statements and the significant disclosures included in the Consolidated Financial Statements. The commentary in this chapter has focussed on the financial results at the consolidated whole of government level rather than at the General Government Sector level.

## **Auditor's Report**

**3.6** The Consolidated Financial Statements were signed by the Finance Minister on 30 November 2011 and an unqualified auditor's report was also issued on 30 November 2011.

**3.7** The auditor's report on the 2010–11 Consolidated Financial Statements, which includes the General Government Sector report, expressed the opinion that the statements presented a true and fair view of the financial operations and position of the Australian Government. An Other Legal and Regulatory Requirements section was included in the auditor's report following the opinion on the 2010–11 Consolidated Financial Statements to draw attention to the note disclosure included in the Consolidated Financial Statements in respect of known and potential breaches of section 83 of the Constitution in relation to special appropriations and special accounts. Further information on this matter is included at paragraph 3.20.

## **Australian Government's financial outcome for 2010–11**

**3.8** The reported 2010–11 operating result<sup>12</sup> attributable to the Australian Government was a deficit of \$51.5 billion (2009–10: deficit of \$59.9 billion), the fiscal balance<sup>13</sup> was a deficit of \$52.4 billion (2009–10: deficit of \$59.4 billion) and the reported negative net worth<sup>14</sup> position was \$103.4 billion (2009–10: negative \$53.9 billion). These figures reflect the financial effect of government policies and the effect of a change in accounting policy in relation to disaster relief payments, for the year ended 30 June 2011 and the associated movement

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<sup>12</sup> The operating result is calculated as revenues plus gains less expenses (including losses), excluding those that are classified as 'other non-owner movements in equity'.

<sup>13</sup> The fiscal balance (net lending/borrowing) is calculated as the net operating balance minus the net acquisition/(disposal) of non-financial assets.

<sup>14</sup> Net worth equals assets less liabilities.

in assets and liabilities as at the financial year end. Further information on the significant movements between 2009–10 and 2010–11 in the operating statement and the balance sheet is provided in the commentary to the Consolidated Financial Statements, and is discussed below.

### **Operating Statement**

**3.9** Total revenue of the Australian Government increased by \$23.4 billion in 2010–11 to \$322.3 billion. The major movement in revenue was a \$20.9 billion increase in taxation revenue, primarily as a result of:

- an increase in income tax on individuals, reflecting growth in employment, wages, unincorporated business income, interest and dividends;
- an increase in company tax, reflecting recovery of company profits after these hit a low point during 2009–10 as a result of the global economic conditions;
- an increase in the Goods and Services Tax (GST) reflecting an increase in dwelling investment and ownership transfer costs; and
- an increase in excise duty revenue primarily as a result of a 25 per cent increase in tobacco excise, with effect from 30 April 2010.

**3.10** Total non-taxation revenues increased by \$2.5 billion in 2010–11. This increase was primarily due to:

- an increase in interest revenue from the Future Fund investment portfolio;
- an increase in sales of goods and services revenue, mainly associated with an increase in Medibank Private health insurance premium revenue; and
- an increase in petroleum royalty revenue.

**3.11** The Australian Government's total expenses increased by \$17.3 billion in 2010–11. The major causes of this increase were:

- increased direct personal benefits, grants and subsidies expenses, primarily relating to:
  - an increase in assistance to the aged and people with disabilities due to indexation arrangements for the Disability Support

Pension, Income Support for Carers and Income Support for Seniors programs and demographic factors;

- the Australian Government Disaster Recovery Payments program that was activated in 2010 to assist people adversely affected by the flooding in Queensland and Victoria between November 2010 and January 2011;
  - an increase in higher education support as a result of increased higher education enrolments following the Australian Government's decision to lift the cap on the funding for over-enrolments from 5 per cent to 10 per cent in 2010 and 2011;
  - an increase in Tertiary Student Assistance, primarily due to the full year effect of the introduction of scholarships;
  - an increase in current grants to the States and Territories, particularly as a result of the recognition of an expense and liability for estimated future payments under the National Disaster Relief and Recovery Arrangements as a result of the flooding in Queensland and Victoria between November 2010 and January 2011 and Cyclone Yasi;
  - an increase in funding to the States and Territories for the National Healthcare and National Disability specific purpose payments; and
  - an offsetting decrease in capital grants to the States and Territories following the withdrawal of economic stimulus funding, primarily related to the education and housing programs and a decrease in grants to the private sector, predominantly related to energy efficiency and climate change action;
- an increase in expenses related to the supply of goods and services, primarily due to increases in payments related to the Medicare Benefits and Pharmaceutical Benefits Schemes which fund access to medical services and medicines;
  - an increase in employee expenses in a number of agencies; and
  - an increase in interest expenses largely attributable to higher interest on Commonwealth Government securities, consistent with the growth in the Australian Government's debt portfolio.

**3.12** The net acquisition of non-financial assets decreased by \$0.9 billion in 2010–11, primarily as a consequence of a decrease in the acquisition of military equipment and property and a reduction in the value of water rights purchased.

**3.13** Other economic flows, which include asset and liability revaluation gains and losses, increased from negative \$17.7 billion in 2009–10 to negative \$3.4 billion in 2010–11. The primary driver for this increase was the impact of movements in the discount rate used to calculate the Australian Government superannuation liability. Under Australian Accounting Standards, the discount rate is based on government bond rates. Even small movements in the discount rate can cause significant movements in the valuation of the liability. Between 30 June 2010 and 30 June 2011 the bond rate increased by 0.1 per cent whereas between 30 June 2009 and 30 June 2010 the bond rate decreased by 0.4 per cent, resulting in a \$12.2 billion negative flow in 2009–10 compared to a \$0.9 billion positive flow in 2010–11.

## Balance Sheet

**3.14** The 2010–11 Consolidated Financial Statements reported a \$49.5 billion decrease in the net worth position of the Australian Government from negative \$53.9 billion in 2009–10. This decrease was a consequence of a \$49.1 billion increase in liabilities and \$0.4 billion decrease in assets as at 30 June 2011.

**3.15** The value of the Australian Government's financial assets at 30 June 2011 decreased by \$6.5 billion compared to 30 June 2010. The primary reason for this decrease was a decrease in investments, loans and placements, mainly as a result of a decrease in the Australian dollar securities and foreign exchange holdings of the RBA. This decrease was partially offset by:

- an increase in listed equity and listed managed investment schemes held by the Future Fund Management Agency; and
- an increase in advances paid primarily due to an increase in the value of student loans under the Higher Education Loan Program.

**3.16** Total non-financial assets increased by \$6.1 billion in 2010–11 primarily due to:

- purchases of military property, plant and equipment and additional capital work for the Australian Rail Track Corporation;

- an increase in land and building purchases relating to the Department of Defence and Voyages Indigenous Tourism Australia; and
- an increase in intangible assets across a number of agencies.

**3.17** Interest bearing liabilities increased by \$38.2 billion as at 30 June 2011. This increase primarily related to an increase in Commonwealth Government securities on issue, which is driven by the underlying cash balance deficit, partially offset by:

- a decrease in amounts outstanding under repurchase agreements held by the RBA, reflecting the counter obligation to repurchase securities sold and contracted for purchase under sell repurchase agreements; and
- a decrease in liabilities associated with financial derivatives entered into by the Future Fund Management Agency.

**3.18** Provisions and payables increased by \$10.9 billion. The main causes of this increase were:

- an increase in other provisions, particularly as a result of the recognition of a grant provision for the Australian Government's estimated future payments under the National Disaster Relief and Recovery Arrangements as a result of the flooding in Queensland and Victoria between November 2010 and January 2011 and Cyclone Yasi;
- an increase in the defined benefit obligations for Australian Government sponsored superannuation schemes at 30 June 2011, primarily due to an increase in the length of service of members and interest costs, partially offset by payments made during 2010–11;
- an increase in the value of Australian notes on issue in line with historical trends;
- an increase in other employee liabilities across a number of agencies;
- a partially offsetting decrease in personal benefits payables, primarily due to a reduction in co-contribution superannuation benefits as a result of a decreased number of taxpayers co-contributing to their superannuation funds due to reductions in the co-contribution matching rate and the dollar value of the maximum co-contribution.



## Significant disclosures in the Consolidated Financial Statements

### Change in accounting treatment for disaster recovery payments

**3.19** During 2010–11, following consultation with the ANAO, the Australian Government changed its accounting policy regarding the treatment of payments under the Natural Disaster Relief and Recovery Arrangements (NDRRA). In accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, the Australian Government is now recognising estimated future payments under the NDRRA as an expense and a provision at the time a disaster eligible for coverage under the NDRRA occurs, with future payments reducing the provision. The ANAO agrees with this accounting treatment. Under Australian Accounting Standards, any change in accounting policy requires the prior year amounts to be restated so that the comparative figures are compiled as though this revised policy had always been applied, and for a “third balance sheet” for the year ended 30 June 2009 to be included in the balance sheet. Details of this change in accounting policy are disclosed in notes 1.111 and 1.112 to the Consolidated Financial Statements.

### Known and potential breaches of the Constitution

**3.20** As outlined in Chapter 4, during 2010–11 the Australian Government became aware of the risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where the payments do not accord with conditions included in the relevant legislation. In addition, section 83 breaches were identified by the Australian Taxation Office and the Department of the Treasury during 2010–11. These known and potential breaches are disclosed in notes 1.72, 1.73 and 1.74 to the Consolidated Financial Statements. The ANAO’s auditor’s report on the Consolidated Financial Statements included a Report on Other Legal and Regulatory Requirements section in respect of these matters.

### Implementation of AASB 1049 in respect of a General Government Sector report

**3.21** Australian Accounting Standard AASB 1049 requires significant variances between the original budget presented to the Parliament and the actual results to be disclosed in the audited financial statements. These explanations are included at Note 44 to the Consolidated Financial Statements. The Australian Government only presents a budget at the General

Government Sector level, and not at the whole of government level therefore variances between budget and actual are only presented for the General Government Sector.

**3.22** The main variances explained in this note relate to:

- a decrease of \$11.9 billion in actual revenue compared to the amount of revenue expected at the time of the original budget being presented to Parliament in May 2010;
- a \$1.9 billion increase in actual expenses compared to the original budgeted amount;
- a increase of \$1.5 billion in the net acquisition of non-financial assets compared to the original budget;
- a \$43.8 billion decrease in the net worth position when compared to the original budget; and
- a \$6.2 billion larger actual cash deficit position than the position that was included in the original budget.

### **Ministerial remuneration**

**3.23** The 2010–11 Consolidated Financial Statements has continued the approach of prior years of incorporating disclosure of ministerial remuneration in note 6 to the Consolidated Financial Statements. The disclosure includes Cabinet ministers that served at any time during the financial year. The disclosure is provided at the aggregate level only and details of individual Cabinet ministers' remuneration are not included. Amounts that have been included and excluded from the calculation of remuneration have been outlined in notes 1.97, 1.98 and 1.99 to the Consolidated Financial Statements.

## 4. Summary of Audit Results and Related Issues

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*This chapter provides: a summary of issues included in our reports on entities' 2010–11 financial statements including a commentary on the risk of breaches of section 83 of the Constitution in a number of agencies; a summary of other audit findings identified in the 2010–11 audits; an analysis of entities' operating results; and commentary on the preparation of entity 2010–11 financial statements and the 2010–11 Certificate of Compliance process.*

### Audit approach

**4.1** Each year, under section 57 of the FMA Act and under clause 3, part 2 of Schedule 1 of the CAC Act, the Auditor-General is required to report to the relevant Minister on whether the financial statements of Australian Government entities have been prepared in accordance with the FMOs and whether they give a true and fair view of the matters required by the FMOs.

**4.2** As previously indicated, the ANAO conducts its financial statement audits in accordance with ANAO Auditing Standards which incorporate the Australian Auditing Standards. An audit performed in accordance with the Australian Auditing Standards is designed to provide reasonable assurance that a financial report taken as a whole is free from material misstatement whether due to fraud or error. Reasonable assurance as defined in the Australian Auditing Standards means a high, but not absolute, level of assurance. It is reached when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial report is materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit as most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion is persuasive rather than conclusive.<sup>15</sup>

**4.3** In accordance with generally accepted audit practice, the ANAO accepts a level of risk that a material misstatement in the financial statements will not be detected by the audit procedures. This risk, which is assessed as

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<sup>15</sup> ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards, paragraph 5.

minimal, is accepted because of the significant costs and impracticability of performing an audit that accepts no, or an extremely low, level of risk. The ANAO performs specific audit procedures based on this low level of risk including, for example, reviewing the operation of internal controls, testing a sample of transactions and account balances, confirming year-end balances with third parties and undertaking analytical reviews.

**4.4** Financial statement audits focus on the significant financial reporting risks facing entities and the manner in which the entities seek to manage those risks. The risks will vary according to such matters as the size and nature of the organisation, including the nature of its operating environment, the complexity of its information technology systems and the geographical spread of its operations. The auditor's understanding of the entity, its environment and its internal controls and previous audit findings, helps the auditor design the work needed and respond to significant risks.<sup>16</sup> Broad areas of audit focus, determined as a result of our planning approach are discussed in Chapter 5 in relation to each material entity covered by this report.

**4.5** Our financial statement audit coverage also takes into account the findings of performance audits, including relevant cross-agency performance audits. In particular, the potential impact on an entity's financial statements of matters referred to in performance audits is considered in determining our financial statement audit coverage. In many cases, issues relating to the administration of a program or activity included in our performance audits will not have a significant financial statement impact. In other cases, our performance audit work and findings will inform our financial statement risk assessment and audit approach. For example, the incidence of potential fraud referred to in the performance audit of the Home Insulation Program<sup>17</sup> again required specific consideration in our audit of the financial statements of the entities concerned. The results of the cross-agency audit of Direct Source Procurement<sup>18</sup> and several audits in the then Department of Infrastructure, Transport, Regional Development and Local Government<sup>19</sup> were also

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<sup>16</sup> Significant risks are those risks of material misstatement of the financial statements that, in the auditor's judgement, require special audit consideration.

<sup>17</sup> ANAO Audit Report No. 12, 2010–11 *Home Insulation Program* October 2010

<sup>18</sup> ANAO Audit Report No. 11 2010–11 *Direct Source Procurement*

<sup>19</sup> Audits included ANAO Audit Report No.3 2010–11 *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program* and ANAO Audit Report No. 24 2010–11 *The Design and Administration of the Better Regions Program*.

considered during the financial statement audits of the entities covered by these audits.

**4.6** Financial statement audits are generally performed in two phases—interim and final. The interim phase focuses on an assessment of an entity's key internal controls; in the final audit phase the ANAO completes its assessment of the effectiveness of key controls for the full year, substantively tests material balances and disclosures in the financial statements, and issues its audit opinion on the entity's financial statements.

**4.7** The ANAO's Audit Report No.54 2010–11 reported on the results of the interim phase of the 2010–11 audits of major General Government Sector agencies. The results of the 2010–11 audits of 259 Australian Government entities are presented in this report.

## **Classification of entities**

**4.8** Seventy-three of the entities consolidated into the Australian Government's Consolidated Financial Statements are classified as material entities as they comprise some 99 per cent of the revenues, expenses, assets and liabilities of the Australian Government. The remaining entities are classified as non-material reporting entities. Material entities are required to produce more detailed financial information than non-material entities for the purposes of providing monthly and end-of-year reports to Finance.

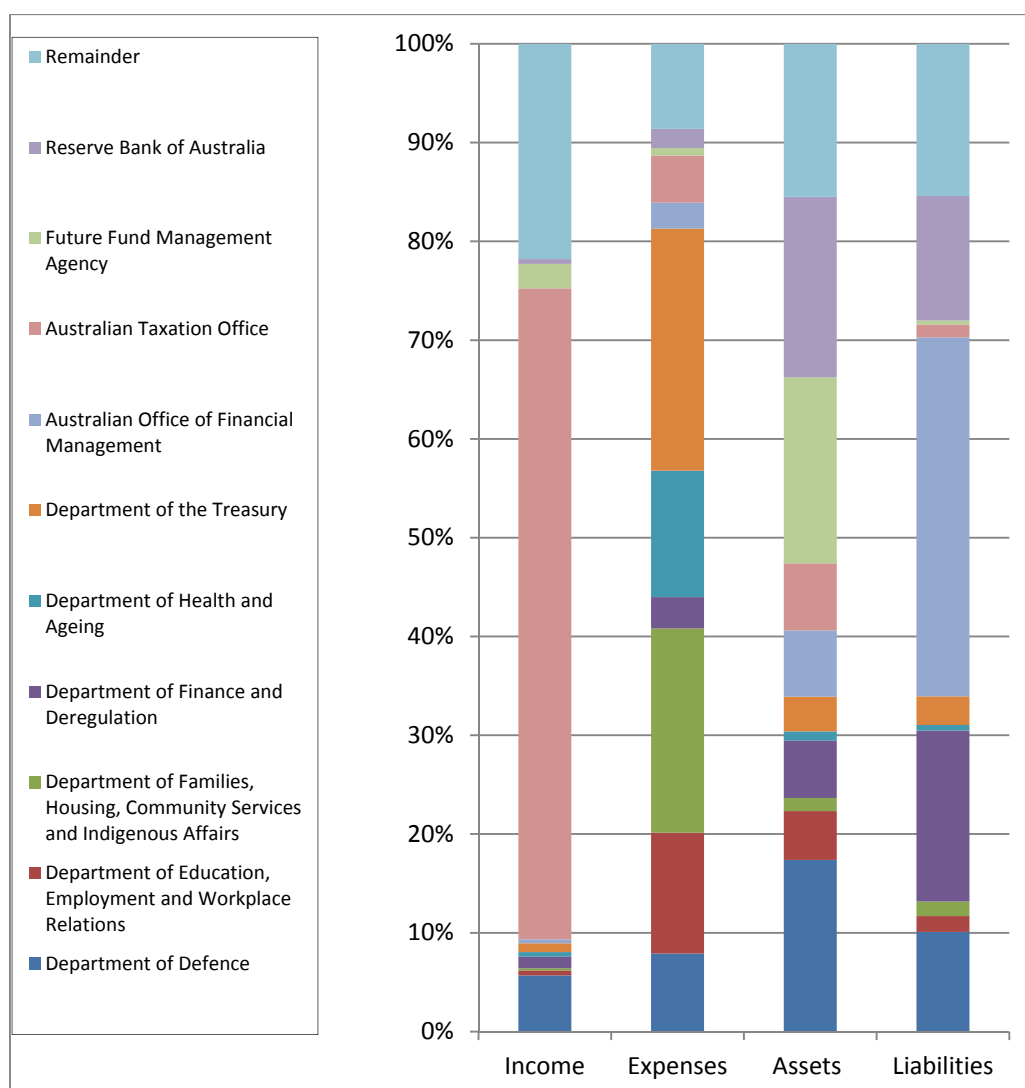
**4.9** The following ten entities represent a significant proportion of the Australian Government's 2010–11 financial statement balances:

- Department of Defence;
- Department of Education, Employment and Workplace Relations;
- Department of Families, Housing, Community Services and Indigenous Affairs;
- Department of Finance and Deregulation;
- Department of Health and Ageing;
- Department of the Treasury;
- Australian Office of Financial Management;
- Australian Taxation Office;
- Future Fund Management Agency; and
- Reserve Bank of Australia.

**4.10** The contribution of these entities to the Australian Government's revenues, expenses, assets and liabilities (prior to elimination of inter entity transactions) is shown in Figure 4.1.

**Figure 4.1**

**Australian Government's revenues, expenses, assets and liabilities**



Source: ANAO analysis

## Summary of results of audits

### Summary of reports issued

**4.11** The Auditor-General provides the relevant Minister with an auditor's report on the annual financial statements of each Australian Government reporting entity. The audit opinion included in the auditor's report may be modified or may include an emphasis of matter without modifying the audit opinion. The various types of audit opinions and other matters that may be included in an auditor's report are explained at Appendix 2. A summary of the modifications, emphasis of matter, other legal and regulatory requirements, and other matters included in auditors' reports issued by the ANAO for the past two years is provided in Table 4.1 below.

**Table 4.1**

### Summary of auditor's reports issued and outstanding

Financial Statement Auditor's Reports*	2010–11	2009–10
Modified	0	0
Emphasis of matter	5	0
Other Legal and Regulatory Requirements	48	2
Other matters	0	0
Unmodified auditors' reports**	254	255
<b>Total Issued</b>	<b>254</b>	<b>255</b>
Auditors' reports outstanding	5	4
<b>Total number of audits</b>	<b>259</b>	<b>259</b>

\*As at 30 November 2011.

\*\*Includes the auditor's report on the Consolidated Financial Statements.

### Entity Auditor's Reports containing a Modification or an Emphasis of Matter

**4.12** Five auditor's reports for the 2010–11 year contained an emphasis of matter (nil in 2009–10).

#### Department of Veterans' Affairs

**4.13** The auditor's report of the Department of Veterans' Affairs was unmodified, however, an emphasis of matter was included in the auditor's report due to the significant uncertainty relating to the military compensation provision of \$3.1 billion. This provision reports the value of liabilities relating

to the *Military Rehabilitation and Compensation Act* and *Safety Rehabilitation and Compensation Act*. Major sources of this uncertainty include:

- the setting of actuarial assumptions on very limited data for the MRC Act given the Act commenced in 2004;
- absence of clear trends in long term incapacity rates; and
- difficulty in determining appropriate discount rates to apply to projected future cash flows in establishing the present value of the military compensation provision.

**4.14** The emphasis of matter is intended to draw the user's attention to the significant uncertainty of this item which has been disclosed in the notes to the financial statements.

**4.15** As mentioned above, the ANAO did not modify its audit opinion in respect of this matter.

#### **Australian Curriculum, Assessment and Reporting Authority**

**4.16** The 2010–11 auditor's report for the Australian Curriculum Assessment and Reporting Authority (ACARA) contained an emphasis of matter that draws attention to the notes in the 2010–11 financial statements which state that ACARA has not received confirmation of its funding beyond June 2012, the possible effect on ACARA's assets and liabilities if that funding is not confirmed, and the reasons for the directors continuing to prepare the 2010–11 financial statements on a going concern basis.

**4.17** The ANAO did not modify its audit opinion in respect of this matter.

#### **Australian Learning and Teaching Council Limited**

**4.18** The 2010–11 auditor's report for the Australian Learning and Teaching Council Limited (ALTC) contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis and not on a going concern basis as funding from government will cease on 31 December 2011 and a liquidator appointed to undertake voluntary wind-up of the company.

**4.19** The ANAO did not modify its audit opinion in respect of this matter.



### **National Breast and Ovarian Cancer Centre**

**4.20** The 2010–11 auditor's report for the National Breast and Ovarian Cancer Centre contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis and not on a going concern basis, as the Centre was amalgamated with Cancer Australia on 30 June 2011.

**4.21** The ANAO did not modify its audit opinion in respect of this matter.

### **National Water Commission**

**4.22** The 2010–11 auditor's report for the National Water Commission (NWC) contained an emphasis of matter that draws attention to the note in the Commission's 2010–11 financial statements which states that the *National Water Commission Act 2004* has a 30 June 2012 sunset clause and the reasons for the Commission continuing to prepare the 2010–11 financial statements on a going concern basis. A review of the NWC's operations has commenced but the outcome will not be known until late 2011.

**4.23** The ANAO did not modify its audit opinion in respect of this matter.

### **Reports on Other Legal and Regulatory Requirements**

**4.24** In recent years, the ANAO has increased its focus on legislative compliance as part of its financial statement audit coverage of agencies. The increased coverage involves the ANAO assessing key aspects of legislative compliance by agencies in relation to annual appropriations, additions to annual appropriations under section 31 of the FMA Act, special appropriations, special accounts and the investment of public monies.

**4.25** Where non-compliance with legislation involves spending other than in accordance with an appropriation made by the Parliament, there will be a breach of section 83 of the Constitution which provides that no money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law. The effect of section 83 is that all spending by the Executive Government from the Consolidated Revenue Fund (CRF) must be in accordance with an authority given by the Parliament.

**4.26** In 2010–11, 48 auditors' reports on agency financial statements and the Consolidated Financial Statements, contained a report on other legal and regulatory requirements. These reports made reference to a risk of breaches of section 83 of the Constitution, or the need to undertake risk assessments, in

relation to payments from special appropriations and special accounts.<sup>20</sup> This matter is discussed further at paragraph 4.34 to 4.37 below. Three reports: the Australian Taxation Office; the Department of the Treasury; and the Consolidated Financial Statements (see paragraph 3.20 above), also referred to disclosures of actual breaches of section 83 of the Constitution (two in 2009–10).

### **Australian Taxation Office**

**4.27** In 2010–11, as in previous years, the ATO has identified breaches of section 16 of the *Taxation Administration Act 1953* which provides a special appropriation to allow the ATO to make payments to persons under a provision of taxation law. These breaches occur from time to time where the ATO makes processing errors outside the assessment process which result in incorrect payments being made. In these circumstances, the payment is made to a taxpayer without any legislative basis and constitutes a breach of section 83 of the Constitution, which provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

**4.28** A total of 59 542 incorrect payments totalling \$12.8 million were identified during 2010–11. These payments comprise a very small percentage of the approximately 14 million payments made during the year. At the time of signing the financial statements, 48 per cent of the incorrect payments had been recovered.

**4.29** The auditor's report on the financial statements was unmodified as the financial statements fairly presented the financial operations and position of the ATO at year end. However, the report did include a reference to the breach of section 83 of the Constitution under other legal and regulatory requirements.

**4.30** A similar reference was included in the auditor's report on the ATO's 2008–09 and 2009–10 financial statements.

### **Department of the Treasury**

**4.31** The Treasury's 2010–11 financial statements made reference in notes 25 and 26, to a number of breaches of section 83 of the Constitution. During the year the Treasury sought legal advice on whether overpayments made to the

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<sup>20</sup> A Report on Other Legal and Regulatory Requirements is a separate part of the auditor's report on the financial statements and does not affect the auditor's opinion on the truth and fairness of the financial statements.

States and Territories could be offset against future payments. The legal advice concluded the payments could be offset, but indicated the overpayments in question were a breach of section 83 of the Constitution, which provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

**4.32** The breaches related to errors during the eligibility assessment process. Eligibility for grant payments was assessed by the relevant department with the Treasury responsible for making payments to the States and Territories based on advice received from the relevant department. The errors resulted in eight overpayments totalling \$26 million. At the time of signing the financial statements, all incorrect payments had been recovered.

**4.33** The auditor's report on the financial statements was unmodified as the financial statements fairly presented the financial operations and position of the Treasury at year end. However, the report did include a reference to the breaches of section 83 of the Constitution under other legal and regulatory requirements.

**Risk of section 83 breaches in relation to payments from special appropriations and special accounts**

**4.34** Following consultation in August 2011 between the ANAO and the Department of Finance and Deregulation, Finance drew the attention of agencies to a risk of breaches of section 83 of the Constitution relating to meeting conditions required by law before making payments from special appropriations and special accounts. Where such conditions are not met before payment, there is a risk that the payment could be made without a valid appropriation. This includes circumstances where an administrative error such as a duplicate payment occurs, even if the overpayment is able to be recovered.

**4.35** As indicated in paragraph 4.26, a large number of agencies disclosed this issue in the notes to their 2010–11 financial statements, including undertaking to investigate the circumstances giving rise to this issue. The ANAO's reports on the financial statements of these agencies included a report on other legal and regulatory requirements which drew attention to the disclosures, including the proposed follow-up action.

**4.36** Each agency which disclosed this issue in its financial statements is identified in the relevant portfolio table in Chapter 5. Where the agency is a material agency, the 'Audit Results' section for the agency in that Chapter refers to the mention made in the auditor's report. Details of non-material

entities that disclosed this issue are included under 'Comments on non-material entities' for each portfolio.

**4.37** The Department of Finance and Deregulation is working with agencies and the ANAO to develop a longer term solution to this matter. At the time of preparation of this report, Finance was finalising its advice to Agency Chief Executives outlining a proposed approach to identifying and addressing the risk of possible non-compliance with section 83 in relation to payments from special appropriations and special accounts.

## Summary of other audit findings

**4.38** The ANAO rates audit findings according to the potential business risk or financial risk posed to the entity. The rating structure is as follows:

Category	Description
A (Significant)	Issues that pose a significant business or financial management risk to the entity; these include issues that could result in the material misstatement of the entity's financial statements.
B (Moderate)	Issues that pose moderate business or financial management risk to the entity; these may include prior year issues that have not been satisfactorily addressed.
C (Minor)	Issues that pose a low business or financial management risk to the entity; these may include accounting issues that, if not addressed, could pose a moderate risk in the future.

**4.39** In addition, the ANAO reports to entities and the Parliament any instances identified of non-compliance with: the Constitution; the entity's enabling legislation; legislation that the entity is responsible for administering; and the FMA or CAC Acts. These are reported as L1 findings.

**4.40** The final phase of the 2010–11 audits included a review of progress achieved by entities in addressing audit issues identified during the 2010–11 interim phase or carried forward from previous years. Similar to the experience in recent years, most entities have made good progress in resolving outstanding audit issues.

**4.41** In situations where the ANAO reviewed actions taken and was satisfied that the issue had been satisfactorily addressed, the matter has been reported as 'resolved'. Where the issue has been partly addressed, the finding

may be downgraded in significance. In other cases, the ANAO will review the actions taken by entities as part of the 2011–12 audits.

**4.42** Issues identified during the final phase of the 2010–11 audits included issues relating to: controls in entities' IT environments, such as user access and data management controls; asset management processes, including accounting policy, accounting for the disposal of assets and calculations of asset impairment and write-downs; and business system processing controls, such as reconciliation controls. These issues are consistent with audit findings in previous years. A new issue identified in 2010–11 relates to support for a range of provisions in respect of payments to the States and Territories in accordance with the provisions of the *Federal Financial Relations Act 2009*.

**4.43** Details of Category A, B and L1 audit findings for each entity, together with a table that provides a summary of the status of previously reported audit issues as well as new issues identified during the final phase of the 2010–11 audit, are provided in Chapter 5.

**4.44** A summary of trends in Category A, B and L1 findings between 2009–10 and 2010–11 final audit phases for material entities is outlined below:

- the total number of Category A audit findings is three in 2010–11, an increase from two in 2009–10;
- there were two entities with Category A audit findings in 2010–11, which is consistent with 2009–10;
- the total number of Category B audit findings in material entities decreased from 48 in 2009–10 to 33 in 2010–11; and
- there was a reduction in the number of Category B findings in 11 entities; nine entities showed an increase in the number of Category B findings; and 53 had no Category A or B findings in either 2009–10 or 2010–11; and
- the total number of Category L1 findings in 2010–11 is three, an increase from two in 2009–10.

**4.45** The following information is provided in Appendix 4:

- the number of Category A, B and L1 audit findings for agencies included in Audit Report No.54 at the conclusion of the interim phase of the 2010–11 audits (Table A1); and

- the number of Category A, B and L1 audit findings for all material entities at the conclusion of the final phase of 2010–11 audits (Table A2).

**4.46** In addition to these findings, reference was made in the auditors' report of 45 agencies that there was a risk of breaches of section 83 of the Constitution or the need to undertake risk assessments, in addition to meeting conditions required by law before making payments from special appropriations and special accounts.

## Analysis of entities' operating results

**4.47** An integral part of the ANAO's financial statement audits is to obtain an understanding of the entity being audited and its environment.<sup>21</sup> A key aspect of this process is to obtain an understanding of the main factors that contribute to an entity's financial results. While this is undertaken for each entity to assist in shaping the ANAO's audit coverage of individual entities, analysis of the total population of entities can provide insights into any systemic issues that bear on the financial performance and the financial position of entities.

**4.48** While the performance of a public sector entity cannot be measured solely on the entity's 'bottom line', one important indicator of financial performance is trends in an entity's operating results over time. In this context, revised funding arrangements for agencies in relation to depreciation and amortisation mean that periodically some agencies will incur deficits.<sup>22</sup> Nevertheless, the funding arrangements applicable to public sector entities, except for the small number of public sector for-profit entities, are designed to achieve a break-even result over time. For the majority of entities, approval processes are in place to ensure that entities incurring deficits seek Government approval so that, where necessary, specific measures can be put

<sup>21</sup> Australian Auditing Standard ASA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, identifies 'Period-on-period financial performance analyses' as an example of information used by management for measuring and reviewing financial performance, and which the auditor may consider.

<sup>22</sup> From 2010–11, the Government ceased to provide funding for depreciation and amortisation expenses for most agencies established under the *Financial Management and Accountability Act 1997*. Instead funding was provided for asset replacement. Since the latter funding does not qualify as revenue under Australian Accounting Standards, such agencies are permitted to incur operating deficits. Similar arrangements were put in place from 2009–10 for other entities with significant heritage and cultural assets. In order to achieve comparable data for all material agencies, the ANAO analysis has adjusted agency surpluses or deficits by the amount of depreciation and amortisation expense in all cases where depreciation and amortisation funding has ceased. This means that the surpluses and deficits on which the ANAO's analysis is based may not align with those in audited financial statements because of the adjustments made to obtain comparable data over the three years of the financial results analysed.

in place to assist entities to manage their financial affairs. A history of significant deficits by an entity may indicate that additional funding may need to be sought through future budget processes, service levels may be reduced and/or that the entity's financial management warrants improvement.

**4.49** Against this background, the ANAO undertook an analysis of the operating results<sup>23</sup> of all material entities over the three years 2008–09 to 2010–11 as part of the audits of entities' 2010–11 financial statements.

**4.50** For the purpose of the analysis undertaken, the ANAO grouped material entities into four categories based on their operating results over the last three years. These categories are explained in the following table.

**Table 4.2**

Categories of Operating Results	
Category	Definition
S2	Averaged a surplus for the last three years equal to or greater than five per cent of total expenses
S1	Averaged a surplus for the last three years less than five per cent of total expenses
D2	Averaged a deficit for the last three years and had one or zero deficits greater than five per cent of total expenses
D1	Averaged a deficit for the last three years and had two or three deficits greater than five per cent of total expenses

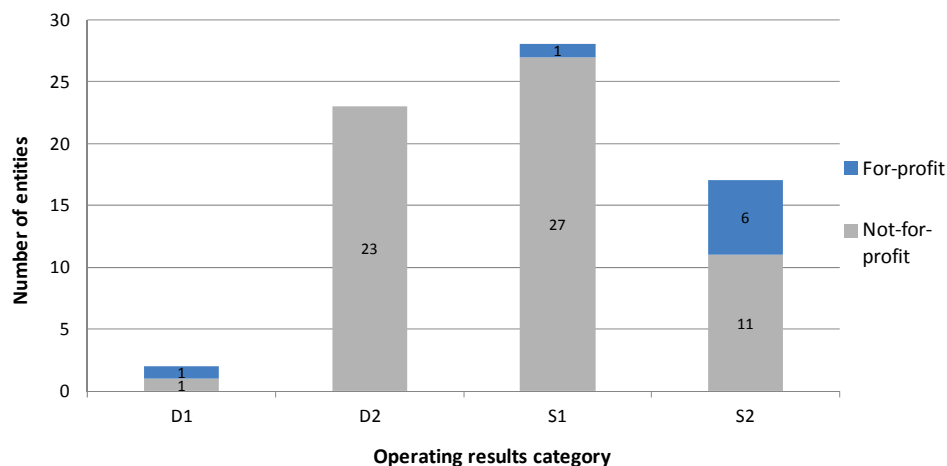
**4.51** The following figure presents the results of the ANAO analysis of entities' operating results in the period 2008–09 to 2010–11.

<sup>23</sup> An agency's operating result relates to those departmental items which are items controlled by the agency. In effect, these items are those revenues and expenditures associated with the day-to-day operations and program support costs of an agency. Collectively, departmental items account for approximately 18 per cent of total Australian Government expenditures. The remaining 82 per cent (approximately) are items that relate to programs, that are administered by agencies on behalf of Government and are accounted for as administered items.

The profit/loss attributable to the Australian Government is used as the operating result for for-profit entities. This balance excludes Other Comprehensive Income that encompasses items such as changes in asset valuation reserves and gains or losses on foreign exchange translation.

**Figure 4.2**

**Reported material entities by operating results category**



**4.52** Two CAC entities (approximately three per cent of the total number of material entities analysed), one being a for-profit entity, incurred an average annual deficit over the three years and had at least two annual deficits over that period greater than 5 per cent of expenses. These are described as Category D1. In each case, the ANAO analysed the reasons for the deficits which are summarised below:

- The Australian Rail Track Corporation (ARTC): While the ARTC has shown positive and improving earnings before income tax and depreciation and impairment charges in each relevant year, its financial results have been impacted by significant one off income tax related adjustments and by ongoing impairment charges applicable to a section of the rail network that has been undergoing significant investment.
- The Australian Nuclear Science and Technology Organisation (ANSTO): ANSTO's operating results have been impacted by the need to reinstate a provision in relation to future costs associated with the safe storage of radioactive waste, and to recognise liabilities relating to the return of overseas waste and spent fuel. These issues increased depreciation and amortisation expenses in 2010–11.

**4.53** Significantly, the ANAO's analysis identified that 51 entities (approximately 73 per cent of the total) made small surpluses or deficits over



the three-year period, shown as Categories D2 or S1. The high percentage of entities in these categories suggests that most entities are appropriately managing their financial position in accordance with the funding arrangements in place for the period under analysis.

**4.54** The remaining 17 entities (approximately 97 per cent of the total) incurred an average annual surplus greater than 5 per cent of expenses. These entities are described as Category S2. In some entities, these surpluses arise from the profitable operation of for-profit entities or the quasi-commercial operations of not-for-profit entities. Among the other factors that contributed to surpluses were delays in recruiting staff that resulted in less employee expenses than anticipated, and variations to government programs.

**4.55** While the ANAO's primary focus will continue to be on understanding the financial operations of individual entities as an integral part of its financial statement audits, we will continue to review and report the aggregate financial results of entities.

## **Preparation of entity financial statements**

**4.56** The preparation and publication of annual audited financial statements is a key means by which entities meet their financial accountability and legislative obligations. It is generally accepted that a good indicator of the effectiveness of an entity's stewardship and financial management processes is the timely finalisation of the entity's financial statements, accompanied by an unmodified audit opinion. While acknowledging the challenges caused by tight completion requirements, rushed preparations, particularly if caused by poor project management or process shortcomings, heighten the risk of error or unreasonable resource usage in completing the financial statements. The emphasis is on both the timeliness and quality of financial reporting.

### **Financial statement timeframes**

**4.57** For 2010–11, material entities were required to submit audit cleared financial information to Finance by 15 August 2011. For non-material agencies, the date was 31 August 2011.

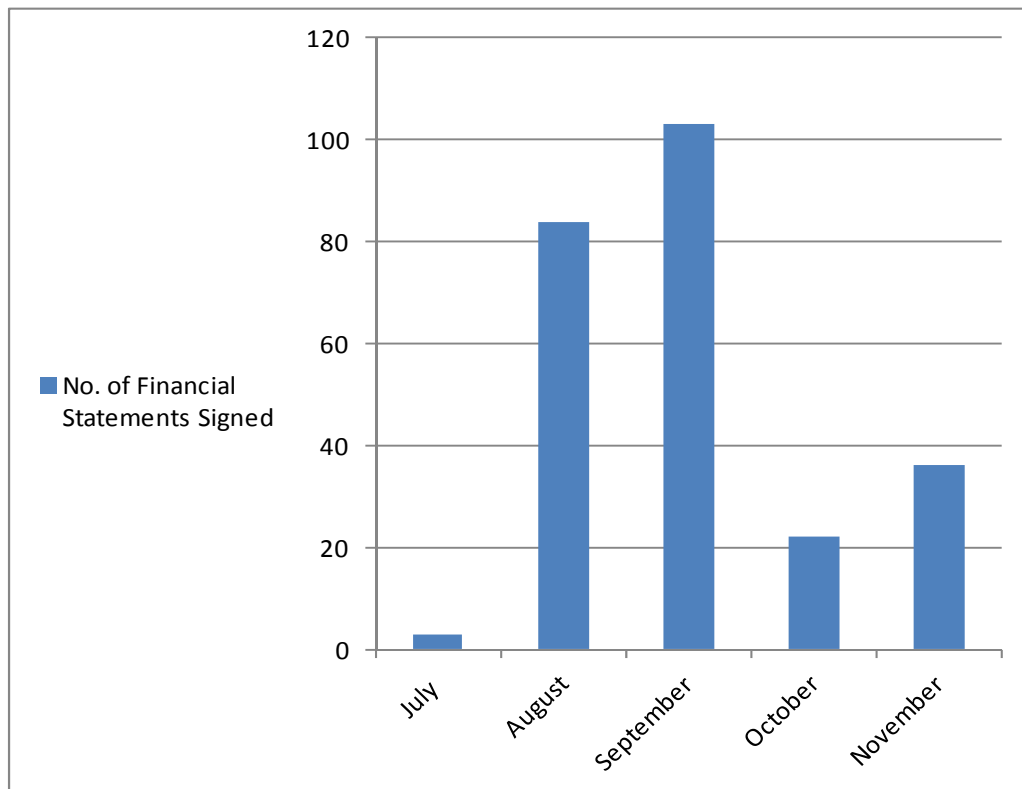
**4.58** Eighty-six per cent of material entities met the 15 August 2011 deadline and 63 per cent of non-material entities met the deadline of 31 August 2011. This is an improvement from the position achieved in 2009–10 when 76 per cent of material entities and 57 per cent of non-material entities met the deadlines.

**4.59** There are no specific deadlines for the signing of the actual financial statements (although in a number of entities the financial statements were signed at or about the same time as audit cleared information was provided to Finance) and the issue of the related audit opinion. There is, however, a deadline of 31 October 2011 for the tabling of entities' annual reports<sup>24</sup> that are required to include a copy of the signed financial statements and the auditor's report. Some 96 per cent of our auditors' reports on 2010–11 financial statements were signed within two days of the signed financial statements compared with 90 per cent for 2009–10 financial statements.

**4.60** An analysis of the dates on which entities' financial statements were signed is provided in Figure 4.3.

**Figure 4.3**

**Analysis of date of signing of the 2010–11 financial statements**



Source: ANAO Analysis. Excludes Financial Statements signed prior to July 2011.

<sup>24</sup> Agencies are required to table their Annual Reports by 31 October. CAC Act authorities are required to provide their Annual Report to the responsible Minister by the 15<sup>th</sup> day of the fourth month after the end of the financial year, ie. 15 October.

**4.61** Consistent with previous years, the audits of a large majority of entities' financial statements were completed within three months of the end of the financial year. Overall, this continues to reflect positively on the priority entities give to meeting their financial reporting responsibilities and on the financial stewardship of the public sector generally.

### **Financial statement preparation processes**

**4.62** As part of the 2010–11 final audits of the 73 material entities, the ANAO reviewed the financial statement preparation process.

**4.63** The review identified that the majority of material entities had effective processes in place for the preparation of their 2010–11 financial statements. Of these entities, approximately 14 per cent had made improvements to their 2010–11 financial statements processes compared with 2009–10. Areas of improvement included: the experience of financial statement preparation teams; working papers supporting disclosures in the financial statements; adherence to financial statement preparation timetables; and quality assurance processes. Compared with 2009–10, for a small number of entities, there had been a deterioration in the financial statement preparation processes in the areas mentioned above. All entities are encouraged to maintain their commitment to the preparation of timely and accurate financial statements as a key element of their financial management responsibilities.

### **Certificate of Compliance**

**4.64** Commencing from the 2006–07 financial year, Chief Executives of each FMA agency are required to provide an annual Certificate of Compliance (CoC). Directors of General Government Sector CAC Act authorities and wholly-owned companies are also required to provide a report on compliance with relevant aspects of CAC Act legislation. The certificate process is designed to promote awareness and understanding of the requirements of the financial management framework.

**4.65** Consistent with established practice, as part of the 2010–11 financial statement audit process, the ANAO obtained details of actual or potential breaches of the relevant financial framework referred to in entities' CoC or other records. The impact of any reported breaches on the financial statements was considered prior to the signing of the auditor's report.

**4.66** Finance has advised that for the 2010–11 reporting period, 105 agencies submitted certificates with a total of 15 262 instances of non-compliance

reported by 88 agencies, with 17 agencies reporting no instances of non-compliance. This represents a decrease in reported non-compliance of about 10 percent, compared to the 17 017 instances reported in 2009–10.

**4.67** Finance advised that the decrease in reported non-compliance reflects continuous improvement, both in agency processes and to the framework more broadly. For example, the introduction of Regulation 10A<sup>25</sup> on 1 July 2010 has streamlined the legislative requirements that apply to remote and non-material contingent liabilities.

**4.68** Two public reports on the Certificate results have been tabled in the Parliament. The third report is expected to be tabled in early 2012.

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<sup>25</sup> Regulation 10A was introduced to streamline the requirements that apply to remote and non-material contingent liabilities, such as those involved in venue and car hire.

## 5. Results of Financial Statement Audits by Portfolio

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*This chapter summarises the results of the audits of the 2010–11 financial statements of individual Australian Government entities by portfolio.*

### Introduction

**5.1** For reporting purposes, the structure of this chapter reflects the Portfolio arrangements existing at 30 June 2011.<sup>26</sup>

**5.2** The table for each portfolio indicates, for each portfolio entity:

- the nature of the audit opinion and whether the audit identified any significant audit issues;
- the date the financial statements were signed; and
- the date the auditor's report was issued.

**5.3** The table also identifies, for each entity, whether previously reported significant or moderate issues remain unresolved and/or new significant or moderate issues have been identified during the 2010–11 final audit.

**5.4** Issues identified are rated in accordance with the seriousness of the particular matter. The rating scale of A, B, C, and L1, as outlined in Chapter Four, indicates to the respective entity the relative importance of audit findings.

**5.5** For each material entity<sup>27</sup> details of the balance of key financial measures for 2009–10 and 2010–11, split between departmental and administered where applicable, are provided. A brief explanation of any movements in these measures that are significant is also provided. Broad areas of audit focus determined as a result of our planning approach, that were significant in terms of their potential impact on the entity's 2010–11 financial statements, are listed for each material entity.

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<sup>26</sup> These arrangements were as established by the AAOs dated 14 October 2010.

<sup>27</sup> Seventy-three entities are classified as material entities for Whole of Government reporting purposes with the remainder classified as non-material. Entities considered material collectively account for some 99 per cent of revenues, expenses, assets and/or liabilities of the Australian Government.

**5.6** For each portfolio entity, the chapter also indicates the status of significant and moderate audit issues and significant legislative issues (Category A and B and L1 issues respectively) identified in the 2010–11 interim audit phase, or in prior years. The chapter also provides a summary of new significant or moderate audit issues and significant legislative issues arising from the final phase of the 2010–11 audit.

# Agriculture, Fisheries and Forestry Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Agriculture, Fisheries and Forestry	Yes	✓A*	17 Aug 11	17 Aug 11	
- Australian Quarantine and Inspection Service	No	✓	17 Aug 11	17 Aug 11	
- National Residue Survey	No	✓	17 Aug 11	17 Aug 11	
Australian Fisheries Management Authority	No	✓A*	16 Sept 11	16 Sept 11	
Australian Pesticides and Veterinary Medicines Authority	No	✓A*	31 Aug 11	31 Aug 11	
Cotton Research and Development Corporation	No	✓	16 Sept 11	16 Sept 11	
Fisheries Research and Development Corporation	No	✓	26 Aug 11	26 Aug 11	
Grains Research and Development Corporation	Yes	✓	8 Aug 11	8 Aug 11	
Grape and Wine Research and Development Corporation	No	✓	23 Aug 11	23 Aug 11	
Rural Industries Research and Development Corporation	No	✓	14 Sept 11	15 Sept 11	
Sugar Research and Development Corporation	No	✓	12 Oct 11	12 Oct 11	
Wheat Exports Australia	No	✓A*	27 Sept 11	27 Sept 11	
Wine Australia Corporation (formerly Australian Wine and Brandy Corporation)	No	✓	9 Sept 11	13 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.7** The Agriculture, Fisheries and Forestry portfolio aims to enhance the sustainability, profitability and competitiveness of Australia's agriculture, food, fisheries and forestry industries.

**5.8** The portfolio comprises the Department of Agriculture, Fisheries and Forestry (DAFF) and a number of prescribed agencies, statutory authorities and research and development corporations. These portfolio entities work towards the common goal of ensuring Australian agricultural, food, fisheries, and forestry industries are based on sustainable management of and access to natural resources, are more competitive, self-reliant and innovative, have increased access to markets, are protected from diseases and are underpinned by scientific advice and economic research.

## Department of Agriculture, Fisheries and Forestry

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	345.1	326.4
Revenue from government	354.0	351.8
Surplus/(deficit)	8.9	25.4
Total other comprehensive income	2.6	0.2
Total comprehensive income	11.5	25.6
Total assets	296.9	262.3
Total liabilities	210.5	208.6

**5.9** Net cost of services increased primarily due to increases in employee expenses under the department's enterprise agreement, and an increase in grants expenditure. This was partially offset by an increase in revenue, which mainly related to the provision of quarantine inspection services.

**5.10** Assets increased primarily due to increases in unspent appropriations at year end and intangible assets primarily as a result of the capitalisation of expenditure for the re-development of DAFF's quarantine import conditions data base, ICON.

**5.11** Movements in other items were the result of fluctuations in normal business activity.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	428.6	376.4
Total expenses	954.9	1 038.6
Total assets	298.8	263.5
Total liabilities	77.1	74.9

**5.12** Administered income increased mainly due to an increase in revenue generated from levies on agricultural production.

**5.13** Administered expenses decreased significantly due to a decrease in Exceptional Circumstances Relief personal benefit payments during 2010–11, as a result of a reduction in drought declared regions.

**5.14** Administered assets increased primarily as a result of an increase in the value of DAFF's administered investment in the Grains Research and Development Corporation.

**Areas of audit focus**

**5.15** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- levies revenue and receivables, and the operation of an associated compliance program designed and implemented by DAFF to provide assurance over the completeness and accuracy of levies received;
- AQIS revenue systems, including revenue collected by Customs and Border Protection on behalf of DAFF;
- personal benefits expenses and payables that were processed by Centrelink on behalf of DAFF;
- the valuation of intangible assets, particularly software development relating to DAFF's quarantine import conditions database; and
- the valuation of non-financial assets, including the use of an independent valuer to conduct the valuation.

**5.16** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### Summary of audit findings

**5.17** There were no significant or moderate audit issues arising from the 2009–10 or 2010–11 audits.

### Report on Other Legal and Regulatory Requirements

**5.18** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Grains Research and Development Corporation

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	31.9	39.6
Revenue from government	53.4	50.0
Surplus/(deficit)*	20.8	9.8
Total other comprehensive income	0.0	0.0
Total comprehensive income	20.8	9.8
Total assets	206.0	176.7
Total liabilities	56.7	48.1

\* The share of the surplus/(deficit) from investments in associate entities was (\$0.7 million) (2009–10: \$0.6 million).

**5.19** The net cost of services decreased mainly due to an increase in revenue due to higher industry contributions reflecting greater grain production levels and higher prices in 2010–11. This increase was partially offset by additional expenses as a result of higher research and development activity in 2010–11, compared to 2009–10.

**5.20** Assets increased as a result of an increase in cash received from industry contributions and an increase in account receivable balances.

Liabilities increased due to an increase in accounts payable at year end resulting from additional research and development expenditure.

### **Areas of audit focus**

**5.21** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the valuation of investments held in private companies; and
- the valuation of financial instruments, including bonds and managed funds.

**5.22** Audit coverage of these matters was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.23** There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.

### **Comments on non-material entities**

**5.24** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

### **Reports on Other Legal and Regulatory Requirements**

**5.25** The auditors' reports on the financial statements of the Australian Fisheries Management Authority, the Australian Pesticides and Veterinary Medicines Authority, and Wheat Exports Australia refer to the financial statements of each entity that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Attorney–General’s Portfolio

Reporting Entity	Material entity	Type of auditor’s report	Date financial statements signed	Date auditor’s report issued	Audit issues identified
Attorney–General’s Department	Yes	✓A*	13 Sept 11	13 Sept 11	
Administrative Appeals Tribunal	No	✓A*	8 Sept 11	8 Sept 11	
Australian Commission for Law Enforcement Integrity	No	✓	29 Sept 11	29 Sept 11	
Australian Crime Commission	No	✓	19 Sept 11	19 Sept 11	
Australian Customs and Border Protection Service	Yes	✓A*	5 Sept 11	6 Sept 11	▲
Australian Federal Police	Yes	✓A*	8 Sept 11	8 Sept 11	
Australian Government Solicitor	Yes	✓	29 Aug 11	30 Aug 11	
Australian Human Rights Commission	No	✓	13 Sept 11	14 Sept 11	
Australian Institute of Criminology	No	✓	30 Aug 11	30 Aug 11	
Australian Law Reform Commission	No	✓	7 Sept 11	7 Sept 11	
Australian Security Intelligence Organisation	Yes	✓	14 Sept 11	14 Sept 11	
Australian Transaction Reports and Analysis Centre	No	✓	28 Sept 11	28 Sept 11	◆
Criminology Research Council	No	✓	30 Aug 11	30 Aug 11	
CrimTrac Agency	No	✓	9 Sept 11	9 Sept 11	
Family Court of Australia	Yes	✓	30 Aug 11	30 Aug 11	
Federal Court of Australia	No	✓A*	31 Aug 11	31 Aug 11	
Federal Magistrates Court of Australia	No	✓	30 Aug 11	30 Aug 11	
High Court of Australia	Yes	✓	6 Sept 11	6 Sept 11	
Insolvency and Trustee Service Australia	No	✓A*	19 Sept 11	19 Sept 11	
National Native Title Tribunal	No	✓	28 Sept 11	28 Sept 11	
Office of Parliamentary Counsel	No	✓	19 Sept 11	19 Sept 11	
Office of the Director of Public Prosecutions	No	✓	29 Sept 11	29 Sept 11	

✓: auditor’s report not modified

E: auditor’s report contains an emphasis of matter

Q: auditor’s report contains a qualification

A: auditor’s report contains additional statutory disclosure

A\*: auditor’s report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

📅: financial year end date other than 30 June 2011

📄: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.26** The Attorney-General's portfolio comprises the Attorney-General's Department (AGD) and a large number of statutory and non-statutory bodies. The AGD is the central policy and coordinating entity within the portfolio.

**5.27** The portfolio's responsibilities include providing legal policy and services to the Commonwealth in the areas of access to justice, administrative, civil, family and international law, international adoption, international child abduction, Commonwealth courts and tribunals, national and international human rights issues, Indigenous justice, legal assistance, native title, personal property securities, bankruptcy, law reform, constitutional policy, censorship, copyright, legislative drafting, international crime cooperation, federal criminal law, law enforcement and prosecutions, national security and emergency management, customs and border control.

**5.28** The Australian Territories function, including the National Capital Authority, was transferred to the Department of Regional Australia, Regional Development and Local Government (DoRA) in the Prime Minister and Cabinet portfolio under the Administrative Arrangements Order (AAOs) of 14 September 2010.

**5.29** Natural disaster recovery policy and the Australian Government Disaster Recovery Payment (AGDRP) were transferred to the Attorney-General's portfolio from the Department of Families, Housing, Community Services and Indigenous Affairs under the AAOs of 14 October 2010.

## Attorney-General's Department

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	236.6	236.6
Revenue from government	218.8	236.3
Surplus/(deficit)	(17.8)	(0.2)
Total other comprehensive income	0.0	0.0
Total comprehensive income	(17.8)	(0.2)
Total assets	237.1	231.7
Total liabilities	65.3	67.2

**5.30** The reduction in revenue from government and the related increase in the deficit were as a result of changes in funding arrangements for depreciation and amortisation expenses,<sup>28</sup> and the transfer of an appropriation of \$7 million to DoRA for the management of the Australian Territories function. These reductions were partly offset by a \$6 million increase in funding for new Government measures.

**5.31** All other movements reflect fluctuations in normal business activities.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	31.6	121.4
Total expenses	1,495.2	597.1
Total assets	447.9	1,202.4
Total liabilities	24.2	42.3

<sup>28</sup> Commencing from 2009–10, revised funding arrangements relating to non-cash expenses including depreciation progressively came into effect. Under the revised arrangements, most agencies are no longer funded for depreciation expense. Instead, funding for asset replacement is included in agencies' departmental appropriations, and designated as the agency's capital budget. The designated portion is recognised as contributed equity rather than revenue from government. For the majority of agencies these arrangements took effect in 2010–11.

**5.32** The significant decreases in income, assets and liabilities were as a result of the transfer of the management of the Australian Territories function to DoRA.

**5.33** The substantial increase in expenses was a result of increased expenditure relating to adverse weather conditions in the summer of 2011. This increase was partly offset by the transfer of the management of the Australian Territories function to DoRA.

### **Areas of audit focus**

**5.34** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the effect of the departmental restructure resulting from the AAOs of 14 September and 14 October 2010;
- the financial management of AGDRP and the Disaster Income Recovery Program as a result of floods in Queensland and Victoria;
- the management of the Queensland Premier's Flood Appeal funding through a newly established special account;
- appropriations management and reporting;
- changes to the FMOs, in particular appropriation and executive remuneration reporting; and
- the financial statement preparation process.

### **Audit results**

#### *Summary of audit findings*

**5.35** There were no significant or moderate audit issues identified during the 2010–11 audit.

#### *Resolved audit issue*

**5.36** During the audit of 2009–10 financial statements, a moderate issue was identified in relation to weaknesses and lack of quality assurance review in the financial statement preparation process. Our review during the 2010–11 audit identified significant improvements in the financial statement preparation process and the issue is now considered to be resolved.

### *Report on Other Legal and Regulatory Requirements*

**5.37** The auditor's report refers to the notes to the financial statements that include a reference to the need to undertake risk assessments in relation to compliance with conditions on payments from special appropriations and special accounts. The notes also indicate that the department is undertaking a review of compliance with statutory and other requirements, including constitutional requirements, relevant to its special appropriations and special accounts.

**5.38** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

<b>Ratings</b>	<b>Opening position (at end of interim phase)</b>	<b>Issues resolved (during final audit phase)</b>	<b>New issues identified (during final audit phase)</b>	<b>Closing position (at conclusion of final audit)</b>
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

## **Australian Customs and Border Protection Service**

### **Summary of Financial Results**

#### *Departmental Items*

<b>Key financial measures for year</b>	<b>2010–11 \$m</b>	<b>2009–10 \$m</b>
Net cost of services	1 013.4	1 025.5
Revenue from government	933.7	1 028.3
Surplus/(deficit)	(79.7)	2.7
Total other comprehensive income	0.0	(1.7)
Total comprehensive income	(79.7)	1.0
Total assets	689.2	666.6
Total liabilities	264.4	269.4

**5.39** The decrease in net cost of services was a result of a decrease in supplier expenses and depreciation expenses for the 2010–11 financial year. Supplier expenses have decreased mainly due to a number of new lease arrangements with reduced annual costs.



**5.40** Revenue from government reduced as a result of savings measures relating to illegal foreign fishing and aerial and maritime surveillance, and the changed arrangements relating to the funding of depreciation and amortisation.<sup>29</sup> This reduction also contributed to the deficit result in 2010–11 and the reduction in total comprehensive income.

**5.41** The increase in assets is primarily a result of upgrades to equipment such as X-ray machines and the fit out of a new vessel.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	6 590.4	6 456.5
Total expenses	2.4	1.2
Total assets	108.7	129.9
Total liabilities	7.7	7.5

**5.42** Administered income is comprised of collections for customs duty, the Passenger Movement Charge (PMC) and the Import Processing Charge (IPC). The increase in collections for customs duty was primarily due to an increase in tariff rates for tobacco and cigarettes, as well as a growth in the volume of imports across other categories. The increase in income was also due to increased collections of PMC resulting from a growth in international passenger numbers and a small increase in IPC collections due to the growth in imports across a number of import duty categories.

**5.43** The decrease in assets was due to a reduction in taxation receivables as a result of improved collections, as well as the write-off of a number of irrecoverable debts.

### **Areas of audit focus**

**5.44** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the change in responsibilities for the management of warehoused Excise Equivalent Goods (EEGs) from Australian Customs and Border Protection Service (Customs) to the Australian Taxation Office;

<sup>29</sup> Op cit (refer footnote 28 on p.70)

- validity of refunds of Customs duty;
- the accuracy and completeness of Customs duty collections;
- the completeness of PMC collections;
- the recognition and management of administered receivables; and
- the accuracy of Customs' asset register, particularly in relation to IT assets and operational equipment.

5.45 Audit coverage of these matters was finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

#### *Year end audit findings*

5.46 The 2009–10 audit identified that Customs did not have a centralised administered receivables system to ensure that receivables were recognised and consistently managed. The sources of potential administered receivables are spread throughout the operations of Customs as well as being geographically spread across Australia. Without a centralised administered receivables system in place, there was an increased risk that these receivables would not be appropriately recognised and consistently followed up in a timely manner. There was also an increased risk that administered receivables may not be captured where there is a timing difference between import or export transactions occurring and the input of the transactions into the cargo management system. In 2010–11, Customs undertook a debt management project which has partially resolved this issue, and has resulted in the ANAO downgrading this finding to a Category C finding.

5.47 The PMC is a charge levied on each departing passenger from Australia. Customs reports PMC revenue of approximately \$600 million as administered revenue in its 2010–11 financial statements. It is applied and collected by airline carriers under the *Passenger Movement Charge Act 1978* and the *Passenger Charge Collection Act 1978*. The 2009–10 audit identified a number of weaknesses in the management of PMC, including a lack of analysis related to a threshold used to assess variances between amounts estimated to be received by Customs and the amounts actually remitted by carriers. The ANAO also identified that audit activity had not been undertaken in

accordance with Customs' policies and procedures. During the 2010–11 final audit, Customs advised that it was still reviewing its management of PMC.

*Report on Other Legal and Regulatory Requirements*

**5.48** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

**5.49** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	2	(1)*	0	1
<b>Total</b>	<b>2</b>	<b>(1)</b>	<b>0</b>	<b>1</b>

\*Finding downgraded to a Category C finding

## Australian Federal Police

### Summary of Financial Results

*Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	1 110.5	1 101.8
Revenue from government	1 017.8	1 106.0
Surplus/(deficit)	(92.7)	4.2
Total other comprehensive income	2.4	(0.4)
Total comprehensive income	(90.3)	3.8
Total assets	922.6	953.3
Total liabilities	346.4	354.0

**5.50** The net cost of services increased mainly due to an increase in employee benefits and depreciation expenses. In addition, there were

unfunded and unforeseen costs associated with the AFP's response to the Christchurch earthquakes, Queensland floods and cyclone Yasi.

**5.51** Revenue from government decreased mainly due to the 2010–11 appropriation not including depreciation and amortisation funding.<sup>30</sup>

**5.52** Assets decreased largely due to unspent appropriations in 2009–10 being used to deliver projects in 2010–11 that had been deferred from prior years. This decrease was partially offset by an increase in intangible assets and an increase in land and buildings associated with a number of construction projects.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	0.0	0.0
Total expenses	38.1	15.2
Total assets	1.2	0.1
Total liabilities	3.9	2.0

**5.53** The increase in administered expenses was predominately due to spending on the new *Advancing Regional Law Enforcement Capability*, which focussed on capacity development of regional law enforcement partners to combat people smuggling activities.

## Areas of audit focus

**5.54** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the methodology applied to calculate employee benefits;
- recognition and disclosure of appropriations, including the departmental capital budget recognised in equity, the treatment of no-win/no-loss arrangements<sup>31</sup>, and compliance with relevant Finance Minister's Orders; and

<sup>30</sup> Op cit (refer footnote 28 on p.70)

<sup>31</sup> No-win/no-loss funding arrangements provide for a budget-neutral outcome to be achieved where there is some uncertainty as to the amount of funding required for certain activities. The uncertainty can be from difficulties in predicting annual workloads or required delivery levels, or from factors outside an agency's control such as movements in foreign exchange rates.

- the completeness and accuracy of accrued administered expenses.

5.55 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.56 There were no significant or moderate audit findings arising from the 2010–11 audit.

### *Report on Other Legal and Regulatory Requirements*

5.57 The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of s83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Australian Government Solicitor

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	113.3	117.9
Total expenses	104.6	110.2
Income tax expense	2.8	2.5
Net profit	5.9	5.2
Total other comprehensive income	1.0	0.7
Total comprehensive income	6.9	5.9
Total assets	88.4	88.9
Total liabilities	42.7	44.3

5.58 Movements in all items were the result of fluctuations in normal business activity.

## Areas of audit focus

5.59 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the systems to manage time and costs relating to legal fee revenue;
- valuation of the deferred tax asset; and
- the potential for control weaknesses resulting from the installation of new IT infrastructure.

5.60 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.61 No new significant or moderate issues were identified during the 2009–10 and 2010–11 audits.

## Australian Security Intelligence Organisation

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	377.8	366.1
Revenue from government	344.9	405.5
Surplus (deficit)	(32.9)	39.4
Total other comprehensive income	0.0	(0.8)
Total comprehensive income	(32.9)	38.6
Total assets	538.2	530.2
Total liabilities	75.7	69.7

5.62 The increase in the net cost of services is associated with the strengthening and expansion of capabilities to collect and assess security intelligence following an independent review of ASIO resources in 2005–06.

**5.63** The decrease in revenue from government is mainly due to changed arrangements relating to depreciation and amortisation.<sup>32</sup>

**5.64** The increase in liabilities reflects higher employee provisions as a result of growth in staff numbers.

### **Areas of audit focus**

**5.65** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the completeness and accuracy of the employee entitlement provision due to issues identified in the prior period; and
- the valuation of the fitout for the new ASIO headquarters, a significant new asset reported in ASIO's 2010–11 financial statements.

**5.66** Audit coverage of these matters was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

##### *Prior year audit findings*

**5.67** The 2009–10 audit identified that long service leave liability reports produced from the HRMIS, used as basis for supporting the long service leave provision in the financial statements, contained inaccuracies. The 2010–11 audit identified that ASIO now has controls in place to accurately produce reports to support the long service balances in the financial statements.

**5.68** There were no new significant or moderate issues identified during the 2010–11 audit.

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<sup>32</sup> Op cit (refer footnote 28 on p.70)

5.69 The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
A	0	0	0	0
B	1	1	0	0
Total	1	1	0	0

## Family Court of Australia

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	153.8	151.5
Revenue from government	145.6	152.6
Surplus/(deficit)	(8.2)	1.0
Total other comprehensive income	0.0	4.1
Total comprehensive income	(8.2)	5.1
Total assets	48.2	58.4
Total liabilities	27.4	38.0

5.70 During 2010–11 revised appropriation funding arrangements took effect. Funding that had been transferred from the Federal Magistrates Court of Australia to the Family Court of Australia (Family Court) was returned to the Federal Magistrates Court with effect from 1 January 2011. This has resulted in a reduction in the Family Court's total liabilities in 2010–11.

5.71 Other movements have been as a result of fluctuations in normal business activity.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income *	2.3	1.0
Total expenses	0.0	0.0
Total assets	0.0	0.0
Total liabilities	0.0	0.0

\* Administered income relates to court filing and hearing fees.

**Areas of audit focus**

**5.72** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the disclosure and presentation, together with legal compliance, of the funding transferred from the Family Court to the Federal Magistrates Court of Australia; and
- the revised appropriation funding arrangements described above.

**5.73** Audit coverage of the areas of audit focus was finalised during the 2010–11 final audit.

**Audit results***Summary of audit findings*

**5.74** No new significant or moderate issues were identified during the 2010–11 audit.

## High Court of Australia

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	17.8	17.1
Revenue from government	13.0	16.5
Surplus/(deficit)	(4.8)	(0.6)
Total other comprehensive income	3.7	23.6
Total comprehensive income	(1.1)	23.1
Total assets	225.6	217.9
Total liabilities	2.7	2.7

5.75 The decrease in total other comprehensive income is the result of a lower charge to the asset revaluation reserve in 2010–11 compared to 2009–10, resulting from the revaluation of infrastructure, plant and equipment, which include the High Court of Australia land and building.

5.76 Total assets increased mainly due to the revaluation of infrastructure, plant and equipment and the investment of an unused portion of capital funding received by the Court in 2010–11.

5.77 All other movements were as a result of fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income*	1.4	1.0
Total expenses	0.0	0.0
Total assets	0.0	0.0
Total liabilities	0.0	0.0

\* Administered income relates to court filing and hearing fees.

## Areas of audit focus

5.78 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- revaluation of property plant and equipment, including the land and buildings associated with the High Court; and
- the impact of foreign exchange movements on the valuation of that part of the High Court's library assets that are sourced from overseas.

5.79 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.80 No new significant or moderate issues were identified during the 2010–11 audit.

## Comments on non-material entities

5.81 There were no significant or moderate audit issues identified in non-material entities within the portfolio except in relation to the Australian Transaction Reports and Analysis Centre (AUSTRAC), the Office of the Commonwealth Director of Public Prosecutions and the Federal Court of Australia.

## Australian Transaction Reports and Analysis Centre

5.82 In the 2009–10 audit, the ANAO raised a moderate audit finding in relation to inadequacies in the financial statement preparation process. Issues identified included inadequate quality assurance and review and a lack of adequate working papers to support the financial statement balances and disclosures. In the final phase of the 2010–11 audit, the ANAO identified that AUSTRAC had implemented improved processes and quality control procedures to address these matters.

Three additional moderate audit issues were also identified in 2009–10 in relation to:

- financial management information system integrity;

- inconsistent asset recording between the asset register and the general ledger; and
- weaknesses in the systems and procedures used to record administered revenue transactions.

**5.83** The 2010–11 audit identified that AUSTRAC had taken action to address these issues.

**5.84** In the 2010–11 interim phase, one new moderate issue was raised in relation to the lack of an ICT Disaster Recovery Plan (DRP) as part of AUSTRAC's Business Continuity Management Framework. During the 2010–11 final audit, the ANAO confirmed that a DRP had been prepared, and initial testing of the plan had been undertaken. A review of the testing undertaken will be undertaken as part of the 2011–12 audit.

### **Office of the Commonwealth Director of Public Prosecutions**

**5.85** The 2007–08 and 2008–09 audits identified a number of weaknesses in the financial statement preparation process, including inadequate quality assurance and review. While some improvements were evident in 2009–10, significant issues still remained, including weaknesses and gaps in financial statement preparation and the absence of quality assurance reviews prior to presenting the financial statements for audit.

**5.86** During the 2010–11 audit, the ANAO confirmed that the Office of the Commonwealth Director of Public Prosecutions (CDPP) had made substantial improvements to its financial statement preparation process. These included the preparation of a detailed financial statement plan involving a hard close trial run for the 2010–11 financial statements. As a result, the ANAO now considers this issue is resolved.

**5.87** During the 2009–10 final audit, weaknesses and potential inconsistencies were identified in the CDPP's asset accounting policies and procedures, particularly in relation to revaluations and year end processes. Following the completion of the 2010–11 audit, the ANAO now considers this issue substantially resolved and has downgraded this issue to a Category C issue. The one remaining outstanding matter is expected to be addressed when the CDPP undertakes an asset revaluation.

## **Federal Court of Australia**

**5.88** During the 2010–11 audit, the ANAO reported two new moderate audit issues. The ANAO's review of user access to the financial management information system (FMIS) identified a number of users with access to combinations of functions that were considered incompatible or excessive. The Court has advised this issue is being addressed through a system upgrade that will include a review of user access to the FMIS.

**5.89** The ANAO also identified that: the business continuity plan was not tested as part of a holistic approach and the associated procedures designed to test the plan had not been implemented; and the Court's IT disaster recovery plans were not reviewed and tested on a regular basis.

**5.90** The Court also advised that a review of the business continuity and IT disaster recovery plans was being undertaken.

## **Reports on Other Legal and Regulatory Requirements**

**5.91** The auditors' reports on the financial statements of the Administrative Appeals Tribunal, the Federal Court of Australia and the Insolvency and Trustee Service Australia refer to the financial statements of each entity that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Broadband, Communications and the Digital Economy Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Broadband, Communications and the Digital Economy	Yes	✓	30 Aug 11	30 Aug 11	
Australian Broadcasting Corporation	Yes	✓	28 Jul 11	28 Jul 11	
Australian Communications and Media Authority	Yes	✓A*	14 Sept 11	16 Sept 11	
Australian Postal Corporation	Yes	✓	25 Aug 11	25 Aug 11	◆
National DAB Licence Company Limited	No	✓	5 Aug 11	5 Aug 11	
NBN Co Limited	Yes	✓	16 Sept 11	16 Sept 11	◆
Special Broadcasting Service Corporation	Yes	✓	25 Aug 11	25 Aug 11	
- Pan TV Ltd	No	✓	25 Aug 11	25 Aug 11	
- SBS Subscription TV Ltd (formerly Multilingual Subscriber Television Ltd)	No	✓	25 Aug 11	25 Aug 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

📅: financial year end date other than 30 June 2011

⏸: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

### Portfolio overview

**5.92** The portfolio is responsible for the promotion of the digital economy, the development of communications, broadcasting and related policies and codes of practice, in addition to the provision of services through the Department of Broadband, Communications and the Digital Economy (DBCDE) and a number of portfolio entities, including the Australian Postal Corporation (the Corporation), the NBN Co Limited (NBN Co), the Australian Broadcasting Corporation (ABC) and Special Broadcasting Service Corporation (SBS).

## Department of Broadband, Communications and the Digital Economy

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	126.3	148.1
Revenue from government	125.2	153.8
Surplus/(deficit)	(1.0)	5.7
Total other comprehensive income	3.6	1.8
Total comprehensive income	2.6	7.6
Total assets	98.5	99.5
Total liabilities	35.6	38.6

**5.93** Net cost of services and revenue from government decreased primarily due to a decrease in contractor and consultancy work in 2010–11 associated with the National Broadband Network.

**5.94** The deficit in 2010–11 was due to a decrease in revenue from government resulting from the cessation of appropriation funding for depreciation and amortisation.<sup>33</sup>

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	82.2	177.0
Total expenses	1 321.9	1 311.3
Total assets	5 129.0	3 678.2
Total liabilities	43.0	40.1

**5.95** Administered income has decreased significantly, primarily due to a significant decline in dividend income received from the Australian Postal Corporation.

<sup>33</sup> Op cit (refer footnote 28 on p.70)

**5.96** The increase in net assets results from increases in the value of administered investments in NBN Co Limited and Australia Post, and as a result of the recognition of infrastructure created by the Regional Backbone Blackspots program.

### **Areas of audit focus**

**5.97** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- valuation of administered investments which include significant investments in Australian Government portfolio entities;
- the recognition and valuation of assets under the Regional Backbone Blackspots program;
- grant and subsidies expenses;
- the review of controls surrounding payroll expenses;
- the presentation and disclosure of revenue from government;
- administered contingent liabilities and commitments disclosures; and
- IT general and application controls.

### **Audit results**

#### *Summary of audit findings*

**5.98** There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.



## Australian Broadcasting Corporation

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	953.6	917.3
Revenue from government	955.5	915.0
Surplus/(deficit)*	0.2	(1.8)
Total other comprehensive income after income tax	(7.2)	26.7
Total comprehensive income	(7.0)	24.9
Total assets	1 219.6	1 242.3
Total liabilities	246.2	265.5

\* The ABC's share of the surplus/(deficit) from jointly controlled entities was (\$1.7 million) (2009–10: \$0.5 million).

**5.99** Revenue from government increased in accordance with the Australian Broadcasting Corporation's (ABC's) 1 July 2009 to 30 June 2012 triennial funding arrangement. The additional funding was used for new programming and capital works projects. The ABC's net cost of services has increased by a corresponding amount.

**5.100** The fluctuation in other comprehensive income after tax largely relates to reductions in the valuations of land and buildings.

### Areas of audit focus

**5.101** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the valuation of land and buildings;
- program amortisation policies; and
- IT general and application controls as they relate to the financial statements.

**5.102** During the 2010–11 final audit, coverage of the areas of focus was completed.

## Audit results

### *Summary of audit findings*

**5.103** There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.

## Australian Communications and Media Authority

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	109.8	107.1
Revenue from government	98.9	108.2
Surplus/(deficit)	(10.9)	1.1
Total other comprehensive income	(0.4)	1.4
Total comprehensive income	(11.3)	2.5
Total assets	68.3	65.0
Total liabilities	26.4	27.8

**5.104** The decrease in revenue from government and the deficit for the year were mainly due to the effect of the change in depreciation and amortisation funding arrangements in 2010–11.<sup>34</sup>

**5.105** The movements in other financial measures were not significant and reflect fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	580.1	687.7
Total expenses	161.4	183.3
Total assets	197.3	356.6
Total liabilities	3.7	3.0

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<sup>34</sup> Op cit (refer footnote 28 on p.70)

**5.106** Administered income reduced due to an increase in rebates introduced for commercial TV broadcasters and a decrease in broadcasting licence revenue associated with a decline in broadcasters' taxable income. The decrease in licence revenue also resulted in a significant reduction in broadcasting licence receivables at year end that is reflected in the decrease in administered assets.

**5.107** Movements in other administered items were the result of fluctuations in normal business activity.

### **Areas of audit focus**

**5.108** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the valuation of property, plant and equipment and intangible assets; and
- the recognition and measurement of broadcasting licence fees.

**5.109** Audit coverage of these matters was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.110** There were no significant or moderate audit findings arising from the 2009–10 and 2010–11 audits.

#### *Report on Other Legal and Regulatory Requirements*

**5.111** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Australian Postal Corporation

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	4 986.4	4 856.2
Total expenses	4 640.6	4 739.1
Profit (loss) after income tax	241.2	89.5
Total other comprehensive income (loss) after income tax	82.1	(203.6)
Total comprehensive income	323.3	(114.1)
Total assets	4 135.1	3 915.2
Total liabilities	2 331.2	2 356.1

**5.112** Income increased mainly due to an increase in postal revenue as a result of an increase in the letter postage rate. The Corporation also experienced a strong performance in parcel business services brought about by increased mail volumes. In 2009–10, the Corporation incurred major restructuring costs associated with a business renewal program. Following the substantial completion of that program, expenses decreased in 2010–11.

**5.113** In 2010–11, other comprehensive income after tax relates to actuarial gains on the defined benefit plan compared to actuarial losses reflected in 2009–10.

**5.114** The increase in assets is represented by increases in cash holdings, superannuation asset and intangibles. In addition, the Corporation had higher receivables as a result of increased sales and property disposals.

**5.115** The movement in total liabilities was not significant and was the result of fluctuations in normal business activity.

### Areas of audit focus

**5.116** The ANAO's audit approach identified the following areas that are significant in terms of their potential impact on the 2010–11 financial statements:

- the review and assessment of business transactions relating to the acquisitions and disposals of entities, including the mergers of a number of business operations;

- the recognition and disclosure of provisions;
- the valuation of assets;
- areas of significant judgement and estimates particularly those associated with long service leave, workers' compensation, the Corporation's defined superannuation benefit plan, and the valuation of investment properties; and
- IT general and application controls as they relate to the financial statements.

**5.117** Audit coverage of the areas of audit focus was completed during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

#### *Resolved audit issues*

**5.118** The ANAO identified three moderate audit issues during the 2009–10 audit relating to the following areas:

- the Corporation's property balances not being fully substantiated;
- weaknesses in change management procedures in the financial management information system; and
- non-compliance with the asset management policy relating to assets useful lives.

**5.119** During the 2010–11 audit, the ANAO confirmed that the Corporation had satisfactorily addressed these issues.

#### *New moderate audit issues*

**5.120** The 2010–11 audit was completed with satisfactory results except in relation to four moderate audit issues referred to below:

- The ANAO's review of user access to the Corporation's financial management information system (FMIS) identified users, no longer employed by the Corporation, who still had access to the FMIS. This increases the risk of inaccurate and unauthorised or fraudulent transactions being processed in the Corporation's FMIS. The audit did not identify any instances of unauthorised access.

- The audit of supplier expenses and payables identified that certain manual payments were not approved by the appropriate delegate. This increases the risk of unauthorised or fraudulent transactions being processed within the Corporation's financial statements.
- The ANAO reviewed the Corporation's asset management processes and noted that stocktakes of the Corporation's postal and retail division fixed assets are performed on a yearly basis. During the 2010–11 audit, the ANAO identified that these stocktakes had not been fully completed. While the value of these assets was not material, the untimely completion of stocktakes increases the risk of the misstatement of asset balances in the financial statements.
- The Corporation implemented a new bonus structure and methodology in 2010–11, which given it was the first year of implementation, required a level of judgement and manual intervention which was not necessarily in accordance with the Corporation's final payment methodology. Balances that have a high level of manual intervention increase the risk of material misstatement in the financial statements.

**5.121** The Corporation advised that it is addressing the above issues, and progress will be monitored by the ANAO during the 2011–12 financial statements audit.

**5.122** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

<b>Ratings</b>	<b>Opening position (at end 2010 audit)</b>	<b>Issues resolved (during 2011 audit)</b>	<b>New issues identified (during final audit phase)</b>	<b>Closing position (at conclusion of final audit)</b>
A	0	0	0	0
B	3	(3)	4	4
<b>Total</b>	<b>3</b>	<b>(3)</b>	<b>4</b>	<b>4</b>

## NBN Co Limited

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	32.6	3.9
Total expenses	355.8	83.7
Profit (loss) after income tax	(323.2)	(79.8)
Total comprehensive income	(323.2)	(79.8)
Total assets	1 082.7	259.5
Total liabilities	123.9	27.5

**5.123** The 2010–11 income and expenses reflect the second full year of operations in which the NBN Co Limited (NBN) continued the roll-out of the National Broadband Network. Income comprised interest earned on funds received as an equity injection<sup>35</sup>. Expenses comprised mainly those related to employee costs, external suppliers and legal and support costs. The increase in expenses was due to the growth in the number of employees and the development of organisational infrastructure.

**5.124** The increase in total assets was associated with the progressive roll-out of the National Broadband Network. At 30 June 2011 total assets included \$538.2 million cash, \$232.8 million network assets and \$250.8 million related to licences and internally developed software.

### Areas of audit focus

**5.125** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- procurement processes and the capitalisation of costs due to the significant expenditure on network construction and IT software development;

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<sup>35</sup> Up until 30 June 2011, the NBN has progressively received equity injections totalling to \$1,362 million in the form of ordinary shares held by the Minister for Finance and Deregulation and the Minister for Broadband, Communications and the Digital Economy. In June 2011, an agreement was reached with the Commonwealth for total committed future funding of up to \$27.5 billion.

- employee expenses; and
- valuation of assets, primarily network and IT, in accordance with accounting standards.

**5.126** Audit coverage of these areas of audit focus were finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

**5.127** During the 2010–11 audit, the ANAO conducted a review of key IT security controls relevant to NBN's financial systems. The ANAO identified weaknesses in the area of access controls, including a lack of consistent monitoring of users' access, notably users with privileged access, together with instances where approval of new standard users was not documented. These weaknesses increase the risk of unauthorised system changes that could compromise the confidentiality, integrity and completeness of financial information. NBN has advised the ANAO that procedures for regular monitoring of access and automated controls for approval of users have since been enhanced to address these weaknesses. The ANAO will review these matters during the 2011–12 audit.

**5.128** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

<b>Ratings</b>	<b>Opening position (at end of interim phase)</b>	<b>Issues resolved (during final audit phase)</b>	<b>New issues identified (during final audit phase)</b>	<b>Closing position (at conclusion of final audit)</b>
<b>A</b>	0	0	0	0
<b>B</b>	0	0	2	2
<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>



## Special Broadcasting Service Corporation

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	211.7	206.5
Revenue from government	209.0	207.1
Surplus/(deficit)*	(2.7)	1.0
Total other comprehensive income after income tax	7.3	0.0
Total comprehensive income	4.3	0.9
Total assets	253.0	257.6
Total liabilities	79.1	93.1

\*Surplus/(deficit) before income tax

**5.129** Movements in the key financial measures overall were not significant and were the result of fluctuations in business activity. The reduction in total liabilities largely relates to: the return of unspent digital funding to the Government; repayment of a number of loans, including loans from Government; and accrued expenditure recognised in 2009–10 that related to the 2010 International Federation of Association Football (FIFA) World Cup that was not replicated in 2010–11.

### Areas of audit focus

**5.130** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- land and building valuations;
- program inventory valuation and related amortisation policies; and
- IT general and application controls as they relate to the financial statements.

**5.131** Audit coverage of the areas of focus was completed during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

**5.132** There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.

## **Comments on non-material entities**

**5.133** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

# Climate Change and Energy Efficiency Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Climate Change and Energy Efficiency	Yes	✓	24 Aug 11	24 Aug 11	
Low Carbon Australia Ltd (formerly Australian Carbon Trust Ltd)	No	✓	11 Aug 11	11 Aug 11	
Office of the Renewable Energy Regulator	No	✓A*	9 Sept 11	9 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.134** The Climate Change and Energy Efficiency portfolio aims to enhance Australia's climate change response through adaptation and mitigation strategies in the areas of domestic emissions reduction as well as international solutions. The portfolio comprises the Department of Climate Change and Energy Efficiency, Low Carbon Australia Ltd, and the Office of the Renewable Energy Regulator.

**5.135** The department leads the development and coordination of Australia's climate change and energy efficiency policy. It is responsible for policy advice, policy implementation and program delivery to reduce Australia's greenhouse gas emissions including by promoting energy efficiency, adapting to the impacts of climate change, and negotiation of an effective global solution to climate change.

**5.136** Low Carbon Australia Ltd is responsible for providing information and tools for households and businesses to participate effectively in Australia's climate change response.

**5.137** The Office of the Renewable Energy Regulator is responsible for implementing the Australian Government's mandatory renewable energy target, which is to be achieved over the period 2001 to 2020.

## Department of Climate Change and Energy Efficiency

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	175.8	128.9
Revenue from government	221.0	122.0
Surplus/(deficit)	45.2	(6.9)
Total other comprehensive income	0.0	0.3
Total comprehensive income	45.2	(6.6)
Total assets	216.6	104.6
Total liabilities	50.7	44.0

**5.138** Increases in the net cost of services, revenue from government, assets and liabilities generally reflect the department's first full year of managing the climate change programs since the transfer of these functions from the then Department of Environment, Water, Heritage and the Arts on 8 March 2010. The increases were partially offset by the winding down of the home insulation and other climate change programs during the year.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	1.5	0.0
Total expenses	354.2	492.7
Total assets	18.3	8.9
Total liabilities	36.2	299.1

**5.139** Administered expenses decreased significantly, primarily due to a Home Insulation Program (HIP) provision (\$146.9 million in 2009–10) not being required in 2010–11. As a result of the Government's decision to wind up the HIP, the department disclosed in the 2010–11 financial statements

unquantifiable contingent liabilities for the remaining demand-driven HIP obligations.

**5.140** Administered assets increased due to a \$7.2 million increase in the valuation of the department's administered investment in Low Carbon Australia Ltd and increased cash balances at year end.

**5.141** Liabilities decreased significantly due to the discontinuation of the \$146.9 million HIP provision as referred to above, and a further \$106.1 million decrease in grant payables associated with the completion and winding up of other administered grants programs.

### **Areas of audit focus**

**5.142** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- ongoing obligations in respect of the department's remediation costs under the Home Insulation Safety and Foil Insulation Safety programs; and
- accounting for debt recoveries relating to payments made under the HIP program and Green Loans administered grants program.

**5.143** The ANAO's audit coverage of these areas of audit focus was finalised during the 2010–11 audit.

**5.144** During the year the ANAO also discussed the accounting treatments relating to the proposed carbon pricing scheme with the Department of Finance and Deregulation.

### **Audit results**

#### *Summary of audit findings*

**5.145** There were no significant or moderate issues identified during the 2009–10 and the 2010–11 audits.

### **Comments on non-material entities**

**5.146** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

## **Report on Other Legal and Regulatory Requirements**

**5.147** The auditor's report on the financial statements of the Office of the Renewable Energy Regulator refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Defence Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Defence	Yes	✓A*	16 Sept 11	16 Sept 11	▲◆
AAF Company	No	✓	31 Oct 11	1 Nov 11	
Army Amenities Fund	No	✓	31 Oct 11	1 Nov 11	
Army and Air Force Canteen Service	No	✓	31 Aug 11	31 Aug 11	
Messes Trust Fund	No	✓	31 Oct 11	1 Nov 11	
Australian Military Forces Relief Trust Fund	No	✓	23 Sept 11	23 Sept 11	
Australian Strategic Policy Institute Ltd	No	✓	22 Sept 11	27 Sept 11	
Australian War Memorial	Yes	✓	10 Aug 11	10 Aug 11	
Defence Housing Australia	Yes	✓	4 Aug 11	5 Aug 11	
Defence Materiel Organisation	Yes	✓A*	8 Sep 11	8 Sep 11	▲
Defence Service Homes Insurance Scheme	No	✓A*	4 Oct 11	5 Oct 11	
Department of Veterans' Affairs	Yes	✓EA*	5 Oct 11	7 Oct 11	◆
Military Superannuation Benefits Board of Trustees No.1	No	✓	13 Sept 11	13 Sept 11	
Military Superannuation Benefits Scheme	No	✓	13 Sept 11	13 Sept 11	
RAAF Central Welfare Trust Fund	No	✓	25 Oct 11	25 Oct 11	
RAAF Welfare Recreational Company	No	✓	25 Oct 11	25 Oct 11	
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	7 Nov 11	7 Nov 11	
Royal Australian Air Force Welfare Trust Fund	No	✓	23 Aug 11	23 Aug 11	
Royal Australian Navy Central Canteens Board	No	✓	28 Sept 11	28 Sept 11	
Royal Australian Navy Relief Trust Fund	No	✓	21 Oct 11	21 Oct 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.148** The Defence portfolio consists of the Department of Defence (Defence), the Defence Materiel Organisation (DMO), the Department of Veterans' Affairs (DVA), and a number of other statutory and non-statutory bodies. The portfolio is responsible for developing, implementing and administering policies, programs and services to defend Australia and its national interests.

**5.149** The portfolio is also responsible for carrying out government policy and implementing programs to fulfil Australia's obligations to war veterans and their dependents, as well as for providing compensation claims management services to currently serving and former members of the Australian Defence Force (ADF).

## Department of Defence

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	22 040.2	20 969.6
Revenue from government	21 069.5	21 503.9
Surplus/(deficit)	(970.7)	534.4
Total other comprehensive income	522.1	407.9
Total comprehensive income/(loss)	(448.6)	942.3
Total assets	68 519.3	65 079.9*
Total liabilities	5 849.7	4 844.3

\* This balance differs from the prior year due to changes in accounting policies.

**5.150** The net cost of services increased primarily due to increased expenditure associated with employee benefits and suppliers' expenses, partially offset by a decrease in income. The higher than budgeted expenditure on supplier expenses also contributed to the deficit.

**5.151** The increase in employee benefits reflects an increase in salaries and superannuation, across both the Defence and civilian workforces, and an increase in the number of civilian personnel. Supplier expenses have increased mainly because of increases in: repair and overhaul expenses relating to the



Airborne Early Warning and Control Program; freight, storage and removal expenditure; and decontamination costs.

**5.152** Income decreased primarily due to a reduction in revenue from government and a decrease in the gains<sup>36</sup> associated with the movement in asset values.

**5.153** The decrease in revenue from government was mainly due to reductions in appropriations under Defence's operational and foreign exchange no-win/no-loss arrangements<sup>37</sup>, capital investment reprogramming, and reduced costs relating to the C17 Globe Master III fleet. The decrease in gains is the result of fewer assets values being reinstated in 2010–11.

**5.154** Assets increased mainly due to an increase in the value of land and buildings, specialist military equipment (SME) and inventories. These increases were the result of acquisitions, expansion and redevelopment projects.

**5.155** Significant movements in land and buildings were the result of acquisitions associated with long term projects, in particular: the Edinburgh Hardened Army Network Project; the Mulwala redevelopment; and the expansion and redevelopment of facilities supporting the Multi-Role Helicopters and Super Hornets.

**5.156** Defence's SME assets increased due to increased expenditure on large scale projects and the completion and roll out of a number of significant assets, including the Multi-Role Helicopters, the Landing Helicopter Docks (LHDs) Ships, the Air Warfare Destroyer and Air-to-Air Refuellers.

**5.157** The increase in inventories primarily reflects an increase in the value of Defence's fuel holdings and the acquisition of explosive ordnance (EO). The acquisition of EO is consistent with ongoing operating requirements and the strategic objective to increase Defence's EO reserve stock holdings.

**5.158** Liabilities increased mainly due to an increase in sustainment and acquisition activities provided by DMO associated with the Multi-Role Tanker Transport aircraft, satellite communications systems, the Armed Reconnaissance Helicopter, and the Multi-Role Helicopter.

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<sup>36</sup> Where an asset decreases in value, the decrease is reflected in expenses. In subsequent financial reporting periods, the previous asset value may be partially or fully reinstated. The amount reinstated is recognised as a gain that is reported as income.

<sup>37</sup> Op cit (refer footnote 31 on p.76)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	1 354.4	1 190.9*
Total expenses	4 014.0	3 663.1
Total assets	3 050.7	2 964.6*
Total liabilities	50 118.2	48 241.8*

\* These figures differ from the prior year due to changes in accounting policies.

**5.159** Administered income increased mainly due to an increase in superannuation contributions for the two military superannuation schemes: the Military Superannuation Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme. This increase is attributable to an increase in the number of MSBS members and an increase in members' salaries.

**5.160** The increase in administered expenses relates primarily to the military superannuation accrual and fluctuations in normal business activity.

**5.161** There was no significant movement in administered assets.

**5.162** Administered liabilities increased mainly due to an increase in the military superannuation provision. The increase in the provision reflects an increase in members and salaries and reduced exit rates of members.

### **Areas of audit focus**

**5.163** The ANAO's audit approach identified the following areas that had the potential to impact on the 2010–11 audit of Defence's financial statements:

- Inventory and asset management due to the material nature of the inventory and asset balances, and outstanding prior year issues. These issues relate to weaknesses in management and supply chain business controls, supporting documentation, and management of inventory and assets holdings at various Defence and DMO sites.
- The implementation and operation of the new Defence inventory and asset management system, the Military Integrated Logistics Information System (MILIS) and the Materiel Logistics Financial Framework (MLFF). The MILIS system is critical to the logistic support

of Defence's operation and supports the financial reporting of assets and inventory.

- The valuation and classification of SME. SME assets are a material asset balance and their valuation involves a high level of judgement and technical expertise.
- The accurate and complete recording of operational and capitalised expenditure associated with specialist military Assets Under Construction (AUC). The financial and operational management of AUC is dispersed across a wide variety of projects that have complex contractual arrangements and project management requirements.

**5.164** In addition, the ANAO continued to focus on areas previously identified as significant to the financial statements including:

- remediation activities to address weaknesses in the Financial Management Framework;
- complex estimations involved in calculating a number of balances in Defence's financial statements, including provisions for: decommissioning of SME; and the decontamination and restoration of a large number of Defence sites both nationally and overseas;
- the calculation and reporting of current and future commitments that are complex and highly dependent on devolved management activities across Defence and DMO;
- the management of EO, due to the sensitive and material nature of these assets and Defence's remediation activities to address previously reported audit issues;
- Defence's management of a complex and diversified Human Resource Management Information System; and
- the design and effectiveness of key controls over the purchase of goods and services.

## **Audit results**

### *Summary of audit findings*

**5.165** During the final phase of the 2010–11 audit, Defence partially resolved one significant and two moderate audit issues that had been previously identified. The significant audit issue related to MILIS change management;

and the two moderate issues related to delays in the rollout of AUC to General and SME asset classes. In addition, one moderate audit issue relating to the management of EO disposal and destruction was resolved. No new moderate issues were identified during the 2010–11 final audit.

**5.166** At the conclusion of the 2010–11 audit, two significant and twelve moderate audit issues remained outstanding. The majority of these audit issues relate to Defence's inventory and asset management, including supporting IT systems.

**5.167** An unqualified auditor's report was issued on 16 September 2011.

*Resolved audit findings*

Asset management (General and Specialist Military Equipment)

**5.168** Defence's assets are significant and varied in nature, and are managed by Defence and DMO in a wide number of locations nationally and overseas. At the completion of the 2009–10 audit, the ANAO reported two moderate audit issues in relation to the management of assets. These matters related to the timeliness of:

- the transfer of assets under construction (AUC) to general assets and the recording of non-SME disposal and write downs; and
- AUC roll outs to SME and the completeness of the AUC accrual balance.

**5.169** Defence adjusted the general assets and associated depreciation balances to appropriately account for the impact on the assets and depreciation balances of the delays in roll outs. This addresses the issue that the timing of asset roll outs may misstate the balances in the financial statements.

**5.170** The DMO, on behalf of Defence, completed a review of existing AUC procedures to calculate AUC accruals. The 2010–11 final audit confirmed that DMO had strengthened these procedures with no omissions or duplication issues identified.

**5.171** The ANAO continues to identify: incomplete documentation to support the disposal and write downs of non-SME; projects not being capitalised within two months of completion as required by internal policies; and issues relating to the timeliness of AUC roll outs to SME. However, recognising the overall improvements in the general and SME asset management procedures,

both moderate audit issues have been downgraded to Category C findings and will be reviewed during the 2011–12 audit.

#### Management of EO disposal and destruction

**5.172** At the completion of the 2009–10 audit, one moderate audit issue was outstanding relating to weaknesses in the documentation to support the approval of the disposal of EO.

**5.173** The 2010–11 final audit confirmed that Defence had strengthened the management controls relating to the disposal and destruction of EO. The audit issue is considered to have been resolved.

#### *Outstanding audit findings*

##### Inventory and assets management

**5.174** The 2010–11 financial year was the first year of the implementation and operation of MILIS. The impact of the implementation is wide ranging as the system underpins Defence's logistics support to operations, as well as supporting the financial reporting of inventory and asset balances.

**5.175** The ANAO identified significant weaknesses in the MILIS project governance and management arrangements considered fundamental to the success of IT projects of this size, complexity and nature. These weaknesses included insufficient testing in an environment representative of MILIS's future operating environment; the failure to deliver critical functionality; underestimating the level of resources and problem resolution required for known defects; insufficient preparedness for the impact of the defects on the user environment and financial statements; and non-adherence with project management procedures.

**5.176** The ANAO also identified significant weaknesses in MILIS change management practices such as the absence of an analysis of the effect on business operations in the change assessment and prioritisation procedures. The audit also identified insufficient segregation of duties, an incomplete record of changes made to the system for the first half of the financial year, and failure to retain documents to support approval and testing of MILIS changes.

**5.177** In response, Defence implemented the MILIS Inventory Assurance Program (MIAP) Phase 1 and Phase 2 aimed at: remediating known system deficiencies including those relating to MILIS change and release management; processing backlogged transactions; rectifying MILIS stocktake functionality

and reporting; expanding inventory and assets management controls testing; and expanding the stocktake of inventory and assets.

**5.178** The ANAO consequently extended the 2010–11 audit program to obtain assurance over the existence, completeness, and accuracy of inventory and asset balances. This involved reviewing MIAP activities and conducting additional controls and substantive testing.

**5.179** At the completion of the 2010–11 interim audit, the ANAO reported two new significant audit issues relating to MILIS project governance and change management arrangements, and one new moderate audit issue relating to data quality. In addition, one significant and five moderate audit issues remained outstanding from previous years in relation to a need to:

- strengthen controls, documentation and the reporting of the cyclical stocktake program of inventory and assets;
- ensure appropriate processes are adopted to investigate and resolve discrepancies identified during stocktakes;
- address deficiencies in the underlying controls that affect the quality of data within the inventory system;
- improve IT and business process controls necessary to ensure the timely and accurate processing of inventory returns;
- strengthen controls over the pricing of general stores inventory;
- improve the retention of supporting documentation relating to the approval to dispose of certain Defence assets; and
- strengthen the estimation processes for obsolete inventory items.

**5.180** The successful remediation of a number of audit issues, identified in previous years, was adversely affected by the MILIS implementation and as a result required Defence to re-evaluate the planned remediation activity, including new system changes.

**5.181** During the 2010–11 final audit, the ANAO focused on the MIAP Phase 1 and Phase 2 remediation activities to address the significant risks to the financial statements. In addition to Defence's annual management assurance activities for the inventory and asset balance, Phase 1 and 2 included activities that were critical to the successful completion of the audit and the resolution of the significant audit findings. These activities included:

- implementation of a configuration management tool to manage software releases for the MILIS application;
- the finalisation of the National Asset and Inventory Sample Program;
- the finalisation of the annual weapons census;
- a MILIS Post Implementation Review; and
- quantifying the financial impact of known system defects.

**5.182** The status of each of these activities is discussed below.

**5.183** Defence implemented a configuration management tool to manage MILIS software releases. During the 2010–11 final audit, the ANAO confirmed that the implementation of the configuration management tool had improved MILIS configuration management controls. As a result, the significant audit issue relating to MILIS change management has been downgraded to a moderate audit issue. To fully address this audit issue, Defence has commenced a review of the change management and the configuration management tool controls and processes. The aim is to improve policies and procedures; and establish regular compliance monitoring across the change management process.

**5.184** Defence completed the National Asset and Inventory Sample Program and annual weapon census prior to 30 June 2011. Defence adjusted the inventory and asset balances to reflect the stocktake errors resulting from this program. The lower than expected stocktake errors reflect the successful completion of MIAP Phase 1 and the ongoing focus of MIAP Phase 2 activities. No adjustments were required to the asset balances as a result of the weapons census.

**5.185** In August 2011, Defence completed a Post Implementation Review (PIR) of the implementation of MILIS. The review made 29 recommendations designed to ensure that the lessons from the design, development and implementation of MILIS are learnt and implemented in subsequent MILIS phases and other Defence information systems projects. Defence has advised the ANAO that a management action plan to implement all of the PIR recommendations is under development.

**5.186** In light of the known system deficiencies and data quality issues, Defence conducted a review of all transactions affected by the system defects. This review assisted Defence to quantify the financial affect of system errors on the inventory and asset balances in the 2010–11 financial statements.

**5.187** In July 2011, Defence commenced MIAP Phase 3 aimed at MILIS remediation activities that have, by their nature, long lead times to fix, or require ongoing monitoring, for example, system software changes, defect remediation, and data analysis and monitoring. MIAP Phase 3 also includes implementation activities for specific PIR recommendations. MIAP Phase 3 forms part of the 2011–12 Inventory Assurance Strategy and is expected to be completed by the 30 June 2012.

**5.188** Defence established a Data Quality Working Group responsible for the development of MILIS data quality metrics and reports and the monitoring and investigation of data abnormalities. This program of activity is considered a critical component of the MIAP Phase 3 to remediate the moderate audit issue relating to data quality and to monitor the success of the ongoing remediation activities in 2011–12.

**5.189** Defence continues to brief the ANAO on the progress of Phase 3 of the MILIS remediation program, including the implementation of PIR recommendations. The remediation of two significant and several of the moderate audit issues will be subject to the successful completion of Phase 3. The ANAO's review and assessment of the remaining components of MIAP Phase 2 and MIAP Phase 3 programs will continue and the results reported as part of the 2011–12 interim audit.

**5.190** The extent of these issues, referred to above, limits the level of assurance that Defence and the ANAO can obtain from inventory and purchasing controls.

**5.191** Nevertheless, Defence's response to the inventory and assets issues identified during the 2010–11 financial year, together with the completion of extensive remediation activities, and an extended ANAO audit program have provided the necessary assurance over the existence, completeness, accuracy of the inventory and asset balances at year end.

**5.192** The ANAO considers that a continuing focus on MIAP Phase 2 and 3 is critical to supporting Defence's assertion that the assets and inventory balances are free from material error.



## Management of Specialist Military Assets

**5.193** At the completion of the 2009–10 audit, two moderate audit issues were outstanding in relation to the need for Defence, and DMO on behalf of Defence, to strengthen management assurance processes over:

- the verification and reporting of SME assets, for example simulators, computer systems that supporting operating aircraft and aircraft test engines; and
- assets held by third parties, including the sampling and verification methods used to gain assurance of stock holdings held by contractors.

**5.194** During the 2010–11 final audit, the ANAO continued to identify issues associated with the verification and reporting of SME assets.

**5.195** Both audit issues remain outstanding and Defence has advised that the 2011–12 Inventory Assurance Program includes specific activities to address these issues. The results of our review will be reported as part of the 2011–12 interim audit

## Financial Reporting Framework – Assurance over DMO services

**5.196** The business and operational arrangements between Defence and the DMO includes requirements for DMO to manage and process financial transactions and business processes, on behalf of Defence. These arrangements require Defence to have in place structured monitoring and oversight activities to provide assurance that controls over purchasing, logistics, and the acquisition of SME are effective. Weaknesses in these controls increase the risk of inaccurate balances being reported in Defence’s financial statements.

**5.197** At the completion of the 2009–10 audit, one moderate audit issue relating to weaknesses in the monitoring and oversight of financial transactions and business processes remained outstanding.

**5.198** Defence has advised that, in conjunction with DMO, work is continuing on strengthening and documenting the assurance activities between the two agencies. Defence expects this work to be completed in May 2012.

## Defence’s financial management information system: ROMAN

**5.199** At the completion of the 2010–11 interim audit, one moderate audit finding relating to weaknesses in ROMAN configuration settings was outstanding.

**5.200** Defence has commenced a risk assessment aimed at documenting the risk to the financial statements against the business requirements reflected in the current configuration settings in ROMAN. Defence has advised that this work will also be completed in March 2012.

#### Human resource management

**5.201** The Human Resource Management systems used by Defence are PMKeyS for all civilian personnel transactions and military leave processing and recording, and ADFPay for military payroll processing. At the completion of the 2009–10 audit, one moderate issue remained outstanding in relation to reconciliation controls between PMKeyS and ADFPay.

**5.202** During the 2010–11 final audit, Defence implemented a system solution to reconcile the records between PMKeyS and ADFPay. The ANAO will review the reconciliation arrangements as part of the 2011–12 audit.

#### IT general controls environment

**5.203** In 2009–10, the ANAO reported a moderate audit issue in relation to business continuity management including:

- incomplete group level Business Impact Analysis (BIA); and
- business continuity planning requirements that remained uncompleted.

**5.204** Defence has commenced a major business continuity project, including the preparation of business impact analyses by group and business continuity plans, that is scheduled to be completed by December 2011. As a result this issue remains outstanding.

#### *Report on Other Legal and Regulatory Requirements*

**5.205** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

**5.206** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	3	(1)*	0	2
<b>B</b>	14	(3)**	1*	12
<b>Total</b>	<b>17</b>	<b>(4)</b>	<b>1</b>	<b>14</b>

\* Audit issue relating to MILIS Change management has been downgraded from a Category A finding to a Category B finding.

\*\* Two audit issues relating to AUC (non SME) and AUC roll outs to SME have been downgraded from Category B findings to Category C findings.

## Australian War Memorial

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	38.1	38.6
Revenue from government	30.9	31.4
Surplus/(deficit)	(7.2)	(7.1)
Total other comprehensive income	3.6	0.0
Total comprehensive income	(3.6)	(7.2)
Total assets	1 157.6	1 152.6
Total liabilities	10.6	9.3

**5.207** The movement in other comprehensive income resulted from the revaluation of exhibition assets in 2010–11.

**5.208** Assets increased principally due to the revaluation of exhibition assets in 2010–11.

**5.209** The movements in other measures were not significant and were the result of fluctuations in normal business activities.

## Areas of audit focus

**5.210** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- valuation of the collection;
- valuation of land and buildings; and
- capitalisation and depreciation of the collection.

**5.211** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.212** There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.

## Defence Housing Australia

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total Income	889.1	869.7
Total expenses	776.3	764.6
Profit (loss) after income tax	87.3	87.7
Total other comprehensive income after income tax	87.3	87.7
Total assets	2 096.8	1 997.6
Total liabilities	771.1	706.8

**5.213** The increase in financial measures is due to strong residential property market conditions and the funding associated with the Federal Government's Nation Building - Economic Stimulus Plan (NBESP). Under the NBESP, Defence Housing Australia (DHA) built houses for Defence families over the last two years. This was in addition to the construction of houses in support of Defence operational requirements. The increase in construction activity is primarily responsible for the increase in expenses, assets and liabilities.

## Areas of audit focus

**5.214** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the valuation and reporting of inventory, investment properties and construction in progress asset balances;
- DHA's revenue from housing services provided to Defence and the sale of inventories, including DHA's revenue recognition policy;
- IT general and application controls as they relate to the financial statements; and
- the accounting treatment and reporting of the funding received under the Economic Stimulus Plan.

**5.215** Audit coverage of these areas of audit focus were finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.216** There were no significant or moderate audit issues identified during 2009–10 and 2010–11 audits.

## Defence Materiel Organisation

### Summary of Financial results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	790.8	792.9
Revenue from government	847.2	898.6
Surplus / deficit	56.5	105.7
Total other comprehensive income	0.0	0.0
Total comprehensive income	56.5	105.7
Total assets	2 403.6	2 203.3
Total liabilities	2 013.1	1 869.2

**5.217** Under the business arrangements between the DMO and Defence, the DMO is funded for expenses incurred in undertaking acquisition and sustainment activities on behalf of Defence. The DMO recognises revenue as expenses are incurred.

**5.218** While the net cost of services is consistent with 2009–10, in 2010–11 the net cost of service reflects a decrease in acquisition activities associated with assets under construction (AUC), partially offset by an increase in purchases for sustainment activities, and an increase in foreign exchange gains resulting from the appreciation in the Australian dollar.

**5.219** The decrease in the surplus is primarily due to the return of revenue from government for unspent workforce and operational expenses.

**5.220** Assets increased mainly due to an increase in amounts owing by Defence to DMO resulting from DMO's early delivery of goods and services under acquisition and sustainment agreements. This increase was partially offset by a reduction in prepayments, in accordance with the procurement contracts, and the 2009–10 balance reflecting a prepayment of \$379 million for the delivery of Super Hornets in 2010–11.

**5.221** Liabilities increased largely as a result of an increase in supplier expenditure associated with major procurement contracts, particularly in relation to the Landing Helicopter Dock Ships.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	2.4	13.9
Total expenses	0.0	0.0
Total assets	12.6	11.3
Total liabilities	0.0	0.0

**5.222** Bank accounts are established by DMO to assist with the administration of international acquisition and sustainment projects. DMO deposits funds into specific departmental bank accounts managed by specific acquisition and sustainment project teams. The value and volume of transactions processed through these accounts is influenced by the nature of the contractual agreements, the disbursement schedule, and timing of project deliverables.

**5.223** The DMO's administered statements report interest received, and associated interest receivable, on deposits held in bank accounts. The value of interest earned will depend on current interest rates and the length of time funds are held prior to paying suppliers. In 2010–11, DMO experienced an increase in the level of acquisition and sustainment, resulting in amounts being held in these accounts for a shorter period of time. The decrease in income reflects the amounts held for shorter periods of time, as well as a decrease in interest rates during 2010–11.

### **Areas of audit focus**

**5.224** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the redesign and implementation of the financial control framework that is being progressively implemented;
- the recording, accounting and reporting of over \$5 billion in new AUC. The accounting for these transactions involves a high number of transactions, and a significant level of complexity in terms of contractual arrangements and project management requirements given the wide variety of projects involved;
- management activities that identify, assess and manage related party transactions;
- the management of internal controls where inter-dependencies between DMO and Defence systems and processes exist that may impact on the recording and reporting of financial transactions in DMO and Defence's respective financial statements;
- the aggregation of financial information from different operational areas, processes and systems; and
- the accounting treatment and reporting of transactions processed through a Special Account. Over \$9 billion in financial transactions associated with Defence sustainment and acquisition activities are processed through this account.

**5.225** The business and operational arrangements involve Defence managing a number of systems and processes on behalf of DMO. The ANAO's audit coverage focused on the management of the financial management

information systems and supporting systems and the accounting and reporting of approximately \$9.9 billion of financial transactions between Defence and DMO, including prepayments and unearned revenue.



## Audit results

### *Summary of audit findings*

**5.226** At the conclusion of the 2010–11 audit, one moderate audit issue remained outstanding. This issue relates to the need to improve bureau service arrangements between Defence and the DMO.

**5.227** The DMO has successfully remediated two moderate audit issues identified in previous years.

**5.228** An unqualified auditor's report was issued on 8 September 2011.

**5.229** During the 2010–11 final audit, the ANAO confirmed that DMO had resolved one moderate audit issue relating to DMO's financial reporting framework. One moderate audit issue relating to the reporting of commitments in the financial statements has been downgraded to a Category C finding. This reflects DMO's continuing focus on strengthening the financial reporting framework through additional management and internal audit assurance activities to substantiate that the processing of financial transactions are complete and accurate and the financial statements are free from material misstatement.

**5.230** No new significant or moderate audit issues were reported during the 2010–11 final audit.

### *Prior year audit issue*

#### Bureau service arrangements between Defence and the DMO

**5.231** Defence manages IT systems and business processes on behalf of DMO. These systems and processes form an integral part of DMO's internal control framework to support the production of its financial statements.

**5.232** DMO expects to receive assurance over the integrity of transactions processed by the systems managed by Defence, and the effectiveness of manual controls supporting these processes, as these transactions are included in the balances reported in DMO's financial statements. However, existing arrangements between Defence and DMO do not provide mechanisms that assist DMO to obtain the necessary assurance from Defence over the effectiveness of controls in the following areas:

- the financial management controls and financial management information system: ROMAN;
- the human resource management system; and

- system security and change management processes.

**5.233** The ANAO has previously reported that existing shared service agreements, or other formal agreements, should include control and monitoring activities that allow DMO to obtain the necessary assurance from Defence over the effectiveness and adequacy of controls in the areas referred to above.

#### *Report on Other Legal and Regulatory Requirements*

**5.234** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

**5.235** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

<b>Ratings</b>	<b>Opening position (at end of interim phase)</b>	<b>Issues resolved (during final audit phase)</b>	<b>New issues identified (during final audit phase)</b>	<b>Closing position (at conclusion of final audit)</b>
<b>A</b>	0	0	0	0
<b>B</b>	3	(2)*	0	1
<b>Total</b>	<b>3</b>	<b>(2)</b>	<b>0</b>	<b>1</b>

\*One moderate audit issue relating to the reporting of commitments balances has been downgraded to a Category C finding.

## Department of Veterans' Affairs

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	317.5	308.8
Revenue from government	289.8	316.1
Surplus / (deficit)	(27.7)	7.3
Total other comprehensive income	9.8	0.0
Total comprehensive income / (loss)	(17.9)	7.2
Total assets	242.1	193.6
Total liabilities	148.2	125.4

**5.236** The increase in the net cost of services, the deficit and the total comprehensive loss for the year are mainly due to a \$15.8 million loss made by the Defence Service Homes Insurance Scheme. This Scheme, that provides domestic building insurance, forms part of the operations of DVA. The principal reason for the loss was due to payments and liabilities relating to the natural disasters in Queensland and Victoria that occurred during 2010–11. This is also the major reason for the \$16.2 million increase in outstanding claims that affects the balance of liabilities. DVA has advised that the Scheme's premiums have been adjusted and several strategies implemented to return the Scheme to profit.

**5.237** The increase in assets is primarily due to \$28.5 million additions to a number of significant software projects, a \$11.4 million increase in unspent appropriations, and a \$9.6 million increase in the valuation of buildings.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	9.0	8.0
Total expenses	12 370.0	11 887.0
Total assets	1 309.0	1 535.0
Total liabilities	3 634.0	3 206.0

**5.238** Administered expenses increased mainly due to increases in the military compensation provision (explained in more detail below) and residential aged care. Increases to the military compensation provision directly affect the level of military compensation expenses. An increase of \$148 million in community care and support expenses relates to several factors including the impact of the global financial crisis on income and assets, and the continued ageing of veterans and their dependants.

**5.239** Administered liabilities increased following an actuarial assessment of the valuation of the military compensation provision, resulting in an increase in the provision at year-end of \$647 million. This increase predominantly relates to changes in valuation assumptions to reflect the latest claims experience and available information. The most significant changes in assumptions relate to incapacity payments. The military compensation provision increase was partially offset by a \$226 million reduction in personal benefits payable at year-end.

### **Areas of audit focus**

**5.240** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the significant amount of high volume, low value transactions being processed on a regular basis by complex and ageing information systems;
- the complexity of assumptions and calculations underpinning the actuarial assessment of the military compensation provision; and
- IT general and application controls as they relate to the financial statements.

**5.241** Audit coverage of these areas was finalised during the 2010–11 final audit.

### **Audit results**

#### ***Summary of audit findings***

**5.242** An unqualified auditor's report was issued on 7 October 2011.

**5.243** While the auditor's report was unmodified, an emphasis of matter was included in the auditor's report due to the significant uncertainty relating to

the military compensation provision that was disclosed in DVA's financial statements. This provision reports the value of liabilities (\$3.1 billion at 30 June 2011) relating to the *Military Rehabilitation and Compensation Act 2004* (MRC Act) and *Safety Rehabilitation and Compensation Act 1988* (SRC Act). Major sources of this uncertainty include:

- the setting of actuarial assumptions on very limited data for the MRC Act given the Act commenced in 2004;
- absence of clear trends in long term incapacity rates; and
- difficulties in determining the appropriate discount rates to apply to projected future cash flows in establishing the present value of the military compensation provision.

**5.244** The emphasis of matter draws the user's attention to the significant uncertainty of this item and the extensive disclosure that has been included in note 1.23 *Reporting of Administered Activities — Military Compensation Provision* to the financial statements.

**5.245** One legislative compliance issue and two moderate audit issues were identified during the final phase of the audit. These issues relate to administered items and address the military compensation and hospital provisions, and the management of waivers.

#### *Resolved audit findings*

**5.246** Two moderate audit issues relating to payroll reconciliation procedures, and DVA's quality assurance framework over rehabilitation and compensation payments have been resolved.

**5.247** During the 2010–11 final audit, the ANAO confirmed that reconciliations to support payroll balances within the financial management information system had been performed and reviewed in a timely manner, and identified variances are being resolved.

**5.248** Our audit also identified that DVA has now strengthened its quality assurance framework over payments made under the MRC Act and SRC Act. This included enhanced management of business risks, assurance procedures and management reporting. These issues are now considered to be resolved.

#### *Year end audit findings*

**5.249** During the 2010–11 final audit the following issues were identified.

#### Military Compensation Provision

**5.250** DVA's financial statements include the value of liabilities under the MRC Act and SRC Act at year-end. The liability reflects an estimate of the current obligation of the Australian Government for events qualifying for compensation that have occurred. This includes estimates for those events that have been reported to DVA and which satisfy the legislative conditions, and an estimate of unreported claims that may not be disclosed to DVA until many years after the events. The liability relates to payments for income support, health and rehabilitation over an extended period.

**5.251** The ANAO's review of the military compensation provision identified DVA applied a fixed rate to discount projected future cash flows to present values. To be more consistent with the relevant Accounting Standard, the military compensation provision should have been calculated using current market rates. In this case, the relevant market rate is the yield on Australian Government Bonds as at 30 June 2011, adjusted as required for periods extending beyond the period that market rates are available. As disclosed in the notes to the financial statements, using this rate results in an estimate of the liability of \$3 223 million at balance date compared with \$3 073 million as reported in the financial statements.

**5.252** DVA has advised it will work closely with the Australian Government Actuary in determining the most appropriate discount rate applicable to this provision.

#### Provision for Payments to Hospitals

**5.253** DVA has agreements with states and territories for health care services that are provided by hospitals to veterans. DVA recognises a liability for outstanding eligible hospital payments. During the 2009–10 audit, weaknesses were identified in the quality and availability of data for estimating this provision. The 2010–11 audit has identified similar weaknesses in relation to the assurance framework for the \$127 million provision reported at 30 June 2011.

**5.254** DVA has advised that it is constrained by the limitations on the timeliness of the data used as a basis for estimating the provision. DVA also advised it will continue to work closely with state and territory governments to improve the quality and availability of data for estimation of this provision.

### Management of Waivers

**5.255** During the 2010–11 final audit, the ANAO identified several instances where debts had been waived under provisions of the *Veterans' Entitlements Act 1986* (VE Act) without a determination of the Repatriation Commission. The VE Act requires all waivers to have such a determination, which serves as a control for the waiving of debts.

**5.256** DVA has advised of remedial action, including issuing further advice to relevant staff, and will institute subsequent checks to ascertain the level of compliance with the VE Act.

### *Report on Legal and Other Regulatory Requirements*

**5.257** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

**5.258** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	2	(2)	2	2
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>2</b>	<b>(2)</b>	<b>3</b>	<b>3</b>

### Comments on non-material entities

**5.259** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

### Report on Other Legal and Regulatory Requirements

**5.260** The auditor's report on the financial statements of Defence Service Homes Insurance Scheme refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances

where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.



# Education, Employment and Workplace Relations Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Education, Employment and Workplace Relations	Yes	✓A*	6 Sept 11	6 Sept 11	◆
Australian Curriculum Assessment and Reporting Authority	No	✓E	27 Sept 11	27 Sept 11	
Australian Institute for Teaching and School Leadership Limited	No	✓	14 Sept 11	14 Sept 11	
Australian Learning and Teaching Council Limited	No	✓E	23 Aug 11	23 Aug 11	
Australian National University ☞ 31 December 2010	No	✓	4 April 11	5 April 11	
- ANU Enterprise Ltd ☞ 31 December 2010	No	✓	4 April 11	5 April 11	
- ANU Section 68 Pty Ltd ☞ 31 December 2010	No	✓	29 Mar 11	29 Mar 11	
- Australian Scientific Instruments Pty Ltd ☞ 31 December 2010	No	✓	4 April 11	5 April 11	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	25 Oct 11	25 Oct 11	
Comcare Australia	Yes	✓	2 Sept 11	2 Sept 11	
Fair Work Australia	No	✓	30 Aug 11	30 Aug 11	
Office of the Australian Building and Construction Commissioner	No	✓	16 Aug 11	16 Aug 11	
Office of the Fair Work Ombudsman	No	✓	15 Sept 11	15 Sept 11	
Safe Work Australia	No	✓A*	23 Sept 11	23 Sept 11	
Seafarers' Safety, Rehabilitation and Compensation Authority (Seacare Authority)	No	✓	13 Sept 11	13 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.261** The Australian Government takes a national leadership role in education and training and aims to maximise the ability of working age Australians to participate in the workforce and to improve the productive performance of enterprises in Australia. Through the Department of Education, Employment and Workplace Relations (DEEWR) and other portfolio agencies, the Australian Government works with State and Territory governments, other Australian Government agencies, various industries, and a range of contracted service providers to provide high quality policy, advice and services for the benefit of Australia.

## Department of Education, Employment and Workplace Relations

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	851.8	883.8
Revenue from government	740.2	849.7
Surplus/(deficit)	(111.6)	(34.1)
Total other comprehensive income	11.6	0.0
Total comprehensive income	(100.0)	(34.1)
Total assets	475.2	497.5
Total liabilities	275.3	279.0

**5.262** The movement in the net cost of services is primarily due to a reduction in employee benefit expenses resulting from decreased employee numbers. The number of full time equivalent employees has decreased eight per cent when compared to 2009–10.

**5.263** Revenue from government decreased mainly as a result of changes in funding arrangements relating to depreciation and amortisation.<sup>38</sup>

**5.264** The movements in the assets and liabilities were not significant and were the result of fluctuations in normal business activity.

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<sup>38</sup> Op cit (refer footnote 28 on p.70)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	1 358.9	1 930.3
Total expenses	42 550.3	42 180.9
Total assets	19 937.7	18 072.1
Total liabilities	8 711.0	8 262.1

**5.265** Administered income decreased mainly due to the decline in funds drawn down from the Education Investment Fund (EIF). A number of significant EIF projects that were due to be funded in 2010–11 have been delayed and funding has been transferred to future years.

**5.266** Administered expenses increased mainly due to increases in demand driven personal benefit payments and payments made to employment services providers. The increased personal benefit and employment services payments reflect the underlying economic conditions experienced during the year. The increases were partly offset by reductions in grant expenditure, with a number of large grant programs relating to stimulus measures reaching their final phase in 2010–11.

**5.267** Assets increased mainly due to a higher estimate for the Higher Education Loan Payments (HELP) receivable in 2010–11. The estimate of the HELP receivable is calculated by the Australian Government Actuary on an annual basis and the increase is predominantly due to the issue of new loans.

**5.268** Administered liabilities increased mainly due to a higher provision relating to the Unfunded University Superannuation and an increase in the amount payable to Comcare.

**5.269** The increase in this provision is predominantly due to changes in the discount rate, as well as other economic factors used as the basis for the calculation.

**5.270** Comcare records an amount that it expects to receive from government in relation to workers compensation claims. DEEWR reports the corresponding liability as the portfolio agency that administers the special appropriation through which these payments are made. The liability increased due to a range of factors, in particular an increase in psychological injury claims which, on average, have a longer recovery period and higher costs compared to physical injury claims.

## Areas of audit focus

5.271 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- compliance activities and assurance processes underpinning personal benefits, child care and employment related payments;
- actuarial estimates in DEEWR's financial statements;
- the financial management and reporting of grant expenditure;
- the completeness and accuracy of accrual elements of administered programs required to be reported at year end; and
- the final phase of the integration of the previous two IT environments.<sup>39</sup>

5.272 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.273 There were no significant or moderate audit issues outstanding from the 2010–11 interim audit.

5.274 A significant issue arose during the final audit relating to the Tertiary Youth Internet Management System (TYIMS). TYIMS is an internet based IT application that manages payments under the Australian Apprentices Incentive Program to Australian Apprenticeship Centres, apprentices and employers of apprentices. These payments totalled approximately \$1.28 billion in 2010–11. The ANAO reviewed the access controls and change management processes for TYIMS and identified that there was a risk that unauthorised changes could be made to the software application without being detected.

5.275 The processes DEEWR intended to undertake to mitigate the risk exposure for the 2010–11 year were unable to be completed. The ANAO undertook additional audit procedures to gain assurance that the amount of expenses reported in the financial statements was not materially misstated.

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<sup>39</sup> At the time of the establishment of DEEWR in December 2007, two separate complex IT environments from the former Department of Employment and Workplace Relations and the former Department of Education, Science and Training were used to support the activities of DEEWR.

While the issue has not resulted in a material misstatement to DEEWR's 2010–11 financial statements, a significant business risk including potential fraud exposure remains.

**5.276** DEEWR has introduced additional access controls for the deployment of authorised system changes and is investigating whether an audit log of system changes is feasible. Changes to the change management processes have also been scheduled for implementation in December 2011. The ANAO will review these changes during the 2011–12 audit to determine whether the risk exposure has been addressed.

*Report on Other Legal and Regulatory Requirements*

**5.277** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

**5.278** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues (identified during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	1	1
<b>B</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Coal Mining Industry (Long Service Leave Funding) Corporation

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	(92.8)	(42.6)
Revenue from government	119.3	97.6
Surplus/(deficit)	26.5	55.0
Total other comprehensive income after income tax	0.0	0.0
Total comprehensive income	26.5	55.0
Total assets	826.3	665.6
Total liabilities	877.5	743.4

**5.279** The movement in the net cost of services for the year can primarily be attributed to the impact of the increase in provision for reimbursements. Where a provision increases in value, a corresponding increase in expenses occurs.

**5.280** Revenue from government increased due to higher levies being received by the Corporation during 2010–11.

**5.281** Assets increased mainly due to the increased value of investments held resulting from improvements in equity markets.

**5.282** Liabilities increased predominately due to increases in the provision for reimbursement. This provision relates to the expected reimbursements that will be made to employers for long service leave payments made to employees in the Australian black coal industry. The provision increased due to salary increases during the year, as well as higher numbers of employees in the industry.

### Areas of audit focus

**5.283** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the valuation of liquid assets that can be complex;
- reliance on outsourced administration and custodian functions; and

- the calculation of the long service leave provision.

**5.284** Audit coverage of these matters was finalised during the 2010–11 final audit with satisfactory results.

## Audit results

### *Summary of audit findings*

**5.285** No significant or moderate issues were identified during the 2009–10 and 2010–11 audits.

## Comcare Australia

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	(277.9)	(112.6)
Revenue from government	281.1	120.2
Surplus/(deficit)	3.2	7.6
Total other comprehensive income	0.0	0.4
Total comprehensive income	3.2	7.9
Total assets	2 522.4	2 307.7
Total liabilities	2 513.7	2 302.2

**5.286** The movement in the net cost of services primarily relates to an increase in workers' compensation claim expenses. This has been partially offset by an increase in fees and fine revenue.

**5.287** The increase in liabilities is mainly a result of an increase in the estimate of workers' compensation claims provision. This is due to a range of factors, in particular, an increase in psychological injury claims. These claims on average have a longer recovery period and higher costs compared to physical injury claims. This also resulted in an increase in the revenue from government and the asset balance, as these are directly driven by the value of the claims provision.

## Areas of audit focus

5.288 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the estimation and assumptions involved in the calculation of workers' compensation and asbestos related disease claim provisions and related expense accounts; and
- accounting policies for revenue recognition in the light of the underlying legislative requirements.

5.289 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.290 No significant or moderate issues were identified during the 2009–10 and 2010–11 audits.

## Comments on non-material entities

5.291 There were no significant or moderate audit issues identified in non-material entities within the portfolio.

## Australian Curriculum Assessment and Reporting Authority

5.292 The 2010–11 auditor's report for the Australian Curriculum Assessment and Reporting Authority (ACARA) contained an emphasis of matter. The emphasis of matter draws attention to the notes in the 2010–11 financial statements which state that ACARA has not received confirmation of its quantum of funding beyond June 2012, the possible effect on ACARA's assets and liabilities if that funding is not confirmed, and the reasons for the directors continuing to prepare the financial statements for the year ended 30 June 2011 on a going concern basis.

5.293 The ANAO has not modified its audit opinion in respect of this matter.



## **Australian Learning and Teaching Council Limited**

**5.294** The 2010–11 auditor’s report for the Australian Learning and Teaching Council Limited (ALTC) also contained an emphasis of matter. The 2010–11 financial statements state that the financial report has been prepared on a liquidation basis and not on a going concern basis. Funding from the government to ALTC will cease as of 31 December 2011 and a liquidator will be appointed to undertake a voluntary windup of the company.

**5.295** The ANAO has not modified its audit opinion in respect of this matter.

## **Report on Other Legal and Regulatory Requirements**

**5.296** The auditor’s report on the financial statements of Safe Work Australia refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Families, Housing, Community Services and Indigenous Affairs Portfolio

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Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Families, Housing, Community Services & Indigenous Affairs	Yes	✓A*	2 Sept 11	2 Sept 11	
- Aboriginals Benefit Account	No	✓A*	2 Sept 11	2 Sept 11	
Aboriginal Hostels Ltd	No	✓	19 Oct 11	19 Oct 11	
Anindilyakwa Land Council	No		—	—	
Central Land Council	No	✓	7 Sept 11	8 Sept 11	
Equal Opportunity for Women in the Workplace Agency	No	✓	5 Aug 11	5 Aug 11	
Indigenous Business Australia	Yes	✓	13 Sept 11	14 Sept 11	
- Anderleigh Enterprises Pty Ltd	No	✓	11 Nov 11	11 Nov 11	
- Anderleigh Holdings Trust	No	✓	14 Nov 11	14 Nov 11	
- Asset Leasing Trust	No	✓	14 Nov 11	14 Nov 11	
- Cape Don Pty Ltd	No	✓	15 Nov 11	15 Nov 11	
- Consolidated Manufacturing Enterprise Pty Ltd	No	✓	11 Nov 11	11 Nov 11	
- Darwin Hotel Holdings Trust	No	✓	4 Nov 11	11 Nov 11	
- Gagudju Crocodile Hotel Trust	No	✓	14 Nov 11	14 Nov 11	
- Gagudju Lodge Cooida Trust	No	✓	14 Nov 11	14 Nov 11	
- Hotel Enterprises Pty Ltd	No	✓	11 Nov 11	11 Nov 11	
- Hotel Holdings Trust	No	✓	14 Nov 11	14 Nov 11	
- Indigenous Fishing Trust	No	✓	4 Nov 11	11 Nov 11	
- Indigenous Investment Trust	No	✓	14 Nov 11	14 Nov 11	
- Kakadu Tourism (GCH) Pty Ltd	No	✓	11 Nov 11	14 Nov 11	
- Kakadu Tourism (GLC) Pty Ltd	No	✓	11 Nov 11	14 Nov 11	
- Larrakia Darwin Hotel Partnership	No	✓	4 Nov 11	11 Nov 11	
- Leonora Investment Trust	No	✓	10 Nov 11	11 Nov 11	
- Mungo Lodge Pty Ltd	No	✓	11 Nov 11	11 Nov 11	
- National Indigenous Property Trust	No	✓	14 Nov 11	14 Nov 11	
- Port Botany Transfer Station Trust	No	✓	14 Nov 11	14 Nov 11	
- Scarborough House Investment Trust	No	✓	14 Nov 11	14 Nov 11	
- Scarborough House Office Trust	No	✓	14 Nov 11	14 Nov 11	

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
- South Hedland Indigenous Property Trust	No	✓	14 Nov 11	14 Nov 11	
- Swanbrook Road Holding Trust	No	✓	14 Nov 11	14 Nov 11	
- Tennant Creek Foodbarn Partnership	No	✓	10 Nov 11	11 Nov 11	
- Tennant Creek Land Holding Trust	No	✓	14 Nov 11	14 Nov 11	
- Tjapukai Aboriginal Cultural Park Partnership	No	✓	9 Nov 11	11 Nov 11	
- Wildman River Lodge Trust	No	✓	14 Nov 11	14 Nov 11	
- Wildman Wilderness Lodge Pty Ltd (formerly CDC Nominees (GRC) Pty Ltd)	No	✓	29 Nov 11	29 Nov 11	
Indigenous Land Corporation	No*	✓	30 Aug 11	30 Aug 11	
- National Centre of Indigenous Excellence Limited	No	✓	8 Nov 11	10 Nov 11	
- National Indigenous Pastoral Enterprises Pty Ltd	No	✓	10 Nov 11	10 Nov 11	
- Voyages Indigenous Tourism Australia Pty Ltd (formerly ILC Tourism Pty Ltd)	Yes*	✓	20 Oct 11	20 Oct 11	
Northern Land Council	No	✓	13 Oct 11	13 Oct 11	
Outback Stores Pty Ltd	No	✓	25 Aug 11	25 Aug 11	
Tiwi Land Council	No	✓	19 Sept 11	20 Sept 11	
Torres Strait Regional Authority	No	✓	8 Sept 11	8 Sept 11	
Wreck Bay Aboriginal Community Council	No	✓	21 Nov 11	21 Nov 11	
Wreck Bay Enterprises Ltd	No	✓	21 Nov 11	21 Nov 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

\* Voyages Indigenous Tourism Australia Pty Ltd (Voyages) is a subsidiary of Indigenous Land Corporation and as a result is consolidated into the Indigenous Land Corporation's financial statements. For the purposes of the Consolidated Financial Statements, Voyages is classified as a material entity. Voyages does not produce an annual report and therefore is not included in the detailed analysis within this report.

## Portfolio overview

**5.297** The role of the Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) portfolio is to provide policy advice, income support and assistance to families and their children, senior citizens, carers, people with disabilities and community groups. The portfolio also provides policy advice on issues affecting women in Australia as well as a whole of government approach to programs and service delivery for Indigenous Australians.

## Department of Families, Housing, Community Services and Indigenous Affairs

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	582.5	583.3
Revenue from government	519.0	573.2
Surplus/(deficit)	(63.5)	(10.1)
Total other comprehensive income	0.1	10.8
Total comprehensive income/(loss)	(63.4)	0.7
Total assets	362.4	392.3
Total liabilities	129.2	131.9

**5.298** Revenue from government decreased mainly due to revised funding arrangements for depreciation and amortisation.<sup>40</sup> In addition, revenue relating to the sale of goods and rendering of services decreased compared to 2009–10. These movements affected FaHCSIA's deficit and total comprehensive loss for the year.

**5.299** Movements in assets and liabilities were not significant and were the result of fluctuations in normal business activity.

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<sup>40</sup> Op cit (refer footnote 28 on p.70)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	440.3	566.7
Total expenses	72 862.2	67 627.8
Total assets	5 065.6	4 763.2
Total liabilities	8 047.5	7 576.9

**5.300** Administered income decreased mainly due to the closure of the Indigenous Employment Special Account. In prior years, the revenue and expense balances of this Special Account were reported as administered income and expenses respectively.

**5.301** Administered expenses increased mainly due to the introduction of paid parental leave benefit payments from 1 January 2011 and an increase in age pension, disability and carer benefit payments. This was partially offset by the reduction in expenses relating to the Indigenous Employment Special Account mentioned above.

**5.302** Administered assets increased mainly due to increases in the investments in Commonwealth entities in term deposits and government securities.

**5.303** Administered liabilities increased due to an increase in the estimates for the family tax benefit and pension bonus scheme provisions, primarily as a result of an increase in customer numbers. In addition, a provision for the newly introduced paid parental leave benefit was included in the 2010–11 financial statements for the first time.

### **Areas of audit focus**

**5.304** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- personal benefits payments and related debts that were processed by Centrelink;
- FaHCSIA's management controls over the personal benefit payments as it has ultimate responsibility for administration, funding and reporting of the benefit payments;

- the actuarial valuations of personal benefit related asset and liability balances;
- the financial accounting for grants, including the adequacy of supporting documentation on action taken on grant acquittals;
- identification and valuation of investments in fixed deposits and government securities; and
- accounting processes and controls designed to ensure that transactions relating to various special accounts are compliant with their legislated purpose.

**5.305** Audit coverage of the areas of audit focus was finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

**5.306** There were no new significant or moderate audit issues identified during the 2009–10 or 2010–11 audits.

### *Report on Other Legal and Regulatory Requirements*

**5.307** The auditor's report refers to the notes to the financial statements that include a reference to an increased risk of non-compliance with section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where the payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Indigenous Business Australia

### Summary of financial results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	32.5	97.6
Revenue from government	38.4	38.8
Surplus/(deficit) after income tax expenses*	3.4	(59.2)
Total other comprehensive income after income tax	10.6	5.2
Total comprehensive income	14.0	(55.7)
Total assets	1 016.0	967.3
Total liabilities	32.4	35.1

\* The surplus/(deficit) also reflects income tax expenses of \$0.6 million (2009–10 \$0.3 million), the share of the operating surplus of associates of \$1.5 million (2009–10 \$2.6 million) and the share of the surplus attributable to non-controlled interests \$3.4 million (2009–10 \$2.7 million).

**5.308** The significant decrease in net cost of services was largely attributable to a reduction in expenses arising from the following items:

- The transfer of the Outback Stores subsidiary from Indigenous Business Australia (IBA) to FaHCSIA at the end of 2009–10, which resulted in less supplier and employee expenses in 2010–11.
- Indigenous Business Australia provides loans to Aboriginal and Torres Strait Islander peoples at a concessional rate of interest. Accounting for the concessional component resulted in a decrease of the expense of approximately \$10 million in 2010–11.
- In previous years, IBA has been involved in the construction sector, which assisted in providing opportunities for Indigenous Australians in training and employment across a range of construction activities. In 2010–11 the construction operations were wound up.

**5.309** These factors also explain the improved surplus position and the corresponding increase in total comprehensive income.

**5.310** The movement in assets is mainly due to an increase in new home loans.

**5.311** Movements in revenue from government and total liabilities were not significant and were the result of fluctuations in normal business activities.

## **Areas of audit focus**

**5.312** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the home ownership and business ownership loan programs;
- the joint venture investment portfolio where IBA identifies, develops and assesses potential joint venture investment opportunities for Aboriginal and Torres Strait Islander peoples;
- the valuation of investments in associate companies; and
- the compilation of consolidated financial statements in accordance with the FMOs.

**5.313** Audit coverage of these matters was finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

**5.314** There were no significant or moderate audit issues identified during the 2009–10 and 2010–11 audits.

## **Comments on non-material entities**

**5.315** There were no significant or moderate audit issues identified in non-material entities within the portfolio. Three moderate audit issues identified during the 2009–10 audit of Aboriginal Hostels Limited (AHL) were resolved or downgraded during 2010–11.

## **Aboriginal Hostels Limited**

**5.316** The ANAO identified three moderate audit issues which remained outstanding at the end of the 2009–10 audit. These issues related to:

- general IT security controls and IT security over financial management information system;
- key reconciliations in relation to bank accounts, fixed assets and payroll; and
- employee commencement, termination and leave processing.



**5.317** During 2010–11, AHL introduced a new financial management information system and a security policy suitable to the new system. The issues relating to IT security controls have been addressed. In addition, AHL has taken steps to strengthen controls over key reconciliations and employee records. On this basis, these issues have been downgraded to Category C findings and the effectiveness of the actions taken by AHL will be reviewed as part of the 2011–12 audit.

### **Report on Other Legal and Regulatory Requirements**

**5.318** The auditor's report on the financial statements of the Aboriginal Benefit Account refers to the financial statements that include a reference to an increased risk of non-compliance with section 83 of the Constitution where payments are made from the special account in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Finance and Deregulation Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Finance and Deregulation	Yes	✓A*	1 Sept 11	2 Sept 11	
Albury-Wodonga Development Corporation	Yes	✓	19 Sept 11	20 Sept 11	
ASC Pty Ltd	Yes	✓	7 Sept 11	7 Sept 11	
Australian Electoral Commission	Yes	✓A*	29 Aug 11	30 Aug 11	▲
Australian Reward Investment Alliance	No	✓	13 Sept 11	13 Sept 11	
Australian River Co Limited	No	✓	17 Feb 11	21 Feb 11	
Commonwealth Superannuation Scheme	No	✓A	13 Sept 11	13 Sept 11	
ComSuper	No	✓A*	31 Aug 11	31 Aug 11	
Future Fund Management Agency	Yes	✓	27 Sept 11	27 Sept 11	
Medibank Private Limited	Yes	✓	29 Aug 11	29 Aug 11	
- Australian Health Management Group Pty Ltd	No	✓	29 Aug 11	29 Aug 11	
- Medibank Health Solutions Pty Ltd	No	✓	26 Aug 11	26 Aug 11	▲
Public Sector Superannuation Accumulation Plan (PSSap)	No	✓A	13 Sept 11	13 Sept 11	
Public Sector Superannuation Scheme (PSS)	No	✓A	13 Sept 11	13 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

### Portfolio overview

**5.319** The Finance and Deregulation portfolio provides a broad range of support and services to government. This includes the provision of budget and financial management services and advice; electoral services and support; government on-line delivery and information and communication technology (ICT) management; non-defence asset management; asset sales; the administration of the Government's general insurance fund, investment funds and superannuation schemes; Commonwealth land policy; discretionary

compensation mechanisms and the administration of Parliamentarians' entitlements. The portfolio also has responsibility for ensuring best practice government regulation.

## Department of Finance and Deregulation

### Summary of financial results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net Cost of Services	256.0	243.2
Revenue from government	239.8	230.7
Surplus/(deficit) after income tax expenses *	(29.7)	(25.3)
Total other comprehensive income	(7.4)	24.2
Total comprehensive income	(37.1)	(1.1)
Total assets	2 150.3	1 971.0
Total liabilities	503.6	452.2

\* The surplus/(deficit) also reflects income tax expenses of \$13.5 million (2009–10: \$12.8 million).

**5.320** The net cost of services has increased primarily due to an increase in insurance claims as a result of insurance costs associated with the Queensland floods and cyclones, settlement of a claim from Pan Pharmaceuticals and a general increase in the value of claims. This increase was partially offset by a decrease in the level of the write-down of land and buildings in 2010–11, compared with 2009–10.

**5.321** Revenue from government has increased slightly as a result of funding for new projects including the reform of superannuation administration that involves a number of initiatives to improve member superannuation data, IT infrastructure and administration systems within ComSuper, and comprehensive business cases, designs, approvals and an implementation strategy for a transport hub at Moorebank. The increase was partially offset as a result of revised funding arrangements for depreciation and amortisation.<sup>41</sup>

**5.322** Total assets have increased mainly as a result of the construction of the Australian Security Intelligence Organisation central office and the transfer of

<sup>41</sup> Op cit (refer footnote 28 on p.70)

responsibility for Kirribilli House and the Lodge from the Department of Prime Minister and Cabinet to the Department of Finance and Deregulation.

**5.323** Total liabilities have increased due to the recognition of an insurance liability for damage from the Queensland floods and cyclones, and a general increase in the value of claims.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	4 489.2	2 780.8
Total expenses	10 702.6	8 549.1
Total assets	21 856.7	24 097.3
Total liabilities	95 483.7	93 411.3

**5.324** Total income has increased substantially as a result of foreign exchange gains on the Nation Building Fund investments and a special dividend from Medibank Private Limited. These gains were partially offset by foreign exchange losses.

**5.325** Total expenses increased due an increase in the superannuation expense, increased payments out of the Nation Building Funds and losses as a result of foreign currency hedging instruments on the Nation Building Fund investments. The increase in the superannuation expense is mainly due to the growth in member salaries and length of service.

**5.326** The reduction in total administered assets is a result of payments out of the Nation Building Fund that mainly relate to contributions for the National Broadband Network.

**5.327** Total liabilities increased mainly as a result of an increase in the superannuation liability due to lower discount rates and the growth in member salaries and length of service, partially offset by the reducing number of members, as the larger superannuation schemes are closed to new members.

## Areas of audit focus

**5.328** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the complexity of the assumptions and calculations underpinning the actuarial assessment of the public sector unfunded superannuation liability;
- the valuation of the Australian Government's domestic property portfolio and the adequacy of asset management procedures;
- the assumptions and calculations underpinning the liabilities arising from the Australian Government's self-managed general insurance fund (Comcover); and
- the validity and accuracy of entitlements paid to Parliamentarians and their staff.

**5.329** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.330** There were no new significant or moderate audit issues identified during the 2010–11 final audit.

### *Report on Legal and Regulatory Requirements*

**5.331** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Albury-Wodonga Development Corporation

### Summary of financial results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	4.3	(1.9)
Revenue from government	0.0	0.0
Surplus/deficit*	4.3	(1.1)
Total other comprehensive income	(6.2)	10.0
Total comprehensive income	(1.8)	8.9
Total assets	115.4	140.4
Total liabilities	15.4	22.5

\* The surplus also includes the Corporation's share of surpluses in associates and joint ventures of \$3,000 (2009–10: \$799,000)

**5.332** The net cost of services increased mainly due to higher prices received on land sales during the year and a change in how proceeds of sale with an extended settlement period are recognised. This also resulted in a surplus for the year.

**5.333** A decrease in total other comprehensive income relates to the lower valuation of land assets brought to account during the year compared to a net increase in the valuation of land in 2009–10.

**5.334** Assets decreased due to the ongoing sale of land.

**5.335** Liabilities decreased due mainly to a lower than anticipated dividend for 2010–11 as a result of the impact of the change in the recognition of the proceeds of sale with extended settlement periods.

### Areas of audit focus

**5.336** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the accounting treatment of land valuations and the impact of these valuations on revenues from land sales;
- accounting for land development costs; and
- accounting for joint ventures;

**5.337** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.338** There were no significant or moderate audit issues identified during the 2010–11 or 2009–10 audits.

## ASC Pty Ltd

**5.339** ASC Consolidated Group (ASC) built Australia's fleet of Collins Class submarines for the Royal Australian Navy (RAN) and is responsible for ongoing design enhancements, maintenance and support of the Collins Class submarines. ASC also forms part of the alliance based contract arrangements to deliver the Air Warfare Destroyer (AWD) program.

**5.340** ASC is a proprietary company limited by shares registered under the *Corporations Act 2001* and is subject to the CAC Act. All shares issued in the capital of ASC are held by the Finance Minister.

## Summary of financial results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	700.1	516.9*
Total expenses	685.9	512.0*
Profit before income tax	14.2	4.9
Profit after income tax	10.6	4.3
Total other comprehensive income	0.7	25.5
Total comprehensive income	11.3	29.8
Total assets	577.2	523.4
Total liabilities	360.0	315.0

\* These figures have been adjusted to reflect changes in accounting policies.

**5.341** Income and expenses increased primarily as a result of increased activity for the AWD project and Collins Class submarines under the Through Life Support contract.

**5.342** Other comprehensive income decreased mainly due to higher asset revaluations in 2009–10 financial year which did not increase as significantly in 2010–11.

**5.343** Assets increased mainly due to increased billings outstanding at year end associated with growing AWD activity and increased work performed under the Through Life Support contract.

**5.344** Liabilities have increased mainly as a result of the timing of billings and the increased unearned income for AWD.

### **Areas of audit focus**

**5.345** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- accounting for the AWD contract and profit recognition in relation to significant contracts which is complex and subject to significant estimation and judgment;
- the impact of the Government's Defence Strategic Reform Program and the effect on current Through Life Support Agreement Renegotiation;
- the valuation of land and buildings;
- the estimation of warranty obligations for potential warranty claims arising from ASC's design, engineering and maintenance activities that is subject to a number of uncertainties;
- accounting for ASC's defined benefit superannuation fund; and
- self-insurance for workers compensation.

### **Audit Results**

#### *Summary of audit findings*

**5.346** There have been no significant or moderate audit issues identified during the 2010–11 audit.



## Australian Electoral Commission

### Summary of financial results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net Cost of Services	208.0	113.4
Revenue from government	191.5	109.0
Surplus/(deficit)	(16.6)	(4.4)
Total other comprehensive income	0.4	0.1
Total comprehensive income/(loss)	(16.2)	(4.3)
Total assets	43.8	55.9
Total liabilities	29.5	33.0

**5.347** The net cost of services increased largely due to higher employee and supplier expenses associated with the August 2010 Federal election (the Federal election). This increase, which was the main contribution to an increased net deficit for 2010–11, was partially offset by an increase in appropriation funding.

**5.348** Assets decreased mainly due to a reduction in appropriation receivables that were used for activities related to the Federal election.

**5.349** The primary reason for the reduction in liabilities is that the 2009–10 balance included payables for significant goods and services in preparation for the Federal election.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	2.0	0.1
Total expenses	53.2	0.3
Total assets	0.0	0.0
Total liabilities	0.0	0.0

**5.350** Administered income increased due to an increase in electoral fines and penalties imposed following the Federal election.

**5.351** Administered expenses increased substantially as a result of election funding paid to political parties in association with the Federal election.

### **Areas of audit focus**

**5.352** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- appropriation accounting and disclosure;
- quantification and reporting of commitments and contingencies;
- accounting for intangible assets; and
- the completeness and accuracy of election year expenditure.

**5.353** Audit coverage of these areas of audit focus was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

##### *Prior year audit findings*

**5.354** The 2009–10 audit identified two moderate audit findings relating to business continuity management and IT security.

**5.355** During the 2010–11 final audit, the ANAO observed that the Australian Electoral Commission (AEC) had effectively addressed the moderate audit finding in relation to its IT security framework. The ANAO identified that the AEC had undertaken risk assessments of its IT systems, and met the mandatory requirements of the Australian Government Information Security Manual.

**5.356** The ANAO identified that although the AEC has a documented Business Continuity Plan (BCP), it had not undertaken testing of the BCP. This increases the risk that in the event of an interruption to business operations, an accident, or disaster, the AEC will be unable to restore critical business systems within acceptable timeframes. The ANAO will review progress on this finding during the 2011–12 audit.

##### *Report on Legal and Regulatory Requirements*

**5.357** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where

payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

**5.358** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	2	(1)	0	1
<b>Total</b>	<b>2</b>	<b>(1)</b>	<b>0</b>	<b>1</b>

## Future Fund Board of Guardians and the Future Fund Management Agency

### Summary of financial results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	8 640.1	6 655.5
Total expenses	485.0	339.9
Profit (loss)	8 155.1	6 315.6
Total other comprehensive income	(130.3)	4.9
Total comprehensive income	8 024.8	6 320.5
Total assets	77 512.1	70 638.4
Total liabilities	2 205.3	3 356.3

**5.359** The total income of the Future Fund increased due primarily to foreign currency gains as a result of the Board's hedging policy and due to the appreciation of the Australian dollar during 2010–11. Dividend income also increased in 2010–11. These increases were partially offset by lower gains on financial assets during the year.

**5.360** Expenses increased primarily due to an increase in fees paid to investment managers. Further diversification of the Fund's investments has led to an increase in the number of investment managers appointed, which has increased the investment manager fees. Improved performance of the Fund,

coupled with the fact that a number of managers have now worked with the Fund for multiple years, has resulted in an increase in performance fees accruing to investment managers.

**5.361** Net assets have increased due to improved investment values and the reinvestment of income received. The main increases in investments have occurred in the holdings of collective investment vehicles and listed equities and managed investment schemes.

**5.362** Total liabilities have decreased mainly due to a decrease in the Fund's derivative liabilities (currency contracts and interest rate swaps) as at balance date.

### **Areas of audit focus**

**5.363** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- valuation of investments – the valuation of illiquid investments is complex and has been further impacted by changes in the economic environment;
- review of the continually evolving Comprehensive Compliance Monitoring and Reporting Systems which strengthens the internal assurance process;
- review of the processes for monitoring external providers particularly the investment custodian; and
- review of the tax implications relating to the five wholly owned subsidiaries.

**5.364** Audit coverage of these areas of audit focus was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.365** There were no significant or moderate issues identified during the 2010–11 or 2009–10 audit.

## Medibank Private Limited

### Summary of financial results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	5 174.7	4 733.3
Total expenses	4 875.1	4 428.2
Profit after income tax	299.6	305.1
Total other comprehensive income	0.0	7.4
Total comprehensive income	299.6	312.5
Total assets	2 903.6	2 900.6
Total liabilities	1 318.4	1 180.6

**5.366** Income increased due to an increase in premiums, an increase in the number of members and the acquisition of a company in 2010–11. The acquired company's income now forms part of Medibank Private's income.

**5.367** Expenses increased due to an increase in claims expenses, employee expenses and tax expense. Claims expenses increased due to an increase in the cost of health services, an increase in claims from members, and the increase in the number of members. Employee expenses increased mainly due to an increase in employee numbers and contractors to assist with various business projects. Tax expense has increased as Medibank was required to pay tax for the full year for the first time in 2010–11.

**5.368** Liabilities have increased mainly as a result of an increase in members' contributions received in advance and an increase in the tax liability, due to Medibank paying tax for the full year for the first time.

### Areas of audit focus

**5.369** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- complex actuarial assessments of the outstanding claims provision, package bonus provision and financial statement disclosures;
- recognition of contribution revenue and premium liability;

- accounting for acquisitions including the recognition of goodwill and identifiable intangibles including their useful lives;
- the valuation of identifiable intangibles and goodwill relating to Medibank subsidiaries; and
- IT general and application controls as they relate to the financial statements.

**5.370** Audit coverage of these areas of audit focus was finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

**5.371** There were no significant or moderate issues identified during the 2010–11 audit.

## **Comments on non-material entities**

**5.372** There were no new significant or moderate audit issues identified in non- material entities within the portfolio. Details of audit findings relating to the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the Public Sector Superannuation Accumulation Plan (PSSap) and Medibank Health Solutions Pty Ltd are referred to below.

## **Commonwealth Superannuation Scheme**

### **Public Sector Superannuation Scheme**

### **Public Sector Superannuation Accumulation Plan**

**5.373** The ANAO issued unqualified auditor's reports on the financial statements of the CSS, the PSS and the PSSap. In addition to the financial statements audits, the ANAO is required to provide an opinion on compliance with selected sections of the *Superannuation Industry Supervision Act 1993* (SIS Act), the *Corporations Act 2001*, the *Financial Sector (Collection of Data) Act 2001* and associated regulations.

**5.374** Section 89(3) of the SIS Act requires a vacancy of an employer representative trustee position to be filled within 90 days. This requirement was breached because the term of an employer representative expired on

27 October 2009 and this position was not filled by the Finance Minister until 16 December 2010. To reflect this breach, the ANAO issued a qualified audit opinion in respect of compliance with section 89(3) of the SIS Act for the CSS, PSS and the PSSap.

### **Medibank Health Solutions Pty Ltd.**

**5.375** In 2007–08 a number of moderate audit findings were identified in relation to Business Continuity Management and IT change management. In 2008–09 and 2009–10, the ANAO identified that Medibank Health Solutions Pty Limited (MHS) had implemented a significant number of process improvements to address the finding relating to IT change management. However, the 2010–11 audit identified that MHS's Business Continuity Plans and Disaster Recovery Plans did not cover all of MHS's business and operational environment, and that formal testing of these plans still needed to be undertaken and documented.

**5.376** MHS advised that a comprehensive program of projects to develop a robust Disaster Recovery Plan environment, including Business Continuity Management and testing of these plans, was underway and was expected to be completed by January 2014.

### **Report on Other Legal and Regulatory Requirements**

**5.377** The auditor's report on the financial statements of ComSuper refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Foreign Affairs and Trade Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Foreign Affairs and Trade	Yes	✓	11 Sept 11	12 Sept 11	
Australian Agency for International Development (AusAID)	Yes	✓A*	4 Sept 11	5 Sept 11	
Australian Centre for International Agricultural Research	No	✓A*	20 Sept 11	20 Sept 11	
Australian Secret Intelligence Service	No	✓	11 Oct 11	11 Oct 11	
Australian Trade Commission (Austrade)	Yes	✓	15 Aug 11	15 Aug 11	
Export Finance and Insurance Corporation	Yes	✓	18 Aug 11	18 Aug 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

### Portfolio overview

**5.378** The Foreign Affairs and Trade portfolio comprises the Department of Foreign Affairs and Trade (DFAT), the Australian Agency for International Development (AusAID), the Australian Centre for International Agricultural Research (ACIAR), Australian Secret Intelligence Service (ASIS), the Australian Trade Commission (Austrade), and the Export Finance and Insurance Corporation (EFIC). The portfolio supports Ministers in the conduct of Australia's foreign and trade policy. The overarching objective of Australia's foreign and trade policy is to advance Australia's national interest – the security and prosperity of Australians – by contributing to improvements in international security, national economic and trade performance and global cooperation.

**5.379** The Foreign Affairs and Trade portfolio contributes to:

- the development and promotion of Australia's foreign and trade policies;
- the management and support of Australia's overseas diplomatic network;



- providing consular and passport services to Australians;
- the management of the Australian government overseas owned estate;
- national and international security;
- national economic and trade performance and global cooperation;
- supporting Australian business by providing market access and export advice and assistance;
- promoting trade, investment and a positive image of Australia internationally;
- the management of Australia's overseas aid program to developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest;
- poverty reduction and sustainable development in the Asia-Pacific region and Southern Africa by facilitating and funding collaborative agricultural research and development programs with developing countries; and
- providing assistance to developing countries to improve economic performance and governance.

## Department of Foreign Affairs and Trade

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	845.7	805.4
Revenue from government	875.6	895.0
Surplus/(deficit)	29.9	89.6
Total other comprehensive income	(90.3)	(78.7)
Total comprehensive income	(60.4)	10.9
Total assets	2 935.1	2 880.3
Total liabilities	262.0	252.0

**5.380** Net cost of services has increased mainly due to an increase in security costs at overseas posts and a grant payment to the Red Cross for the Japanese Tsunami Pacific Disaster Appeal.

**5.381** There has been a significant reduction in the surplus due to the increased net cost of services and a decrease in revenue from government, resulting from the changed funding arrangements for depreciation and amortisation.<sup>42</sup>

**5.382** Assets have increased mainly due to an increase in unspent appropriations required to fund the Overseas Property Office's future capital works program.

**5.383** The movements in the remaining balances are not significant and were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	421.0	383.2
Total expenses	286.0	346.4
Total assets	414.8	420.4
Total liabilities	65.0	106.9

**5.384** Administered income increased largely due to an increase in passport fees from 1 January 2011 and higher dividend revenue from EFIC.

**5.385** Administered expenses decreased significantly from 2009–10 and are in line with normal business activity. Expenses in 2009–10 were significantly higher due to Australia's involvement in the Shanghai World Trade Expo and contributions to international organisations and United Nations peacekeeping missions.

**5.386** Administered liabilities decreased significantly due to a reduction in the overseas pension scheme and National Interest Account (NIA) foreign currency liabilities, resulting from a stronger Australian dollar.

**5.387** The movements in administered assets are not significant and were the result of fluctuations in normal business activity.

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<sup>42</sup> Op cit (refer footnote 28 on p70)

## Areas of audit focus

5.388 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the measurement and associated disclosures of the administered balances relating to the NIA managed by EFIC;
- passport operations;
- overseas property management encompassing the revaluation process;
- actuarial review of the defined benefit pension schemes which apply to locally engaged staff at some overseas posts;
- IT general and application controls as they relate to the financial statements; and
- overseas post operations.

## Audit results

### *Summary of audit findings*

5.389 There were no significant or moderate audit issues identified during the 2010–11 audit.

## Australian Agency for International Development

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	249.3	134.0
Revenue from government	251.2	141.3
Surplus/(deficit)	1.9	7.3
Total other comprehensive income	0.0	0.3
Total comprehensive income	1.9	7.6
Total assets	114.9	62.3
Total liabilities	59.5	32.7

**5.390** Net cost of services and revenue from government increased mainly due to the transfer of some administered appropriations to departmental appropriations due to a restructure in the AusAID's funding arrangements.

**5.391** Assets and liabilities have also significantly increased as a result of the restructure and transfer of appropriations and other fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m *
Total income	22.6	296.7
Total expenses	4 226.9	3 049.3
Total assets	1 129.9	1 244.1
Total liabilities	1 602.1	1 175.9

\* The 2009–10 income, expense and liability figures reported in the 2010–11 financial statements have been adjusted to correct errors in the calculations to determine the fair value of multilateral liabilities in the 2009–10 financial statements. These adjustments have been disclosed as prior period errors in note 1.21 of AusAID's 2010–11 financial statements.

**5.392** AusAID holds a range of financial assets and financial liabilities, the most significant of which are subscription assets and multilateral grant liabilities. The subscription assets represent membership rights AusAID holds on behalf of the Australian Government for various international organisations, including the International Development Association (IDA) and Asian Development Fund (ADF). The multilateral grant liabilities represent obligations the Australian Government has in relation to fulfilling its aid responsibilities with international organisations.

**5.393** The significant decrease in administered income is due to the 2009–10 balance reflecting a gain from the revaluation of subscription assets.

**5.394** Administered expenses and liabilities increased as a result of AusAID providing increased international aid assistance. The increase in aid assistance mainly reflects the Australian Government's commitment to increase funding under the Millennium Development Goals (MDGs). The goals are a set of eight international development goals agreed to by all United Nation Member countries aimed at ending poverty by the year 2015.

**5.395** The increase in administered expenses is also attributed to the write down of AusAID's subscription assets during 2010–11 arising from their revaluation.

**5.396** Administered assets have decreased primarily as a result of the revaluation of the subscription assets. The fair value of the subscription assets, which are held in US currency, declined during 2010–11 due to the appreciation of the Australian dollar against the US dollar.

### **Areas of audit focus**

**5.397** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- valuation, accounting and reporting disclosures associated with the Australia Indonesia Partnership for Reconstruction and Development Fund (AIPRD) loan agreements;
- accounting, reporting and disclosures relating to international payments and subscriptions, primarily IDA/ADF multilateral liabilities and grant funding;
- IT general and application controls as they relate to the financial statements;
- new framework for the classification of AusAID's departmental and administered expenses; and
- grant payment processes in view of an increase in aid funding aimed at achieving the MDGs.

**5.398** Audit coverage of these matters was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.399** There were no significant or moderate audit issues identified during the 2010–11 or 2009–10 audits.

#### *Report on Other Legal and Regulatory Requirements*

**5.400** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where

payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Australian Trade Commission

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	192.1	185.2
Revenue from government	173.3	189.8
Surplus/(deficit)	(18.8)	4.6
Total other comprehensive income	(0.9)	0.1
Total comprehensive income	(19.7)	4.7
Total assets	104.0	109.2
Total liabilities	49.8	49.4

**5.401** The increase in the net cost of services was mainly related to the impact of a \$6m increase in the provision for redundancies.

**5.402** The Commission incurred a deficit due to the increased net cost of services and a decrease in revenue from government, as the Agency is no longer funded for depreciation.

**5.403** The movement in other comprehensive income was due to the revaluation and impairment of leases associated with onerous contracts.

**5.404** All other movements reflect fluctuations in normal business operations.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	0.0	0.0
Total expenses	145.4	211.2
Total assets	0.0	0.1
Total liabilities	9.2	14.6

**5.405** The decrease in expenses and liabilities was caused by a reduction in the Export Market Development grant activity due to lower government funding in 2010–11.

**5.406** All other movements reflect fluctuations in normal business operations.

### Areas of audit focus

**5.407** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- employee benefits and provisions; and
- operating leases.

**5.408** Audit coverage of these matters was finalised during the 2010–11 final audit.

### Audit results

#### *Summary of audit findings*

**5.409** There were no significant or moderate audit issues identified during the 2010–11 audit.

## Export Finance and Insurance Corporation

### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	144.9	133.2
Total expenses	114.7	94.9
Total assets	3 036.1	2 700.1
Total liabilities	2 628.0	2 292.5

**5.410** The increase in total income is mainly due to increases in interest income reflecting a significant increase in investment holdings, changes in global interest rates and depreciation of the US dollar during the year. Total expenses have increased reflecting an increase in interest expenses which is consistent with an increase in total borrowings to fund loans.

**5.411** Movements in assets and liabilities reflect increases in investment holdings and increases in borrowings.

## **Areas of audit focus**

**5.412** The ANAO's audit approach identified the following areas that had a higher risk of material misstatement and required additional audit attention:

- funding and liquidity management, including availability and cost of funds;
- complex treasury activities involving highly structured and complex financial transactions;
- the valuation of loans and guarantees; and
- compliance with applicable accounting standards, including hedge accounting.

**5.413** Audit coverage of these matters was finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

**5.414** There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.

## **Comments on non-material entities**

**5.415** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

## **Report on Other Legal and Regulatory Requirements**

**5.416** The auditor's report on the financial statements of the Australian Centre for International Agricultural Research refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.



## Health and Ageing Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Health and Ageing	Yes	✓A*	23 Aug 11	23 Aug 11	◆
- Therapeutic Goods Administration	No	✓	23 Aug 11	23 Aug 11	◆
Aged Care Standards and Accreditation Agency Ltd	No	✓	8 Sept 11	8 Sept 11	
Australian Institute of Health and Welfare	No	✓	22 Sept 11	22 Sept 11	
Australian National Preventive Health Agency	No	✓	20 Sept 11	20 Sept 11	
Australian Organ and Tissue Donation and Transplantation Authority	No	✓	13 Sept 11	13 Sept 11	
Australian Radiation Protection and Nuclear Safety Agency	No	✓	7 Sept 11	7 Sept 11	
Cancer Australia	No	✓	26 Sept 11	26 Sept 11	
Food Standards Australia New Zealand	No	✓	22 Sept 11	22 Sept 11	
General Practice Education and Training Limited	No	✓	7 Oct 11	7 Oct 11	
Health Workforce Australia	No	✓	6 Sept 11	6 Sept 11	
National Blood Authority	Yes	✓	8 Aug 11	8 Aug 11	
National Breast and Ovarian Cancer Centre	No	✓E	16 Aug 11	17 Aug 11	
National Health and Medical Research Council	Yes	✓A*	23 Aug 11	24 Aug 11	
Private Health Insurance Administration Council	No	✓	9 Sept 11	9 Sept 11	
Private Health Insurance Ombudsman	No	✓	19 Aug 11	19 Aug 11	
Professional Services Review Scheme	No	✓	29 Sept 11	29 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

📅: financial year end date other than 30 June 2011

⚠️: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.417** The Health and Ageing portfolio consists of the Department of Health and Ageing (DoHA) and a number of statutory and non-statutory bodies that are responsible for contributing to achieving a health care system that meets the health care and ageing needs of all Australians. The portfolio's services are delivered through the 14 outcomes set by the Australian Government. Each portfolio entity has developed performance information to aid in assessing their effectiveness in achieving entity-specific outcomes.

**5.418** Portfolio entities also work towards the following whole-of-portfolio targets in relation to the health status of Australians:

- continued improvement in life expectancy for both males and females over time;
- further reductions in infant mortality rates over time;
- additional improvements in disability adjusted life expectancy over time;
- improved life expectancy, health expectancy and infant mortality rates for Aboriginal and Torres Strait Islanders, so that they are comparable with the general population; and
- improved life expectancy, health expectancy and infant mortality rates for low income Australians, so that they are comparable with the general population.

**5.419** As a result of the staged implementation of the Government's structural changes under the National Health and Hospitals Network, the following entities are in place or will become operational in 2011–12:

- the Australian Commission on Safety and Quality in Health Care;
- the Independent Hospital and Pricing Authority;
- the National Health Performance Authority; and
- the National Health Funding Body.

**5.420** In 2011–12, the ANAO will monitor the progress in establishing these entities and assess the implications on DoHA's 2011–12 financial statement audit.

## Department of Health and Ageing

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	616.7	582.4
Revenue from government	600.2	585.2
Surplus/(deficit)	(16.6)	2.7
Total other comprehensive income	0.0	0.0
Total comprehensive income/(loss)	(16.6)	2.7
Total assets	461.9	377.6
Total liabilities	262.9	270.2

**5.421** The net cost of services increased primarily due to higher employee expenses as a result of salary increases. This was driven by the annual enterprise agreement increase and the growth in average staff numbers.

**5.422** The deficit is largely the result of unfunded depreciation and amortisation expenses.

**5.423** Assets increased mainly due to an increase in work-in-progress in relation to internally developed software projects.

**5.424** The decrease in liabilities is due to a reduction in amounts owing to suppliers at year-end, which was partly offset by higher employee benefits provisions.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	1 305.6	787.9
Total expenses	44 721.2	41 390.4
Total assets	944.9	1 118.8
Total liabilities	2 850.9	2 789.5

**5.425** Administered income increased substantially mainly due to increases in recoveries from pharmaceutical companies under the High Cost Drugs

Recoveries Program and an increase in revenue for the Health and Hospital Fund Payments Program.

**5.426** Administered expenses increased mainly as a result of higher expenditure associated with the Medicare Benefits Scheme, the Pharmaceutical Benefits Scheme and an increase in Private Health Insurance Rebates.

**5.427** Administered assets decreased predominantly due to a significant portion of the National Medical Stockpile inventory expiring during the year and investments in the Australian Sports Commission and Australian Sports Foundation Ltd being transferred to the Department of the Prime Minister and Cabinet under Machinery of Government changes.

**5.428** Administered liabilities increased primarily due to increased grants to the private sector not-for-profit organisations and an increase in personal benefits and subsidy liabilities at year end.

### **Areas of audit focus**

**5.429** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- administered grants and subsidies expenses, including aged care payments;
- administered personal benefits expenses and liabilities;
- Medical Indemnity provisions that are based on actuarial assumptions;
- administered inventory, due to a significant value of inventory scheduled to expire during the year;
- employee benefits, being the most significant departmental expenses; and
- appropriations reporting and disclosure in view of the complexity arising from DoHA's 14 outcomes and restructuring arrangements under Machinery of Government changes.

**5.430** The calculation of Medical Indemnity provisions, \$385 million as at 30 June 2011, was of particular audit interest in view of the complexity of the underlying calculation of these provisions. The calculation was based on an actuarial assessment from the Australian Government Actuary (AGA). The

ANAO reviewed the assessment to gain assurance over the balance included in the financial statements.

**5.431** Audit coverage of the areas of audit focus was finalised during the 2010–11 final audit.

## Audit Results

### *Summary of audit findings*

**5.432** One moderate audit issue was identified during the 2010–11 audit relating to the Therapeutic Goods Administration (TGA), which is consolidated into the DoHA's financial statements. The ANAO identified that appropriate agreements were not in place between the TGA and two external companies that collect public monies on behalf of the TGA, and there were weaknesses in controls relating to the collection process.

**5.433** Following the 2010–11 final audit, the ANAO reviewed the controls and processes put in place by the TGA to address this issue. Appropriate controls and processes are now in place to address the reported weaknesses. The ANAO will review the application of these controls and processes as part of the 2011–12 audit.

### *Report on Other Legal and Regulatory Requirements*

**5.434** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

**5.435** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## National Blood Authority

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	5.7	5.7
Revenue from government	5.9	5.7
Surplus/(deficit)	0.2	0.1
Total other comprehensive income	0.0	0.2
Total comprehensive income	0.2	0.2
Total assets	10.6	10.9
Total liabilities	3.1	3.7

**5.436** There were no significant movements in these measures from the prior year.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	941.0	872.6
Total expenses	938.3	859.2
Total assets	227.3	78.3
Total liabilities	68.9	39.5

**5.437** Administered income increased due to normal fluctuations in the demand for, and the price of, blood products.

**5.438** Administered expenses and liabilities increased as a result of the increased demand for blood products.

**5.439** Administered assets increased as a result of the Authority obtaining investing powers from the Finance Minister during 2010–11. This has resulted in the Authority accounting for investments for the first time in 2010–11. Previously, these investments were held in the Official Public Account administered by Finance. In addition, the asset balance at year end included a prepayment of \$75 million to the ARCBS as a result of a change in funding arrangements with that organisation.

## Areas of audit focus

**5.440** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- appropriation disclosures in light of the funding arrangements for the Authority. These arrangements are underpinned by the *National Blood Authority Act 2003* and the National Blood Agreement between the Australian Government and the States and Territories; and
- the recognition and measurement of the Authority's blood product inventories due to the nature of these items.

**5.441** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.442** There were no significant or moderate audit findings identified during the 2009–10 or 2010–11 audits.

## National Health and Medical Research Council

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	41.6	39.8
Revenue from government	39.4	40.8
Surplus/(deficit)	(2.2)	1.1
Total other comprehensive income	0.0	0.0
Total comprehensive income	(2.2)	1.1
Total assets	31.9	33.7
Total liabilities	13.1	13.1

**5.443** There were no significant movements in these measures in 2010–11 and movements were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	27.4	18.8
Total expenses	752.7	708.4
Total assets	7.0	6.0
Total liabilities	11.8	13.7

**5.444** Administered income increased mainly due to a repayment by grant recipients of unspent grant monies.

**5.445** Administered expenses increased in line with the budgets for annual expenses for grants.

**5.446** The decrease in administered liabilities is mainly due to a reduction in grant monies payable at year end.

**Areas of audit focus**

**5.447** The ANAO's audit approach identified the implementation of a new grants management system as significant in view of its potential impact on the 2010–11 financial statements.

**5.448** Audit coverage of this matter was finalised during the 2010–11 final audit.

**Audit results**

*Summary of audit findings*

**5.449** There were no new significant or moderate audit findings identified during the 2009–10 and 2010–11 audits.

*Report on Other Legal and Regulatory Requirements*

**5.450** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.



## **Comments on non-material entities**

**5.451** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

**5.452** The 2010–11 auditor's report for the National Breast and Ovarian Cancer Centre contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis and not on a going concern basis, as the Centre was amalgamated with Cancer Australia on 30 June 2011.

## Human Services Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Human Services	Yes	✓A*	7 Sep 11	8 Sep 11	
Australian Hearing	Yes	✓	26 Aug 11	26 Aug 11	
Centrelink	Yes	✓	4 Aug 11	4 Aug 11	
Medicare Australia	Yes	✓A*	29 Aug 11	30 Aug 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

⇒: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

### Portfolio overview

**5.453** The Human Services portfolio covers a broad range of human services delivery matters including:

- directing, coordinating and improving service delivery;
- administering arrangements designed to ensure children of separated parents receive financial support from both parents;
- assisting people with injury or disability in finding employment or return to work by providing individualised vocational rehabilitation through CRS Australia;
- administering a range of health and benefit payment programs on behalf of other agencies;
- providing payments and services to disadvantaged families with disabilities, indigenous people and people from diverse cultural and linguistic backgrounds;
- providing people with a better quality of life by managing their hearing impairment; and
- providing occupational health, safety and medical assessments.

**5.454** Up until 30 June 2011, the Department of Human Services (DHS) role was to provide central policy advice as the coordinating entity within the

portfolio. Other portfolio entities in 2010–11 were Centrelink, Medicare Australia and Australian Hearing.

**5.455** The *Human Services Legislation Amendment Act 2011* integrated Medicare Australia and Centrelink into DHS on 1 July 2011. Prior to the passing of the legislation, the Secretary of DHS and the Chief Executives of Centrelink and Medicare Australia continued to exercise their respective responsibilities under the FMA Act, including the preparation of separate financial statements for 2010–11. To facilitate the integration process and the implementation of the Government's service delivery reform (SDR) agenda a number of change processes were introduced, including changes to organisational structures; changes to the provision of certain corporate services to better reflect proposed future service delivery responsibilities; and the development and implementation of consistent financial management policies by DHS, Medicare Australia and Centrelink.

## Department of Human Services

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	609.2	531.3
Revenue from government	503.7	557.5
Surplus/(deficit)	(105.5)	26.2
Total other comprehensive income	9.9	3.6
Total comprehensive income	(95.6)	29.7
Total assets	380.4	362.7
Total liabilities	263.2	180.7

**5.456** Net cost of services was impacted by an increase in supplier and employee related expenses relating to SDR activities. These increases contributed to the deficit for the year.

**5.457** Revenue from government decreased due to the revised funding arrangements for depreciation and amortisation of assets,<sup>43</sup> which also contributed to the deficit for the year.

<sup>43</sup> Op cit (refer footnote 28 on p.70)

**5.458** The decrease in total comprehensive income was due to the movements in net cost of services and revenue from government as mentioned above.

**5.459** The movement in assets was not significant and was the result of fluctuations in normal business activity.

**5.460** Liabilities increased due to an increase in suppliers payable resulting from SDR activities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	1 249.8	1 252.3
Total expenses	1 228.9	1 229.9
Total assets	627.3	663.2
Total liabilities	619.9	654.9

**5.461** Administered assets and liabilities decreased primarily due to changes in the estimates for the child support receivable, the child support provision and the related impairment allowance.

**5.462** The movements in administered income and expenses were not significant and were the result of fluctuations in normal business activity.

**Areas of audit focus**

**5.463** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- child support payments and related transactions specifically focusing on child support assessment controls and IT business systems controls;
- accounting for and recognition of revenue received under arrangements with other Commonwealth entities; and
- the accounting for services and functions delivered by DHS on behalf of Medicare Australia and Centrelink in the lead up to their integration into DHS on 1 July 2011.

**5.464** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.465** There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.

### *Report on Other Legal and Regulatory Requirements*

**5.466** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Australian Hearing

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	(13.8)	(13.2)
Revenue from government	0.0	0.0
Surplus/(deficit)	13.8	13.2
Total other comprehensive income	0.0	0.0
Total comprehensive income	9.6	9.3
Total assets	91.8	87.9
Total liabilities	57.2	57.2

**5.467** The movements in income, expense and liabilities were not significant and were the results of fluctuations in normal business activity.

**5.468** Assets increased as a result of the replacement of clinical equipment under a clinical refresh program and the upgrade of Australian Hearing's financial management information system and its integration with existing systems.

## Areas of audit focus

5.469 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- revenue recognition;
- the use of management estimates relating to various liability balances;
- valuation of fixed assets; and
- executive remuneration and bonus calculations.

5.470 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.471 There were no significant or moderate audit findings arising from the 2009–10 and 2010–11 audits.

## Centrelink

## Summary of Financial Results

### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	2 740.4	2 781.9
Revenue from government	2 519.7	2 810.2
Surplus/(Deficit)	(220.7)	28.3
Total other comprehensive income	(2.5)	21.8
Total comprehensive income	(223.2)	50.1
Total assets	1 042.1	1 123.4
Total liabilities	743.2	794.1

5.472 The decrease in revenue from government and the increase in the deficit are mainly due to the Government's revised funding arrangements for depreciation and amortisation.<sup>44</sup>

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<sup>44</sup> Op cit (refer footnote 28 on p.70)

**5.473** The significant movement in other comprehensive income is mainly due to a decrease in the valuation of property, plant and equipment.

**5.474** The decrease in assets is primarily due to a significant reduction in unspent appropriation at year end.

**5.475** Liabilities decreased due to a reduction in amounts due to suppliers at year end, coinciding with a reduction in the balance of unspent appropriations, and a decrease in employee entitlements based on a revised actuarial assessment of the liability for employee benefits at year end.

### **Areas of audit focus**

**5.476** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the accounting for services and functions delivered by Centrelink on behalf of DHS and Medicare Australia in the lead up to the integration of these agencies on 1 July 2011;
- a revaluation of non-financial assets and an actuarial review of employee benefit provisions with the aim of achieving the consistent application of relevant accounting policies across the portfolio from 1 July 2011; and
- assessment of the cost relating to internally developed software.

**5.477** The ANAO also identified the following areas that are significant to the financial statements of the policy agencies on behalf of which Centrelink processes personal benefit payments:

- the non-disclosure of changes in circumstances by customers that may affect the integrity of personal benefit payments disclosed in the financial statements of relevant policy agencies. The review of compliance and quality assurance processes and random sample surveys, forms a significant part of the ANAO's audit examination of internal controls so that assurance can be provided in the context of the audit of policy agencies' financial statements; and
- changes in policy and legislation that may result in delays in unplanned changes to relevant IT systems and reports to policy agencies. The ANAO focuses on gaining an understanding of the business processes that encourage regular communication with policy

agencies, designed to ensure that accurate and timely information is received from Centrelink.

**5.478** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.479** There were no new significant or moderate audit issues identified during the 2010–11 audit.

### *Resolved moderate audit issues*

#### *Security Access Management System*

**5.480** During the 2010–11 interim audit, the ANAO reported a moderate audit issue relating to Centrelink's Security Access Management System (SAMS) which facilitates the administration of access to personal benefit payment and debt management systems. The issue related to SAMS failing to correctly update user access privileges that led to inappropriate access being granted to these systems, increasing the risk of errors or fraudulent transactions being processed.

**5.481** The 2010–11 final audit identified that Centrelink had implemented a process to review discrepancies in user access between SAMS and the personal benefit payment and debt management systems. This issue has been downgraded to a Category C finding pending the ANAO's review of the effectiveness of these processes during the 2011–12 interim audit.

**5.482** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 final audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)*	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

\*Finding downgraded to a Category C finding.



## Medicare Australia

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	667.3	613.9
Revenue from government	619.1	652.0
Surplus/(deficit)	(48.2)	38.1
Total other comprehensive income	3.3	17.6
Total comprehensive income	(44.9)	55.8
Total assets	416.7	407.3
Total liabilities	222.8	210.5

**5.483** Net cost of services increased mainly due to an increase in expenses relating to computer services and contractors associated with a number of IT projects, and a decrease in revenue for contract work on the Universal Health Identifier project.

**5.484** The decrease in revenue from government and the deficit for the year are mainly due to the revised funding arrangements for depreciation and amortisation.<sup>45</sup>

**5.485** Assets increased due to increases in internally developed computer software and leasehold improvements.

**5.486** Liabilities increased in line with the increase in expenditure on computer services and contractors. Employee provisions also increased reflecting increases in salaries and employee leave balances.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	0.0	0.0
Total expenses	0.0	3.6
Total assets	0.0	0.0
Total liabilities	0.0	0.0

<sup>45</sup> Op cit (refer footnote 28 on p.70)

**5.487** Medicare Australia had no administered items in 2010–11. The program to provide financial assistance to medical practices for set up costs to enable patients to claim their Medicare rebate at medical practices ceased in December 2009.

### **Areas of audit focus**

**5.488** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the accounting for services and functions delivered by Medicare Australia on behalf of DHS and Centrelink in the lead up to their integration on 1 July 2011;
- a revaluation of non-financial assets and an actuarial review of employee benefit provisions, with the aim of achieving the consistent application of relevant accounting policies across the portfolio from 1 July 2011;
- accounting for Medicare Australia's lease transactions, including the makegood provision and lease incentives;
- the capitalisation of intangible assets;
- the calculation and disclosure of appropriations in the financial statements;
- program and related payments delivered by Medicare Australia on behalf of other agencies, including the Department of Health and Ageing and the Department of Veterans' Affairs; and
- Medicare Australia's national compliance program that focused on the integrity of Government programs it delivered.

**5.489** Audit coverage of these matters was finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

**5.490** There were no significant or moderate audit findings arising from the 2009–10 and 2010–11 audits.

### *Report on Other Legal and Regulatory Requirements*

**5.491** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

# Immigration and Citizenship Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Immigration and Citizenship	Yes	✓A*	26 Aug 11	26 Aug 11	
Migration Review Tribunal and Refugee Review Tribunal	No	✓A*	13 Sept 11	13 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.492** The Department of Immigration and Citizenship (DIAC) is responsible for the delivery of a range of programs and services for the purpose of building Australia's future through the well-managed entry and settlement of people into Australia.

**5.493** DIAC's responsibilities include:

- administering the Australian Government's immigration laws and migration programs;
- development of migration policy;
- contributing to border management; and
- delivery of services to support migrants and refugees to settle into the Australian community and participate in Australian society.

**5.494** The Migration Review Tribunal and Refugee Review Tribunal provide independent merit reviews of general visa decisions and protection visa decisions made by DIAC.

## Department of Immigration and Citizenship

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	1 251.5	1 178.7
Revenue from government	1 188.4	1 184.2
Surplus/(deficit)	(63.1)	5.5
Total other comprehensive income	(12.9)	63.5
Total comprehensive income	(76.0)	69.0
Total assets	744.7	1 268.8
Total liabilities	380.5	358.9

**5.495** DIAC reported a deficit in 2010–11, compared with a small surplus in 2009–10. This movement is attributable to changed depreciation funding arrangements.

**5.496** Net cost of services and revenue from government increased mainly as a result of increased expenditure associated with the expansion of the immigration detention network. The increased expenditure also resulted in an increase in revenue from government under DIAC's no-win no-loss funding arrangements.<sup>46</sup> The increase was largely offset by the removal of depreciation funding.<sup>47</sup>

**5.497** Assets decreased largely due to the transfer of DIAC's detention buildings and land from departmental to administered, decreasing the value of DIAC's departmental assets by more than \$500 million.

**5.498** The increase in liabilities was a reflection of fluctuations in normal business activity, which include increased expenditure associated with expansion of the immigration detention network.

<sup>46</sup> Op cit (refer footnote 31 on p.76)

<sup>47</sup> Op cit (refer footnote 28 on p.70)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	977.0	968.9
Total expenses	1 099.5	662.5
Total assets	788.5	39.5
Total liabilities	285.0	188.7

**5.499** Administered income increased as a result of increased visa application charges, partially offset by fluctuations in normal business activity relating to the processing of visa applications.

**5.500** Administered expenses and liabilities increased as a result of increases in managing the immigration detention network.

**5.501** Administered assets increased due to the reclassification of DIAC's immigration detention network assets from departmental to administered.

**Areas of audit focus**

**5.502** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the transfer of DIAC's detention centre assets from its departmental balance sheet to its administered schedule of assets and liabilities;
- accounting for expenditure incurred as a result of the expansion of the immigration detention network;
- revenue from government recognised under DIAC's funding agreement with Finance; and
- the valuation of internally developed software, particularly in view of the expected finalisation of the Systems for People program.

**5.503** The ANAO continues to review DIAC's IT general and application controls relating to the financial statements as an integral part of the financial statement audit.

**5.504** Audit coverage of these matters was finalised during the 2010–11 final audit.

## **Audit results**

### ***Summary of audit findings***

**5.505** There were no new significant or moderate audit issues identified during the 2010–11 audit.

### ***Report on Other Legal and Regulatory Requirements***

**5.506** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## **Comments on non-material entities**

**5.507** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

### **Report on Other Legal and Regulatory Requirements**

**5.508** The auditor's report on the financial statements of the Migration Review Tribunal and Refugee Review Tribunal refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Infrastructure and Transport Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Infrastructure and Transport (formerly the Department of Infrastructure, Transport, Regional Development and Local Government)	Yes	✓A*	23 Sept 11	27 Sept 11	
Airservices Australia	Yes	✓	26 Aug 11	26 Aug 11	
Australian Maritime Safety Authority	No	✓	22 Sept 11	22 Sept 11	
Australian Rail Track Corporation Limited	Yes	✓	31 Aug 11	31 Aug 11	
Australian Transport Safety Bureau	No	✓	6 Oct 11	6 Oct 11	
Civil Aviation Safety Authority	Yes	✓	29 Aug 11	29 Aug 11	
National Transport Commission	No	✓	19 Aug 11	19 Aug 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

📅: financial year end date other than 30 June 2011

📄: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

### Portfolio overview

**5.509** The Infrastructure and Transport portfolio comprises the Department of Infrastructure and Transport (Infrastructure) and a number of statutory authorities. On 14 September 2010 the Department of Regional Australia, Regional Development and Local Government (DRARDLG) was established in the Prime Minister and Cabinet portfolio. The functions of DRARDLG, previously managed by Infrastructure, comprise the coordination of community infrastructure and services in rural, regional and local government areas principally through the provision of Financial Assistance grants.

**5.510** The Infrastructure portfolio is responsible for:

- improved infrastructure across Australia through investment in and coordination of transport and other infrastructure;
- an efficient, sustainable, competitive, safe and secure transport system for all transport users through regulation, financial assistance and safety investigations; and
- maximising maritime, aviation and other transport safety in Australia.



## Department of Infrastructure and Transport

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	199.0	209.0
Revenue from government	188.9	208.8
Surplus/(deficit)	(10.1)	(0.2)
Total other comprehensive income	3.8	0.3
Total comprehensive income	(6.3)	0.1
Total assets	138.9	126.1
Total liabilities	69.8	58.6

**5.511** The net cost of services and revenue from government decreased mainly as a result of the establishment of DRARDLG on 14 September 2010.

**5.512** Increases in other comprehensive income reflect the net increase to asset revaluation reserves following the revaluation of buildings and restoration provisions.

**5.513** Assets increased mainly due to a \$13.5 million increase in unspent appropriations at year end.

**5.514** Liabilities increased mainly as a result of the recognition of a provision for surplus lease space of \$9.5 million. This relates to office accommodation not being fully utilised following the transfer of functions and staff to DRARDLG.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	1 065.4	688.8
Total expenses	1 962.1	3 909.0
Total assets	4 391.7	3 560.5
Total liabilities	25.6	65.4

**5.515** Administered income increased mainly as a result of an increase of \$432 million in the transfer of Building Australia Fund (BAF) grants to fund

two major road projects in New South Wales. This increase was partially offset by a \$17 million reduction in BAF grants for rail projects.

**5.516** Administered expenses reduced substantially as a result of Financial Assistance grants, totalling \$2 billion in 2009–10, and other grant programs transferring to DRARDLG. The transfer of the Regional and Local Community Infrastructure Program and Better Regions grants to DRARDLG also reduced expenses by \$280 million and \$26 million respectively in 2010–11. The reductions in administered expenditure were partially offset by an increase in BAF expenditure for the two major road projects mentioned above.

**5.517** Administered assets increased as a result of a significant appreciation in the value of administered investments. In particular, the valuation of the Australian Rail Track Corporation Ltd appreciated by \$906 million following major capital works additions and the recognition of deferred tax assets. The increase in administered investments was partially offset by a \$37 million reduction in the valuation of Airservices Australia and \$37.5 million administered loans receivable from states and territories transferring to DRARDLG.

**5.518** Administered liabilities decreased mainly due to the transfer of three major grant programs to DRARDLG, as mentioned above.

### **Areas of audit focus**

**5.519** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- financial management and reporting of significant grant and subsidy programs;
- valuation of Infrastructure's \$4.3 billion administered investments, which represent a significant balance in the department's financial statements; and
- financial reporting relating to Machinery of Government changes that took effect during 2010–11.

**5.520** The ANAO's audit coverage of these areas of audit focus was finalised during the 2010–11 audit.

## Audit results

### *Summary of audit findings*

**5.521** No significant or moderate audit issues were identified during the 2009–10 or 2010–11 audits.

### *Report on Other Legal and Regulatory Requirements*

**5.522** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Airservices Australia

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total Income	824.6	806.3
Total expenses	788.2	755.7
Profit (loss) after income tax	36.4	50.6
Total other comprehensive income after income tax	35.3	(25.1)
Total comprehensive income after income tax	71.7	25.5
Total assets	1 199.2	1 128.3
Total liabilities	793.6	770.3

**5.523** Income increased mainly due to an increase in both domestic and international airline activity.

**5.524** The increase in expenses was the result of fluctuations in normal business activity.

**5.525** The movement in other comprehensive income was mainly due to actuarial gains related to Airservices Australia's defined benefit superannuation fund obligations.

**5.526** Assets increased as a result of a major capital expenditure program designed to enhance Airservices' air traffic management systems.

**5.527** Liabilities increased mainly due to increased borrowings to assist with Airservices' expanded capital expenditure program, and increased accounts payable, partially offset by a decrease in superannuation liabilities under Airservices' defined benefit superannuation plan.

### **Areas of audit focus**

**5.528** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- accounting for a number of complex areas including: AUC; defined benefit superannuation obligations; deferred tax assets; remediation costs for land contamination; and cross border leases; and
- IT general and application controls as they relate to the financial statements.

**5.529** Audit coverage of these areas was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.530** No significant or moderate audit issues were identified during the 2009–10 or 2010–11 audits.

## **Australian Rail Track Corporation Ltd**

### **Summary of Financial Results**

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	684.9	604.8
Total expenses	972.2	590.2
Profit (loss) after income tax	(49.7)	94.3
Total other comprehensive income after income tax	366.5	(1.4)
Total comprehensive income	316.9	92.9
Total assets	4 500.9	3 151.1
Total liabilities	1 127.9	653.2

**5.531** Income increased mainly due to revenue increases resulting from rail access charges, grants, incident cost recoveries and interest revenue.

**5.532** Expenses increased significantly mainly attributable to an increase in an impairment loss of \$378.5 million, with other smaller increases such as incident costs of \$16.5 million and depreciation and amortisation expenses of \$15 million. The increase was slightly offset by a decrease in infrastructure maintenance of \$10 million and loss on sale of non-financial assets of \$17 million.

**5.533** The significant increase in other comprehensive income was primarily attributable to an infrastructure revaluation of \$520 million with an offsetting income tax effect of \$154 million.

**5.534** Assets increased largely due to net asset additions of \$865.5 million related to major capital works and revaluations, as well as an increase of \$328 million of deferred tax assets relating to the application of Division 58 of the *Income Tax Assessment Act 1997*. The increase was slightly offset by \$7.5 million decrease in current tax receivables.

**5.535** Liabilities increased significantly primarily due to increases in the deferred tax liability balance and the first time recognition of interest-bearing liabilities which relate to a bond issue during 2010–11 in the year of \$200 million. This was slightly offset by a \$60 million reduction in interest-bearing liabilities.

**5.536** In addition, total equity increased by \$877 million, inclusive of \$558 million of additional equity issued during the year.

### **Areas of audit focus**

**5.537** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- infrastructure asset valuation and impairment determinations relating to the Australian Rail Track Corporation's (ARTC's) three cash generating rail corridors, particularly in relation to the models used that incorporate cash flow assumptions and the weighted average cost of capital;
- potential bond issuance, focusing on the effective interest rate calculation and supporting documentation for the bond;

- the revaluation or impairment of infrastructure assets, focusing on expense assumptions and appropriateness of inputs such as capacity increases on the rail network;
- compliance with new accounting and reporting requirements including leases with land components;
- calculation of deferred tax balances and tax expenses that are complex and utilise historical tax losses and tax shields;
- estimation of provisions, including employee's annual bonus provision; and
- revenue recognition.

**5.538** Audit coverage of these matters was finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

**5.539** There were no significant or moderate audit issues identified during the audit for 2010–11.

**5.540** The following three moderate audit issues were identified during the 2009–10 audit in relation to:

- the review and refinement of the variables and factors underlying impairment calculations for infrastructure assets;
- accounting for infrastructure asset disposals; and
- information supporting the data and certain estimates used in calculating the Hunter Valley constrained coal revenue provision.

**5.541** ARTC has taken satisfactory action to address these issues and they are therefore considered to be resolved.

**5.542** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
A	0	0	0	0
B	3	(3)	0	0
<b>Total</b>	<b>3</b>	<b>(3)</b>	<b>0</b>	<b>0</b>

## Civil Aviation Safety Authority

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	149.4	131.3
Revenue from government	148.2	129.5
Surplus/(deficit)	(1.2)	(1.8)
Total other comprehensive income after income tax	(1.1)	3.0
Total comprehensive income	(2.3)	1.2
Total assets	121.3	105.6
Total liabilities	60.7	42.8

**5.543** Movements in these measures were not significant and were the result of fluctuations in normal business activity. The increase in revenue from government was largely due to the increase in aviation fuel excise receipts and stems from the increase in the excise rate to fund existing and new policy proposal measures.

### Areas of audit focus

**5.544** The ANAO's audit approach identified the following areas of audit focus due to their potential impact on the 2010–11 financial statements:

- the capitalisation and valuation of internally developed software;
- property, plant and equipment valuations; and
- CASA's IT general and application controls as they relate to the financial statements.

**5.545** Audit coverage of CASA's internally developed software was finalised during the 2010–11 final audit. The status of audit findings in respect of CASA's IT control framework is outlined below.

## **Audit results**

### *Summary of audit findings*

**5.546** There were no significant or moderate audit issues identified during the 2010–11 audit.

**5.547** The 2009–10 audit identified the following moderate audit issues that have been satisfactorily addressed:

- developer access to the IT production environment: CASA has established separate user accounts and separated access rights between development and production, and implemented appropriate transaction logs;
- user access to the Financial Management Information System and Human Resource Management Information System: CASA has implemented individually identifiable accounts for database administrator tasks, established a transaction log for monitoring controls for key users, and reviews changes to the vendor master file on a monthly basis.

## **Comments on non-material entities**

**5.548** There were no significant or moderate audit issues noted in non-material entities within the portfolio.



# Innovation, Industry, Science and Research Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Innovation, Industry, Science and Research	Yes	✓A*	19 Aug 11	19 Aug 11	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	19 Sept 11	19 Sept 11	
Australian Institute of Marine Science	No	✓	23 Aug 11	23 Aug 11	
Australian Nuclear Science and Technology Organisation	Yes	✓	15 Aug 11	15 Aug 11	◆
- PETNET Australia Pty Ltd	No	✓	15 Aug 11	15 Aug 11	
Australian Research Council	Yes	✓A*	5 Sept 11	5 Sept 11	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	24 Aug 11	24 Aug 11	
- Science and Industry Endowment Fund	No	✓	24 Aug 11	24 Aug 11	
- WLAN Services Pty Limited	No	✓	24 Aug 11	24 Aug 11	
CVC Reef Limited	No	✓	18 Nov 11	18 Nov 11	
- Wind Corporation Australia Limited	No	✓	18 Nov 11	18 Nov 11	
IIF Investments Pty Limited	No	✓	28 Oct 11	28 Oct 11	
IP Australia	No	✓A*	27 Sept 11	27 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

📅: financial year end date other than 30 June 2011

📄: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio Overview

**5.549** The key priority for the portfolio is to encourage the sustainable growth of Australian industries by developing a national innovation system that drives knowledge creation, cutting-edge science and research, international competitiveness and greater productivity.

## Department of Innovation, Industry, Science and Research

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	330.3	297.6
Revenue from government	306.1	301.4
Surplus	(24.2)	3.8
Total other comprehensive income	0.0	3.6
Total comprehensive income	(24.2)	7.4
Total assets	321.1	251.2
Total liabilities	113.1	104.8

**5.550** The net cost of services increase is due to the additional functions assumed by DIISR in relation to the Australian Astronomical Observatory which was previously a joint venture with the United Kingdom, as well as the transfer of National Trade Measurement (NTM) operations that were previously administered by state governments.

**5.551** The decrease in the surplus is mainly due to the change in funding arrangements for depreciation and amortisation.<sup>48</sup>

**5.552** Total assets increased as a result of the receipt of \$56.1 million of assets received with the Australian Astronomical Observatory operations and an increase in unspent appropriations.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	539.7	429.0
Total expenses	4 025.8	3 933.4
Total assets	3 123.0	2 943.5
Total liabilities	239.4	343.4

<sup>48</sup> Op cit (refer footnote 28 on p.70)

**5.553** Total income increased due to an additional \$90 million provided under the Nation Building Fund for grant payments, as well as \$25.6 million received from the UK Government as a resource received free of charge on the wind up of the Anglo Australian Telescope Board and the gifting of assets to the Australian Government.

**5.554** Liabilities decreased due to credits issued under the Automotive Competitiveness and Investment Scheme (ACIS) ceasing on 31 December 2010. This program previously issued subsidy credits for offset against customs excise duty which can be redeemed up to 31 December 2011. Outstanding credits are held as liabilities until the credit is claimed.

### **Areas of audit focus**

**5.555** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the valuation of property, plant and equipment;
- the transition of the subsidy for the ACIS to new arrangements under the Automotive Transformation Scheme, including the final allocation of subsidy credits under ACIS; and
- accounting for the acquisition and ongoing operations of Australian Astronomical Observatory and NTM functions that were assumed by DIISR during 2010–11.

**5.556** Audit coverage of these matters was finalised during the 2010–11 audit.

### **Audit results**

#### *Summary of audit findings*

**5.557** No significant or moderate audit issues were identified during the 2010–11 audit.

#### *Report on Other Legal and Regulatory Requirements*

**5.558** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Australian Nuclear Science and Technology Organisation

### Summary of Financial Results

Key financial measures for year*	2010–11 \$m	2009–10** \$m
Net cost of services	205.3	179.1
Revenue from government	165.6	155.2
Surplus/(deficit)	(39.7)	(23.8)
Total other comprehensive income after income tax	10.6	34.2
Total comprehensive income	(29.4)	10.4
Total assets	1 077.8	1 069.1
Total liabilities	340.1	316.3

\* The above figures relate to ANSTO and its controlled entities.

\*\*Prior year figures have been adjusted due to the reinstatement of a liability relating to the storage of waste, return of overseas waste and spent fuel.

**5.559** Net cost of services increased by \$26 million primarily due to an increase in expenses of \$36 million, partially offset by an increase in revenues from government of \$10 million.

**5.560** Other comprehensive income decreased due to a change in the asset revaluation reserve consistent with the required accounting treatment for decommissioning costs.

**5.561** The increase in liabilities is due to an increase in the decommissioning provision.

### Areas of audit focus

**5.562** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- The valuation of fixed assets, particularly the Open Pool Australian Lightwater (OPAL) reactor;
- the carrying value of investments in related entities and the recoverability of inter-company loans;
- the estimation of decommissioning provisions;

- recognition and measurement of current and deferred tax balances in taxable subsidiaries;
- compliance with a complex regulatory environment; and
- the recognition and recording of the numerous streams of commercial income.

**5.563** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.564** There was one moderate audit issue identified during the 2010–11 audit.

**5.565** During 2010–11, ANSTO raised the need to reinstate a provision in relation to future costs associated with the safe storage of radioactive waste, and to recognise liabilities relating to the return of overseas waste and spent fuel. The ANAO's 2010–11 audit identified the need for ANSTO to undertake a review of documentation supporting the estimate of the liability, including the assumptions underpinning the methodology used to calculate the liability at year end. ANSTO advised that the appropriateness of the provision would be reassessed annually.

**5.566** The following table provides a summary of the status of previously reported issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues (identified during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Australian Research Council

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	21.3	19.5
Revenue from government	19.2	20.2
Surplus/(deficit)	(2.1)	0.7
Total other comprehensive income	(0.1)	0.0
Total comprehensive income	(2.2)	0.7
Total assets	27.2	23.4
Total liabilities	6.7	5.0

**5.567** There were no significant movements in these measures during the year.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	8.3	5.2
Total expenses	756.1	654.7
Total assets	1.4	5.0
Total liabilities	292.1	239.4

**5.568** Administered expenses and liabilities increased primarily due to an increase in grant activity relating to the Future Fellowship, Bionic Vision Technology and Super Science Fellowship programs.

### Areas of audit focus

**5.569** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the accounting and internal controls over administered grant payments; and
- the capitalisation and impairment of intangible assets, with a particular focus on those intangibles that are internally developed.

**5.570** Audit coverage of these matters was finalised during the 2010–11 final audit.

### **Audit results**

**5.571** There were no significant or moderate audit issues identified during the 2009–10 and 2010–11 audits.

#### *Report on Legal and Regulatory Requirements*

**5.572** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## **Commonwealth Scientific and Industrial Research Organisation**

### **Summary of Financial Results**

<b>Key financial measures for year</b>	<b>2010–11 \$m</b>	<b>2009–10 \$m</b>
Net cost of services	733.9	723.8
Revenues from government	720.2	704.9
Surplus /(deficit)	(13.7)	(18.9)
Total other comprehensive income	241.9	16.8
Total comprehensive income	228.2	(2.1)
Total assets	2 542.6	2 232.3
Total liabilities	514.6	512.3

**5.573** The increase in other comprehensive income and the corresponding increase in assets is mainly as a result of an increase of \$227.5 million in the value of land and buildings. This reflects a general upward trend in market values and increases in the value of in-use of buildings and the re-commissioning of assets previously not in use. Assets also increased due to an increase of \$77 million in cash and cash equivalents.

**5.574** All other movements reflect fluctuations in normal business operations.

## **Areas of audit focus**

5.575 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the accounting treatment and calculations applied to research project income, work-in-progress and deferred revenue balances;
- the valuation and classification of CSIRO's property, plant and equipment assets;
- the valuation of investments in start-up companies and compliance with disclosure requirements for financial instruments; and
- the assessment of impairment indicators for listed and unlisted equity investments.

5.576 Audit coverage of the matters were finalised during the 2009–10 and 2010–11 audits.

## **Audit results**

### *Summary of audit findings*

5.577 There were no significant or moderate audit issues identified during the 2010–11 audit.

## **Comments on non-material entities**

5.578 There were no significant or moderate audit issues identified in non-material entities within the portfolio.

## **Report on Other Legal and Regulatory Requirements**

5.579 The auditor's report on the financial statements of IP Australia refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.



## Parliamentary Departments

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Parliamentary Services	Yes	✓	16 Sep 11	16 Sep 11	
Department of the House of Representatives	No	✓A*	28 Sep 11	28 Sep 11	
Department of the Senate	No	✓A*	14 Sep 11	15 Sep 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

📅: financial year end date other than 30 June 2011

📄: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

### Parliamentary Departments' overview

**5.580** There are three parliamentary departments supporting the Australian Parliament:

- Department of Parliamentary Services (DPS);
- Department of the House of Representatives (DHoR); and
- Department of the Senate (DoS).

**5.581** DPS is responsible for ensuring the occupants of Parliament House are supported by integrated services and facilities, that Parliament functions effectively, and that its work and building are accessible to the public.

**5.582** The DHoR provides services to support the efficient conduct of the House of Representatives, its committees and certain joint committees, as well as a range of services for Members in Parliament House. DHoR also undertakes activities to promote the work of the House in the community and is responsible for the conduct of the Parliament's international and regional relations.

**5.583** The main function of DoS is the effective and efficient provision of services to support the Senate, its committees and Senators. DoS also conducts education programs and prepares publications to promote an understanding of the Senate and of parliamentary processes.

## Department of Parliamentary Services

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	116.2	115.5
Revenue from government	102.0	90.9
Surplus/(deficit)	(14.2)	(24.5)
Total other comprehensive income	0.0	0.0
Total comprehensive income	(14.2)	(24.5)
Total assets	148.6	110.3
Total liabilities	29.1	28.7

**5.584** Assets increased mainly due to the commencement of a number of capital projects for communications and information technology.

**5.585** The decreased deficit and the associated reduction in total comprehensive income were attributable to an increase in appropriations for the year.

**5.586** Other movements were the result of fluctuations in normal business activities.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	7.2	0.1
Total expenses	33.6	20.6
Total assets	2 147.6	2 153.5
Total liabilities	0.9	0.5

**5.587** Administered income increased as a result of a gain of \$7 million recognised due to the transfer of responsibility for a parliamentary briefing room from the Attorney-General's Department. The increase in administered expenses reflects a full year's effect of expenses associated with an increased asset base, along with \$7 million of assets written down.

## **Areas of audit focus**

**5.588** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the valuation of administered land and buildings;
- the capitalisation of departmental work-in-progress; and
- controls over employee expenses in the light of the outsourcing of the payroll function in 2009–10.

## **Audit results**

### *Summary of audit findings*

**5.589** There were no significant or moderate issues identified during the 2010–11 audit.

## **Comments on non-material entities**

**5.590** There were no significant or moderate audit issues noted in the Departments of the House of Representatives and the Senate.

## **Reports on Other Legal and Regulatory Requirements**

**5.591** The auditors' reports on the financial statements of the Departments of the House of Representatives and the Senate refer to the financial statements of each entity that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from a special account in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Prime Minister and Cabinet Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Prime Minister and Cabinet	Yes	✓	17 Aug 11	17 Aug 11	
Department of Regional Australia, Regional Development and Local Government	Yes	✓A*	12 Sept 11	12 Sept 11	
Australia Business Arts Foundation Limited	No	✓	18 Oct 11	18 Oct 11	
Australia Council	No	✓	17 Aug 11	17 Aug 11	
Australian Film, Television and Radio School	No	✓	2 Sept 11	2 Sept 11	
Australian Institute of Family Studies	No	✓	26 Aug 11	26 Aug 11	
Australian National Maritime Foundation	No				
Australian National Maritime Museum	No	✓	29 Sept 11	29 Sept 11	
Australian Public Service Commission	No	✓A*	13 Sept 11	13 Sept 11	
Australian Sports Anti-Doping Authority	No	✓	5 Sept 11	5 Sept 11	
Australian Sports Commission	Yes	✓	9 Sept 11	9 Sept 11	
Australian Sports Foundation Limited	No	✓	9 Sept 11	9 Sept 11	
Bundanon Trust	No	✓	10 Oct 11	10 Oct 11	
National Archives of Australia	Yes	✓A*	18 Aug 11	18 Aug 11	
National Australia Day Council Limited	No	✓	15 Sept 11	15 Sept 11	
National Capital Authority	Yes	✓	29 Sept 11	29 Sept 11	
National Film and Sound Archive of Australia	No	✓	20 Sept 11	23 Sept 11	
National Gallery of Australia	Yes	✓	31 Aug 11	1 Sept 11	
National Gallery of Australia Foundation	No	✓	31 Aug 11	1 Sept 11	
National Library of Australia	Yes	✓	5 Aug 11	5 Aug 11	
National Museum of Australia	Yes	✓	28 July 11	28 July 11	
Office of National Assessments	No	✓	27 Sept 11	27 Sept 11	
Office of the Australian Information Commissioner	No	✓	23 Sept 11	23 Sept 11	
Office of the Commonwealth Ombudsman	No	✓	15 Sept 11	15 Sept 11	
Office of the Inspector-General of Intelligence and Security	No	✓	15 Sept 11	15 Sept 11	

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Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Office of the Official Secretary to the Governor-General	No	✓	4 Oct 11	4 Oct 11	
Office of the Privacy Commissioner ☞ 31 October 2010	No	✓	20 June 11	21 June 11	
Old Parliament House	No	✓	2 Sept 11	2 Sept 11	
Screen Australia	No	✓	20 Sept 11	20 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

Note: The Australian National Audit Office (ANAO), which is part of the Prime Minister and Cabinet portfolio for administrative purposes, is audited by the ANAO's Independent Auditor.

## Portfolio overview

**5.592** The Prime Minister and Cabinet (PM&C) portfolio agencies produce a range of outputs required for well-coordinated, efficient and accountable public administration supported by a values based Australian Public Service.

**5.593** As a result of the AAOs of 14 September 2010, and 14 October 2010, a new department of state, the Department of Regional Australia, Regional Development and Local Government, was established within the portfolio. Also, as a result of the AAOs, PM&C acquired the arts and culture functions from the Sustainability, Environment, Water, Population and Communities portfolio, as well as the sports and recreation functions from the Health and Ageing portfolio. These changes involved the transfer of a number of FMA agencies and CAC bodies to the portfolio.

**5.594** The portfolio undertakes the following responsibilities:

- advice to the Prime Minister across government on policy and implementation;
- assistance to the Prime Minister in managing the Cabinet program;
- work and family policy coordination;
- national security and counter terrorism policy coordination;

- cyber policy coordination;
- intergovernmental relations and communications with state and territory governments;
- social inclusion, non-profit sector and volunteering;
- coordination of government administration;
- cultural affairs, including movable cultural heritage and support for the arts;
- oversight of Old Parliament House which comprises the Museum of Australian Democracy;
- Australian Government employment workplace relationships policy, including equal employment opportunity and administration of the framework for agreement making and remuneration and conditions;
- administration of Privacy and freedom of information legislation;
- management of government records;
- sports and recreation;
- Australian honours and symbols policy; and
- oversight of Government ceremonial and hospitality activities.

## Department of the Prime Minister and Cabinet

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	156.9	111.3
Revenue from government	155.5	114.7
Surplus/(deficit)	(1.3)	3.4
Total other comprehensive income	0.0	2.5
Total comprehensive income	(1.3)	5.9
Total assets	249.9	72.6
Total liabilities	60.5	32.0

**5.595** The increase in the net cost of services is attributable to an increase in employee, supplier and grant expenses. Employee expenses increased as a result of an increase in staffing levels, primarily as a result of the Machinery of Government (MOG) changes referred to above. Supplier expenses increased as a result of expenses associated with the Commonwealth Heads of Government Meeting (CHOGM) held in October 2011 and the MOG changes. Grant expenses increased as a result of the New Zealand Earthquake Relief Payments and the MOG changes.

**5.596** Revenue from government increased mainly as a result of appropriations transferred as a result of the MOG changes.

**5.597** Assets increased as a result of increases in special accounts, trade and other receivables, land and buildings and property, plant and equipment as a result of the MOG changes.

**5.598** Liabilities increased as a result of increases in trade and other payables, grant payables and employee provisions.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	2.6	0.0
Total expenses	400.5	9.3
Total assets	7 332.2	43.3
Total liabilities	18.5	11.7

**5.599** Administered expenses increased mainly as a result of grant payments, royalty payments and payments to CAC Act bodies transferred to the portfolio.

**5.600** Administered assets increased mainly as a result of increased investments in CAC Act bodies new to the portfolio.

### **Areas of audit focus**

**5.601** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- Machinery of Government changes;

- changes to the FMOs relating to executive remuneration note and appropriations; and
- disclosure of CHOGM expenditure.

**5.602** Of particular audit interest was the transfer of the arts and culture and sports and recreation functions that resulted in the transfer of significant income, expenses, assets and liabilities to the department. The audit confirmed that balances were reported in the financial statements in accordance with signed documentation between the portfolio departments.

## **Audit results**

### *Summary of audit findings*

**5.603** There were no significant or moderate audit issues identified during the 2010–11 audit.

## **Department of Regional Australia, Regional Development and Local Government**

### **Summary of Financial Results**

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	38.5	0.0
Revenue from government	38.1	0.0
Surplus/(deficit)	(0.4)	0.0
Total other comprehensive income	0.0	0.0
Total comprehensive income	(0.4)	0.0
Total assets	20.6	0.0
Total liabilities	18.1	0.0

**5.604** The department was established by the AAOs of 14 September 2010 and commenced operations on 1 October 2010. As a result of the establishment of the new department during the year, there are no comparative figures for 2009–10.

**5.605** The majority of the net cost of services relates to employee benefits expenses of \$23 million and supplier expenses of \$16 million, which are primarily funded by revenue from government of \$38 million.



**5.606** Assets mainly comprise appropriation receivable of \$15 million and intangible assets of \$1.5 million.

**5.607** Liabilities included employee provisions of \$9 million and supplier payables of \$8 million.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	23.8	0.0
Total expenses	2 501.5	0.0
Total assets	789.2	0.0
Total liabilities	50.8	0.0

**5.608** The major items of administered income were \$10 million from the sale of goods and rendering of services, \$6 million interest income, and \$3 million taxation revenue from fines and levies.

**5.609** Administered expenses were mainly grants expenses of \$2 billion. Financial Assistance Grants to states and territories for local government purposes of \$2 billion represented the major grant program.

**5.610** Administered assets primarily consisted of \$224 million for land and buildings, and \$452 million for property, plant and equipment.

**5.611** Administered liabilities primarily consisted of \$19 million for supplier payables, \$24 million grants payable and \$7.5 million for other provisions.

**Areas of audit focus**

**5.612** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- accounting for, and reporting of, significant grants programs administered by the department;
- accounting for the transfer of account balances as a result of MOG changes;
- IT general and application controls as they relate to the financial statements;

- the operation and management of shared services arrangements with the Department of Infrastructure and Transport and the Attorney-General's Department;
- controls relating to employee entitlements and payroll expenses; and
- administered non-financial assets stocktake processes, particularly assets transferred from the Attorney-General's Department.

**5.613** The ANAO's audit coverage of these areas of audit focus was finalised during the 2010–11 audit.

## **Audit results**

### *Summary of audit findings*

**5.614** There were no significant or moderate audit issues identified during the 2010–11 audit.

### *Report on Legal and Regulatory Requirements*

**5.615** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Australian Sports Commission

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10* \$m
Net cost of services	261.5	218.7
Revenue from government	269.5	223.0
Surplus/(deficit)	8.0	4.3
Total other comprehensive income	1.2	22.1
Total comprehensive income	9.2	26.4
Total assets	306.1	293.3
Total liabilities	28.7	25.1

\* The 2009–10 comparative figures in the 2010–11 financial statements were adjusted to correctly recognise contribution revenue when received as required by AASB 1004 *Contributions* and to account for grants expense in accordance with the underlying grant agreement.

**5.616** Net cost of services and revenue from government increased largely due to extra government funding received and expended in relation to an Australian Sports Commission – Long term Sustainability of Sport budget measure.

**5.617** The movements in other items were not significant and related to fluctuations in normal business activity.

### Areas of audit focus

**5.618** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- accounting treatment for the establishment and leasing of a new training facility in Varese, Italy;
- maintenance of the fixed asset register; and
- valuation of property, plant and equipment.

**5.619** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.620** There were no significant or moderate audit issues identified during the 2009–10 and 2010–11 audits.

## National Archives of Australia

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	62.0	55.0
Revenue from government	55.0	62.3
Surplus/(deficit)	(7.0)	7.3
Total other comprehensive income	(1.7)	2.6
Total comprehensive income	(8.7)	9.9
Total assets	1 425.8	1 424.8
Total liabilities	17.4	15.2

**5.621** Net cost of services increased mainly due to a decrease in the annual collection from gifts and donations. The collection intake fluctuates from year to year as it is dependent on other agencies providing their records to National Archives of Australia (NAA) at no cost.

**5.622** Revenue from government decreased due to changes in depreciation and amortisation funding arrangements.

**5.623** Total other comprehensive income decreased due to reductions in the value of heritage and cultural assets, offsetting previous revaluation increases for these assets.

### Areas of audit focus

**5.624** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- valuation, existence and depreciation of heritage and cultural assets;

- capitalisation and valuation of intangibles (including the digitised collection); and
- the measurement of the employee entitlements provision.

5.625 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.626 There were no significant or moderate audit issues identified during the 2009–10 and 2010–11 audits.

### *Report on Legal and Regulatory Requirements*

5.627 The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## National Capital Authority

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	13.4	13.9
Revenue from government	13.2	14.1
Surplus/(deficit)	(0.2)	0.1
Total other comprehensive income	0.2	0.4
Total comprehensive income	0.0	0.5
Total assets	19.7	18.7
Total liabilities	4.7	4.6

5.628 Movements in these measures were not significant and were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	1.8	1.7
Total expenses	20.9	19.0
Total assets	737.2	723.1
Total liabilities	17.3	17.0

**5.629** Movements in these measures were not significant and were the result of fluctuations in normal business activity.

### **Areas of audit focus**

**5.630** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- accounting for leases;
- accounting for construction contract retention sums;
- capitalisation of property plant and equipment; and
- commitment disclosures in the notes to the financial statements.

**5.631** Audit coverage of these matters was finalised during the 2010–11 final audit including the accounting treatment of unearned revenue and work in progress to construct fixed assets on behalf of, and funded by, third parties.

### **Audit results**

#### *Summary of audit findings*

**5.632** In 2009–10, a moderate audit issue was identified relating to budgetary pressures on the operating results and financial sustainability of the NCA. This issue was also assessed as part of the 2010–11 audit. The ANAO agreed with the NCA assessment that the Authority had adequate funds to continue as a going concern. NCA has been the subject of a review to provide recommendations on longer term funding and operational arrangements. The issue is being carried forward as a Category C finding for future monitoring.

**5.633** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)*	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

\* downgraded to a Category C finding.

## National Gallery of Australia

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	30.8	28.5
Revenue from government	32.6	31.5
Surplus / deficit attributable to the Australian Government	1.8	3.0
Total other comprehensive income after income tax	(32.5)	117.5
Total comprehensive income	(30.7)	120.5
Total assets	4 238.0	4 259.0

**5.634** Total other comprehensive income comprises the asset revaluation adjustment resulting from the revaluation of the National Gallery of Australia's (the Gallery's) heritage and cultural assets. These assets decreased in value due to a downturn in market conditions.

**5.635** Assets decreased mainly due to a decrease in the value of the heritage and cultural assets mentioned above, partly offset by the completion of extensions to the Gallery.

**5.636** Liabilities decreased as the Gallery repaid \$3 million of loans to the Australian Government, and payables at year end decreased as a result of the completion of extensions to the Gallery.

**5.637** Movements in the remaining balances were not significant and were as a result of fluctuations in normal business activity.

## Areas of audit focus

5.638 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- valuation of the National Gallery's art collection;
- capitalisation of work in progress associated with the new building work; and
- IT general and application controls as they relate to the financial statements.

5.639 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.640 There were no significant or moderate audit issues identified during the 2010–11 audit.

## National Library of Australia

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10* \$m
Net cost of services	56.7	58.8
Revenue from government	49.1	50.0
Surplus/(deficit)	(7.6)	(8.8)
Total other comprehensive income	3.4	6.8
Total comprehensive income	(4.2)	(1.9)
Total assets	1 707.4	1 701.0
Total liabilities	17.6	16.8

\* In 2010–11, the National Library of Australia changed its accounting policy for heritage and cultural assets. This resulted in an adjustment to the 2009–10 comparative figures.

5.641 The movement in total other comprehensive income and total comprehensive income is largely attributable to the increase in the value of buildings in 2010–11, being less than the increase in 2009–10.



**5.642** The movements in other items were not significant and were the result of fluctuations in normal business activity.

### Areas of audit focus

**5.643** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the accounting policy change to reclassify the Collection to intangible assets with indefinite useful lives; and
- the presentation and disclosure of senior executive remuneration.

**5.644** Audit coverage of these matters was finalised during the 2010–11 final audit.

### Audit results

#### *Summary of audit findings*

**5.645** There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.

## National Museum of Australia

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	40.2	42.4
Revenue from government	40.1	40.2
Surplus/(deficit)	(0.1)	(2.2)
Total other comprehensive income	17.9	6.7
Total comprehensive income	17.8	4.5
Total assets	426.0	406.7
Total liabilities	9.0	9.3

**5.646** The increases in comprehensive income and assets largely related to increases in the value of buildings and heritage and cultural assets following a revaluation in 2010–11.

5.647 Movements in other items were not significant and were the result of fluctuations in normal business activity.

### **Areas of audit focus**

5.648 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- valuation of land and buildings and the heritage and cultural assets, including the national historic collection;
- recognition and measurement of employee benefits liability; and
- presentation and disclosure of senior executive remuneration.

5.649 Audit coverage of these matters was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

5.650 There were no significant or moderate audit findings arising from the 2009–10 or 2010–11 audits.

### **Comments on non-material entities**

5.651 There were no significant or moderate audit issues noted in non-material entities within the portfolio.

### **Report on Other Legal and Regulatory Requirements**

5.652 The auditor's report on the financial statements of the Australian Public Service Commission refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

# Resources, Energy and Tourism Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Resources, Energy and Tourism	Yes	✓	3 Aug 11	4 Aug 11	
Australian Solar Institute Limited	No	✓	31 Aug 11	31 Aug 11	
Geoscience Australia	No	✓	31 Aug 11	31 Aug 11	
National Offshore Petroleum Safety Authority	No	✓A*	25 Aug 11	25 Aug 11	
Tourism Australia	Yes	✓	15 Aug 11	17 Aug 11	◆

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.653** The portfolio is responsible for improving the strength, competitiveness and sustainability of the resources, energy and tourism sectors. These sectors are key drivers of the Australian economy underpinning the competitiveness of regions, industries and business across the economy and are at the forefront of the economic and environmental challenges facing Australia.

## Department of Resources, Energy and Tourism

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	85.9	86.7
Revenue from government	85.9	86.8
Surplus/(deficit)	0.0	0.1
Total other comprehensive income	0.0	0.0

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Key financial measures for year	2010–11 \$m	2009–10 \$m
Total comprehensive income	0.0	0.1
Total assets	42.7	38.5
Total liabilities	40.1	37.8

**5.654** The movement in these measures were not significant and were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Administered income	1 663.9	1 506.6
Administered expenses	539.8	566.2
Total assets	830.4	775.0
Total liabilities	15.3	20.0

**5.655** Administered income increased mainly due to an increase in revenue from offshore petroleum royalties.

**5.656** Administered assets increased due to gains in the fair value of the investment in Snowy Hydro Limited (SHL).

### **Areas of audit focus**

**5.657** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the valuation of the Commonwealth's investment in SHL that is recognised as an administered investment in DRET's financial statements; and
- accrued revenue relating to petroleum royalties, given the volatility of revenue streams and their material impact on the financial statements.

**5.658** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

**5.659** There were no significant or moderate audit findings arising from the 2009–10 and 2010–11 audits.

## Tourism Australia

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	123.6	124.4
Revenue from government	126.9	141.6
Surplus/(deficit)	3.3	17.2
Total other comprehensive income after tax	0.0	0.4
Total comprehensive income	3.3	17.6
Total assets	41.5	35.3
Total liabilities	12.3	10.2

**5.660** The reduction in revenues from government and the associated surplus was a result of \$9 million of funding from 2010–11 brought forward and recognised in 2009–10. This reduction was partially offset by an additional appropriation of \$4 million recognised in 2010–11 to support disaster recovery efforts in Queensland.

**5.661** Assets increased as a result of increased cash balances held at year end and the recognition of an unspent appropriation of \$4 million.

**5.662** The movement in the remaining measures were not significant and were the result of fluctuations in normal business activity.

### Areas of audit focus

**5.663** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- contract management and procurement;
- the capitalisation of intangible assets; and
- reliance on industry partners to fund Tourism Australia trade events.

**5.664** Audit coverage of these matters was finalised during the 2010–11 final audit.

## **Audit results**

### ***Summary of audit findings***

**5.665** The 2010–11 audit identified the following moderate audit issue.

#### *User access and separation of duties*

**5.666** During the 2010–11 audit, the ANAO reviewed user access to the financial management information system. The ANAO identified a number of users with access to combinations of functions that were considered incompatible or excessive in the context of their duties and responsibilities and recommended Tourism Australia review key duties and identify those duties that should be separated.

**5.667** Tourism Australia advised it would undertake a comprehensive review of duties and user access to its FMIS to ensure appropriate level of separation, taking into account the need to balance the separation of functions with its small number of staff in key roles. Excessive system access for certain users would also be removed.

**5.668** The following table provides a summary of the status of previously reported issues as well as new issues raised in the 2010–11 audit.

<b>Ratings</b>	<b>Opening position (at end of 2009–10)</b>	<b>Issues resolved (during audit)</b>	<b>New issues identified (during audit)</b>	<b>Closing position (at conclusion of final audit)</b>
<b>A</b>	0	0	0	0
<b>B</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## **Comments on non-material entities**

**5.669** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

## **Report on Other Legal and Regulatory Requirements**

**5.670** The auditor's report on the financial statements of the National Offshore Petroleum Safety Authority refers to the financial statements that

include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Sustainability, Environment, Water, Population and Communities Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Sustainability, Environment, Water, Population and Communities (formerly the Department of Environment, Water, Heritage and the Arts)	Yes	✓A*	29 Aug 11	29 Aug 11	
Bureau of Meteorology	Yes	✓A*	29 Aug 11	30 Aug 11	
Director of National Parks	No	✓	22 Sept 11	22 Sept 11	
Great Barrier Reef Marine Park Authority	No	✓	12 Sept 11	12 Sept 11	
Murray–Darling Basin Authority	No	✓A*	26 Sept 11	27 Sept 11	
National Environment Protection Council Service Corporation	No		⇒	⇒	
National Water Commission	No	✓E	16 Aug 11	16 Aug 11	
Natural Heritage Trust of Australia Account	No	✓	29 Aug 11	29 Aug 11	
Sydney Harbour Conservancy Limited	No	✓	23 Sept 11	26 Sept 11	
Sydney Harbour Federation Trust	No	✓	23 Sept 11	23 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

⇒: financial year end date other than 30 June 2011

⇒: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

### Portfolio overview

**5.671** The role of the Sustainability, Environment, Water, Population and Communities portfolio during 2010–11 was to provide leadership on environment, water, heritage and cultural matters with a national focus. The portfolio is also responsible for advancing Australia's interests in Antarctica, implementing a strategy to respond to and help shape changes in our population, improving the supply of affordable housing and the provision of meteorological services to the Australian community.



**5.672** Machinery of Government changes that took effect in September and October 2010 transferred the responsibility of arts and culture functions to the Prime Minister and Cabinet portfolio and responsibility for sustainability, population and communities' functions were added to the portfolio.

## Department of Sustainability, Environment, Water, Population and Communities

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	463.4	584.4
Revenue from government	405.0	494.7
Surplus/(deficit)	(58.4)	(89.7)
Total other comprehensive income	88.7	(11.7)
Total comprehensive income	30.3	(101.4)
Total assets	518.2	633.7
Total liabilities	425.6	438.8

**5.673** The net cost of services and total assets decreased mainly due to the transfer of responsibility for energy efficiency programs to the Department of Climate Change and Energy Efficiency (DCCEE) and the transfer of arts and culture functions to the Department of Prime Minister and Cabinet (PM&C). The decrease was partially offset by new responsibilities from October 2010 relating to sustainability, population and communities functions.

**5.674** The decrease in appropriations revenue was mainly due to the transfer of functions and changes in depreciation and amortisation funding arrangements<sup>49</sup>.

**5.675** The increase in total other comprehensive income was due to the revaluation of assets.

<sup>49</sup> Op cit (refer footnote 28 on p.70)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	34.4	61.2
Total expenses	1 279.9	3 834.8
Total assets	2 436.3	9 129.0
Total liabilities	54.9	47.5

**5.676** Administered income decreased mainly due to the 2009–10 balance including a one off gain associated with the sale of a building owned by the Australian Film, Television and Radio School.

**5.677** The significant reduction in administered expenses is largely due to the transfer of renewable energy and efficiency programs to DCCEE in 2009–10 and the transfer of arts and culture functions to PM&C. The reduction was partially offset by the transfer of housing affordability function to DSEWPac from the Department of Families, Housing, Community Services and Indigenous Affairs.

**5.678** Administered assets decreased significantly mainly due to the transfer of a number of cultural institutions to the PM&C portfolio. The decrease was partially offset by the acquisition of water entitlements by DSEWPAC, on behalf of the Australian Government.

**5.679** Administered liabilities increased slightly due to fluctuations in normal business activity.

**Areas of audit focus**

**5.680** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the accounting and valuation of water assets;
- the financial management and reporting of grants, including those related to the Housing Affordability program, Caring for Our Country program and the Sustainable Rural Water Use and Infrastructure program;

- the methodology adopted by DSEWPAC to estimate the makegood obligations, particularly the appropriateness of assumptions used, for the Antarctic bases; and
- the stock take and valuation of the DSEWPAC's departmental assets, including those related to the Antarctic asset holdings.

**5.681** Audit coverage of these areas of audit focus were finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

**5.682** There were no significant or moderate audit findings arising during the 2010–11 audit.

### *Report on Other Legal and Regulatory Requirements*

**5.683** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

## Bureau of Meteorology

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	257.6	243.8
Revenue from government	202.4	251.1
Surplus/(deficit)	(55.2)	7.3
Total other comprehensive income	33.3	1.2
Total comprehensive income	(21.9)	8.5
Total assets	499.2	451.8
Total liabilities	120.8	124.7

**5.684** The increases in total other comprehensive income and total assets were mainly due to an increase in the value of assets as a result of an asset valuation during the year.

**5.685** Revenue from government decreased mainly due to changes in depreciation and amortisation funding arrangements<sup>50</sup>.

**5.686** All other movements were not significant and reflect fluctuations in normal business operations.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	0.0	6.2
Total expenses	19.8	19.7
Total assets	0.0	0.0
Total liabilities	0.0	0.0

**5.687** Movements in administered items were the result of fluctuations in normal business activity.

### **Areas of audit focus**

**5.688** The 2010–11 audit approach identified the revaluation of assets as an area of audit focus that was significant in terms of its potential impact on the 2010–11 financial statements. Audit coverage of this matter was finalised during the 2010–11 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.689** There were no significant or moderate audit findings arising from the 2009–10 and 2010–11 audits.

**5.690** The auditor's report refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

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<sup>50</sup> Op cit (refer footnote 28 on p.70)

## Comments on non-material entities

**5.691** There were no significant or moderate audit issues noted in non-material entities within the portfolio.

**5.692** The 2010–11 auditor's report for the National Water Commission (NWC) contained an emphasis of matter. The emphasis of matter draws attention to the notes in the 2010–11 financial statements which state that the *National Water Commission Act 2004* includes a 30 June 2012 sunset clause in respect of NWC. A review of the NWC has commenced but the outcome will not be known until late 2011. The reasons for the NWC continuing to prepare the financial statements for the year ended 30 June 2011 on a going concern basis are outlined in the notes.

**5.693** The ANAO did not modify its audit opinion in respect of this matter.

## Report on Other Legal and Regulatory Requirements

**5.694** The auditor's report on the financial statements of the Murray-Darling Basin Authority refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

# Treasury Portfolio

Reporting Entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Treasury	Yes	✓AA*	13 Oct 11	13 Oct 11	◆
- HIH Claims Support Limited	No		☞	☞	
- HIH Claims Support Trust	No		☞	☞	
Australian Bureau of Statistics	Yes	✓	11 Aug 11	11 Aug 11	
Australian Competition and Consumer Commission	No	✓A*	25 Aug 11	25 Aug 11	
Australian Office of Financial Management	Yes	✓	1 Sept 11	1 Sept 11	
Australian Prudential Regulation Authority	No	✓	23 Aug 11	23 Aug 11	
Australian Reinsurance Pool Corporation	Yes	✓	20 Sept 11	21 Sept 11	
Australian Securities and Investments Commission	Yes	✓	11 Aug 11	11 Aug 11	
Australian Taxation Office	Yes	✓AA*	21 Sept 11	21 Sept 11	▲
Commonwealth Grants Commission	No	✓	20 Sept 11	20 Sept 11	
Corporations and Markets Advisory Committee	No	✓	30 Aug 11	30 Aug 11	
Inspector-General of Taxation	No	✓	29 Aug 11	29 Aug 11	
National Competition Council	No	✓	29 Aug 11	29 Aug 11	
Office of the Auditing and Assurance Standards Board	No	✓	6 Sept 11	6 Sept 11	
Office of the Australian Accounting Standards Board	No	✓	6 Sept 11	6 Sept 11	
Productivity Commission	No	✓	24 Aug 11	25 Aug 11	
Reserve Bank of Australia	Yes	✓	25 Aug 11	25 Aug 11	
- Reserve Bank of Australia Note Printing Australia Ltd	No	✓	22 Jul 11	22 Jul 11	
- Reserve Bank of Australia Officers' Superannuation Fund	No	✓	24 Oct 11	24 Oct 11	
Royal Australian Mint	No	✓	16 Sept 11	16 Sept 11	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

A\*: auditor's report contains a reference to other legal and regulatory requirements relating to a risk of a breach of section 83 of the Constitution

☞: financial year end date other than 30 June 2011

☞: signed financial statements not presented for audit at this time

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.695** The Treasury portfolio consists of the Department of the Treasury (Treasury) and a range of statutory and non-statutory bodies. The portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth and the improved wellbeing of Australians. This entails the provision of policy advice to portfolio Ministers and the effective implementation and administration of policies that fall within the portfolio Ministers' responsibilities.

## Department of Treasury

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	167.8	160.5
Revenue from government	158.3	165.9
Surplus/(deficit)	(9.6)	5.6
Total other comprehensive income	0.0	0.0
Total comprehensive income/(loss)	(9.6)	5.5
Total assets	128.8	133.3
Total liabilities	50.1	52.9

**5.696** A deficit was recognised in 2010–11 mainly due to the change in funding arrangements for depreciation and amortisation<sup>51</sup>. This resulted in a decrease in revenue from government.

**5.697** Other key financial measures have not moved significantly, reflecting fluctuations in normal business activity.

<sup>51</sup> Op cit (refer footnote 28 on p.70)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	3 306.7	11 726.9
Total expenses	86 961.1	88 808.2
Total assets	14 326.0	23 089.4
Total liabilities	16 049.2	15 204.0

**5.698** The Council of Australian Governments (COAG) reforms relating to the federal financial relations framework continue to have a major impact on the Treasury's administered financial measures in 2010–11 as the Treasury is responsible for making payments to the States and Territories in the order of \$86 billion.

**5.699** Administered income decreased substantially as no dividend was received from the Reserve Bank of Australia (RBA). In 2009–10 the RBA dividend was \$6 billion.

**5.700** Administered expenses were largely consistent with 2009–10 with the decrease relating to a reduction in grant payments to the States and Territories.

**5.701** Administered assets reduced significantly as a result of a decrease in the value of the investment in the RBA. In addition, debts owed to the Australian Government relating to the Guarantee Scheme for Large Deposits and Wholesale Funding decreased as the Scheme has been closed.

**5.702** Administered liabilities decreased marginally, primarily due to a decrease in the fair value of Special Drawing Rights issued to the Australian Government by the International Monetary Fund (IMF). This was offset by a significant increase in the National Disaster Recovery and Relief Arrangements (NDRRA) provision of \$3.5 billion.

### **Areas of audit focus**

**5.703** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- National Partnership Payments (NPPs) (general grant payments to the States and Territories);



- Australian Government Deposit and Wholesale Funding Guarantees and Guarantees over State and Territory borrowings;
- General Revenue Assistance (GRA) payments; and
- valuation assessment of the Standard Business Reporting (SBR) software.

**5.704** Audit coverage of these matters was finalised during the 2010–11 final audit. The audit coverage included consideration of the accounting policy in each of the audit focus areas. The ANAO also undertook a review of controls within the Treasury and in other agencies that contributed to the Treasury's financial statement balances in specific areas. The RBA's administration of the Australian Government guarantees over States and Territories borrowings and deposit and wholesale funding arrangements were included in audit testing.

**5.705** Two new areas of audit focus were identified as a result of testing performed during the 2010–11 final audit. These areas were:

- section 83 breaches of the Constitution relating to NPPs to States and Territories; and
- the valuation of the NDRRA provision.

**5.706** Both of these areas resulted in new audit issues, which are discussed below.

## **Audit results**

### *Summary of audit findings*

**5.707** The results of the 2010–11 audit were satisfactory except in relation to the matters referred to below.

### *Outstanding audit issue from the 2010–11 interim audit*

**5.708** The 2009–10 final audit identified that the financial statement preparation process required improvement through better co-ordination of year end reporting of accruals relating to Commonwealth payments to the States. The ANAO reviewed the Treasury's process for preparing accruals and concluded that appropriate arrangements had been implemented. As a result the issue is considered to be resolved.

### *Other Legal and Regulatory Requirements*

#### *Breaches of section 83 of the Constitution*

**5.709** The 2010–11 financial statements made reference at notes 25 and 26, to a number of breaches of section 83 of the Constitution. The Treasury sought legal advice on whether overpayments to States and Territories could be offset against future payments. The legal advice concluded the payments could be offset, but indicated the overpayments would be a breach of section 83 of the Constitution.

**5.710** The breaches related to errors during the eligibility assessment process. Eligibility for grant payments is assessed by the relevant department with the Treasury being responsible for making payments to the States and Territories, based on advice received from the relevant department. The errors resulted in eight overpayments totalling \$26 million.

**5.711** The auditor's report on the financial statements was unmodified as the financial statements fairly presented the financial operations and position of the Treasury at year end. However, the report did include a reference to the breaches of section 83 of the Constitution under Other Legal and Regulatory Requirements.

#### *Report on Other Legal and Regulatory Requirements*

**5.712** The auditor's report also refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

#### *Year end moderate audit issues*

**5.713** The Treasury initially indicated to the ANAO that the NDRRA amounts (\$2.7 billion) paid to Queensland and Victoria for disaster events occurring in January 2011 would be recognised as a prepayment. The ANAO considered the more appropriate treatment was to recognise an expense for the amounts already paid, and to record a provision for the future costs expected to be paid under the NDRRA. In consultation with Finance, the Treasury agreed to adopt this treatment and recognised a provision based on estimates provided by the States and Territories of the future amounts expected to be claimed from the Australian Government. Audit testing of the estimate

concluded that it was reasonable, based on an evaluation of the adequacy of the process.

**5.714** In 2011–12 the ANAO has requested the Treasury implement a process to formalise the extent of information provided by the States and Territories under the NDRRA Determination. In addition, the ANAO has recommended the Treasury, in consultation with Emergency Management Australia, implement processes to assess the reliability of data provided by the States and Territories.

**5.715** The ANAO raised an issue during the 2010–11 interim audit relating to the Treasury's monitoring of portfolio legislation under the AAOs. The ANAO followed up on this issue during the 2010–11 final audit and identified additional monitoring issues that impacted on the appropriation note disclosure in the financial statements. The ANAO identified an additional 45 special appropriations that required disclosure in the Treasury's Appropriation Note, and noted presentation and disclosure deficiencies that were required under the FMOs. As a result, the ANAO has upgraded the finding to a moderate audit issue. The ANAO considers the Treasury review its appropriation and legislation monitoring processes as part of the 2011–12 financial statements process.

**5.716** The 2010–11 final audit identified a number of variations that resulted in considerable adjustments to the financial statements. These adjustments impacted primarily on the Schedule of Administered Items and administered note disclosures. The variations highlight the importance of a quality assurance process prior to the provision of financial information to the ANAO. The ANAO will review the actions undertaken by the Treasury to address this issue during the 2011–12 final audit.

**5.717** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

<b>Ratings</b>	<b>Opening position (at end of interim phase)</b>	<b>Issues resolved (during final audit phase)</b>	<b>New issues identified (during final audit phase)</b>	<b>Closing position (at conclusion of final audit)</b>
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)	3	3
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>4</b>	<b>4</b>

## Australian Bureau of Statistics

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	393.4	323.7
Revenue from government	354.9	327.9
Surplus/(deficit)	(38.5)	4.2
Total other comprehensive income/expense	0.9	0.0
Total assets	209.7	183.8
Total liabilities	147.8	128.9

**5.718** The deficit in 2010–11 was mainly due to the change in depreciation funding arrangements.<sup>52</sup>

**5.719** The increases in the net cost of services and revenue from government reflected the increased level of activity associated with the preparation for the 2011 Census.

**5.720** Assets increased due mainly to an increase in unspent appropriations at year-end.

**5.721** Liabilities increased mainly due to an increase in unearned revenue relating to subscriptions for future ABS services.

#### **Areas of audit focus**

**5.722** The ANAO's audit approach identified the following areas that had a higher risk of material misstatement and required additional audit attention:

- the capitalisation of internally-generated software;
- payroll activities in relation to casual Census staff;
- makegood provisions for leased premises; and
- controls over the human resource management system.

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<sup>52</sup> Op cit (refer footnote 28 on p.70)

## Audit results

### Summary of audit findings

**5.723** During the 2010–11 interim audit, the ANAO identified that, as a result of a weakness in controls relating to the processing of payroll data, there was a risk that unauthorised changes could be made to payroll information. ABS took remedial action to address this situation by introducing a management review procedure for the fortnightly payroll. Internal audit also performed detailed testing of the amounts previously paid to staff and no errors were identified. The ANAO's review of the work undertaken found that these processes were effective and consider the issue is resolved.

**5.724** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	1	0	0
<b>Total</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>

## Australian Office of Financial Management

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	10.7	14.1
Revenue from government	15.9	12.6
Surplus/(deficit)	5.2	(1.5)
Total other comprehensive income	0.0	0.0
Total comprehensive income/(loss)	5.2	(1.5)
Total assets	20.0	14.7
Total liabilities	2.0	2.0

**5.725** The reduction in the net cost of services was largely attributable to a decrease in supplier expenses relating to the syndicated debt issuance of

Treasury Indexed Bonds. Increased revenue from government was received in 2010–11 to continue to support activities associated with the additional debt issuance.

**5.726** Assets increased as a result of an increase in the unspent appropriation balance at year end.

*Items administered on behalf of the Australian Government*

Key financial measures for year*	2010–11 \$m	2009–10 \$m
Total income	1 375.8	1 436.6
Total expenses	9 272.9	6 348.0
Total assets	27 650.6	33 405.3
Total liabilities	201 770.5	157 375.6

\* The AOFM also recognised a gain of \$1.5 million (2009–10 loss of \$52.3 million) and a re-measurement gain of \$325.9 million (2009–10 loss of \$2 772.7 million).

**5.727** Administered income decreased mainly due to a significant reduction in interest revenue as a result of less term deposits and swap agreements held in 2010–11.

**5.728** The increase in administered expenses is due to interest paid during the year on Commonwealth Government securities on issue to meet the Government's financing requirements.

**5.729** Assets decreased largely as a result of the reduction in term deposits and fixed interest securities held during the year.

**5.730** Administered liabilities increased largely due to an increase in Treasury Bond issuance during 2010–11.

### **Areas of audit focus**

**5.731** In terms of their potential impact on the 2010–11 financial statements, the ANAO's audit approach identified significant areas including:

- capacity of AOFM to manage an increase in the volume of issuance of debt instruments;
- AOFM's control environment and the establishment of adequate controls to enable compliance with aspects of relevant financial management legislation;

- AOFM's internal assurance activities including the certificate of compliance process and fraud prevention activities; and
- the fair value measurement of financial assets and liabilities.

## Audit results

### *Summary of audit findings*

**5.732** There were no significant or moderate audit issues identified in the 2010–11 audit.

## Australian Reinsurance Pool Corporation

### Summary of Financial Results

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	152.9	140.7
Total expenses	91.4	87.5
Operating result	61.5	53.2
Total assets	765.1	701.0
Total liabilities	99.3	96.5

**5.733** The increase in total income is primarily a result of income associated with the investment of funds.

**5.734** The increase in total expenses is a result of an expansion of the retrocession program, which is the transfer of risk from one reinsurer to another reinsurer.

**5.735** Assets increased mainly due to the increase in term deposit investments.

**5.736** The movement in liabilities were not significant and are the result of fluctuations in normal business activity.

### Areas of audit focus

**5.737** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- the occurrence of a declared terrorism incident;

- accounting for premium revenue and premium liability;
- legislative requirements for investment strategies and policies; and
- reinsurance arrangements with third parties.

5.738 Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

### *Summary of audit findings*

5.739 There were no significant or moderate audit issues identified in the 2010–11 audit.

## Australian Securities and Investments Commission

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	361.3	375.2
Revenue from government	324.0	370.2
Surplus/(deficit)	(37.3)	(5.0)
Total other comprehensive income	0.0	1.0
Total comprehensive income/(loss)	(37.3)	(4.0)
Total assets	288.9	255.1
Total liabilities	150.2	138.1

5.740 The decrease in the net cost of services is mainly due to an increase in revenue as a result of the Minister approving the transfer of \$12 million from the Companies and Unclaimed Moneys Special account to the Australian Securities and Investments Commission (ASIC) for use on projects to improve regulation and reduce business costs. This was partially offset by an increase in employee costs as a result of redundancy payments and salary increases in line with the enterprise agreement and an increase in depreciation and amortisation expenses following the capitalisation of new assets during 2010–11. Also contributing to the decrease in the net cost of services was a reduction in legal costs, as 2009–10 included costs for significant litigation being undertaken by ASIC.



**5.741** The decrease in revenue from government and the increase in the deficit are mainly due to the revised funding arrangements for depreciation and amortisation.<sup>53</sup> The new appropriation is recognised as contributed equity and not included and reported in the revenue from government or total comprehensive income balances.

**5.742** The primary reason for the increase in assets is the capitalisation of a number of internally developed IT systems during 2010–11.

**5.743** Liabilities increased as a result of additional property lease incentives being recognised and an increase in the redundancy provision following the identification of a number of redundant positions.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	684.9	639.9
Total expenses	72.5	68.0
Total assets	100.9	90.0
Total liabilities	10.6	7.8

**5.744** Administered income and expenses have increased primarily due to an increase in fees collected and refunds provided under the *Corporations Act 2001* and the *National Consumer Credit Protection Act 2009*, in line with the Consumer Price Index (CPI) rate and the growth in the number of companies.

**5.745** Administered assets and administered liabilities have also increased for these same reasons.

### **Areas of audit focus**

**5.746** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- completeness of administered revenue and valuation of the associated receivables;
- accounting for asset revaluations;
- accounting for the capitalisation and valuation of intangible assets; and

<sup>53</sup> Op cit (refer footnote 28 on p.70)

- the changeover to the new IT financial support system late in the 2010–11 year.

**5.747** Audit coverage of these matters was finalised during the 2010–11 final audit.

## Audit results

**5.748** There were no new significant or moderate audit issues identified during the 2010–11 final audit.

## Australian Taxation Office

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Net cost of services	3 144.3	2 965.8
Revenue from government	3 016.4	3 007.5
Surplus/(deficit) after income tax equivalent expenses*	(129.3)	40.7
Total other comprehensive income after income tax equivalent expenses	(0.1)	24.3
Total comprehensive income/(loss)	(129.2)	65.0
Total assets	1 061.2	1 036.2
Total liabilities	972.8	985.1

\* The surplus/(deficit) also reflects income tax equivalent expenses of \$1.4m (2009–10 \$0.9m).

**5.749** Net cost of services increased primarily due to increased staff costs, supplier expenses, depreciation, and amortisation.

**5.750** Revenue from government increased mainly as a result of additional funding for compliance activities and Standard Business Reporting processes.

**5.751** The deficit and associated total comprehensive loss is primarily due to depreciation and amortisation arrangements.<sup>54</sup>

**5.752** Assets increased primarily due to increased appropriation receivables.

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<sup>54</sup> Op cit (refer footnote 28 on p.70)

**5.753** Liabilities decreased mainly due to a reduction in amounts due to suppliers at year end.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	280 888.0	260 215.0
Total expenses	13 779.0	15 772.0
Total assets	26 939.0	25 261.0
Total liabilities	6 227.0	747.0

**5.754** Income tax revenue increased as a result of: an increase in individuals' tax revenue due to the recovery in the labour market and a growth in salaries; an increase in companies' tax revenue that was due to increased activity and growth in the financial services and mining sectors; and an increase in indirect tax revenue, which was primarily due to an increase in the Goods and Services Tax (GST) as a result of improved economic conditions.

**5.755** The reduction in administered expenses is a result of a decrease in superannuation co-contributions which reflects cautious consumer sentiment, and a decrease in provisions for doubtful debts on taxation receivables.

**5.756** Administered assets increased due to an increase in indirect tax receivables and accrued GST revenue. The increase in indirect tax receivables was partially offset by a reduction in the provision for doubtful debts.

**5.757** Administered liabilities decreased due to a reduction in the accrued expense for superannuation co-contributions.

### **Areas of audit focus**

**5.758** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2010–11 financial statements:

- ATO's reliance on IT business systems and associated processes, particularly in relation to system interfaces;
- valuation risks, including inaccurate write-down of receivables, and the impact of economic conditions on major items in the financial statements;

- legislative compliance, including the implementation of measures to ensure legislative compliance with financial aspects of the Constitution, in light of breaches of section 83 of the Constitution identified in previous years;
- complex estimation and allocation processes associated with financial reporting; and
- administration of the collection and reporting of taxation revenues, including processes associated with self assessment and voluntary compliance.

## **Audit results**

### *Summary of audit findings*

#### *Other Legal and Regulatory Requirements*

##### *Breaches of section 83 of the Constitution*

**5.759** In 2010–11, as in previous years, the ATO has identified through its control processes breaches of section 16 of the *Taxation Administration Act 1953* which provides a special appropriation to allow the ATO to make payments to persons under a taxation law. These breaches occur from time to time where the ATO makes processing errors outside the assessment process which result in incorrect payments being made. In these circumstances, the payment is made to a taxpayer without any legislative basis and constitutes a breach of section 83 of the Constitution, which provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

**5.760** A total of 59 542 incorrect payments totalling \$12.8 million were identified during 2010–11. These payments comprise a very small percentage of the approximately 14 million payments made during the year. At the time of signing the financial statements, 48 per cent of the incorrect payments had been recovered.

**5.761** The audit opinion on the financial statements was unqualified as the financial statements fairly presented the financial operations and position of the ATO at year end. However, the opinion did include a reference to the breach of section 83 of the Constitution under Other Legal and Regulatory Requirements.

### *Report on Other Legal and Regulatory Requirements*

**5.762** The auditor's report also refers to the notes to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

### *Resolved moderate audit findings*

**5.763** In the interim phase of the 2010–11 audit the ANAO reported six moderate audit findings. During the 2010–11 final audit, the ANAO observed the ATO had effectively addressed three of these findings. These relate to:

- password security: the ANAO's review of the management of user access rights and responsibilities identified that passwords had been changed and satisfactorily documented;
- timely reconciliations between the Integrated Core Processing system (ICP) and legacy IT systems: The ATO performs these reconciliations to confirm the accuracy and completeness of the financial data that ICP processes. The ANAO identified that the reconciliations were up to date and completed in a timely manner; and
- the ATO's management of security classified information within its IT environment: The ANAO's review indicated that the controls were operating effectively.

### *Ongoing moderate audit findings from prior years*

**5.764** Our 2010–11 final audit identified that reasonable progress was being made to address three ongoing moderate findings. The status of each of these findings is outlined below:

### *IT security and access findings*

**5.765** The 2010–11 interim audit included a review of progress in resolving two moderate findings relating to privileged user access rights and the operating effectiveness of reconciliation processes that provide assurance over the transfer of data through various system components. The ATO is undertaking a series of tasks to address these issues, which are due to be completed at the end of 2011. The ANAO will again review progress on the resolution of these findings during the 2011–12 audit.

*Change Program—control weaknesses in ICP*

**5.766** The ATO Change Program involved the development and implementation of the ICP system which is used to process income tax returns. ICP requires manual intervention where errors are identified on taxpayer returns. During the 2009–10 interim audit, the ANAO identified that the ICP system did not maintain a visible audit trail of errors once corrected. In addition, the ANAO was unable to confirm appropriate quality assurance processes were in place to assess the accuracy of tax return processing. The ATO advised that system and quality assurance processes are being developed and are scheduled for implementation in December 2011. As a consequence, the ANAO undertook extensive testing on manually corrected returns to gain reasonable assurance over the accuracy of the processing of income tax returns.

**5.767** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2010–11 audit.

<b>Ratings</b>	<b>Opening position (at end of interim phase)</b>	<b>Issues resolved (during final audit phase)</b>	<b>New issues identified (during final audit phase)</b>	<b>Closing position (at conclusion of final audit)</b>
<b>A</b>	0	0	0	0
<b>B</b>	6	(3)	0	3
<b>L1</b>	1	0	0	1
<b>Total</b>	<b>7</b>	<b>(3)</b>	<b>0</b>	<b>4</b>

## Reserve Bank of Australia

### Summary of Financial Results

#### Consolidated Items

Key financial measures for year	2010–11 \$m	2009–10 \$m
Total income	2 052.0	2 094.0
Total expenses	6 941.0	5 022.0
Profit/(loss) after income tax	(4 889.0)	(2 928.0)
Total other comprehensive income after income tax	(166.0)	779.0
Total comprehensive income	(5 055.0)	(2 149.0)
Total assets	75 313.0	85 652.0
Total liabilities	69 974.0	75 258.0

**5.768** The significant loss incurred by the Reserve Bank of Australia (RBA) in 2010–11 reflects increased expenses because of the net losses on foreign investments brought about by the appreciation of the Australian dollar against major currencies and a reduction in income due to a decrease in the value of gold held by the RBA.

**5.769** Total assets decreased due to valuation losses and the reduction in holdings of Australian dollar securities.

**5.770** Total liabilities have decreased due to a reduction in Australian government deposits.

#### Areas of audit focus

**5.771** Our 2010–11 audit approach identified the following new and continuing areas of audit focus in 2010–11 that may significantly impact the RBA's financial statements:

- domestic operations, including overnight settlement accounts and holdings of bonds and securities (including repurchase agreements) issued by the Australian Government, State central borrowing authorities, and banks;
- international foreign exchange operations including holdings of securities issues by governments including the USA, Germany, France

and Japan, and bank deposits from high rated international banks, central banks and international organisations;

- holdings of gold and gold lending operations to financial institutions participating in the gold market;
- issuing and redeeming of currency notes to maintain the appropriate quality and quantity of notes in circulation;
- financial administration including the management and payment of suppliers and employees; and
- IT general and application controls as they relate to the financial statements.

5.772 The valuation of foreign investments and currency has had a significant impact on the RBA's financial statements over the last two years given substantial movement in the value of the Australian dollar.

5.773 Audit coverage of these matters was finalised during the 2010–11 final audit.

## **Audit results**

### *Summary of audit findings*

5.774 There were no significant or moderate audit issues identified during the 2010–11 audit.

## **Comments on non-material entities**

5.775 There were no significant or moderate audit issues noted in non-material entities within the portfolio.

5.776 The auditor's report on the financial statements of the Australian Competition and Consumer Commission refers to the financial statements that include a reference to a risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where payments do not accord with conditions included in the relevant legislation. A general discussion of this matter is at paragraphs 4.34 to 4.37 in Chapter 4.

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Ian McPhee  
Auditor-General

Canberra ACT  
15 December 2011



## Appendices



## **Appendix 1: Mandate Changes in 2011–12**

The following is a listing of new entities in 2010–11 and entities that ceased to be audited by the Auditor-General in 2010–11.

### **New entities audited in 2010–11**

Anderleigh Enterprises Pty Ltd

Anderleigh Holdings Trust

Asset Leasing Trust

Wildman River Lodge Trust

Voyages Indigenous Tourism Australia Pty Ltd

Australian National Preventative Health Agency

Department of Regional Australia, Regional Development and Local Government

Office of the Australian Information Commissioner

Sydney Harbour Conservancy Limited

### **Entities that ceased to be audited by the Auditor-General**

Single Vision Grains Australia Limited

Australian Fair Pay Commission Secretariat

Australian Industrial Registry

Australian Industry Development Corporation

Construction and Development Company Limited

Tuggeranong Office Park Pty Ltd

Office of the Privacy Commissioner

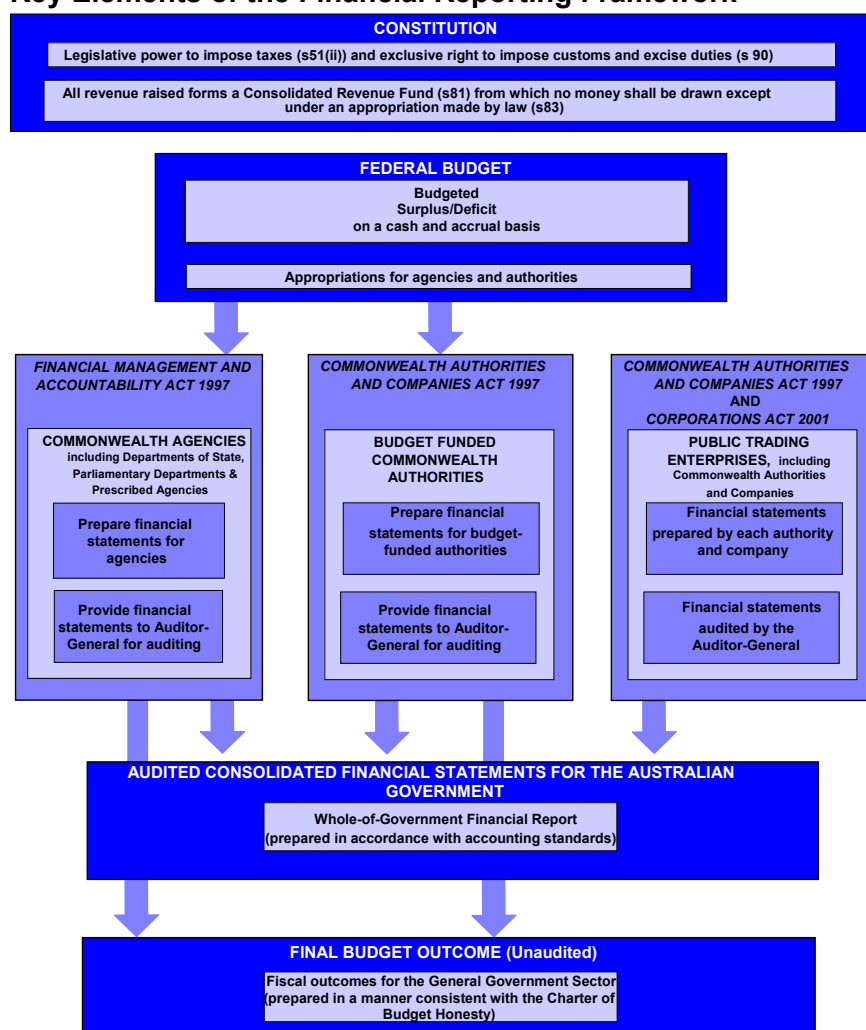
Australian Valuation Office (business operation within the Australian Taxation Office)

## Appendix 2: The Financial Reporting Framework

Key elements of the Australian Government's financial reporting framework are outlined in the diagram below. An overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework and the audit approach for the financial statements of these entities is also described below.

Figure A 1

### Key Elements of the Financial Reporting Framework



Source: ANAO

ANAO Audit Report No.17 2011–12  
Audits of the Financial Statements of Australian Government  
Entities for the Period Ended 30 June 2011

## Australian Government Reporting Entities

### Commonwealth Government of Australia

Section 55 of the FMA Act requires the Finance Minister to prepare annual financial statements for the Commonwealth Government of Australia. These financial statements are a general purpose financial report consolidating the financial activities and financial position of all agencies, authorities and other entities controlled by the Commonwealth Government.

### Australian Government agencies

Australian Government agencies, comprising departments of state, parliamentary departments and prescribed agencies, are subject to the provisions of the FMA Act.

The FMA Act prescribes the FMOs as the applicable financial reporting framework for agencies. The FMOs include a requirement that the financial statements comply with the Australian Accounting Standards issued by the AASB.

### Commonwealth authorities and subsidiaries

Commonwealth authorities are bodies corporate that hold money on their own account and have been created by the Parliament to perform specific functions. Commonwealth authorities operate under their own enabling legislation and also must comply with relevant provisions of the CAC Act.

The CAC Act prescribes the FMOs as the applicable financial reporting framework for Commonwealth authorities. The financial reporting framework applicable to subsidiaries of Commonwealth authorities depends on the nature of the subsidiary.

### Commonwealth companies and subsidiaries

Commonwealth companies are companies that are controlled by the Australian Government through majority share holdings or voting rights, or via control over the composition of the company's board. Commonwealth companies operate and prepare financial statements under the Corporations Act.

The applicable financial reporting framework for Commonwealth companies is the Corporations Act, including the Australian Accounting Standards and the Corporations Regulations.

The financial reporting framework applicable to subsidiaries of Commonwealth companies depends on the nature of the subsidiary.

### **Other bodies**

The ANAO also audits the financial statements of other bodies under 'by arrangement' provisions in section 20 of the Auditor-General's Act 1997. These bodies consist primarily of trusts or joint ventures entered into by Commonwealth bodies.

## **Audit of Australian Government entity financial statements**

### **Audit scope**

The Chief Executives of agencies, and the directors of authorities and companies, are responsible for the preparation and presentation of the financial statements and for maintaining records, internal controls, procedures and processes that support the preparation of those statements. The ANAO's independent audits of financial statements are undertaken to form an opinion whether the financial statements are free from material misstatement.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement.

Audit procedures include examination of the entity's records and its internal control, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements is considered in order to design audit procedures that are appropriate in the circumstances. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include detailed testing of systems and internal controls.

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. An audit conducted in accordance with the Australian Auditing

Standards is designed to provide reasonable assurance that the financial statements, taken as a whole, is free from material misstatement, whether due to fraud or error. The fact that an audit is carried out may act as a deterrent to fraud. However, the auditor is not responsible for the prevention of fraud and error.

### **The auditor's report on financial statements**

The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements give a true and fair view of the entity's financial position, the results of its financial operations and its cash flows in accordance with the applicable financial reporting framework.

If the auditor is not satisfied that the financial statements are true and fair, the auditor's opinion is modified, with the reasons being indicated.

The auditor's report on the financial statements will include the auditor's opinion and may include an emphasis of matter or other matters paragraphs. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements.

#### *Form of Auditor's Opinion*

An auditor's opinion is described as unmodified when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

An auditor's opinion may be modified in one of three ways.

- A modified opinion is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. A modified opinion is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence, concludes that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
- A disclaimer of opinion is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.

- An adverse opinion is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in aggregate, are both material and pervasive to the financial statements.

### *Emphasis of Matter*

An emphasis of matter paragraph is included in the auditor's report when the auditor considers it necessary to draw to users' attention a matter presented in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. The auditor's opinion is not modified in respect of the matter emphasised. The circumstances in which an emphasis of matter is used include:

- when material uncertainty exists relating to an event or condition that may cast significant doubt on an entity's ability to continue as a going concern;
- when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared; and
- when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose<sup>55</sup>.

### *Other Matters*

The auditor's report on the financial statements may also include a reference to other matters. This allows the auditor to communicate a matter other than a matter that is presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

### *Report on Other Legal and Regulatory Requirements*

The auditor's report on the financial statements may also include a report on other legal and regulatory requirements. This report covers matters that the Auditor-General is required by law to report on in conjunction with the financial statements audit that do not affect the truth and fairness of the financial statements.

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<sup>55</sup> Under the Clarity Australian Auditing Standards, the Auditor-General is required to include an emphasis of matter where a special purpose framework is adopted. Auditor's reports which include this mandatory requirement have not been separately identified in this Report.



For example, section 57 of the FMA Act requires that, where the Auditor-General is of the opinion that a Chief Executive has contravened section 48<sup>56</sup> of the FMA Act, the Auditor-General must state in the auditor's report, the particulars of the contravention.

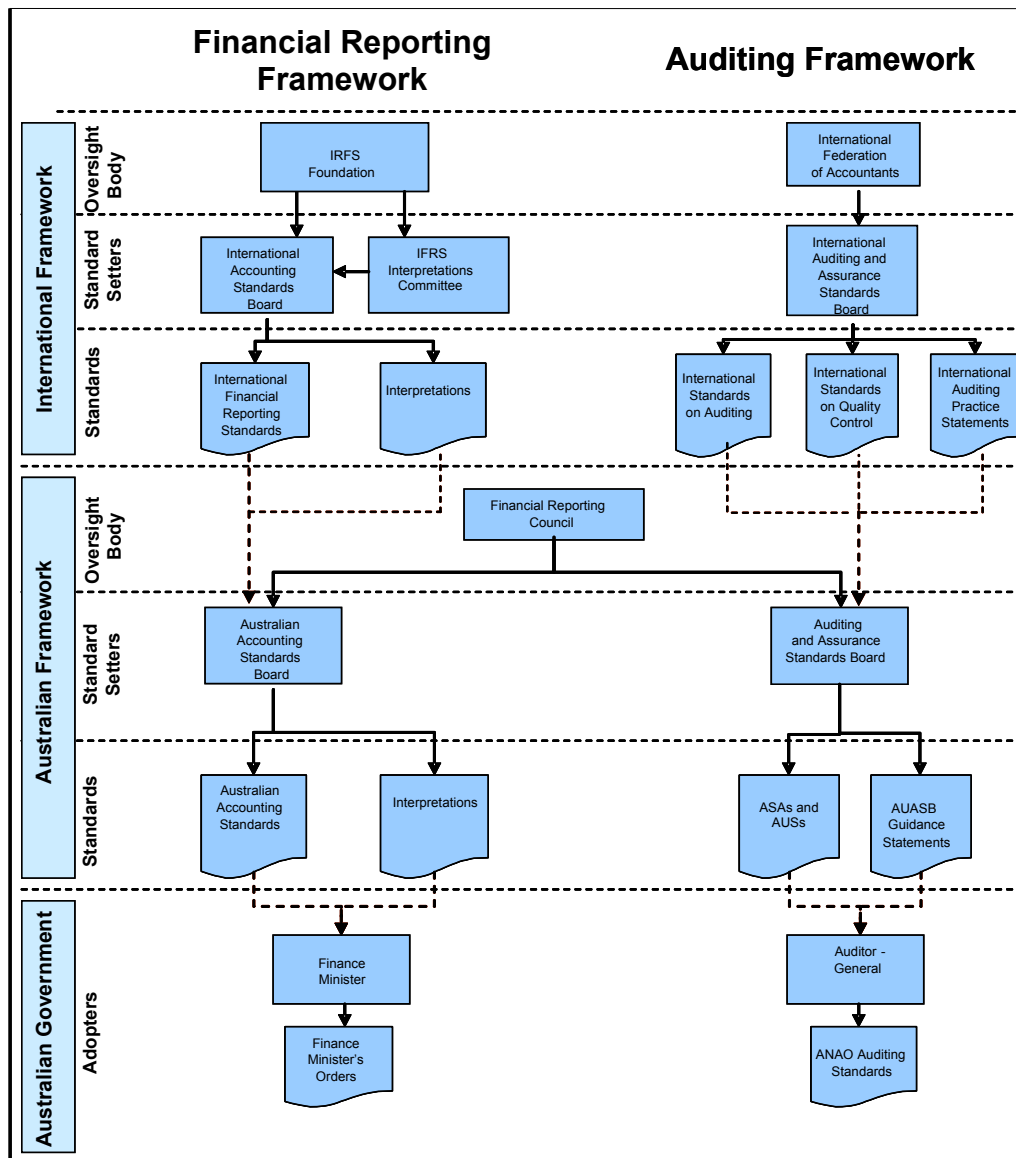
A report on other legal and regulatory requirements may also be used to draw attention to other legislative issues such as issues relating to agencies' compliance with section 83 of the Constitution.

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<sup>56</sup> Section 48 of the FMA Act requires the Chief Executive to keep proper accounts and records.

## Appendix 3: The Financial Reporting and Auditing Standards Frameworks

The figure below depicts the standard setting framework, for financial reporting and auditing, in the Australian Government context.



Source: ANAO

## Appendix 4: Number of Audit Findings

**Table A 1**

Significant or moderate findings, at the conclusion of the 2010–11 interim phase, for agencies covered by the interim audit report, ANAO Audit Report No. 54 2010–11.

Entity	2010–11 Rating			2009–10 Rating		
	A	B	L1	A	B	L1
Department of Agriculture, Fisheries and Forestry	0	0	0	0	0	0
Attorney–General’s Department	0	1	0	0	0	0
Australian Customs and Border Protection Service	0	2	0	0	4	0
Department of Broadband, Communications and the Digital Economy	0	0	0	0	1	0
Department of Climate Change and Energy Efficiency	0	0	0	0	0	0
Department of Defence	3	14	0	1	20	0
Defence Materiel Organisation	0	3	0	0	7	0
Department of Veterans’ Affairs	0	2	0	0	4	0
Department of Education, Employment and Workplace Relations	0	0	0	0	1	0
Department of Families, Housing, Community Services and Indigenous Affairs	0	0	0	0	2	0
Department of Finance and Deregulation	0	0	0	0	1	0
Future Fund Management Agency	0	0	0	0	0	0
Department of Foreign Affairs and Trade	0	1	0	0	0	0
Department of Health and Ageing	0	0	0	0	0	0
Department of Human Services	0	0	0	0	0	0
Centrelink	0	1	0	0	0	0
Medicare Australia	0	0	0	0	0	0
Department of Immigration and Citizenship	0	0	0	0	2	0
Department of Infrastructure and Transport	0	0	0	0	0	0
Department of Innovation, Industry, Science and Research	0	0	0	0	1	0
Department of the Prime Minister and Cabinet	0	0	0	0	0	0
Department of Regional Australia, Regional Development and Local Government <sup>57</sup>	0	0	0	-	-	-
Department of Resources, Energy and Tourism	0	0	0	1	0	0

<sup>57</sup> The Department was established on 14 September 2010.

Entity	2010–11 Rating			2009–10 Rating		
	A	B	L1	A	B	L1
Department of Sustainability, Environment, Water, Population and Communities	0	0	0	0	1	0
Department of the Treasury	0	1	0	0	1	0
Australian Office of Financial Management	0	0	0	0	0	0
Australian Taxation Office	0	6	1	1	7	1
<b>Total</b>	<b>3</b>	<b>31</b>	<b>1</b>	<b>3</b>	<b>52</b>	<b>1</b>

Source: ANAO

**Table A 2**

Significant or moderate findings of material entities grouped by portfolio at the conclusion of the final audit phase of the 2010–11 audits.

Entity	2010–11 Rating			2009–10 Rating		
	A	B	L1	A	B	L1
Department of Agriculture, Fisheries and Forestry	0	0	0	0	0	0
Grains Research and Development Corporation	0	0	0	0	0	0
Attorney–General's Department	0	0	0	0	1	0
Australian Customs and Border Protection Service	0	1	0	0	4	0
Australian Federal Police	0	0	0	0	0	0
Australian Government Solicitor	0	0	0	0	0	0
Australian Security Intelligence Organisation	0	0	0	0	1	0
Family Court of Australia	0	0	0	0	0	0
High Court of Australia	0	0	0	0	0	0
Department of Broadband, Communications and the Digital Economy	0	0	0	0	0	0
Australian Broadcasting Corporation	0	0	0	0	0	0
Australian Communications and Media Authority	0	0	0	0	0	0
Australian Postal Corporation	0	4	0	0	3	0
NBN Co Limited	0	2	0	0	0	0
Special Broadcasting Service Corporation	0	0	0	0	0	0
Department of Climate Change and Energy Efficiency	0	0	0	0	0	0
Department of Defence	2	12	0	1	17	0
Australian War Memorial	0	0	0	0	0	0
Defence Housing Australia	0	0	0	0	0	0
Defence Materiel Organisation	0	1	0	0	3	0
Department of Veterans' Affairs	0	2	1	0	1	0
Department of Education, Employment and Workplace Relations	1	0	0	0	0	0
Coal Mining Industry (Long Service Leave Funding) Corporation	0	0	0	0	0	0
Comcare Australia	0	0	0	0	0	0
Department of Families, Housing, Community Services and Indigenous Affairs	0	0	0	0	0	0
Indigenous Business Australia	0	0	0	0	0	0
Voyages Indigenous Tourism Australia Pty Ltd	0	0	0	-	-	-
Department of Finance and Deregulation	0	0	0	0	0	0

Entity	2010–11 Rating			2009–10 Rating		
	A	B	L1	A	B	L1
Albury-Wodonga Development Corporation	0	0	0	0	0	0
ASC Pty Ltd	0	0	0	0	0	0
Australian Electoral Commission	0	1	0	0	0	0
Australian Industry Development Corporation <sup>58</sup>	-	-	-	0	0	0
Future Fund Management Agency	0	0	0	0	0	0
Medibank Private Limited	0	1	0	0	0	0
Department of Foreign Affairs and Trade	0	0	0	0	0	0
Australian Agency for International Development (AusAID)	0	0	0	0	0	0
Australian Trade Commission (Austrade)	0	0	0	0	0	0
Export Finance and Insurance Corporation	0	0	0	0	0	0
Department of Health and Ageing	0	1	0	0	0	0
National Blood Authority	0	0	0	0	0	0
National Health and Medical Research Council	0	0	0	0	0	0
Department of Human Services	0	0	0	0	0	0
Australian Hearing	0	0	0	0	0	0
Centrelink	0	0	0	0	0	0
Medicare Australia	0	0	0	0	0	0
Department of Immigration and Citizenship	0	0	0	0	0	0
Department of Infrastructure and Transport	0	0	0	0	0	0
Airservices Australia	0	0	0	0	0	0
Australian Rail Track Corporation Limited	0	0	0	0	3	0
Civil Aviation Safety Authority	0	0	0	0	2	0
Department of Innovation, Industry, Science and Research	0	0	0	0	0	0
Australian Nuclear Science and Technology Organisation	0	1	0	0	0	0
Australian Research Council	0	0	0	0	0	0
Commonwealth Scientific and Industrial Research Organisation	0	0	0	0	0	0
Department of Parliamentary Services	0	0	0	0	0	0
Department of the Prime Minister and Cabinet	0	0	0	0	0	0
Department of Regional Australia, Regional Development and Local Government	0	0	0	-	-	-

<sup>58</sup> The Corporation ceased to exist on 22 April 2011.

Entity	2010–11 Rating			2009–10 Rating		
	A	B	L1	A	B	L1
Australian Sports Commission	0	0	0	0	0	0
National Archives of Australia	0	0	0	0	0	0
National Capital Authority	0	0	0	0	1	0
National Gallery of Australia	0	0	0	0	1	0
National Library of Australia	0	0	0	0	0	0
National Museum of Australia	0	0	0	0	0	0
Department of Resources, Energy and Tourism	0	0	0	0	0	0
Tourism Australia	0	1	0	0	0	0
Department of Sustainability, Environment, Water, Population and Communities	0	0	0	1	0	0
Bureau of Meteorology	0	0	0	0	0	0
Department of the Treasury	0	3	1	0	2	0
Australian Bureau of Statistics	0	0	0	0	1	0
Australian Office of Financial Management	0	0	0	0	0	0
Australian Reinsurance Pool Corporation	0	0	0	0	0	0
Australian Securities and Investments Commission	0	0	0	0	0	0
Australian Taxation Office	0	3	1	0	8	1
Reserve Bank of Australia	0	0	0	0	0	0
<b>Total</b>	<b>3</b>	<b>33</b>	<b>3</b>	<b>2</b>	<b>48</b>	<b>1</b>

Source: ANAO

## Series Titles

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**ANAO Audit Report No.1 2011–12**

*The Australian Defence Force's Mechanisms for Learning from Operational Activities*  
Department of Defence

**ANAO Audit Report No.2 2011–12**

*Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2010 Compliance)*

**ANAO Audit Report No.3 2011–12**

*Therapeutic Goods Regulation: Complementary Medicines*  
Department of Health and Ageing

**ANAO Audit Report No.4 2011–12**

*Indigenous Employment in Government Service Delivery*

**ANAO Audit Report No.5 2011–12**

*Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*

**ANAO Audit Report No.6 2011–12**

*Fair Work Education and Information Program*  
Department of Education, Employment and Workplace Relations

**ANAO Audit Report No.7 2011–12**

*Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*  
Department of Infrastructure and Transport

**ANAO Audit Report No.8 2011–12**

*The National Blood Authority's Management of the National Blood Supply*  
National Blood Authority

**ANAO Audit Report No.9 2011–12**

*Indigenous Secondary Student Accommodation Initiatives*  
Department of Families, Housing, Community Services and Indigenous Affairs  
Department of Education, Employment and Workplace Relations

ANAO Audit Report No.17 2011–12  
Audits of the Financial Statements of Australian Government  
Entities for the Period Ended 30 June 2011



**ANAO Audit Report No.10 2011–12**

*Administration of the National Partnership on Early Childhood Education*

Department of Education, Employment and Workplace Relations

**ANAO Audit Report No.11 2011–12**

*Implementation and Management of the Housing Affordability Fund*

Department of Families, Housing, Community Services and Indigenous Affairs

Department of Sustainability, Environment, Water, Population and Communities

**ANAO Audit Report No.12 2011–12**

*Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory*

Department of Families, Housing, Community Services and Indigenous Affairs

**ANAO Audit Report No.13 2011–12**

*Tasmanian Freight Equalisation Scheme*

Department of Infrastructure and Transport

Department of Human Services

**ANAO Audit Report No.14 2011–12**

*Indigenous Protected Areas*

Department of Sustainability, Environment, Water, Population and Communities

**ANAO Audit Report No.15 2011–12**

*Risk Management in the Processing of Sea and Air Cargo Imports*

Australian Customs and Border Protection Service

**ANAO Audit Report No.16 2011–12**

*The Management of Compliance in the Small to Medium Enterprises Market*

Australian Taxation Office

## Current Better Practice Guides

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The following Better Practice Guides are available on the ANAO website.

Public Sector Audit Committees	Aug 2011
Human Resource Information Systems	
Risks and Controls	Mar 2011
Fraud Control in Australian Government Entities	Mar 2011
Strategic and Operational Management of Assets by Public Sector Entities –	
Delivering agreed outcomes through an efficient and optimal asset base	Sep 2010
Implementing Better Practice Grants Administration	Jun 2010
Planning and Approving Projects	
an Executive Perspective	Jun 2010
Innovation in the Public Sector	
Enabling Better Performance, Driving New Directions	Dec 2009
SAP ECC 6.0	
Security and Control	Jun 2009
Preparation of Financial Statements by Public Sector Entities	Jun 2009
Business Continuity Management	
Building resilience in public sector entities	Jun 2009
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Fairness and Transparency in Purchasing Decisions	
Probity in Australian Government Procurement	Aug 2007
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Developing and Managing Contracts	
Getting the Right Outcome, Paying the Right Price	Feb 2007
Implementation of Programme and Policy Initiatives:	
Making implementation matter	Oct 2006
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