

The Auditor-General  
Audit Report No.16 2012–13  
Financial Statement Audit

**Audits of the Financial Statements of  
Australian Government Entities for the  
Period Ended 30 June 2012**

Australian National Audit Office

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Canberra ACT  
20 December 2012

Dear Mr President  
Dear Madam Speaker

The Australian National Audit Office has undertaken audits of the 2011–12 financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities 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 to the Parliament. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2012*.

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

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

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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# Glossary of Commonly Used Accounting Terms

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Administered:	Those items that an agency does not control but over which it has management responsibility on behalf of the Government and which are subject to prescriptive rules or conditions established by legislation, or Australian Government policy, in order to achieve Australian Government outcomes.
Appropriation:	An authority under any Act or law to draw money from the Consolidated Revenue Fund.
Departmental:	Those items that the entity controls that are applied to the production of the entity's own purposes.
Fair value:	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Impairment loss:	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Material:	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of an item, or combination of both, could be the determining factor.
Net cost of services:	Calculated as total expenses (excluding income tax expense) less total own source income.

Own source income:	<p>Consists of all income except:</p> <ul style="list-style-type: none"> <li>(a) annual appropriations;</li> <li>(b) special appropriations; and</li> <li>(c) amounts appropriated to the relevant portfolio agency for payment to the CAC Act authority (CAC Act body payment item).</li> </ul> <p>It includes FMA Act section 31 relevant agency receipts and is adjusted for any repayments by the Commonwealth made under FMA Act section 28.</p>
Total comprehensive income:	<p>The change in equity during a period resulting from transactions and/or other events, other than those changes resulting from transactions with owners in their capacity as owners.</p>
Total other comprehensive income:	<p>Comprises items of income and expense (including reclassification adjustments) that are not recognised in profit and loss as required or permitted by other Australian Accounting Standards.</p>

# 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
CEO	Chief Executive Officer
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
DIISRTE	Department of Innovation, Industry, Science, Research and Tertiary Education
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
OECD	Organisation for Economic Co-operation and Development
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 51 2011–12 Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2012*, 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 findings summarised in that report are the results of the interim phase of the financial statement audits of major General Government Sector agencies.

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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*.

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 2011–12. One noteworthy change was the release of a new standard on fair value measurements. The AASB has also foreshadowed proposals yet to be incorporated in Australian Accounting Standards, that would provide temporary relief from the requirement to value defence weapons platforms at fair value, and see not-for-profit public sector entities providing the same level of disclosure of the remuneration of key management personnel as occurs in the private and for-profit sectors.

8. Changes to Australian Accounting Standards will continue to be mainly driven by major developments in accounting standards internationally, the Australian Accounting Standards Board (AASB) has also initiated a number of domestic projects. These include requiring not-for-profit public sector entities to report transactions with related parties, budget information, and new rules for superannuation entities and public-private partnerships.

9. At the international level, significant changes to accounting standards are well progressed, potentially changing reporting requirements in important areas such as financial instruments, revenue, and leases. During 2011–12, the International Public Sector Accounting Standards Board (IPSASB) continued to develop its conceptual framework for public sector financial reporting.

10. There are a number of important developments in auditing standards with one of the most significant being an international project to enhance the value of auditors' reports on financial statements.

## Summary of audit findings

11. The ANAO is responsible for the audits of the financial statements of all Australian Government entities. For the 2011–12 financial year, the Auditor-General and senior staff, delegated to issue audit reports, issued 254 unmodified audit reports; and no modified audit reports. Of the unmodified



reports, six reports included an emphasis of matter<sup>2</sup>; and 21 reports<sup>3</sup> contained a reference to other legal and regulatory requirements.<sup>4</sup>

**12.** These latter reports referred to actual or potential breaches of section 83 of the Constitution. A breach of section 83 of the Constitution occurs if payments are not made in accordance with conditions required by law. Where potential breaches have been reported, relevant agencies have indicated that the circumstances giving rise to this issue will continue to be investigated and legislative amendments developed where appropriate.

**13.** In addition, the auditor's reports on the Consolidated Financial Statements and the financial statements of the Department of Education, Employment and Workplace Relations referred to a contravention of section 61 of the Constitution as payments made were beyond the Executive powers of the Commonwealth.

## **Consolidated Financial Statements**

**14.** The Consolidated Financial Statements that present the consolidated whole-of-government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector financial report, were signed by the Minister for Finance and Deregulation (Finance Minister) on 21 November 2012.

**15.** The operating result attributable to the Australian Government disclosed in the 2011–12 Consolidated Financial Statements was a deficit of \$68.6 billion (2010–11: deficit of \$51.5 billion). At 30 June 2012, the reported fiscal balance was a deficit of \$46.2 billion (2010–11: deficit of \$52.4 billion) and the reported negative net worth position was \$256.3 billion (2010–11: negative \$103.1 billion).

**16.** The Consolidated Financial Statements provide explanations of variances between the original budget and 2011–12 actuals as part of the audited set of Australian Government financial statements. Commentary on these variances is provided in Chapter 3 of this report. The Consolidated Financial Statements continue the prior year approach of incorporating aggregate disclosure of ministerial remuneration.

<sup>2</sup> An emphasis of matter is included in the auditor's report to draw the user'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> Includes the auditor's report on 16 material entities, four non-material entities and the Consolidated Financial Statements of the Australian Government.

<sup>4</sup> All numbers are as at 30 November 2012.

17. The auditor's report on the 2011–12 Consolidated Financial Statements was issued on 21 November 2012 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 2012 and their financial performance and cash flows for the year then ended. As mentioned above, the auditor's report included a reference to the aggregate position relating to actual and potential breaches of section 83 of the Constitution and to a contravention of section 61 of the Constitution.

## **Entity financial statements**

18. As indicated above, no audit reports were modified in 2011–12. This is a good result and reflects well on the integrity of financial reporting by all Australian Government entities.

19. There was also a reduction in the number and significance of issues arising from the final phase of the 2011–12 financial statement audits of individual material entities. The number of significant and moderate audit findings decreased from 36 in 2010–11 to 31 in 2011–12, a reduction of 14 per cent. This is consistent with the trend 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 that required attention by entities were in respect of: controls in entities' IT environments, such as user access and the segregation of duties; asset management including the valuation of assets and the reporting of inventory; business system processing controls; and estimation processes. These issues are generally consistent with our audit findings in previous years.

20. Our audits also found that entities have made generally good progress in addressing and resolving issues identified during the 2011–12 interim audit phase.

21. 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 audit report on the financial statements of a number of agencies mentioned actual or potential breaches of section 83 of the Constitution.

## Commentary on financial statement related matters

**22.** An analysis of material entities' operating results by the ANAO identified that: the majority of entities had made small surpluses or deficits in the period 2009–10 to 2011–12; and only three entities had incurred a deficit over these three years and had incurred at least two annual deficits over this period that were greater than five per cent of total expenses. Fifteen entities had an average annual surplus over this period that was greater than five per cent of total expenses. This suggests that, overall, entities have been appropriately managing their finances for the period under analysis. An analysis of the balance sheet positions of material entities as at 30 June 2012 identified that material entities' financial assets were 98 per cent of the value of liabilities and equity was 50 per cent of the value of total assets. This was broadly comparable to the situation at 30 June 2011 and suggests that, overall, the balance sheet position of material entities is satisfactory.

**23.** The Consolidated Financial Statements and the financial statements of individual entities include a number of balances that need to be determined based on estimates. Of the total liabilities balance of \$646.8 billion in the CFS, in excess of \$280 billion was based on estimates. In addition, of the total assets balance of \$390.6 billion, in excess of \$170 billion was derived from estimates. The factors that entities need to take into account, and which affect the value of individual balances vary depending on the nature of the balance. However, in 2011–12, the decrease in the discount rate, reflecting movements in the long term government bond rate, was the primary factor that resulted in movements in many balances during 2011–12. The most significant movement occurred in the Australian Government superannuation liability that increased by \$90.6 billion or 62 per cent.

## Financial statements preparation

**24.** 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.

**25.** There has also been a small 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

**26.** 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 2012. The results of the interim phase<sup>5</sup> of the audits of major agencies were reported in Audit Report No 51 2011–12 *Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ended 30 June 2012*.<sup>6</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 Finance Minister's Orders<sup>7</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.

**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

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<sup>5</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>6</sup> The 25 agencies covered in Audit Report No 51 2011–12 represent approximately 95 per cent of total General Government Sector revenues and expenses.

<sup>7</sup> The Finance Minister's Orders (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*.

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>8</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 *The Audit of the Consolidated Financial Statements* 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, of the Australian Government for the year ended 30 June 2012.
- Chapter Four *Commentary on Financial Statement Related Matters* provides an analysis of entities' operating results and balance sheet position, and a discussion on the use of estimates in calculating a range of financial statement balances.
- Chapter Five *Summary of Audit Results* provides: a summary of issues included in the auditors' reports on entities' 2011–12 financial statements including a commentary on actual and potential breaches of section 83 of the Constitution in a number of agencies; a summary of other audit findings identified in the 2011–12 audits; and a commentary on the preparation of entity 2011–12 financial statements and the 2011–12 Certificate of Compliance process.

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<sup>8</sup> ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 5.

- Chapter Six *Results of Financial Statement Audits by Portfolio* summarises the results of the 2011–12 financial statement audits of individual Australian Government entities. The chapter is structured in accordance with the portfolio arrangements established by the Administrative Arrangements Order (AAO) of 9 February 2012. For reporting purposes, this reflects the portfolio arrangements that existed on 30 June 2012.
- 1.5 A glossary of commonly used accounting terms is on page 10.

## Acknowledgements

1.6 I would like to acknowledge the professionalism and commitment of my staff in finalising the audits of 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 is 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.*

### Introduction

**2.1** The Australian Government's financial reporting framework is based, in large part, on standards made independently by the Australian Accounting Standards Board (AASB). This framework is designed to support decision-making by, and accountability to, the Parliament.

**2.2** The AASB bases its accounting standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Because IFRS are designed primarily to relate to for-profit organisations, the AASB amends the IFRS to address the financial reporting needs of the public and not-for-profit private sectors. In doing so, it takes into account standards issued by the International Public Sector Accounting Standards Board (IPSASB). The Finance Minister prescribes additional financial reporting requirements for Australian Government agencies and authorities through the Finance Minister's Orders (FMOs) for financial reporting.

**2.3** Recent changes to Australian Accounting Standards include increased harmonisation of Australian and New Zealand accounting standards and a new standard on fair value measurements. The AASB has also flagged proposals, yet to be incorporated in Australian Accounting Standards, that would provide temporary relief from the requirement to value defence weapons platforms at fair value, and require not-for-profit public sector entities to provide the same disclosure of the remuneration of key management personnel as occurs in the private and for-profit sectors.

**2.4** Major developments in accounting standards internationally will continue to be the main driver of changes to Australian Accounting Standards. At the international level, significant changes to accounting standards are well progressed, potentially changing reporting requirements in important areas such as financial instruments, revenue, and leases. During 2011–12, the IPSASB



continued to develop its conceptual framework for public sector financial reporting.

**2.5** Just as Australian Accounting Standards are based on international accounting standards, the Australian Auditing and Assurance Standards Board (AUASB) bases Australian Auditing Standards on the International Standards of Auditing (ISAs). The ANAO adopts Australian Auditing Standards.

**2.6** There are a number of important developments in auditing; among the most significant is an international project to enhance the value of auditors' reports on financial statements.

## Recent changes to the Australian public sector reporting framework

### Carbon pricing

**2.7** The fixed price phase of the Government's carbon pricing scheme commenced on 1 July 2012. To assist the implementation of the associated financial reporting processes, the staff of the AASB released a paper addressing the key financial reporting issues for emitter entities in this initial phase. AASB staff are also developing an equivalent paper on the financial reporting issues facing the Australian Government in the fixed price phase.

**2.8** The AASB has no current plans to issue guidance on financial reporting issues arising in the flexible price period, which commences on 1 July 2015. However the staff paper notes that the AASB may need to consider providing assistance for this phase, should the IASB not issue any pronouncement or guidance in time to provide a basis for accounting treatments.

### Defence weapons platforms

**2.9** The Australian Government prepares its financial statements under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The standard requires accounting treatments to align with the principles and rules in the Australian Bureau of Statistics' Government Finance Statistics (GFS) framework, provided the other accounting standards are also followed. For example, plant and equipment must be valued at fair value rather than cost, where fair value can be reliably measured.

**2.10** Recent changes to the GFS framework would have meant that weapons platforms held by the Department of Defence would need to be measured at fair value and reported in the Consolidated Financial Statements from 2012–13. The AASB noted that reliably measuring the fair value of weapons platforms raises substantial practical issues and has proposed deferring the effective date of the new requirement until the 2014–15 financial year.

**2.11** An exposure draft of a standard containing this proposal was released in October 2012.

## **Transactions with related parties**

**2.12** Australian private sector entities must comply with AASB 124 *Related Party Disclosures*, which requires the disclosure of transactions with related parties. Related parties include key management personnel and other entities or persons who control or significantly influence the entity, together with close family members of such persons.

**2.13** In July 2012, the AASB decided that the AASB 124 requirement to disclose the remuneration of key management personnel should also apply to public sector entities. Key management personnel, in the public sector context, would usually include Ministers as well as some senior public servants. However, given the difficulties in attributing Ministerial remuneration to entities within a Ministerial portfolio, some relief will be available where appropriate remuneration disclosures are made in the financial statements of other entities within the jurisdiction. The AASB plans to issue guidance for the not-for-profit public sector on how to apply AASB 124.

**2.14** The AASB is drafting amendments to AASB 124 to give effect to its decision with a proposed commencement date of 1 July 2014.

## **Fair value measurement**

**2.15** Several accounting standards in certain circumstances require, or allow, entities to present their assets and liabilities at fair value in the balance sheet. However, the IASB has identified that guidance on measuring fair value is spread among several standards, is often high-level and is sometimes inconsistent between standards. In May 2011, the IASB issued an accounting standard to provide a single source of guidance on fair value measurement. This standard clarifies the definition of fair value, provides a framework for measuring fair value and enhances the associated measurement disclosures. In

September 2011, the AASB issued AASB 13 *Fair Value Measurement*, replicating the IASB standard. AASB 13 takes effect from 1 January 2013.

## **Australia-New Zealand convergence**

**2.16** From 1 January 2012, a new accounting standard took effect that removed many of the differences between Australian and New Zealand accounting standards. Among the more significant changes is a clause permitting some 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 the financial statements. However, this option is not available to entities reporting under the Corporations Act or to not-for-profit entities.

## **Future developments in the Australian public sector reporting framework**

### **Superannuation**

**2.17** 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, a number of accounting options were permitted, including the ability to defer the recognition of certain gains and losses to 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: they now include disclosure of fair value information for plan assets, sensitivity analysis for major assumptions and descriptions of the risks associated with the plan.

**2.18** In December 2011, the AASB released further proposals to update the financial reporting requirements for superannuation plans and approved deposit funds. These proposals would bring reporting by these entities more in to line with reporting by other entities subject to Australian Accounting Standards. Following consideration of comments received on its proposals, the AASB expects to issue a new standard by June 2013.

### **Income of not-for-profit entities**

**2.19** Since 2009, the AASB has been exploring alternatives to the current requirements for accounting for appropriations, taxes and grants, known

collectively as non-exchange transactions. In February 2011, the AASB decided this project would be broadened to encompass all types of revenue earned by not-for-profit entities. The new standard will be based on the IASB's work in developing an accounting standard on revenue from contracts with customers, with modifications as necessary to address issues specific to the not-for-profit sector.

**2.20** Appropriations, taxes and grants are major transactions for many Australian Government entities and changes to the accounting standards could have a significant impact on the timing of revenue recognition by such entities. The AASB plans to issue an exposure draft of a new standard on income of not-for-profit entities in the first half of 2013.

### **GFS-GAAP harmonisation**

**2.21** The AASB has finalised its project on harmonising Australian Accounting Standards (or GAAP) with GFS, for entities within the General Government Sector (GGS). In July 2012, the AASB decided not to require inclusion of GFS principles and information in the financial statements of these entities. Instead, it has decided to prepare a new accounting standard that would require not-for-profit entities within the GGS to disclose their original budgets for the year, where such budgets are presented to the Parliament. The new standard would also require an explanation of major variations between those budgets and the results for the year.

### **Public-private partnerships**

**2.22** In September 2011, the IPSASB finalised an accounting standard dealing with accounting for government involvement in public-private partnerships. The standard, *IPSAS 32 Service Concession Arrangements: Grantor* takes effect from 1 January 2014. The standard aims to ensure governments fully report public-private partnership assets and their related financing. It also seeks to increase the consistency of public sector reporting of public-private partnerships, which are often significant and complex transactions.

**2.23** The AASB is developing an Australian Accounting Standard based on IPSAS 32.

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

**2.24** The AASB has developed a differential financial reporting regime that provides an option for the majority of reporting entities to reduce their

reporting burden. While the regime was legislated in late 2009–10, the relevant standards do not come into effect until 2013–14.

**2.25** The regime distinguishes two tiers of reporting requirements. Entities in the first tier must prepare financial statements in accordance with the full suite of Australian Accounting Standards. Federal, state and territory governments are included in this tier. Entities in the second tier will prepare similar financial statements, but with substantially reduced disclosure requirements. Government-controlled entities may opt for either tier, subject to the requirements of their regulator. The Finance Minister, who performs the role of regulator for Australian Government entities, has yet to indicate whether Australian Government entities will be permitted to use the ‘reduced disclosure regime’.

**2.26** 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

### Conceptual framework projects

**2.27** AASB standards, especially those applying to the for-profit sector, are largely based on IFRS. The conceptual framework that underpins Australian Accounting Standards is also largely based on the IASB's conceptual framework.

**2.28** A project to review the IASB conceptual framework was commenced in 2008 in partnership with the United States Financial Accounting Standards Board (FASB). The IASB has finalised chapters dealing with the objective of general purpose financial reporting and the qualitative characteristics of useful financial information, but has put the project on hold while it concludes deliberations on its future work plan.

**2.29** The AASB has decided that the revised framework 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.

**2.30** The 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. To date, IPSASB has 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; the recognition and measurement of elements of the financial statements; and presentation in general purpose financial reports. The IPSASB plans to finalise its conceptual framework by March 2014.

## **Long term sustainability of public finances**

**2.31** The IPSASB has begun work on a framework for the reporting of information about the long term fiscal sustainability of government programs, other than those of government business enterprises. This information would complement that provided by traditional financial statements, by facilitating an assessment of the future viability of government programs.

**2.32** In October 2011, the IPSASB issued guidelines on this topic for public comment. The IPSASB is currently considering comments received with a view to releasing final guidelines in the first half of 2013.

## **Reporting service performance information**

**2.33** In October 2011, the IPSASB released a consultation paper setting out proposals for a framework for the reporting of service performance information as there is considerable diversity between countries in how such information is reported.

**2.34** The framework would adopt a principles-based approach to encourage consistent reporting of service performance by public sector entities. To achieve this, the framework proposes standardised service performance terminology and definitions, but would not mandate how entities would present service performance information.

**2.35** The IPSASB is considering responses received before progressing the project further. It plans to finish the project by June 2014.

## **Financial instruments**

**2.36** The IASB is undertaking 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. It is proposed that the requirements for financial liabilities would be largely unchanged.

**2.37** The new IASB standard arising from this project was published in November 2009, and was given effect in Australia through AASB 9 *Financial Instruments*, applicable for reporting periods beginning on or after 1 January 2015. As currently drafted, this standard does not replace all existing accounting rules for financial instruments. The IASB is still finalising its proposals for hedging and asset impairment and released its initial views on general hedge accounting for public comment in September 2012.

## Leases

**2.38** The IASB is conducting a project to develop a new approach to lease accounting. Many shorter term leases are not shown as assets or liabilities on the balance sheet; instead, lease payments are expensed over the lease term. The IASB issued proposals in 2010 that, if implemented, would see entities with shorter term leases recording the present value of lease payments as assets on their balance sheets, together with corresponding liabilities.

**2.39** The IASB is currently revising these proposals and expects to issue an exposure draft of a new accounting standard in the first quarter of 2013.

## Revenue

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

**2.41** 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.

**2.42** The key principles on which the proposed model is based<sup>9</sup> are generally consistent with current Australian practice.

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<sup>9</sup> Revenue is recognised when goods or services are transferred to the customer, measured at transaction price.

**2.43** The IASB has considered comments received and expects to issue an accounting standard in 2013.

### **Public sector combinations**

**2.44** In June 2012, the IPSASB released for comment a consultation paper on public sector combinations, that is, transfers of assets and liabilities between government entities. This project aims to develop principles-based guidance on accounting for public sector combinations. The consultation paper describes different types of public sector combinations and explores possible approaches to recognition and measurement.

**2.45** The IPSASB plans to release an accounting standard on this topic in 2014.

### **GFS-GAAP harmonisation**

**2.46** In June 2011, the IPSASB commenced a project to analyse the differences between IPSASB accounting standards and the Government Finance Statistics Manual of the International Monetary Fund, and evaluate the extent to which harmonisation between the two might be feasible. This is similar to past exercises undertaken by the AASB that lead to GFS-GAAP harmonisation for financial reporting by governments in Australia.

**2.47** The IPSASB issued a consultation paper in October 2012 on this topic.

### **Financial statement discussion and analysis**

**2.48** In March 2011, the IPSASB commenced a project to develop guidance on financial statements discussion and analysis, that is, narrative reporting by entities to accompany the financial statements. The IPSASB issued draft guidance in March 2012 and is currently considering comments received.

**2.49** The IPSASB plans to issue an accounting standard on this topic by the end of 2012.

### **Consolidation**

**2.50** In May 2011, the IASB released three accounting standards clarifying the requirements for the consolidation of subsidiaries and special purpose vehicles<sup>10</sup>, and requiring the substance of joint arrangements to be disclosed.

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<sup>10</sup> A special purpose vehicle (SPV) is a financial entity created for a specific purpose and for a limited use. Its operations are limited to the acquisition and financing of specific assets. A SPV is usually a subsidiary entity with an asset/liability structure and legal status that makes its obligations secure even if the parent entity goes bankrupt.



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 Australian Accounting Standards to replicate the IASB standards. These standards will not be mandatory for not-for-profit entities until 1 January 2014, giving the AASB time to develop guidance for the not-for-profit sector.

**2.51** In August 2011, the IASB also released proposals to change the consolidation rules for entities defined as 'investment entities'. Under the proposals, the financial results of such entities would not be consolidated with those of their parent entity. Instead, the parent entity would measure its holding in such entities at fair value, similar to other investments the parent entity may hold.

## Developments in auditing standards

**2.52** 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 incorporate, by reference, the current versions of standards made by the AUASB, including the Australian Auditing Standards which establish mandatory requirements and provide explanatory guidance for audits of financial statements. As a result, the statutory audits of the financial statements of Australian Government entities conducted by the ANAO conform with the standards that apply to the broader auditing profession in Australia.

**2.53** The AUASB uses International Auditing Standards (ISAs) as the basis for the 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). In making its standards and guidance, the AUASB consults formally with organisations representing stakeholders, including users of financial statements, regulators and the accounting profession. The consultative processes are scheduled so the AUASB can consider stakeholder views in making submissions on proposals from the IAASB.

**2.54** In its 2012–14 *Strategy and Work Program*, released in June 2012, the IAASB concluded that its medium term strategy should address three main themes in the public interest:

- supporting global financial stability;

- enhancing assurance services in an evolving world; and
- facilitating the adoption and implementation of its standards.

**2.55** In line with the first-mentioned theme, the IAASB has identified, as its top priority, auditor reporting on financial statements. An IAASB *Invitation to Comment: Improving the Auditor's Report*<sup>11</sup> noted that academic research and feedback from, and dialogue with, international stakeholders on the standard auditor's report shows a clear demand for auditors to provide greater transparency about matters in financial statements as well as the conduct of the audit. The 'Invitation to Comment' set out the IAASB's proposals as well as a revised illustrative auditor's report. The IAASB's deliberations and consultations with stakeholders will continue into 2013.

**2.56** The IAASB is also drafting a consultation paper on an audit quality framework. Significant matters being considered include the factors that influence audit quality and areas where stakeholders can enhance audit quality. At its December 2012 meeting, the IAASB will consider approving the consultation paper for release.

**2.57** The IAASB has released an exposure draft revising ISA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon* to clarify the auditor's responsibilities in this area. The IAASB proposes to broaden and clarify the scope of documents to be addressed by the auditor, to require the auditor to consider the other information in the light of the auditor's understanding of the entity and its environment, and to introduce reporting requirements.

**2.58** To meet its objective of enhancing assurance services in an evolving world, the IAASB's initiatives include:

- completing the revision of ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* to provide a more robust framework for a broad range of reasonable and limited assurance engagements; and
- establishing an Innovation, Needs and Future Opportunities (INFO) working group. The group is to identify and research issues, and actively monitor developments, particularly in the areas of integrated

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<sup>11</sup> *Invitation to Comment: Improving the Auditor's Report*, International Federation of Accountants, June 2012.

reporting, sustainability, corporate governance, internal control, and XBRL<sup>12</sup> to assist the IAASB in shaping its long term strategic direction.

**2.59** The IAASB is also continuing with its ISA implementation monitoring project to determine whether the ISAs, which it redrafted and, in most cases, revised over a number of years for application from 2009, are being implemented in a manner that achieves the IAASB's goals of improving the standards to enhance understandability, clarity, and consistency. In April 2013, the IAASB expects to present detailed results of the responses from surveys of small and medium practices and audit committees regarding the adoption of clarified ISAs.

**2.60** In Australia, the AUASB has completed a number of projects in 2012 related to the audit of financial statements, including the release of:

- an updated guide in good practice on audit committees, in conjunction with the Australian Institute of Company Directors and the Institute of Internal Auditors Australia. The guide takes account of significant developments relating to the role, responsibilities and operation of audit committees, and also enhanced governance requirements of regulators in response to the ongoing global financial crisis; and
- an AUASB bulletin *Auditing Considerations in a Prolonged Uncertain Economic Environment*. The bulletin discusses matters that auditors should keep in mind when auditing in a prolonged economic downturn, including implications for the overall audit strategy and the identification and assessment of the risk that financial statements may be materially misstated.

**2.61** In line with changes made or proposed to international standards issued by the IAASB, the AUASB's Annual Regulatory Plan for 2012–2013 foreshadows changes to a number of standards, including:

- ASA 610 *Using the Work of Internal Audit*, which had not been substantively revised since the mid 1990s, to strengthen safeguards against over or undue use by the external auditor of the work of internal audit;
- ASA 720 *The Auditor's Responsibilities Relating to Other Information in*

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<sup>12</sup> eXtensible Business Reporting Language (XBRL) is a universal computer language for the electronic communication of business and financial data. XBRL is increasingly being used worldwide for both internal and external reporting by organisations.

*Documents Containing Audited Financial Reports; and*

- *ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The changes to ASAE 3000 may impact ASAE 3100 *Compliance Engagements* and ASAE 3500 *Performance Engagements*.
- 2.62** Finally, the AUASB is working on a number of other projects including:
- issuing or revising guidance particularly in relation to auditing grant acquittals, using the work of an actuary and investments in associates;
  - the development of a standard for assurance engagements on general purpose water accounting reports, in conjunction with the Water Accounting Standards Board (an independent advisory body to the Bureau of Meteorology); and
  - replacing AUS 810 *Special Purpose Reports on the Effectiveness of Control Procedures* with a new assurance engagement standard on the subject.

## Conclusion

**2.63** 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. Government entities are also supported through ANAO client seminars and publications that explain new regulatory and accounting requirements.

**2.64** While there were few changes in Australian Accounting Standards during 2011–12, significant changes to the financial reporting framework are under way, both in Australia and internationally. A number of the proposed changes will affect the Australian public sector over the next few years, particularly in relation to lease accounting, revenue recognition and the reporting of financial instruments.

**2.65** In addition, initiatives to enhance audit quality and communication remain in the forefront of the auditing profession's efforts globally to respond to the needs of stakeholders.

## 3. 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 2012, and the Australian Government's financial outcome for 2011–12.*

### Background

**3.1** Government accountability and transparency is supported by the preparation and audit of the Australian Government's Consolidated Financial Statements (CFS). The CFS 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 CFS are one source of information on the Government's financial performance and position. Other information sources include the Budget and Budget updates presented to Parliament<sup>13</sup>, the Intergenerational reports<sup>14</sup> and the annual Final Budget Outcome.<sup>15</sup> These various sources provide information on a range of policy and financial matters, including the medium term and intergenerational effect of decisions.

**3.3** In recent years, through the work of the Australian Accounting Standards Board in issuing AASB 1049 *Whole of Government and General Government Sector Reporting*, the statistical and accounting standards for the reporting of budget and financial statement information have been harmonised resulting in comprehensive financial information being presented in both the Budget Papers and the CFS. AASB 1049, by incorporating aspects of the conceptual and accounting framework on which the Australian Bureau of Statistics' Government Finance Statistics (GFS) is based, provides a single framework for financial reporting by governments in Australia.

**3.4** The CFS present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector (GGS) financial report. The CFS are prepared in

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<sup>13</sup> Available at [www.budget.gov.au](http://www.budget.gov.au)

<sup>14</sup> Available at [www.treasury.gov.au](http://www.treasury.gov.au)

<sup>15</sup> Available at [www.budget.gov.au](http://www.budget.gov.au)

accordance with the regulations of the *Financial Management and Accountability Act 1997* and the requirements of the Australian Accounting Standards as mentioned above. The CFS operating statement and balance sheet are prepared on an accrual<sup>16</sup> basis, with the cash flow statement prepared on a cash basis.

**3.5** Since 2009–10 the CFS has incorporated both the whole of government and GGS financial reports required by AASB 1049, and the 2011–12 CFS again includes both of these reports. The CFS and the associated auditor's report can be accessed from the Department of Finance and Deregulation's website.<sup>17</sup>

**3.6** This chapter discusses the auditor's report on the 2011–12 CFS, 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 CFS, and the significant disclosures included in the CFS. The commentary in this chapter focuses on the financial results at the consolidated whole of government level, rather than at the GGS level. High level variances between the actual GGS results and the original GGS budget presented to Parliament are discussed in paragraphs 3.34 and 3.35 of this report.

## Auditor's report

**3.7** The CFS were signed by the Minister for Finance and Deregulation on 21 November 2012 and an unmodified auditor's report was issued on the same day.

**3.8** The auditor's report on the 2011–12 CFS, which includes the GGS report, expressed the opinion that the statements presented a true and fair view of the financial operations and position of the Australian Government.

**3.9** A report on other legal and regulatory requirements was included in the auditor's report, following the opinion on the 2011–12 CFS, to draw attention to the note disclosure included in the CFS in respect of:

- actual and potential breaches of section 83 of the Constitution; and
- contraventions of section 61 of the Constitution.

**3.10** Further information on these matters is included at paragraphs 3.30 to 3.33 of this report.

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<sup>16</sup> Accrual accounting is a method that recognises expenses when they are incurred and revenue when it is earned rather than when cash is paid or received.

<sup>17</sup> [www.finance.gov.au](http://www.finance.gov.au)

## Australian Government's financial outcome for 2011–12

**3.11** The reported 2011–12 operating result<sup>18</sup> attributable to the Australian Government was a deficit of \$68.6 billion (2010–11: deficit of \$51.5 billion), the fiscal balance<sup>19</sup> was a deficit of \$46.2 billion (2010–11: deficit of \$52.4 billion) and the reported negative net worth<sup>20</sup> position was \$256.3 billion (2010–11: negative \$103.1 billion). These outcomes reflect the financial effect of government policies and the economic environment for the year ended 30 June 2012 and the associated movement in assets and liabilities as at the financial year end, particularly as a result of the decrease in the long term government bond rate<sup>21</sup> that is used to discount longer term liabilities. Further information on the significant movements between 2010–11 and 2011–12 in the operating statement and the balance sheet is provided in the commentary that is published with the audited CFS, and is discussed below. In addition, analysis of movements in significant asset and liability balances which are subject to estimates is included in Chapter 4 of this report.

**3.12** Based on a number of financial indicators, the Australian Government is in a sound financial position relative to the governments of many other OECD<sup>22</sup> countries, although some softening of the Government's position is evident in the light of rising levels of debt and other liabilities.

**3.13** The following charts show the net financial liabilities of the Australian Government's General Government Sector as a percentage of gross domestic product relative to some other OECD countries, and the decline in the Australian Government's net worth.

<sup>18</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>19</sup> The fiscal balance (net lending/borrowing) is calculated as the net operating balance minus the net acquisition/(disposal) of non-financial assets.

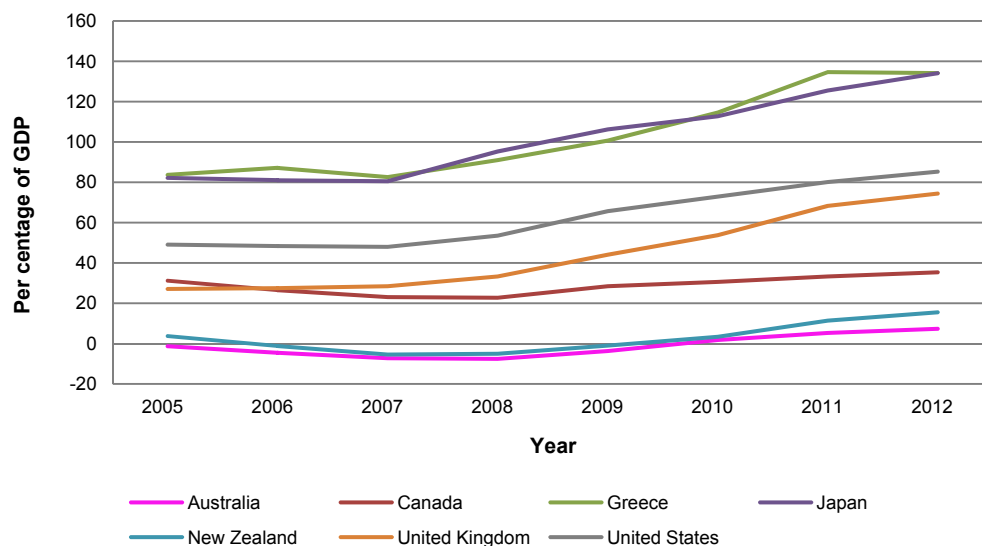
<sup>20</sup> Net worth equals assets less liabilities.

<sup>21</sup> Movements in interest rates have a direct bearing on the balance at year end of various liabilities, particularly those that will be settled in future periods such as long service leave and superannuation entitlements. In accordance with Australian Accounting Standards, the reported values of these liabilities are to be calculated by discounting expected future payments to their present value. The discount rate commonly used is the Australian Government long term bond rate. An increase in the bond rate between financial years increases the extent of discounting and reduces the present value of liabilities. Conversely, a decrease in the rate increases their present value. The period over which the future value of the liability is calculated is determined by the period over which payments are expected to become due and payable. During 2011–12, there was a reduction in interest rates that, in turn, affected the long term government bond rate. Between 30 June 2011 and 30 June 2012, the long term government bond rate decreased from 5.21 per cent to 3.04 per cent. As a result, there was a significant increase in the reported value of long term liabilities during 2011–12.

<sup>22</sup> The Organisation for Economic Co-operation and Development.

**Table 3.1**

**General Government net financial liabilities<sup>23</sup> as a percentage of gross domestic product<sup>24</sup>**



Source: OECD Economic Outlook 91 database at <http://oecd.org/statistics>

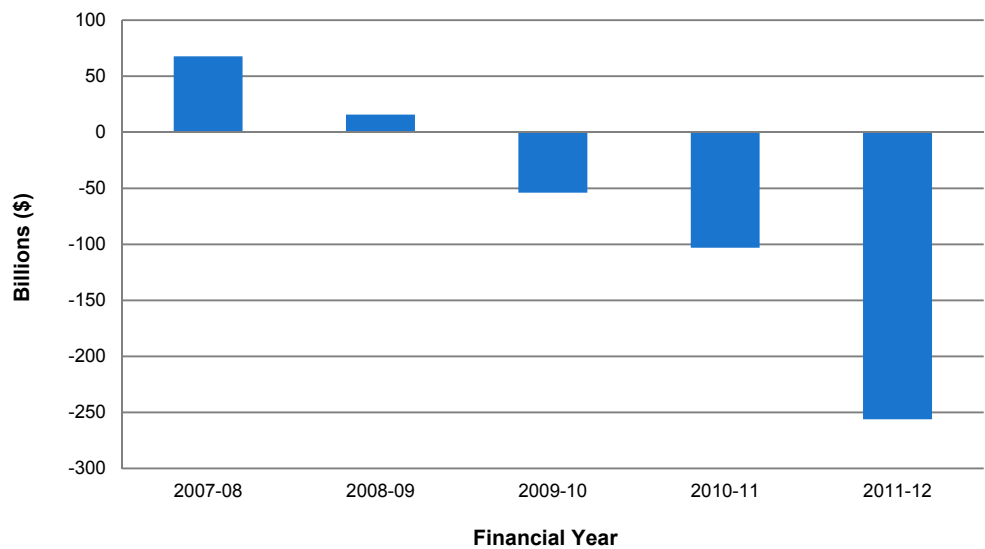
<sup>23</sup> Net financial liabilities are calculated as the gross financial liabilities less the financial assets of the General Government Sector. Gross financial liabilities are defined as the short and long term debt and other liabilities of all the institutions in the General Government Sector, subject to data availability. For the United States, Flow of Funds estimates are used, which value debt at face value. Financial assets may be cash, bank deposits, loans to the private sector, investment in private sector companies, holdings in public corporations or foreign exchange reserves, depending on the institutional structure of the country concerned and data availability.

<sup>24</sup> Gross domestic product is equal to the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.



Table 3.2

Australian Government’s net worth

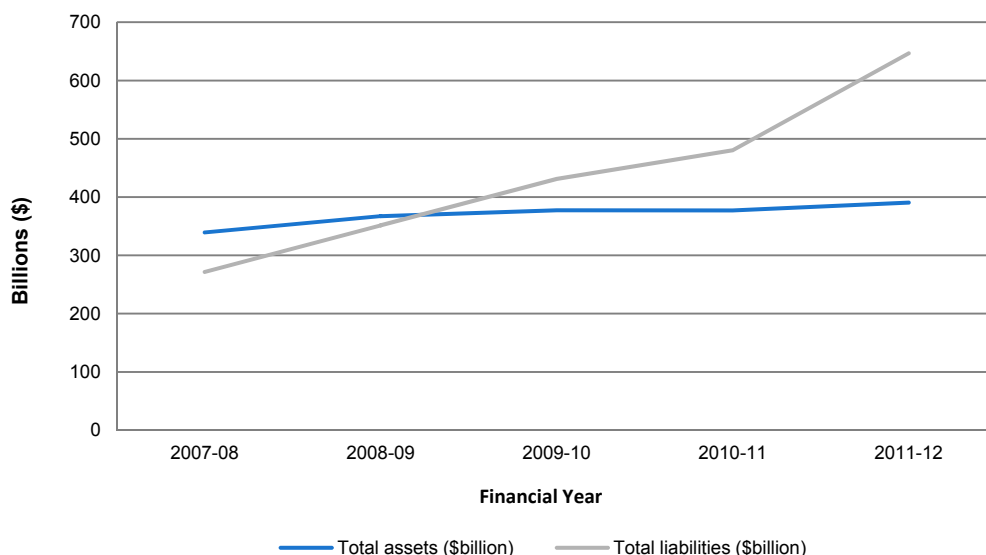


Source: Consolidated Financial Statements from 2007–08 to 2011–12

**3.14** The decline in the Australian Government’s net worth is the result of the rate of increase in total liabilities outweighing the increase in total assets in recent years (see Table 3.3).

**Table 3.3**

**Australian Government's total assets and total liabilities**



Source: Consolidated Financial Statements from 2007–08 to 2011–12

**3.15** The two primary drivers of the change in the Australian Government's position from positive to negative net worth in recent years are:

- the valuation of the defined benefit obligations for Australian Government sponsored superannuation schemes including for civilian employees, military personnel and Parliamentarians has increased from \$100.3 billion at 30 June 2008 to \$235.8 billion at 30 June 2012, primarily due to the movement in the long term government bond rate, increases in the length of service of members and interest costs; and
- Commonwealth Government securities on issue have increased from a value of \$58.4 billion at 30 June 2008 to \$268.2 billion at 30 June 2012, mainly driven by the need to fund the underlying cash deficit. In addition, the requirement under the accounting standards to measure these securities at their fair value at 30 June, using the long term government bond rate at that date, contributed to the increase in the value of these liabilities.

**3.16** Other noteworthy movements in the CFS affecting the operating statement and the balance sheet of the Australian Government are explained below.

## Operating statement

**3.17** Total revenue of the Australian Government increased by \$28.1 billion in 2011–12 to \$350.4 billion. The significant movement in revenue was a \$27.7 billion increase in taxation revenue, primarily as a result of:

- an increase in income tax on individuals, reflecting growth in employment and wages;
- an increase in company tax, reflecting the continuing recovery of company profits after these hit a low point during 2009–10 as a result of the global economic conditions;
- an increase in taxation on superannuation funds reflecting the continuing recovery of earnings after these hit a low point during 2009–10 as a result of the global economic conditions, partially offset by the use of previous capital losses;
- an increase in customs duty revenue primarily in relation to excise-like goods; and
- an increase in the goods and services tax (GST) in line with the overall growth in consumption.

**3.18** Total non-taxation revenues increased by \$0.4 billion in 2011–12. This increase was primarily due to an increase in sales of goods and services revenue, mainly associated with increases in Medibank Private health insurance premium revenue, royalty and licence fee revenue relating to a Commonwealth Scientific and Industrial Research Organisation (CSIRO) patent, Australia Post revenue and immigration fees. These increases were partially offset by decreases in interest and dividend income primarily in the Future Fund investment portfolio.

**3.19** The Australian Government's total expenses increased by \$21.9 billion in 2011–12. 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, people with disabilities, family tax benefit recipients and carers due to indexation arrangements, customer growth and the impact of new government measures;

- an increase in paid parental leave due to 2011–12 reflecting the first full financial year of operation of the scheme;
- a one-off lump sum payment for the schoolkids bonus. This payment was made to eligible families in June 2012 as a transitional arrangement between the withdrawal of the previous education tax refund and the full implementation of the new schoolkids bonus payment;
- an increase in infrastructure grants to the states and territories, particularly in relation to the National Building Program and the Building Australia Fund;
- payments to highly emissions-intensive coal-fired generators as part of the energy security fund program in June 2012;
- an increase in health-related grants to the private sector and to the states and territories. Increased payments to the states and territories include the National Healthcare Specific Purpose payment and National Partnership payments in areas such as health infrastructure and preventative health; and
- offsetting decreases in grants to the states and territories due to:
  - a reduction in payments under the Natural Disaster Relief and Recovery Arrangements program, reflecting the impact on the 2010–11 financial results of the flooding in Queensland and Victoria between November 2010 and January 2011 and Cyclone Yasi in February 2011; and
  - a reduction in education grants as a result of the winding down of funding provided under the Building the Education Revolution program.
- 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;
  - increases in the cost of sustaining defence capital equipment, information technology and estate upkeep;

- increases in residential care subsidies;
- an increase in healthcare expenses for veterans; and
- an increase in supplier expenses across a number of entities.
- an increase in employee expenses in a number of entities; 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.

**3.20** The net acquisition of non-financial assets was broadly in line with 2010–11, with only a \$0.1 billion increase to \$6.8 billion in 2011–12.

**3.21** Other economic flows, which include asset and liability revaluation gains and losses, moved from a loss of \$3.1 billion in 2010–11 to a loss of \$113.9 billion in 2011–12. The primary drivers for this increase were:

- the impact of movements in the long term government bond rate used to calculate the Australian Government superannuation liability. Even small movements in the bond rate can cause significant movements in the valuation of the liability. Between 30 June 2011 and 30 June 2012 the bond rate decreased from 5.21 per cent to 3.04 per cent whereas between 30 June 2010 and 30 June 2011 the bond rate increased from 5.10 per cent to 5.21 per cent, resulting in a \$0.9 billion positive flow in 2010–11 compared to a \$85.9 billion negative flow in 2011–12; and
- an unrealised loss from the re-measurement of Commonwealth Government securities as at 30 June 2012 as a result of the impact of falling interest rates.

## Balance sheet

**3.22** The 2011–12 CFS reported a \$153.1 billion decrease in the net worth position of the Australian Government from negative \$103.1 billion in 2010–11 to negative \$256.3 billion in 2011–12. This decrease was a consequence of a \$166.7 billion increase in liabilities, partially offset by a \$13.5 billion increase in assets as at 30 June 2012.

**3.23** The value of the Australian Government's financial assets at 30 June 2012 increased by \$6.5 billion compared to 30 June 2011. The primary reasons for this increase were:

- an increase in advances paid primarily due to an increase in the value

of student loans under the Higher Education Loan Program and the provision of funds to the International Monetary Fund under the New Arrangements to Borrow arrangements;

- an increase in investments, loans and placements, mainly as a result of an increase in the Australian dollar securities and foreign exchange holdings of the Reserve Bank of Australia (RBA) and an increase in collective investment vehicles held by the Future Fund Management Agency; and
- an increase in other receivables, primarily in relation to taxation receivables.

**3.24** The above increases were partially offset by a decrease in listed equity and listed managed investment schemes held by the Future Fund Management Agency and decreases in deposits and interest bearing securities.

**3.25** Total non-financial assets increased by \$7.1 billion in 2011–12 primarily due to:

- purchases and revaluations of land and buildings, infrastructure, plant and equipment particularly in the Department of Defence and the National Gallery of Australia;
- an increase in intangible assets including the purchase of water entitlements and an increase in software assets across a number of agencies; and
- an increase in inventory held by Defence and the Defence Housing Authority.

**3.26** Interest bearing liabilities increased by \$65.7 billion in 2011–12. This increase related to an increase in Commonwealth Government securities on issue, which is primarily driven by the need to fund the underlying cash deficit. In addition, the requirement under the accounting standards to measure these securities at their fair value at 30 June, using the long term government bond rate at that date, contributed to the increase in the value of these liabilities.

**3.27** Provisions and payables increased by \$100.9 billion. The main causes of this increase were:

- a significant increase in the defined benefit obligations for Australian Government sponsored superannuation schemes at 30 June 2012,

primarily due to the downwards movement in the long term government bond rate explained in paragraph 3.21, an increase in the length of service of members and interest costs, partially offset by payments made during 2011–12;

- an increase across a number of other long term provisions due to the movement in the long term government bond rate explained in paragraph 3.21;
- an increase in the value of Australian notes on issue in line with historical trends. Over the past year, growth in banknote demand has returned to levels consistent with those experienced in the years leading up to 2009–10, when demand spiked as a result of the global economic conditions;
- an increase in other employee entitlement liabilities, particularly long service leave, across a number of agencies;
- an increase in the provision for taxation refunds, particularly in relation to the petroleum resource rent tax;
- an increase in subsidies payable for the fuel tax credits scheme and the research and development tax incentive; and
- a general increase in trade creditors across a number of entities.

**3.28** The above increases were partially offset by:

- a decrease in personal benefits payables, primarily due to a reduction in amounts payable for the education tax refund as a consequence of the education tax refund being replaced by a one-off transitional lump sum payment to eligible families in June 2012; and
- a decrease in unsettled purchases at 30 June 2012 compared to the prior year, for the Future Fund Management Agency and the Nation Building Funds.

## Significant disclosures in the CFS

### Change in accounting treatment for dividend payments

**3.29** During 2011–12, following consultation with the ANAO, the Australian Government changed its accounting policy regarding the treatment of dividends due from the Reserve Bank of Australia (RBA). This change in accounting policy ensures there is alignment between the treatment required

by the RBA under their enabling legislation and the Department of the Treasury, as the relevant portfolio department. As a result of this change, the RBA dividend for 2011–12 of \$500 million was recorded as a receivable in the GGS financial report as at 30 June 2012. There is no prior year adjustment required for this change as the RBA did not pay a dividend in 2010–11. Further, this change does not affect the CFS as this dividend is eliminated when the RBA is consolidated into the whole of government. Details of this change in accounting policy are disclosed in Note 1.12 to the CFS.

## **Actual and potential breaches of the Constitution**

**3.30** As outlined in paragraphs 5.30 to 5.43 of this report, 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. Section 83 of the Constitution requires that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

**3.31** Note 1.28 to the CFS provides information on the Australian Government's review during 2011–12 of its exposure to risks of not complying with statutory conditions on payments from special appropriations and special accounts. As disclosed in Note 1.28, payments were made in 2011–12:

- in breach of section 83 of the Constitution, totalling \$208.2 million across 12 agencies; and
- potentially in breach of section 83 of the Constitution, totalling \$1 406.4 million across nine agencies.

**3.32** Further, as disclosed in Note 1.28 to the CFS, the High Court held in *Williams v Commonwealth* that payments made under the National School Chaplaincy program were constitutionally invalid as they were beyond the Executive power of the Commonwealth.<sup>25</sup> The debts arising as a consequence of that decision, and debts that may have arisen under the National School Chaplaincy and Student Welfare Programs, were waived under s34(1)(a) of the *Financial Management and Accountability Act 1997*. The total waived by the Special Minister of State was \$208.3 million.

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<sup>25</sup> As outlined in section 61 of the Constitution.



**3.33** The ANAO's auditor's report on the CFS included a report on other legal and regulatory requirements in respect of these matters. Further details on the actual and potential breaches identified by each agency are included in Chapter 6 of this report.

### **Significant differences between original budget and actual results**

**3.34** 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 43 to the CFS. The Australian Government only presents a budget at the GGS level, and not at the whole of government level therefore variances between budget and actual are only presented for the GGS.

**3.35** The main variances explained in this Note relate to:

- a decrease of \$11.8 billion in actual revenue compared to the amount of revenue expected at the time of the original budget being presented to the Parliament in May 2011;
- an \$11.5 billion increase in actual expenses compared to the original budgeted amount;
- a increase of \$0.4 billion in the net acquisition of non-financial assets compared to the original budget;
- a \$164.6 billion decrease in the net worth position when compared to the original budget; and
- a \$21.5 billion larger cash deficit position than the position that was included in the original budget.

### **Ministerial remuneration**

**3.36** The 2011–12 CFS has continued the approach of prior years of incorporating disclosure of Ministerial Remuneration in Note 6 to the CFS. 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. In this context in July 2011 the Australian Accounting Standards Board (AASB) issued an exposure draft of an accounting standard, ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector*. At the AASB's July 2012 meeting it was agreed that the Board would progress the drafting of the amendments to

AASB 124 *Related Party Disclosures*. Based on the AASB's decisions to date, more detailed Ministerial Remuneration disclosure is likely to be required in the CFS from 2014–15.

### **Special accounts disclosure**

**3.37** In previous years the CFS included disclosure of all special accounts held by Australian Government agencies. With the agreement of the Minister for Finance and Deregulation, this disclosure has been removed from the 2011–12 CFS. Instead, this information is intended to be made available on the Department of Finance and Deregulation's website. This information was not required to be included in the CFS by either the Australian Accounting Standards or legislation.

## 4. Commentary on Financial Statement Related Matters

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*This chapter provides an analysis by the ANAO of entities' operating results and balance sheet position, and a commentary on the use of estimates in calculating a range of financial statement balances.*

### Analysis of entities' financial statements

**4.1** An integral part of the ANAO's financial statement audits is an understanding of the entity being audited and its environment. A key part of this process is identifying the main factors that influence an entity's financial results. While this is undertaken for each individual entity, to assist in shaping the ANAO's audit coverage of 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 generally.

**4.2** Reporting on an accrual basis provides information on the full cost of government activities, not just costs that are paid in cash in the current year. In 2010–11, the Government shifted its funding for asset replacement for many entities from a full accrual basis towards a cash basis.<sup>26</sup> In this context, the reporting of accrual information highlights the full cost of operations, regardless of the particular funding model in place.

**4.3** Last year, for the first time, the ANAO analysed the operating results of material entities controlled by the Australian Government. This year, we also examined the balance sheet position of these entities.

### Operating results analysis

**4.4** The responsibilities of Australian Government entities are established by legislation, or determined by government, and include responsibilities for functions such as policy development, regulatory oversight and/or service delivery. In performing these responsibilities, entities are expected to manage, efficiently and effectively, the public resources made available to them. An

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<sup>26</sup> From 2010–11, the Government ceased to provide funding for make-good, depreciation and amortisation expenses for most agencies established under the *Financial Management and Accountability Act 1997*. Instead, funding is provided when assets need to be replaced. 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 some instances, the Government has chosen not to fund specific expenses at the time they are recognised in an entity's financial statements. The ANAO analysis has therefore adjusted entity surpluses or deficits by the amount of unfunded expenses.

important aspect of an entity's financial management responsibilities is the preparation of financial statements that disclose the entity's sources of revenue, its full costs of operation and the resulting surplus or deficit.

**4.5** The financial performance of a public sector entity cannot be measured solely on its operating results. Circumstances can arise that result in an entity incurring deficits in the course of meeting its responsibilities. A history of significant deficits, however, could also suggest the need for: additional funding; elimination of non-value adding costs; reductions in service levels; and/or improved entity financial management.

**4.6** Against this background, the ANAO undertook an analysis of the operating results of all material entities over the three years 2009–10 to 2011–12. The ANAO grouped material entities into four categories, which are explained in Table 4.1 below.

**Table 4.1**

**Operating result categories**

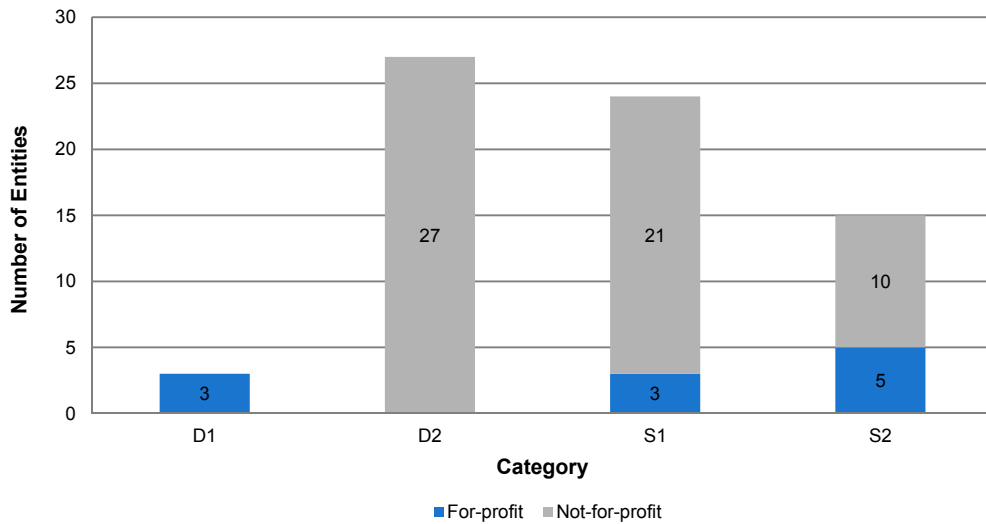
Category	Explanation
D1	Averaged a deficit/loss for the last three years and had two or three deficits/losses greater than five per cent of total expenses.
D2	Averaged a deficit/loss for the last three years and had one or zero deficits/losses greater than five per cent of total expenses.
S1	Averaged a surplus/profit for the last three years less than five per cent of total expenses.
S2	Averaged a surplus/profit for the last three years equal to or greater than five per cent of total expenses.

Source: ANAO analysis

**4.7** Figure 4.1 presents the results of the ANAO analysis of entities' operating results in the period 2009–10 to 2011–12.

**Figure 4.1**

**Material entities by operating results category<sup>27</sup>**



Source: ANAO analysis

**Reported material entities by operating results category**

**4.8** Significantly, the ANAO's analysis identified that 51 entities (approximately 74 per cent of the total) made small surpluses/profits or deficits/losses over the three year period; these entities are grouped in Categories D2 or S1 (see Figure 4.1). The high percentage of entities in these categories suggests that, overall, entities have been appropriately managing their finances for the period under analysis.

**4.9** Entities that averaged a deficit/loss over the three years, and incurred at least two annual deficits/losses over that period greater than five per cent of expenses, are grouped in Category D1. Only three entities (approximately four per cent of the total number of entities analysed) were in this category, and each had particular circumstances that explain the deficits/losses. The NBN Group is incurring losses in its start-up phase, as anticipated in its business plan projections; the Reserve Bank of Australia holds foreign currency reserves in the national interest, and is therefore exposed to gains and losses from market movements that can result in losses in the ordinary course of business; and the Australian Rail Track Corporation has experienced downwards revaluations of some of its infrastructure assets.

<sup>27</sup> Two entities with a limited history of financial information have been excluded from this analysis.

**4.10** The remaining 15 entities (approximately 22 per cent of the total) incurred an average annual surplus/profit greater than five per cent of expenses. These entities are grouped in Category S2. In eight cases<sup>28</sup>, these surpluses/profits arose from the commercial operations of for-profit entities or the quasi-commercial operations of not-for-profit entities.

**4.11** The other seven entities in Category S2 were: the Albury-Wodonga Development Corporation; the Australian Office of Financial Management; the Australian War Memorial; the Department of Climate Change and Energy Efficiency; the Grains Research and Development Corporation; the National Archives of Australia; and the National Museum of Australia. There were a range of reasons for these entities recording surpluses/profits, including the receipt of donated assets, lower than expected costs, higher levy receipts, additional government funding and changes in accounting policies.

**4.12** The aggregate results of material entities are not the major factor contributing to the operating deficits of the Australian Government; changes in the level of taxation revenue and transfer payments are much more significant<sup>29</sup>. In 2011–12, material entities generated, in aggregate, \$1.5 billion in surpluses/profits. This was mainly driven by \$2.5 billion in surpluses/profits from for-profit entities and the Future Fund. In the same year, the operating deficit of the Australian Government as a whole was \$68.6 billion.

## **Balance sheet analysis**

**4.13** While an entity's operating result is an important aspect of its financial management, it is also important that an entity actively manages its balance sheet, maintaining asset levels to support entity operations and ensuring that sufficient cash will be available to meet liabilities as they fall due.

**4.14** Under Australian Accounting Standards, a distinction is made between those assets and liabilities that a government entity controls (departmental) and those that it administers on behalf of the Government (administered). An entity does not have full discretion over the use of administered assets, due to legislation or government policy, and is not required to settle administered

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<sup>28</sup> The eight entities are: the Australian Government Solicitor; Airservices Australia; the Coal Mining Industry (Long Service Leave Funding) Corporation; Defence Housing Australia; the Export Finance and Insurance Corporation; the Future Fund Management Agency; Medibank Private Ltd; and the Australian Reinsurance Pool Corporation.

<sup>29</sup> Taxation receipts, transfer payments and similar items are collected and paid by Australian Government entities, but are not included in their operating results, since they are treated and reported as administered items. The 2011–12 operating results of the Australian Government as a whole are discussed in Chapter 3 of this report.

liabilities from its own resources. While a large proportion of Australian Government assets and liabilities are administered,<sup>30</sup> significant levels of assets and liabilities are departmental. As at 30 June 2012, Australian Government entities held \$222.1 billion in departmental assets and \$109.0 billion in departmental liabilities.

**4.15** Judging the appropriate level of assets and liabilities for a particular entity is a complex exercise. Judgements are necessarily influenced by the responsibilities of the entity, past entity decisions on resource allocation and the funding models put in place by government.<sup>31</sup>

**4.16** Against this background, as part of the audit of entities' 2011–12 financial statements the ANAO also conducted an analysis of the balance sheet positions of material Australian Government entities as at 30 June 2012. This analysis focussed on two aspects of entity balance sheets:

- *Liquidity*: the extent to which an entity's liabilities are covered by cash or other financial assets. An entity where liabilities significantly exceed its financial assets may need a future injection of cash from government to meet those liabilities.
- *Gearing*: the extent to which an entity's total assets are funded by debt rather than equity. An entity with high gearing may be running down its asset base and may also need a future injection from government to continue operating.

**4.17** The ANAO grouped material entities into the following categories:

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<sup>30</sup> Of total whole of government assets at 30 June 2012 of \$390.5 billion, administered assets constituted \$167.9 billion (43 per cent), mainly comprising investments and tax receivables. Of total liabilities of \$646.8 billion, \$537.8 billion (87 per cent) were administered, mainly comprising government debt and provisions for superannuation.

<sup>31</sup> As noted earlier in this chapter, some entities are not funded for depreciation of assets as it occurs; instead, they receive capital funding when assets need to be replaced. This means, for example, that the value of an entity's asset holdings may decline because the assets are depreciating, but because they are not yet due for replacement no funding has been received from government.

Table 4.2

Balance sheet categories

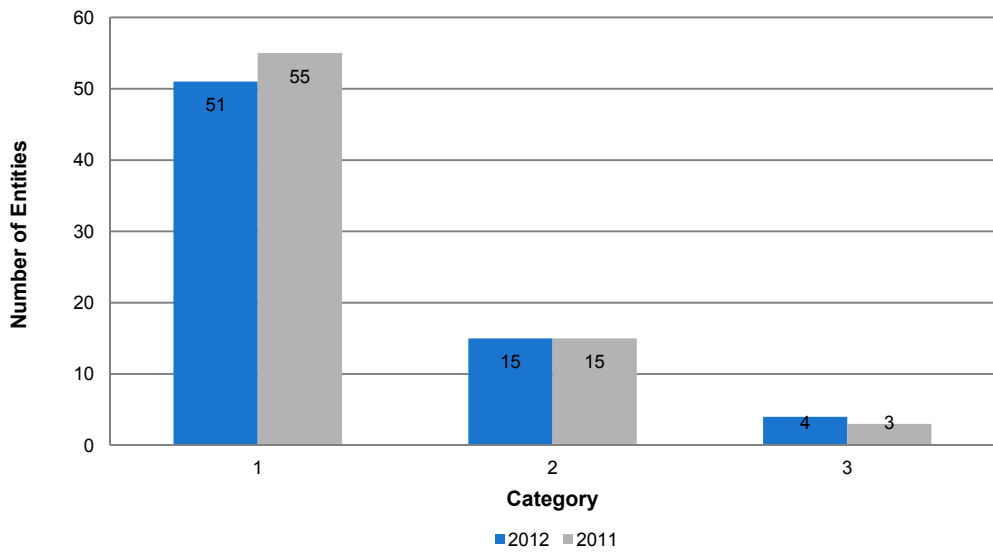
Category	Explanation
1	Entities where financial assets were at least 50 per cent of total liabilities and where equity was at least 25 per cent of total assets. These entities have the strongest balance sheets.
2	Entities where financial assets were less than 50 per cent of liabilities or where equity is less than 25 per cent of total assets. These entities had weaker balance sheets, either in liquidity or gearing terms.
3	Entities where financial assets were less than 50 per cent of liabilities and where equity was less than 25 per cent of total assets. These entities are the most likely to need additional funding in the future.

Source: ANAO analysis

4.18 Results of the ANAO analysis are shown in Figure 4.2.

Figure 4.2

Material entities by balance sheet category



Source: ANAO analysis

4.19 Collectively, at 30 June 2012, material entities’ financial assets were 98 per cent of liabilities, and equity was 50 per cent of total assets. This was broadly comparable to the situation at 30 June 2011. This suggests that, overall, the balance sheet position of material entities is satisfactory.



**4.20** It is also encouraging to observe that the large majority of entities fell into Category 1, which indicates a relatively strong balance sheet position. Fifteen entities were in Category 2 and four in Category 3. Three of those four entities (the Australian Taxation Office, the Australian Bureau of Statistics and the Defence Materiel Organisation) are large government agencies with relatively stable funding and operations; consequently they are not at high risk of experiencing liquidity problems. Nevertheless, it is important that entities in this category continue to monitor their financial position and improve it, where practicable. The remaining entity, the Department of Sustainability, Environment, Water Population and Communities has a significant unfunded liability relating to the rehabilitation of its Antarctic sites; the Government's general policy is to provide cash to meet agency rehabilitation liabilities at the time the work is undertaken.

**4.21** While the above analysis suggested that entities balance sheets are reasonably sound, the analysis is based on benchmarks developed by the ANAO. In the longer term, there would be benefit in entities benchmarking their balance sheet performance over time and against like entities, as a measure of their financial performance and to enhance their accountability.

## Use of estimates in preparing financial statements

**4.22** The Australian Government, like many other significant entities, prepares comprehensive accrual based financial statements, in accordance with Australian Accounting Standards, that disclose assets, liabilities, income and expenses.<sup>32</sup> Due to the inherent uncertainties in business activities, some financial statement balances cannot be measured with precision, and must be estimated.<sup>33</sup> Such accounting estimates require the exercise of judgement by the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts.<sup>34</sup>

**4.23** The use of estimates in the preparation of financial statements has increased in recent years as there has been a move in the accounting profession to report on a fair value basis, the applicable financial reporting frameworks have matured and in some cases mandated the use of fair values, and the

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<sup>32</sup> Accrual accounting involves the reporting of income and expenses when incurred. For example, if goods or services are received in one financial year but paid for in the following financial year, the expense is recognised in the year in which the goods or service are received. Movements in estimates over time result in greater income and assets or expenses and liabilities which affect an entity's annual financial results.

<sup>33</sup> AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 32.

<sup>34</sup> AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 38.

methodologies used by entities to estimate the likelihood and financial impact of future conditions, transactions and events have generally improved.

**4.24** While private sector entities also disclose estimates in their financial statements, the Australian Government is characterised by the number and variety of transactions and events that give rise to the need for financial statement balances to be determined based on estimates. For example, the Australian Government manages superannuation schemes, insurance activities, domestic and foreign investments, concessional loans, and engages in activities under legislation including the collection of taxation revenue, the provision for higher education loans and payment of social security benefits. Many of the significant asset and liability balances, arising from these activities of government, need to be estimated as the cash payment or receipt of monies will not occur until a future financial period. In some cases the payment or receipt of monies will take place many years in the future.

**4.25** Of the total liabilities balance of \$646.8 billion reported in the 2011–12 Consolidated Financial Statements, in excess of \$270 billion was based on estimates. In addition, of the total assets balance of \$390.6 billion reported in the Consolidated Financial Statements, in excess of \$170 billion was derived from estimates.

**4.26** The calculation of an accounting estimate may be straightforward or complex, depending on factors such as the nature of the item, the complexity of the business activity, the availability of information and the extent of uncertainty of future conditions, transactions or events.

## **Entity and ANAO responsibilities**

**4.27** In circumstances where financial statement balances are estimated, entities and the ANAO have particular responsibilities.

**4.28** It is important that entities have procedures in place designed to ensure the estimates, prepared to inform management decisions and for the purposes of financial reporting, are reliable. In broad terms, this requires estimates to be supportable and assumptions applied by entities or experts to be soundly based and appropriate to the entity's individual circumstances.

**4.29** The ANAO's approach to the audit of estimates is in accordance with the requirements of ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. In summary, the ANAO: assesses the appropriateness and consistency of the approach used by the entity in

determining the estimate; reviews and tests the assumptions used, and the data on which the estimate is based; and assesses the appropriateness of the disclosures in the entity's financial statements. In doing this, the ANAO may engage the use of its own expert in relation to an estimate. This is particularly relevant in relation to the more complex estimation items.

## Liability and asset balances

4.30 Table 4.3 below provides details of significant financial statement balances that require estimation.

**Table 4.3**

### Significant financial statement balances that require estimation reported in the 2011–12 Consolidated Financial Statements

Category <sup>1</sup>	Item	2011–12 \$m	2010–11 \$m	Movement %
<b>LIABILITIES</b>				
Employee benefits	Superannuation liability	235 840	145 201	62%
	Long service leave entitlements <sup>2</sup>	9 379	8 375	12%
	Military compensation	3 510	2 267	55%
	Workers compensation claims	2 752	2 003	37%
Grants and subsidies	Unfunded university superannuation*	7 320	5 209	41%
	Natural Disaster Relief and Recovery Arrangements payments to states and territories*	3 937	4 575	(14)%
Personal benefits	Family tax benefit*	5 216	5 285	(1)%
	Outstanding medical benefits and claims*	1 457	1 544	(6)%
<b>ASSETS</b>				
Loans and receivables	Higher education loan program (HELP) student loans <sup>3,4</sup>	25 570	20 779	23%
	Concessional loans <sup>4*</sup>	5 573	5 634	(1)%
	Provisions for doubtful tax receivable and credit amendments <sup>5</sup>	(14 446)	(11 381)	27%
	Accrued tax revenue <sup>6</sup>	10 685	10 420	3%
Physical assets	Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties	64 061	61 423	4%
	- Provision for makegood <sup>7</sup>	(2 009)	(1 857)	8%

Category <sup>1</sup>	Item	2011–12 \$m	2010–11 \$m	Movement %
Investments	Collective investment vehicles	24 837	21 411	18%
	Investments in public corporations <sup>8</sup>	20 897	17 726	18%
	Residential mortgage backed securities*	11 073	10 779	3%
	International Monetary Fund quota	9 157	9 414	(3)%
	International Development Association and Asian Development Fund subscriptions*	1 271	991	28%
Other assets	Guarantee scheme for large deposits, wholesale funding and state and territory borrowings contractual fee receivable*	1 330	2 127	(37)%

Source: ANAO analysis of the 2011–12 Consolidated Financial Statements.

\* A number of balances are not separately identified in the Consolidated Financial Statements, but form part of an aggregate balance. These balances were obtained from individual entity's financial statements.

<sup>1</sup> These categories broadly align with the classification of balances in the Consolidated Financial Statements of the Australian Government.

<sup>2</sup> Includes annual leave entitlements, as these entitlements and long service leave entitlements are reported in aggregate as part of the leave and other entitlements balance in the Consolidated Financial Statements of the Australian Government.

<sup>3</sup> The Department of Industry, Innovation, Science, Research and Tertiary Education reports this asset balance on a net basis in the 2011–12 financial statements at a value of \$19.4 billion.

<sup>4</sup> The balances are reported in the CFS on a gross basis, excluding the adjustment for impairment.

<sup>5</sup> This provision represents the estimate of the amount of the balance of the tax receivable of \$31.7 billion that may not be collected. The tax receivable balance represents the actual debt owing by taxpayers where assessments have been issued. As such, the tax receivable balance is not an estimate and therefore is not included in this table.

<sup>6</sup> This balance represents amounts owing to the Australian Government in relation to certain types of taxation, including goods and services tax, fringe benefits tax and petroleum resources rent tax.

<sup>7</sup> This provision represents an estimate of the amount required to restore premises to their original condition commonly at the end of the lease.

<sup>8</sup> Investments in public corporations are balances reported in the General Government Sector financial statements. These investments are eliminated on consolidation.

**4.31** The most significant liability and asset balances reflected in the Consolidated Financial Statements that are determined using estimates are discussed below, including the main factors that are taken into account in calculating these balances including, where relevant, factors that resulted in significant movements during 2011–12.

### *Liability balances*

#### *Employee benefits*

**4.32** Employee benefits encompass a range of payments to Australian Government employees and Parliamentarians including payments for

superannuation, long service leave and compensation.<sup>35</sup> Employee benefits generally involve complex estimation due to their long settlement period, as some amounts will not be required to be paid out until many years in the future. As some of these liabilities, particularly superannuation, include benefits that are payable a number of years into the future, relatively small changes in assumptions can lead to significant movements in the liability balance. In this context, the prevailing long term government bond rate<sup>36</sup> is used for the first ten years and adjusted as required for periods beyond this. Other factors that are used in the calculation of employee benefit liabilities include: length of service of employees; participation and exit rates; movements in salary levels; and claims history. In addition, the calculation of the liabilities requires consideration of trends in economic and market conditions over an extended period.

**4.33** The effect of movements in the discount rate is best illustrated in the calculation of the Australian Government's superannuation liability, which has increased by \$90.6 billion or 62 per cent from 30 June 2011. This was largely attributable to a decrease in the discount rate since 30 June 2011. Agencies such as the Department of Finance and Deregulation and the Department of Defence that report the balances for various superannuation schemes use experts to assist with the calculation of the liabilities.

#### *Grant and subsidies*

**4.34** Estimates for grants and subsidies often result from government policy decisions and these may be payable to third parties, private sector organisations and state and territory governments. These include providing guarantees in relation to certain events, government grant obligations in relation to university superannuation funds, or benefits to third parties in accordance with legislative requirements.

**4.35** These estimates recognised by entities are commonly supported by actuarial or other expert advice, which takes into account a range of factors that impact on any future payment. Often there is an inter-relationship between the factors considered in calculating the estimate that may result in a significant movement in the estimated balance from year to year.

**4.36** Within this category of liabilities, the unfunded university

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<sup>35</sup> Compensation payments include workers compensation paid to employees injured at work, and compensation paid to military personnel. Military personnel include currently serving and retired personnel, and dependents who are entitled to compensation under legislation.

<sup>36</sup> Op cit (refer footnote 21 on p. 39)

superannuation provision represents the Australian Government's estimate of future grants payable to university superannuation funds. There is a range of factors that can impact the estimate, such as participation rates, salary levels and exit rates. However the main factor resulting in the increase in the balance of \$2.1 billion was the reduction in the discount rate reflecting movements in the long term government bond rate.

**4.37** Also in this category, the Natural Disaster Relief and Recovery Arrangements provision is an estimate of future payments to be made to states and territories for disaster events that had occurred prior to year end. The estimate is based on the expected costs to restore damaged infrastructure and is reviewed annually as more reliable information becomes available. In 2011–12, the provision decreased by \$638 million mainly due to cash payments made to states and territories for reconstruction work completed at year end resulting in a reduction in the obligations of the Australian Government. The decrease was partially offset by the decrease in the discount rate and a re-assessment by the states and territories of the expected restoration costs.

#### *Personal benefits*

**4.38** Estimates of personal benefits relate to amounts payable to individuals within the community, usually in accordance with legislative requirements or government policy decisions.

**4.39** Within this category of liabilities, the family tax benefit provision is an estimate of payments to be made to families in the following years as a result of meeting certain eligibility criteria. The estimate is based on historical data and the Department of Families, Housing, Community Service and Indigenous Affairs' assessment of the number of eligible recipients, claim rates and recipient's behaviour. These factors have remained relatively stable in 2011–12.

**4.40** Also in this category, the outstanding medical benefits and claims provisions reported by the Department of Health and Ageing and Medibank Private Limited are estimates of claim reimbursements payable to either a patient, medical provider or hospital for services provided prior to the reporting date. The factors that influence these estimates include: historical claim rates; the long term government bond rate; and seasonal trends in claimants' behaviour. The provisions are calculated with the assistance of actuaries. The methodologies and expected claim rates in 2011–12 are consistent with 2010–11 and the balance has remained relatively stable.

## *Asset balances*

### *Loans and receivables owing to the Australian Government*

**4.41** Loans and receivables owing to the Australian Government relate to circumstances where the Government has provided money to a third party in the public interest, and expects a return on, or repayment of, that money at a future date. Reflecting the conditions or circumstances applying to these components, there may be some uncertainty as to whether the Government expects to fully recover these balances. The significant balances in this category are: Higher Education Loan Program (HELP) loans; concessional loans; provision for tax receivables; and accrued tax revenue.

**4.42** Within this category of assets, HELP loans are provided to students to fund tertiary studies and the fair value is estimated by taking into consideration the likelihood of recovery, the timing of repayments and movements in interest rates. Due to the significant uncertainty and potential for large movements, the Department of Industry, Innovation, Science, Research and Tertiary Education engages an actuary to review the estimate on an annual basis. In 2011–12 the balance increased by \$3.8 billion mainly due to the reduction in the discount rate and a net increase in loans provided.

**4.43** Also in this category, concessional loans are amounts provided to third parties at interest rates below the market rate. Governments provide concessional loans for a number of reasons, but generally to assist entities where commercial loans may be unavailable, or want to encourage growth and investment in a particular sector. Concessional loans are recorded at fair value on a discounted basis based on the agency's assessment of recoverability and the timing of repayments.

**4.44** As mentioned above, the provision represents the estimate of the amount of the balance of the tax receivable of \$31.7 billion that may not be collected. The estimate is based on a combination of complex data modelling undertaken by the Australian Taxation Office, which is reviewed by an actuary and relies on debt collection rates, analysing taxpayer behaviour and takes into account current market conditions. The provision for doubtful debts increased primarily as a result of a corresponding increase in tax receivables.

**4.45** Estimates are also used to calculate revenue owed to the Australian Government in relation to certain types of taxation revenue, such as goods and services tax, fringe benefits tax and petroleum resources rent tax. The estimate is based on complex data modelling undertaken by the Australian Taxation

Office and takes into account historical data and current market conditions. There has been a relatively small change in the accrued taxation revenue balance in 2011–12 as the factors impacting the balance have remained relatively stable.

#### *Physical assets*

**4.46** Under the Finance Minister’s Orders, physical assets are required to be recorded at fair value. Generally, this is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. The process to assess an asset’s fair value includes considering market information, recent sale prices of similar assets, consumer demand and obsolescence. In the absence of a viable market, alternative approaches to valuing assets may be adopted, such as the depreciated replacement cost of the asset. The choice of which approach is applied is a decision made by the entity, in consultation with the valuer, taking into account the asset’s use and market conditions.

**4.47** The FMOs also require the value of physical assets to be assessed each year to confirm that the carrying amount does not materially differ from the fair value as at the reporting date. Where there are only insignificant changes in fair value, the accounting standards provide that a valuation, generally undertaken by an expert such as a qualified valuer, may only be required every three to five years.

**4.48** The Australian Government reports physical assets that include plant and equipment, and land and buildings. While many of the Government’s physical assets are similar to those reported by the private sector, they also include land and buildings of cultural significance such as Parliament House, the Australian War Memorial and the High Court of Australia. These buildings are recorded at depreciated replacement cost, as mentioned above. Other specialised equipment reported by the Government includes defence weapons and railway infrastructure. The Australian Government also reports the value of a number of cultural and heritage asset collections. The value of such collections is generally determined by appropriately qualified experts based on the market selling price of similar items worldwide.

**4.49** Given the diverse nature of assets held by the Australian Government, there will be a range of factors resulting in movements in balances. In 2011–12, the increases are mainly due to changes in market conditions.



## *Investments*

**4.50** Portfolio agencies recognise investments in wholly owned Commonwealth authorities and companies at fair value using observable market value or valuation techniques. These include calculating discounted future cash flows or using the net asset position of the wholly owned entity as an estimate. The discounted cash flow method is generally considered to be more appropriate where the investment generates significant non-government cash inflows and those cash flows can be reliably measured.

**4.51** Within the investments category, the Australian Office of Financial Management (AOFM) records residential mortgage backed securities (RMBS), as investments. These investments relate to the securitisation of a pool of loans that is backed by residential mortgages. These investments provide a source of funding for smaller mortgage lenders. RMBS are recorded at fair value applying a model incorporating weighted average life, market quotes (where available) and credit quality considerations.

**4.52** Also in this category, the Future Fund Management Agency recognises collective investment vehicles<sup>37</sup> which are fair valued based on the agency's assessment in accordance with applicable industry standards. These investments reflect the net asset position of the respective investment vehicles at 30 June 2012.

**4.53** The Australian Government also makes investments in a number of international financial institutions. The most significant are investments in the International Monetary Fund, the International Development Association and the Asian Development Fund. These investments are based on the fair value of contributions made to these institutions, revalued annually based on the exchange rate as at year end. The valuation is a non-complex calculation and any variability is associated with movements in currency exchange rates.

## *Other assets*

**4.54** The guarantee scheme for large deposits, wholesale funding and state and territory borrowings contractual fee receivable, reported by the Treasury, is calculated based on the Australian Government's estimate of fees to be received over the life of this scheme. A corresponding liability is also recognised to reflect the Government's contractual obligation arising from the

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<sup>37</sup> A collective investment vehicle is any entity that allows investors to pool their funding and invest the pooled funds, rather than buying securities directly as individuals. Collective investment vehicles are usually managed by a fund management company who is paid a fee.

scheme but not any expected liability under the scheme as these are considered remote and unquantifiable. The decrease in the asset (and corresponding liability) in 2011–12 is mainly attributable to the winding down of the scheme, which was closed to new participants on 31 March 2010.

## **Summary**

**4.55** Estimates are a way to determine the present value as at 30 June of obligations which will be satisfied in future periods. Estimate techniques may also be used to determine the fair value of assets. In the absence of a market selling price, techniques used include depreciated replacement cost and net present value analysis.

**4.56** In 2011–12 the change in discount rates was the main reason for movements in estimates recognised by the Australian Government. Overall, factors such as collectability, claim rates or demographics remained relatively stable compared with 2010–11. Where there is volatility in interest rates between years, there will often be large movements in balances associated with the use of estimates that utilise interest rates in their calculation. It is important to note that these movements do not represent changes in the timing or amount of future cash flows. Rather, they reflect changes in the discount rate applied to future cash flows to calculate a present value as at the end of the applicable financial year.

**4.57** Importantly, disclosure in the financial statements of Australian Government entities and the Consolidated Financial Statements ensures that there is visibility of all significant obligations of the Australian Government. The availability of this information assists the Government to manage its responsibilities and obligations by having access to soundly based financial information to inform its decisions. As such, individual entities have a responsibility for ensuring that the balances which are calculated using estimates that are recorded in their respective financial statements are reliable and are determined on a consistent basis.

## 5. Summary of Audit Results

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*This chapter provides: a summary of issues included in our reports on entities' 2011–12 financial statements including a commentary on actual and potential breaches of section 83 of the Constitution in a number of agencies; a summary of other audit findings identified in the 2011–12 audits; and a commentary on the preparation of entity 2011–12 financial statements and the 2011–12 Certificate of Compliance process.*

### Audit approach

**5.1** Each year 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 Finance Minister's Orders (FMOs) and whether they give a true and fair view of the matters required by the FMOs.

**5.2** 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 on which the auditor's opinion is based is persuasive rather than conclusive.<sup>38</sup>

**5.3** 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 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

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<sup>38</sup> ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 5.

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.

**5.4** 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>39</sup> Broad areas of audit focus, determined as a result of our planning approach, are discussed in Chapter 6 in relation to each material entity covered by this report.

**5.5** 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.

**5.6** 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.

**5.7** The ANAO's Audit Report No 51 2011–12 reported the results of the interim phase of the 2011–12 audits of major General Government Sector agencies. The results of the 2011–12 audits of 261 Australian Government entities are presented in this report.

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<sup>39</sup> Significant risks are those risks of material misstatement of the financial statements that, in the auditor's judgement, require special audit consideration.

## Classification of entities

**5.8** Seventy-one 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 income, 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 the Department of Finance and Deregulation.

**5.9** The following ten entities represent a significant proportion of the Australian Government's 2011–12 financial statement balances:

- Australian Office of Financial Management;
- Australian Taxation Office;
- 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;
- Future Fund Management Agency; and
- Reserve Bank of Australia.

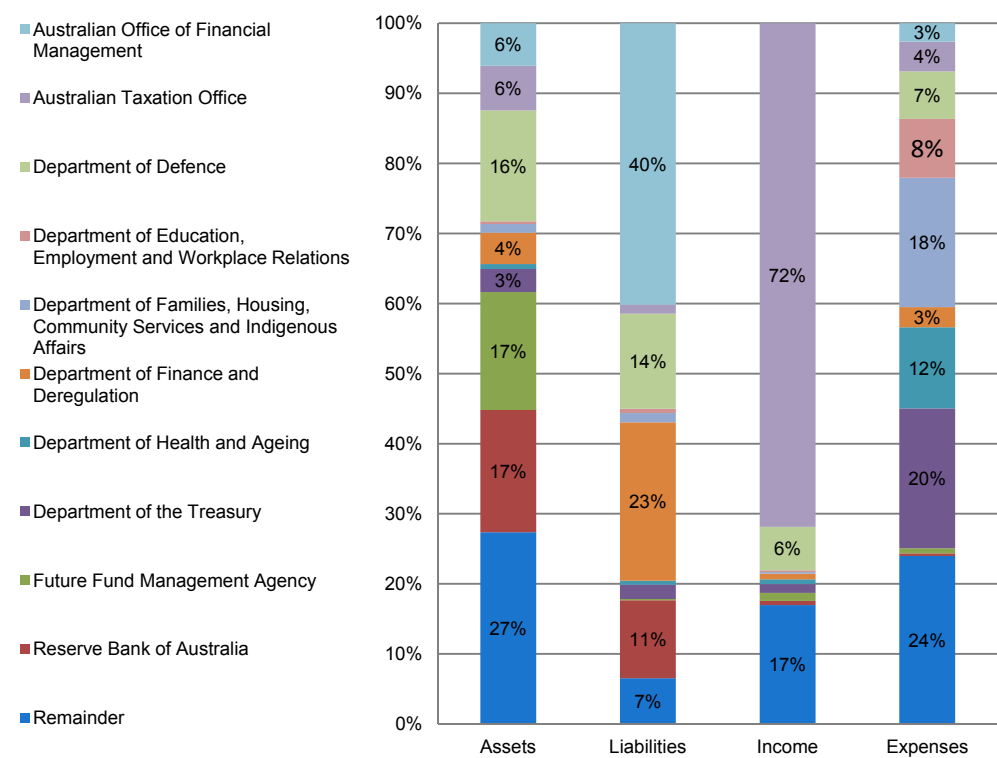
**5.10** The contribution of these entities to the Australian Government's assets, liabilities, income and expenses<sup>40</sup> is shown in Figure 5.1.

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<sup>40</sup> Prior to the elimination of inter entity transactions.

Figure 5.1

Australian Government’s assets, liabilities, income and expenses



Source: ANAO analysis

Summary of results of audits

Summary of reports issued

5.11 The Auditor-General issued auditor’s reports on the financial statements of 254 Australian Government 2011–12 reporting entities. In each case, the audit opinion was unmodified as in the auditor’s opinion, the financial statements gave a true and fair view of the financial position, financial performance and cash flows of the entity in accordance with the applicable financial reporting framework. Where appropriate, an auditor’s report can, without affecting the audit opinion on the financial statements, also draw attention to matters of importance to the understanding of the financial statements or the audit, or include a report on other legal and regulatory requirements. A summary of this information is in Table 5.1 below. Appendix 2 explains in more detail the financial reporting frameworks applicable in the

Australian Government and the form and content of auditor's reports.

**Table 5.1**

**Summary of auditors' reports issued and outstanding**

Financial Statement Auditor's Reports*	2011–12	2010–11
Unmodified auditors' reports**	254	254
Emphasis of matter	6	5
Other legal and regulatory requirements	21	48
Modified auditors' reports	0	0
<b>Total issued</b>	<b>254</b>	<b>254</b>
Auditors' reports outstanding	7	5
<b>Total number of audits</b>	<b>261</b>	<b>259</b>

Source: ANAO analysis

\* As at 30 November 2012.

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

**Entity auditors' reports containing a modification or an emphasis of matter**

**5.12** Six auditors' reports for the 2011–12 year contained an emphasis of matter (five in 2010–11).

*Department of Veterans' Affairs*

**5.13** 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 \$4.8 billion. This provision reports the value of liabilities relating to the *Military Rehabilitation and Compensation Act* (MRC 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;
- the 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.

**5.14** 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.

***Australian Institute for Teaching and School Leadership Limited***

**5.15** The 2011–12 auditor's report for the Australian Institute for Teaching and School Leadership Limited (AITSL) contained an emphasis of matter that draws attention to AITSL's funding agreement with the Department of Education, Employment and Workplace Relations and that the financial statements have been prepared on a going concern basis. The expiry of the current funding agreement may cast significant doubt about the company's ability to continue as a going concern. The company may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

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

***ANU Section 68 Pty Ltd***

**5.17** The auditor's report for the ANU Section 68 Pty Ltd contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis as it was the expectation of the company that it would be wound up within a 12 month period.

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

***HIH Claims Support Limited***

**5.19** The 2011–12 auditor's report for HIH Claims Support Limited contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis as the company is expected to be wound up during 2012–13.

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

***HIH Claims Support Trust***

**5.21** The 2011–12 auditor's report for the HIH Claims Support Trust contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis as the Trust is expected to be terminated during 2012–13.

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

***Wheat Exports Australia***

**5.23** The auditor's report of Wheat Export Australia (WEA) contained an



emphasis of matter that draws attention to the *Wheat Export Marketing Amendment Bill 2012*, which if passed, would result in WEA being wound up by 31 December 2012. The tabling of the Bill cast significant doubt about WEA's ability to continue as a going concern. On 29 November 2012, the Bill was passed by the Parliament and was awaiting Royal Assent.

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

## **Legislative compliance**

**5.25** The financial framework for the Australian Government entities included in this report is established by the FMA and CAC Acts and their subsidiary legislation. The key feature of the framework is that the Chief Executive or board of each entity is responsible for the financial management of their entity, including compliance with applicable laws and associated policies.

**5.26** In reviewing an entity's control environment, the ANAO assesses whether management has established adequate controls to enable the entity to comply with key aspects of the financial framework.

**5.27** In more recent years, the ANAO has increased its focus on legislative compliance as part of its financial statement audit coverage. This recognises the importance of the authority that the Parliament has conveyed to the executive Government in relation to these arrangements and the concerns expressed by the JCPAA in the past in relation to legislative compliance by entities.

**5.28** The coverage by the ANAO involves assessing key aspects of legislative compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public monies. Audit testing includes confirming the presence of key documents or authorities, and testing of relevant transactions directed at obtaining reasonable assurance about agencies' compliance with these key components of the financial management framework. ANAO audits also review the results of compliance self-assessment and processes and other reviews undertaken in the context of entities' Certificate of Compliance responsibilities that involve the annual reporting to the Finance Minister of any known breaches of the financial management framework.

## **Observations**

**5.29** As in previous years, overall, the ANAO identified a high level of

compliance in these areas, except in respect of actual and potential breaches of section 83 of the Constitution, and the invalidity of payments made under the National School Chaplaincy program. These matters are discussed at paragraphs 5.30 to 5.45 below.

### ***Section 83 of the Constitution***

**5.30** Audit Report No 17 2011–12 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011* and No 51 2011–12 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ended 30 June 2012* included a discussion of agencies' progress in addressing the risk of breaches of section 83 of the Constitution. Section 83 provides that no money should be drawn from the Treasury of the Commonwealth except under an appropriation made by law. The effect of section 83 is that all spending by the Executive Government from the Consolidated Revenue Fund must be in accordance with an authority given by the Parliament. Breaches of section 83 can occur in a range of circumstances, including when payments are made from appropriations that do not meet certain conditions that are legislated by the Parliament. This includes situations where an administrative error such as a duplicate payment occurs, even if the overpayment is able to be recovered.

**5.31** As reported in Audit Report No 51, in March 2012 the Department of Finance and Deregulation issued guidance to agencies that outlined a risk based approach to conducting reviews of payments made from appropriations for the purpose of assessing the risk of section 83 breaches. The Finance guidance included advice on actions to take in situations where an agency assessed the risk of breaches of section 83 as medium or high and/or identified actual or potential section 83 breaches.

**5.32** The final phase of the 2011–12 financial statement audits of agencies included a review of agencies' progress in conducting the risk assessments and actions taken as a result of these assessments.

**5.33** At the time of preparation of agencies' 2011–12 financial statements, all affected agencies had commenced a review of payments made from special appropriations, including special accounts, to assess the risk of a breach of section 83. The 2011–12 audits identified that, at the date of the signing of their financial statements, the majority of agencies had completed their risk assessments and no section 83 breaches were identified or the risk of section 83 breaches had been assessed as low. For these agencies, no reference was made

to this issue in the respective auditor's report on their 2011–12 financial statements.

**5.34** In 20 agencies, the risk assessments undertaken identified actual and/or potential breaches of section 83, details of which were included in the Notes to each agency's 2011–12 financial statements and the auditor's report on the financial statements. The CFS and the auditor's report on the CFS also included a reference to the aggregate number of actual and potential section 83 breaches reported by agencies. The section 83 reference in the auditors' reports was included under other legal and regulatory requirements due to the importance of this issue in a public sector context, but the reports were unqualified as the financial statements fairly represented the financial operations and position of the agency at year end.<sup>41</sup>

**5.35** Breaches identified by agencies in 2011–12 totalled approximately \$208 million and potential breaches totalled approximately \$1 406 million. The large majority of both breaches and potential breaches involve situations where agencies rely on information from clients and other parties, including personal information such as estimates of income and employment status, as the basis for the payment of benefits and other payments such as welfare benefits and superannuation entitlements. An actual or potential section 83 can occur when this information is subsequently found to be incorrect and the legislation does not explicitly provide for these inaccuracies. The risk assessments in a small number of agencies also identified that control weaknesses had resulted in, or at least contributed to, actual or potential breaches.

**5.36** While in absolute terms the total number and amount of these breaches and potential breaches is large, generally they represented a small percentage of the total payments made in 2011–12 by the agencies concerned.

**5.37** Agencies have in place a range of controls and other mechanisms designed to ensure that payments to recipients are in accordance with legislative requirements. In the large majority of instances where there were actual or potential section 83 breaches, agencies recovered, or were able to recover, overpayments through normal mechanisms such as adjustments to future payments and routine debt recovery processes. In other instances, action was taken to obtain approval to waive or write off debts on the basis that it

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<sup>41</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.

would be inequitable to recover the amounts overpaid or it would not be cost effective to do so in view of the relatively small amounts involved.

**5.38** Recognising that the risk of actual and potential section 83 breaches would best be addressed through amendments to legislation, the Parliament passed the *Financial Framework Legislation Amendment Act (No 2) 2012* (the FFLA Act) in June 2012. This Act amended 21 Acts across six portfolios to regularise Commonwealth payments supported by special appropriations, including special accounts, consistent with the legislative requirements and Section 83 of the Constitution. The FFLA Act provides four broad categories of provisions that address a range of legislative and administrative circumstances. These are:

- Recoverable payment provisions that have the effect of authorising the Commonwealth to pay an amount to a recipient purportedly as a benefit, entitlement or amount where the Commonwealth does not otherwise have power under the relevant Act to make a payment.

The recoverable payment amendments seek to address circumstances where, for example:

- benefit or entitlement type payments are assessed on the basis of information that is available at the time, but are later found to be incorrect; and
  - bona fide processing errors occurred, in good faith, due to human error.
- Amendments to the *Taxation Administration Act 1953* (TA Act) enable the Commissioner of Taxation to decide to make a ‘discretionary advance’. These payments would be covered by the existing standing appropriation provided for in the TA Act and would apply where the Commissioner, or delegate, decided to make a payment on account of an amount that a recipient may become entitled to in the future.
- Recoverable death payment provisions that are designed to address circumstances where:
  - Comsuper or the relevant Secretary (where applicable) is not informed that a member has died; and
  - Comsuper or the relevant Secretary (where applicable) continues to pay a benefit, deposited in an account kept in the name of a deceased person as an individual or a joint account,

or paid by way of a cheque made out to a deceased person, until notified of the death.

Where a payment is made in line with the relevant recoverable death payment provisions, the amount is taken to have been paid to the deceased person's estate and is recoverable as a debt due to the Commonwealth.

- The FFLA Act also amends a number of other Acts including eight primary industry Acts to address specific situations that had the potential to result in breaches of section 83. For example, the primary industry Acts include provisions relating to payments to industry based on production data or other information that may not be available until after payments are made. The FFLA Act amendments allow the Minister or the relevant departmental Secretary to make determinations that ensure that the making of industry payments does not inadvertently result in a section 83 breach.

**5.39** The Explanatory Memorandum to the FFLA Bill No 2 2012 indicates that the recoverable payments, recoverable advances and recoverable death payment provisions referred to above are not designed to excuse poor administration, and obligations are imposed on Chief Executives to ensure that adequate and accountability processes are in place to ensure that payments are made in accordance with the preconditions in legislation. In addition, the Explanatory Memorandum indicates that where payments are made inconsistently with legislation, it is open to the Finance Minister to stop payments by revoking the relevant Chief Executive's drawing rights.

**5.40** Where the above-mentioned recoverable payment, recoverable death payment or recoverable advance provisions are used, the FFLA Act also makes amendments to the relevant Acts that require the relevant Secretary or Chief Executive to ensure a report, detailing the total number of instances of use, and the total value of those instances, is published during the applicable publication period or reporting period, as the Secretary or Chief Executive considers appropriate. For example, the report may be included in the agency's annual report, on its website, or another form that provides appropriate transparency and accountability.

**5.41** Agencies have generally adopted a practical and positive approach in addressing this complex issue. The legislative amendments summarised above, together with agencies' review of their own systems and controls mean that

most agencies are well placed to identify and minimise the risk of future section 83 breaches. Nevertheless, an ongoing commitment is required by all agencies to periodically assess the risk of actual and potential section 83 breaches, with the aim of ensuring that the extent of breaches is kept to a minimum, and to develop further legislative changes to address situations where amendment to relevant legislation is the most appropriate response to a particular circumstance. Ongoing attention is particularly required in agencies where risk assessments identified control weaknesses.

**5.42** The ANAO will continue to work with agencies and Finance in this area in the context of our financial statement audit program and will report to the Parliament in future Reports the progress made in addressing, and where possible resolving, situations that may result in breaches of section 83 of the Constitution.

**5.43** Each of the 20 agencies<sup>42</sup> which disclosed details of breaches or potential section 83 breaches in its 2011–12 financial statements is identified in the relevant portfolio table in Chapter 6. Where the agency is a material agency, the ‘Audit Results’ section for the agency also refers to this matter. For the 28 other agencies that referred to the risk of a breach of section 83 in the notes to their 2010–11 financial statements, Chapter 6 provides details of the outcome of the risk assessments conducted during 2011–12. For these agencies, the risk assessments undertaken concluded that the risk of a breach of section 83 was low and no actual or potential section 83 breaches were identified. Chapter 6 also includes details of non-material agencies that disclosed actual and/or potential section 83 breaches in their financial statements. These are included under ‘Comments on non-material entities’ for each portfolio.

#### *Section 61 of the Constitution*

**5.44** The High Court in its judgement in *Williams v Commonwealth*, held that payments made under the National School Chaplaincy program were constitutionally invalid as they were beyond the Commonwealth’s Executive power, as expressed in section 61 of the Constitution. The debts arising as a consequence of that decision, and debts that may have arisen under the National School Chaplaincy and Student Welfare program<sup>43</sup>, were waived under section 34(1)(a) of the *Financial Management and Accountability Act 1997*.

**5.45** In response to the High court’s judgement, the Parliament passed the

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<sup>42</sup> This excludes the Consolidated Financial Statements.

<sup>43</sup> The National School Chaplaincy and Student Welfare program commenced on 1 January 2012.

*Financial Framework Legislation Amendment Act (No.3) 2012* that provides Parliamentary authority, through amendments to specified programs and arrangements to avoid any risk that payments made may be found to be invalid due to the absence of Parliamentary authority. The Government has progressively put in place Regulations under the FMA Act that specify the programs and activities to which this authority is provided. At the date of preparation of this report, an FMA regulation had been made, that specifies in excess of 400 programs and activities across most portfolios.

## Summary of other audit findings

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

**Table 5.2**

### ANAO rating structure

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.

Source: ANAO

**5.47** In addition, the ANAO reports to entities and the Parliament any instances identified of non-compliance, or potential 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. In addition, potential breaches of section 83 of the Constitution, that are included in the auditor's report on the entity's financial statements, are reported as L1 findings in 2011–12.

**5.48** The final phase of the 2011–12 audits included a review of progress achieved by entities in addressing audit issues identified during the 2011–12 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.

**5.49** 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 2012–13 audits.

**5.50** Issues identified during the final phase of the 2011–12 audits included issues relating to: controls in entities' IT environments, such as user access and the segregation of duties; asset management processes including the valuation of assets and reporting of inventory; business system processing controls; and estimation processes. These issues are generally consistent with our audit findings in previous years.

**5.51** 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 2011–12 audit, are provided in Chapter 6.

**5.52** A summary of trends in Category A, B and L1 findings between 2010–11 and 2011–12 final audit phases for material entities is outlined below:

- the total number of Category A audit findings is nil in 2011–12, a decrease from three in 2010–11;
- the total number of Category B audit findings in material entities decreased from 33 in 2010–11 to 31 in 2011–12; and
- there was a reduction in the number of Category B findings in seven entities; eight entities showed an increase in the number of Category B findings; three entities reported the same number of Category B findings and 53 had no Category A or B findings in either 2010–11 or 2011–12; and
- the total number of Category L1 findings in 2011–12 is 17, an increase from three in 2010–11.

**5.53** 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 51 2011–12 at the conclusion of the interim phase of the 2011–12 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 2011–12 audits (Table A2).

## Preparation of entity financial statements

**5.54** 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

**5.55** For 2011–12, material entities were required to submit audit cleared financial information to Finance by 15 August 2012. For non-material agencies, the date was 31 August 2012.

**5.56** Seventy-nine per cent of material entities met the 15 August 2012 deadline and 64 per cent of non-material entities met the deadline of 31 August 2012. This is largely consistent with the position in 2010–11.

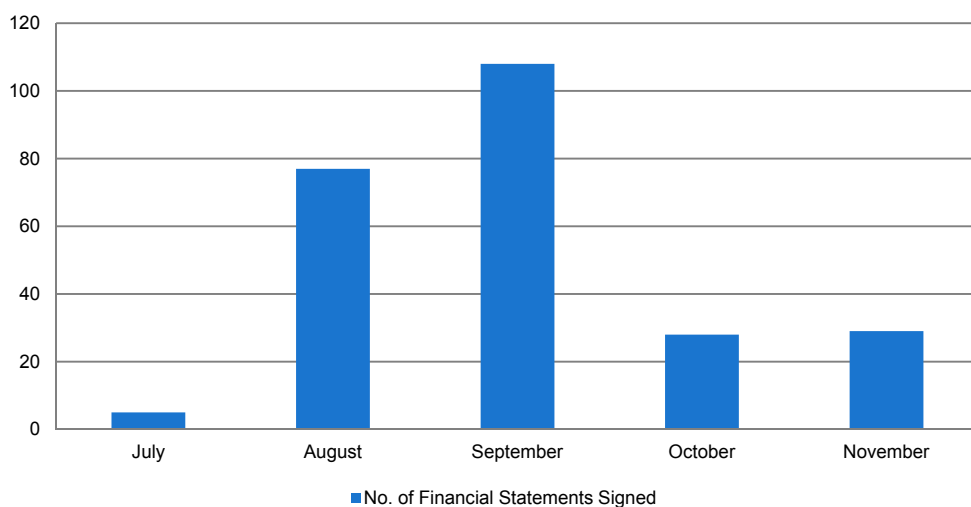
**5.57** There are no specific deadlines for the signing of the actual financial statements (although in a number of entities the financial statements were signed at or about the same time as audit cleared information was provided to Finance) and the issue of the related audit opinion. There is, however, a deadline of 31 October 2012 for the tabling of entities' annual reports<sup>44</sup> that are required to include a copy of the signed financial statements and the auditor's report. All of our auditors' reports on 2011–12 financial statements were signed within two days of the signed financial statements compared with 96 per cent for the 2010–11 financial statements.

**5.58** An analysis of the dates on which entities' financial statements were signed is provided in Figure 5.3.

<sup>44</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 15th day of the fourth month after the end of the financial year, i.e. 15 October.

**Figure 5.3**

**Analysis of date of signing of the 2011–12 financial statements**



Source: ANAO analysis. Includes financial statements signed up to 30 November 2012.

**5.59** 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**

**5.60** As part of the 2011–12 final audits, the ANAO reviewed entities' financial statement preparation processes.

**5.61** The review identified that the majority of material entities had effective processes in place for the preparation of their 2011–12 financial statements. Of these entities, approximately 14 per cent had made improvements to their 2011–12 financial statements processes compared with 2010–11. Areas of improvement included: working papers supporting disclosures in the financial statements; adherence to financial statement preparation timetables; and quality assurance processes. Compared with 2010–11, for a small number of entities, there had been 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. To

assist entities to prepare their financial statements in an efficient and effective manner, the ANAO plans to update its Better Practice Guide *Preparation of Financial Statements by Public Sector Entities* in early 2013.

## Certificate of Compliance

**5.62** 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.

**5.63** Consistent with established practice, as part of the 2011–12 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.

**5.64** Finance has advised that for the 2011–12 reporting period, 109 agencies submitted certificates with a total of 12 798 instances of non-compliance reported by agencies. This represents a decrease in reported non-compliance of about 16 per cent, compared to the 15 262 instances reported in 2010–11.

**5.65** Finance advised that the improved results for 2011–12 can be attributable to ongoing work done by agencies to identify and correct non-compliance and ongoing improvements to the financial management framework and agency processes.

**5.66** Three public reports on the Certificate results have been tabled in the Parliament. The fourth report is expected to be tabled in early 2013.

## 6. Results of Financial Statement Audits by Portfolio

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*This chapter summarises the results of the audits of the 2011–12 financial statements of individual Australian Government entities by portfolio.*

### Introduction

**6.1** For reporting purposes, the structure of this chapter reflects the portfolio arrangements existing at 30 June 2012.<sup>45</sup>

**6.2** 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.

**6.3** 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 2011–12 final audit phase.

**6.4** 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 5 of this report, indicates to the respective entity the relative importance of audit findings.

**6.5** For each material entity<sup>46</sup> details of the balance of key financial measures for 2010–11 and 2011–12, 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, or subsequently, which were significant in terms of their potential impact on the entity's 2011–12 financial statements, are listed for each material entity.

**6.6** For each portfolio entity, the chapter also indicates the status of significant and moderate audit issues, and significant legislative issues

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<sup>45</sup> These arrangements were as established by the AAO dated 9 February 2012.

<sup>46</sup> Seventy-one 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 income, expenses, assets and/or liabilities of the Australian Government.

(Category A and B and L1 issues respectively) identified in the 2011–12 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 2011–12 audits.

# 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	✓L	28 Aug 12	28 Aug 12	◆
Australian Fisheries Management Authority	No	✓	12 Sept 12	12 Sept 12	
Australian Pesticides and Veterinary Medicines Authority	No	✓	5 Sept 12	5 Sept 12	
Cotton Research and Development Corporation	No	✓	14 Sept 12	14 Sept 12	
Fisheries Research and Development Corporation	No	✓	29 Aug 12	29 Aug 12	
Grains Research and Development Corporation	Yes	✓	9 Aug 12	9 Aug 12	
Grape and Wine Research and Development Corporation	No	✓	22 Aug 12	22 Aug 12	
Rural Industries Research and Development Corporation	No	✓	12 Sept 12	12 Sept 12	
Sugar Research and Development Corporation	No	✓	29 Aug 12	29 Aug 12	
Wheat Exports Australia	No	✓E	24 Sept 12	24 Sept 12	
Wine Australia Corporation	No	✓	29 Aug 12	29 Aug 12	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.7** The Agriculture, Fisheries and Forestry portfolio is responsible for enhancing the sustainability, profitability and competitiveness of Australia's agriculture, food, fisheries and forestry industries.

**6.8** 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	2011–12 \$m	2010–11 \$m
Net cost of services	370.0	343.1
Revenue from government	327.5	354.0
Surplus/(deficit)	(42.5)	10.9
Total other comprehensive income	0.0	2.6
Total comprehensive income	(42.5)	11.5
Total assets	311.7	296.9
Total liabilities	236.4	205.1

**6.9** The net cost of services increased primarily due to increased employee related costs, including voluntary redundancies, and the effect of a reduction in the discount rate reflecting movements in the long term government bond rate<sup>47</sup> used to calculate the present value of future employee long service leave costs. The increased costs were partially offset by increased own source income from grain and seed export activity and increased funding received for Indonesian programs.

**6.10** The decrease in revenue from government reflects decreased appropriations due to the termination of the Export Certification Reform Program (ECRP), partially offset by new funding for ECRP rebates, carbon farming, post entry quarantine, information communication technology, biosecurity and other initiatives.

**6.11** Assets increased primarily due to increases in intangible assets as a result of the capitalisation of expenditure related to IT databases and major software development projects, including DAFF's quarantine import conditions data base, ICON.

<sup>47</sup> Op cit (refer footnote 21 on p. 39)

**6.12** Liabilities increased due to the effect of the reduction in the discount rate on the estimation of employee long service leave provisions referred to above, and increased departmental accrued expenses and other payables.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	395.8	428.6
Total expenses	883.3	954.9
Surplus/(deficit)	(487.5)	(526.3)
Total assets	302.0	298.8
Total liabilities	94.6	77.1
Net assets/(liabilities)	207.4	221.7

**6.13** Administered income decreased mainly due to decreased primary industry levies in respect of cattle, wheat and other agricultural production.

**6.14** Administered expenses decreased due to a large decline in personal benefits expenditure resulting from the cessation of farm household support and associated drought assistance programs, partially offset by increased grant expenditure for climate change, the live animal exports programs and the forestry industry Tasmania exit scheme.

**6.15** Administered assets increased due to an increase in the value of DAFF's administered investments in the Grains Research and Development Corporation and the Cotton Research and Development Corporation.

## Areas of audit focus

**6.16** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- revenue and receivables in respect of primary industry levies and charges, and the operation of an associated compliance program designed and implemented by DAFF to provide assurance over the completeness and accuracy of levies received;
- quarantine revenue and receivables, of which a significant portion is collected by the Customs and Border Protection Service on behalf of DAFF;



- personal benefit expenses and payables for rural support programs that are processed by the Department of Human Services on behalf of DAFF;
- the valuation of intangible assets, particularly software development relating to DAFF's quarantine import conditions database;
- DAFF's accounting policies and procedures relating to unearned revenue, having regard to the requirements of AASB 1004 *Contributions*; and
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## Audit results

### *Summary of audit findings*

**6.17** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

### *Actual and potential breaches of section 83 of the Constitution*

**6.18** The notes to DAFF's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.19** During 2011–12, DAFF undertook a review to determine the risk of payments being made in breach of section 83 from the special appropriations and special accounts for which it is administratively responsible.

**6.20** The risk assessment and subsequent analysis conducted up to 30 June 2012 identified 19 breaches of section 83. The *Australian Animal Health Council (Livestock Industries) Funding Act 1996* requires DAFF to make payments of levies collected to the Australian Animal Health Council. The Act allowed a net payment of levies, less administrative costs, but did not support payment of the full amount of the levy. Breaches occurred due to DAFF paying out approximately \$83 700 in levies in full. These payments were subsequently recovered by the department.

**6.21** As part of the legislative amendments passed in late June 2012<sup>48</sup> amendments were made to the *Australian Animal Health Council (Livestock Industries) Funding Act 1996* to allow the department to pay the full amount of levy and invoice the Australian Animal Health Council for administrative costs separately. Changes were also made to the following Acts to reduce the risk of future section 83 breaches:

- *Australian Meat and Live-stock Industry Act 1997*;
- *Horticulture Marketing and Research and Development Act 1989*;
- *Dairy Produce Act 1986*;
- *Egg Industry Service Provision Act 2002*;
- *Forestry Marketing and Research and Development Services Act 2007*;
- *Pig Industry Act 2001*;
- *Wool Services Privatisation Act 2000*; and
- *National Residue Survey Administration Act 1992*.

**6.22** The auditor's report on the 2011–12 financial statements included a report on other legal and regulatory requirements referring to the actual breaches identified. This is not a qualification or modification to the audit opinion on DAFF's financial statements, as the financial statements fairly presented the financial operations and position of the department at year end.

**6.23** DAFF has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible.

**6.24** Full details of actual breaches identified during 2011–12 are outlined in Note 35 of DAFF's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.25** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 audit.

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<sup>48</sup> A discussion of amendments made to legislation by the FFLA Act 2012 is at paragraphs 5.38 to 5.40 of Chapter 5 of this report.

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	0	0
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Grains Research and Development Corporation

### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	43.5	31.9
Revenue from government	55.9	53.4
Surplus/(deficit)	12.3	20.8
Total other comprehensive income	0.6	0.0
Total comprehensive income	12.9	20.8
Total assets	230.7	206.0
Total liabilities	68.4	56.7

**6.26** The net cost of services increased mainly due to an increase in research and development expenses, an increase in supplier expenses as a result of a restructure of the Corporation during 2011–12, and a decrease in income from industry contributions and grants.

**6.27** Assets increased mainly as a result of an increase in cash held at year end as a result of interest and investment income received, and an increase in Australian Government contributions. Liabilities increased due primarily to an increase in research and development expenses incurred but not paid prior to year end.

### Areas of audit focus

**6.28** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of investments in private companies; and

- the valuation of financial instruments, including bonds and managed funds.

## **Audit results**

### *Summary of audit findings*

**6.29** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

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

## **Audit results**

### *Summary of audit findings*

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

*Australian Fisheries Management Authority, Australian Pesticides and Veterinary Medicines Authority and Wheat Exports Australia*

### *Resolved section 83 of the Constitution issue*

**6.31** The 2010–11 auditors' reports on the financial statements of the Australian Fisheries Management Authority (AFMA), the Australian Pesticides and Veterinary Medicines Authority and Wheat Exports Australia (WEA) referred to the notes to the financial statements of these entities that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The three agencies undertook to investigate this issue in 2011–12. The reviews undertaken by the entities in 2011–12 concluded that the risk of a section 83 breach was low, did not identify any actual section 83 breaches, and AFMA's review also identified that the legislation for which it is responsible is sufficiently broadly worded such that no legislative or procedural changes were required. As the ANAO agreed with this assessment, no reference to this matter was made in the auditors' reports on the 2011–12 financial statements of these entities. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

## *Wheat Exports Australia*

### *Emphasis of matter*

**6.32** The auditor's report of WEA contained an emphasis of matter that draws attention to the notes in the 2011–12 financial statements which states that the *Wheat Export Marketing Amendment Bill 2012* was tabled in Parliament on 21 March 2012 and, if passed, would have resulted in WEA being wound up by 31 December 2012. On 29 November 2012, the Bill was passed by the Parliament and was awaiting Royal Assent.

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

# 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	✓L	14 Sept 12	14 Sept 12	◆
Administrative Appeals Tribunal	No	✓	6 Sept 12	6 Sept 12	
Australian Commission for Law Enforcement Integrity	No	✓	17 Sept 12	17 Sept 12	
Australian Crime Commission	No	✓	18 Sept 12	18 Sept 12	
Australian Customs and Border Protection Service	Yes	✓L	3 Sept 12	4 Sept 12	▲◆
Australian Federal Police	Yes	✓	10 Sept 12	10 Sept 12	
Australian Government Solicitor	Yes	✓	31 Aug 12	31 Aug 12	
Australian Human Rights Commission	No	✓	20 Aug 12	20 Aug 12	
Australian Institute of Criminology	No	✓	14 Sept 12	14 Sept 12	
Australian Law Reform Commission	No	✓	3 Sept 12	3 Sept 12	
Australian Security Intelligence Organisation	Yes	✓	17 Sept 12	17 Sept 12	
Australian Transaction Reports and Analysis Centre	No	✓	28 Sept 12	28 Sept 12	
CrimTrac Agency	No	✓	14 Sept 12	14 Sept 12	
Family Court of Australia	Yes	✓	31 Aug 12	31 Aug 12	
Federal Court of Australia	No	✓	3 Sept 12	4 Sept 12	
Federal Magistrates Court of Australia	No	✓	31 Aug 12	31 Aug 12	
High Court of Australia	Yes	✓	6 Sept 12	6 Sept 12	
Insolvency and Trustee Service Australia	No	✓L	2 Oct 12	2 Oct 12	◆
National Native Title Tribunal	No	✓	27 Sept 12	27 Sept 12	
Office of Parliamentary Counsel	No	✓	21 Sept 12	21 Sept 12	
Office of the Director of Public Prosecutions	No	✓	26 Sept 12	26 Sept 12	
Office of the Australian Information Commissioner	No	✓	7 Sept 12	10 Sept 12	

✓: auditor’s report not modified

L: auditor’s report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.34** 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.

**6.35** 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; natural disaster relief; and customs and border control.

**6.36** The Administrative Arrangements Orders (AAO) of 19 October 2011 and 14 December 2012 resulted in responsibility for privacy and freedom of information policy and the Office of the Australian Information Commissioner being transferred from the Department of the Prime Minister and Cabinet (PM&C), and cyber security policy coordination transferring to PM&C.

## Attorney-General's Department

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	283.4	236.6
Revenue from government	205.7	218.8
Surplus/(deficit)	(77.8)	(17.8)
Total other comprehensive income	(0.4)	0.0
Total comprehensive income	(78.2)	(17.8)
Total assets	222.8	237.1
Total liabilities	104.5	65.3

**6.37** The net cost of services increased due to an increase in employee expenses and the expensing of assets following the transfer of the Personal

Property Security (PPS) register, contact centre and registrar's office to the Insolvency and Trustee Service Australia (ITSA). The assets have been recognised in the financial statements of ITSA.

**6.38** Liabilities increased due to an increase in accrued supplier expenses at 30 June 2012 and an increase in employee provisions resulting from a reduction in the discount rate reflecting movements in the long term government bond rate.<sup>49</sup>

**6.39** All other movements were not significant and reflect fluctuations in normal business activities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	22.6	31.6
Total expenses	510.2	1 495.2
Surplus/(deficit)	(487.6)	(1 463.4)
Total assets	430.6	447.9
Total liabilities	17.8	29.4
Net assets/(liabilities)	412.8	418.5

**6.40** The 2010–11 administered expenses included \$987.8 million in payments to individuals following the floods and severe weather events that occurred early in 2011. Personal benefit payments were not made in 2011–12 to the same extent. The reduction in expenses also contributed to the significant decrease in the deficit.

**6.41** All other movements were not significant and reflect fluctuations in normal business activities.

## Areas of audit focus

**6.42** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the accounting for the transfer of the PPS register assets to ITSA;
- the controls and processes relating to the decentralised grants

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<sup>49</sup> Op cit (refer footnote 21 on p. 39)



management system;

- the additional functionality introduced to the financial management information system during 2011–12; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

**6.43** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

### *Potential breaches of section 83 of the Constitution*

**6.44** The notes to AGD's 2010–11 financial statements referred to AGD undertaking a review of compliance with statutory and other legal requirements, including constitutional requirements, relevant to its special appropriations and special accounts.

**6.45** During 2011–12, AGD undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible.

**6.46** The risk assessment and subsequent analysis conducted up to 30 June 2012 identified 5 577 potential breaches of section 83 totalling \$6.9 million in relation to payments under the *Social Security Act 1991* and the *Social Security (Administration) Act 1999*. Of these amounts, approximately \$3.9 million had been recovered or waived.

**6.47** The auditor's report included a report on other legal and regulatory requirements referring to the potential breaches identified. This is not a qualification or modification of the audit opinion on AGD's financial statements, as the financial statements fairly presented the financial operations and position of AGD at year end.

**6.48** AGD has undertaken to continue to monitor compliance with statutory and other legal requirements, including constitutional requirements for which it is administratively responsible. Where possible, amendments to legislation will be progressed.

**6.49** Full details of the potential breaches identified during 2011–12 are outlined in Note 29 of AGD’s 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.50** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Australian Customs and Border Protection Service

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	1 049.5	1 013.4
Revenue from government	935.4	933.7
Surplus/(deficit)	(114.1)	(79.7)
Total other comprehensive income	34.2	0.0
Total comprehensive income	(79.9)	(79.7)
Total assets	798.8	689.2
Total liabilities	314.5	264.4

**6.51** The Australian Customs and Border Protection Service (Customs and Border Protection) reported an increased deficit primarily due to an increase in employee expenses resulting from an increase in employee provisions that increased as a result of the decrease in the discount rate reflecting movements in the long term government bond rate. The increase in employee provisions also reflected in the increase in liabilities.

**6.52** Total other comprehensive income of \$34.2 million in 2011–12 represents the increase in the fair value of assets that were subject to revaluation as at 30 June 2012.

**6.53** Assets increased as a result of a revaluation of assets, major purchases of operational equipment, the development of internally generated software and the transfer of a building from the lessee at the end of a lease.

**6.54** All other movements were not significant and reflect fluctuations in normal business activities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	7 901.0	6 590.4
Total expenses	7.6	2.4
Surplus/(deficit)	7 893.4	6 588.0
Total assets	176.9	108.7
Total liabilities	10.0	7.7
Net assets/(liabilities)	166.9	101.0

**6.55** Administered income increased due to an increase in both customs duty and the Passenger Movement Charge (PMC). The high Australian dollar contributes to an increase in the volume of goods imported into the country, with stronger domestic demand for imported alcoholic beverages and passenger motor vehicles, and an increase in the number of people travelling overseas.

**6.56** Administered assets increased mainly due to an increase in customs duty receivable as at 30 June 2012. This was primarily due to a change in the accounting estimate for the calculation of the balance at year end.

**6.57** Liabilities increased as a result of an increase in creditors and an increase in unearned revenue relating to the timing of brokers' licenses paid in advance.

## Areas of audit focus

**6.58** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the accuracy and completeness of customs duty collections and refunds in the light of the self-assessment nature of customs duty and the complexity of the related IT infrastructure;
- the measures in place to provide assurance over the completeness of customs duty on warehoused Excise Equivalent Goods (EEGs) that are administered by the Australian Taxation Office;
- the completeness of PMC collections, particularly as a result of the self-assessment nature of PMC;
- the accuracy of Customs and Border Protection's assets register, particularly in relation to assets under construction;
- the transition to a new human resources management information system (HRMIS) during 2011–12; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## Audit results

### *Summary of audit findings*

#### *Resolved significant audit finding*

##### Implementation of the HRMIS

**6.59** Customs and Border Protection implemented a new HRMIS in June 2011. This system processes and records details of employee benefits and calculates and records employee provisions. Customs and Border Protection report employee benefits of approximately \$564 million and provisions for employee entitlements of approximately \$176 million. The 2011–12 interim audit phase identified one significant and two moderate audit findings relating to the implementation and management of the HRMIS.

**6.60** The 2011–12 final audit phase identified that reasonable progress was being made to address components of the significant audit finding relating to the implementation of the HRMIS. The components that had not been fully

addressed relate to two separate aspects of the HRMIS, being the management of defects, and security management and access controls. As a result, this finding has been reclassified to two moderate audit findings. The status of each of these findings is outlined below.

*New moderate audit findings*

HRMIS system management – management of defects

**6.61** The new HRMIS, known as COMPASS, was implemented in June 2011 with a high number of defects and a significant number of processing and compensating administrative procedures. At the time of the 2011–12 interim audit phase, there were approximately 182 unresolved system defects, a number of which affected the reliability and integrity of employee benefits and employee provisions. The 2011–12 interim audit phase identified that Customs and Border Protection has made reasonable progress to address these issues, with a reduction in the number of outstanding defects and the implementation of a number of measures to manage those defects which remained outstanding.

HRMIS system management – security management and access controls

**6.62** Weaknesses were also identified in the design and effectiveness of elements of IT security management during the 2011–12 interim audit phase. Separately, work undertaken by internal audit found a number of segregation of duty weaknesses. Customs and Border Protection has taken action to address some of the weaknesses but a number of matters are still outstanding, including the full implementation of the system security plan and the configuration of security logs.

*Outstanding audit finding*

Passenger Movement Charge (PMC)

**6.63** The PMC is a charge levied on each departing passenger from Australia. Customs and Border Protection reports \$646 million as administered PMC revenue in its financial statements. The charge is applied and collected by airline carriers under the *Passenger Movement Charge Act 1978* and the *Passenger Charge Collection Act 1978*.

**6.64** The 2009–10 interim audit phase identified a number of weaknesses in the management of PMC, including that airline carrier compliance activity had not been undertaken in accordance with Customs and Border Protection's policies and procedures. During the latter part of the 2011–12 audit, Customs and Border Protection employed an external consultant to conduct a

comprehensive review of PMC. This review identified a number of weaknesses in the management of PMC, including weaknesses in the governance and administration of PMC. At the time of the 2011–12 final audit phase, Customs and Border Protection was finalising the implementation of a pilot compliance program of carriers' activities to assist in the management of PMC.

#### *Resolved audit findings*

##### *Accuracy of employee benefits and valuation of employee provisions*

**6.65** During the 2011–12 interim audit phase, the ANAO identified that the high number of unresolved system defects affected Customs and Border Protection's capacity to accurately calculate employee benefits and employee provisions. Customs and Border Protection performed appropriate remediation work to ensure the accuracy of employee benefits and the valuation of employee provisions as at 30 June 2012 for reporting in the 2011–12 financial statements.

##### *HRMIS governance arrangements*

**6.66** Effective governance arrangements are a key component in the design, implementation and operation of IT systems. These arrangements should clearly define processes, roles and responsibilities designed to ensure the effective management of these systems. As part of the 2011–12 interim audit phase, the ANAO identified that elements of Customs and Border Protection's management and general governance arrangements relating to its HRMIS were not operating effectively. Customs and Border Protection has taken significant steps to address this issue, however a number of aspects of these arrangements, such as the update of change management and other IT system documentation, remain in progress. The ANAO reclassified this issue to a Category C finding.

##### *Actual breaches of section 83 of the Constitution*

**6.67** The notes to Customs and Border Protection's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.68** During 2011–12, Customs and Border Protection undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible.

**6.69** The risk assessment and subsequent analysis conducted up to 30 June 2012 identified three breaches of section 83 totalling \$24 617 in relation to payments made under section 28 of the *Financial Management and Accountability Act 1997*. All amounts have subsequently been recovered.

**6.70** The auditor's report included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on Customs and Border Protection's financial statements, as the financial statements fairly presented the financial operations and position of the agency at year end.

**6.71** Customs and Border Protection has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible.

**6.72** Full details of actual breaches identified during 2011–12 are outlined in Note 27 of Customs and Border Protection's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.73** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>	1	(1)*	0	0
<b>B</b>	3	(2)**	2	3
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>4</b>	<b>(3)</b>	<b>3</b>	<b>4</b>

\* Issue relating to implementation of the HRMIS has been reclassified to two Category B findings.

\*\* Issue relating to HRMIS governance arrangements has been reclassified to a Category C finding.

# Australian Federal Police

## Summary of financial results

### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	1 123.6	1 110.5
Revenue from government	1 002.1	1 017.8
Surplus/(deficit)	(121.5)	(92.7)
Total other comprehensive income	5.7	2.4
Total comprehensive income	(115.7)	(90.3)
Total assets	928.7	922.6
Total liabilities	412.9	346.4

**6.74** The net cost of services increased due to increases in the Australian Federal Police's (AFP's) employee benefits mainly due to the effect of the reduction in the discount rate reflecting movements in the long term government bond rate<sup>50</sup>, and depreciation costs, reflecting the AFP's significant investment in assets in 2011–12. These increases were partially offset by an increase in the AFP's own source revenue, primarily as a result of an increase in revenue from the reimbursement of costs associated with the provision of services to other government agencies. Revenue from government decreased mainly due to a reduction in funding for a number of measures.

**6.75** Assets increased mainly due to the completion of major land and building projects during 2011–12 and the effect of a revaluation of leasehold improvements. These increases were partially offset by a reduction in cash and cash equivalents at year end.

**6.76** Liabilities increased as a result of increases in supplier payables and accruals, and employee provisions. Employee provisions increased mainly due to the effect of the change in the discount rate and a change in salary growth rates reflected in the 2012–2016 Enterprise Agreement.

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<sup>50</sup> Op cit (refer footnote 21 on p. 39)



*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	0.2	0.0
Total expenses	44.1	38.1
Surplus/(deficit)	(43.9)	(38.1)
Total assets	0.4	1.2
Total liabilities	1.2	3.9
Net assets/(liabilities)	(0.8)	(2.7)

**6.77** Administered expenses increased mainly due to an increase in AFP spending on programs, such as the Regional Assistance Missions.

**6.78** All other movements were not significant and reflect fluctuations in normal business activities.

### **Areas of audit focus**

**6.79** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the accuracy and completeness of executive remuneration disclosures;
- the accuracy, completeness and valuation of contractual commitments and their associated disclosures; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

### **Audit results**

#### *Summary of audit findings*

**6.80** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

#### *Resolved section 83 of the Constitution issue*

**6.81** The 2010–11 auditor's report on the financial statements of the AFP referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts. The AFP undertook to investigate this issue in 2011–12. The

review undertaken by the AFP in 2011–12 concluded that the risk of a section 83 breach was assessed as low, and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor’s report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

## Australian Government Solicitor

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	118.4	113.3
Total expenses	109.9	104.6
Income tax expense	2.8	2.8
Net profit	5.7	5.9
Total other comprehensive income/(loss)	(0.2)	1.0
Total comprehensive income	5.5	6.9
Total assets	92.5	88.4
Total liabilities	48.1	42.7

**6.82** Liabilities increased mainly due to a change in the long service leave provision due to a decrease in the discount rate reflecting movements in the long term government bond rate.<sup>51</sup>

**6.83** All other movements were not significant and reflect fluctuations in normal business activities.

### Areas of audit focus

**6.84** The ANAO’s audit approach identified the system to manage time and costs relating to legal fee revenue was significant in terms of its potential impact on the 2011–12 financial statements.

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<sup>51</sup> Op cit (refer footnote 21 on p. 39)

## Audit results

### *Summary of audit findings*

6.85 There were no significant or moderate audit issues identified during the 2010–11 or 2011–12 audits.

## Australian Security Intelligence Organisation

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	373.6	377.8
Revenue from government	328.1	344.9
Surplus (deficit)	(45.5)	(32.9)
Total other comprehensive income	0.0	0.0
Total comprehensive income	(45.5)	(32.9)
Total assets	573.7	538.2
Total liabilities	95.7	75.7

6.86 Assets increased mainly due to work associated with the new headquarters building in Canberra. Liabilities increased mainly due to higher employee provisions as a result of the reduction in the discount rate reflecting movements in the long term government bond rate.<sup>52</sup>

6.87 Movements in all other items were not significant and were the result of fluctuations in normal business activity.

### Areas of audit focus

6.88 The ANAO's audit approach identified the valuation of the fitout for the new ASIO headquarters was significant in terms of its potential impact on the 2011–12 financial statements.

<sup>52</sup> Op cit (refer footnote 21 on p. 39)

## Audit results

### *Summary of audit findings*

**6.89** There were no significant or moderate audit issues identified during the 2010–11 or 2011–12 audits.

## Family Court of Australia

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	131.5	153.8
Revenue from government	120.1	145.6
Surplus/(deficit)	(11.4)	(8.2)
Total other comprehensive income	(0.3)	0.0
Total comprehensive income	(11.7)	(8.2)
Total assets	50.8	48.2
Total liabilities	31.7	27.4

**6.90** The net cost of services and revenue from government decreased mainly due to revised appropriation funding arrangements. Funding that had been transferred from the Federal Magistrates Court of Australia to the Family Court of Australia in 2010–11 was returned to the Federal Magistrates Court with effect from 1 January 2011.

**6.91** Liabilities increased mainly due to a change in the long service leave provision due to a decrease in the discount rate reflecting movements in the long term government bond rate.<sup>53</sup>

**6.92** All other movements were not significant and reflect fluctuations in normal business activities.

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<sup>53</sup> Op cit (refer footnote 21 on p. 39)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income *	2.5	2.3
Total expenses	0.0	0.0
Surplus/(deficit)	2.5	2.3
Total assets	0.0	0.0
Total liabilities	0.0	0.0
Net assets/(liabilities)	0.0	0.0

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

**Areas of audit focus**

**6.93** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the results of the Strategic Review of Small and Medium Agencies in the Attorney-General's Portfolio in relation to the financial viability of the Family Court; and
- the calculation of employee entitlements balances.

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

**6.94** There were no significant or moderate audit issues identified during the 2010–11 or 2011–12 audits.

**6.95** At the date of this report, the recommendations from the Strategic Review referred to above are being considered by the Minister for Finance and Deregulation.

## High Court of Australia

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	21.4	17.8
Revenue from government	14.3	13.0
Surplus/(deficit)	(7.1)	(4.8)
Total other comprehensive income	5.5	3.7
Total comprehensive income	(1.6)	(1.1)
Total assets	228.3	225.6
Total liabilities	3.0	2.7

**6.96** The net cost of services increased mainly due to a valuation adjustment expense resulting from the revaluation of library assets. The increase was partially offset by income from the transfer of artworks from the Department of Parliamentary Services.

**6.97** Total other comprehensive income increased as a result of a higher charge to the asset revaluation reserve in 2011–12 compared to 2010–11, resulting from the revaluation of land and buildings and library assets.

**6.98** Assets increased mainly due to an increase in the value of land and buildings, partially offset by a decrease in the value of library assets. Infrastructure, plant and equipment assets also increased as a result of the transfer of artworks from the Department of Parliamentary Services and the continued investment of an unused portion of capital funding received by the Family Court in 2010–11.

**6.99** All other movements were not significant and reflect fluctuations in normal business activities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income *	1.3	1.4
Total expenses	0.0	0.0
Surplus/(deficit)	1.3	1.4
Total assets	0.0	0.0
Total liabilities	0.0	0.0
Net assets/(liabilities)	0.0	0.0

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

**Areas of audit focus**

**6.100** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- revaluation of land and buildings, library assets and heritage and cultural assets; and
- the transfer of artworks from the Department of Parliamentary Services.

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

**6.101** There were no significant or moderate audit issues identified during the 2010–11 or 2011–12 audits.

**Comments on non-material entities****Audit results***Summary of audit findings*

**6.102** There were no significant or moderate audit issues identified in non-material entities within the portfolio, except in relation to the Federal Court of Australia and the Insolvency and Trustee Service Australia.

### *Federal Court of Australia*

**6.103** During the 2010–11 audit, the ANAO reported two 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 functions that were considered incompatible or excessive. The Federal Court advised that this issue was being addressed through the implementation of monthly reviews of system changes to the FMIS.

**6.104** The ANAO also identified that the business continuity plan was not tested as part of a holistic approach, the associated procedures designed to test the plan had not been implemented and the Federal Court’s IT disaster recovery plans were not reviewed and tested on a regular basis. The Federal Court advised that a review of the business continuity and IT disaster recovery plans was being undertaken.

**6.105** These matters remained outstanding at the conclusion of the 2011–12 audit.

### *Insolvency and Trustee Service Australia*

#### *Actual breach of section 83 of the Constitution*

**6.106** The notes to ITSA’s 2010–11 financial statements referred to ITSA undertaking a review of compliance with statutory and other legal requirements, including constitutional requirements, relevant to its special appropriations and special accounts.

**6.107** The risk assessment and subsequent analysis undertaken by ITSA during 2011–12 identified one prior year breach of section 83 totalling \$2 361 in relation to a payment made from the Common Investment Fund Equalisation Special Account.

**6.108** The auditor’s report included a report on other legal and regulatory requirements referring to the actual breach identified. This is not a qualification or modification to the audit opinion on ITSA’s financial statements, as the financial statements fairly presented the financial operations and position of ITSA at year end.

**6.109** Full details of the actual breach identified during 2011–12 is outlined in Note 25 of ITSA’s 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.



*Special account transactions*

**6.110** ITSA reports two special accounts established under 'proceeds of crime' legislation. During the 2011–12 final audit phase, the ANAO examined transactions reported in ITSA's special accounts and identified receipts relating to the crediting of interest that did not relate to the purpose of the special accounts. ITSA agreed to remove the interest receipts and subsequent payments from the special account in both 2011–12 and 2010–11, resulting in a prior period adjustment to both special accounts.

**6.111** ITSA advised that future interest receipts will be paid into the Consolidated Revenue Fund.

*Administrative Appeals Tribunal and Federal Court of Australia**Resolved section 83 of the Constitution issue*

**6.112** The 2010–11 auditors' reports on the financial statements of the Administrative Appeals Tribunal (AAT) and the Federal Court of Australia referred to the notes to the financial statements of each agency that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts. The AAT and the Federal Court undertook to investigate this issue in 2011–12. The reviews undertaken in 2011–12 concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with these assessments, no reference to this matter was made in the auditors' reports on the 2011–12 financial statements of the AAT and Federal Court. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# 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	✓	29 Aug 12	29 Aug 12	▲
Australian Broadcasting Corporation	Yes	✓	27 July 12	27 July 12	
Australian Communications and Media Authority	Yes	✓	12 Sept 12	12 Sept 12	
Australian Postal Corporation	Yes	✓	30 Aug 12	30 Aug 12	
- Australia Post Licensee Council Ltd	No	✓	14 Aug 12	14 Aug 12	
- Decipha Pty Ltd	No	✓	16 Aug 12	16 Aug 12	
- Post Logistics Australasia Pty Ltd	No	≡			
- SecurePay Pty Ltd	No	≡			
National DAB Licence Company Limited	No	✓	9 Aug 12	9 Aug 12	
NBN Co Limited	Yes	✓	14 Sept 12	14 Sept 12	▲
Special Broadcasting Service Corporation	Yes	✓	23 Aug 12	23 Aug 12	
- SBS Subscription TV Ltd	No	✓	23 Aug 12	23 Aug 12	

✓: auditor's report not modified

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

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

## Portfolio overview

**6.113** 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 the Special Broadcasting Service Corporation (SBS).

## Department of Broadband, Communications and the Digital Economy

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	132.3	126.3
Revenue from government	127.6	125.2
Surplus/(deficit)	(4.7)	(1.1)
Total other comprehensive income	0.2	3.6
Total comprehensive income	(4.5)	2.5
Total assets	104.7	98.5
Total liabilities	40.3	35.6

**6.114** The net cost of services and the associated deficit increased primarily due to higher employee expenses as a result of a reduction in the discount rate reflecting movements in the long term government bond rate<sup>54</sup>, redundancy payments and salary increases.

**6.115** Assets increased mainly due to an increase in internally developed software and the acquisition of plant and equipment.

**6.116** All other movements were not significant and reflect fluctuations in normal business activities.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	195.6	82.2
Total expenses	1 859.7	1 321.9
Surplus/(deficit)	(1 664.1)	(1 239.7)
Total assets	7 109.9	5 129.0
Total liabilities	71.7	43.0
Net assets/(liabilities)	7 038.2	5 086.0

<sup>54</sup> Op cit (refer footnote 21 on p. 39)

**6.117** Administered income increased significantly mainly due to a substantial increase in dividend income received from the Australian Postal Corporation.

**6.118** Administered expenses increased mainly as a result of an increase in grant expenditure due to the commencement of a number of new grant programs, and a significant one-off grant program in 2011–12.

**6.119** Assets increased due to increases in the valuation of administered investments in NBN Co Limited and the Australian Postal Corporation, and the recognition of new network infrastructure created by the Regional Backbone Blackspots program (RBBP).

### **Areas of audit focus**

**6.120** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- administered grant and subsidies expenses;
- the valuation of administered investments which include significant investments in Australian Government portfolio entities;
- the valuation of RBBP, reflected as an administered asset in DBCDE's financial statements;
- appropriations reporting and disclosure; and
- the presentation and disclosure of administered contingent liabilities and commitments associated with the National Broadband program.

**6.121** The valuation of RBBP and administered investments in Australian Government portfolio entities which includes the valuation of Australian Postal Corporation and NBN Co Limited, was of particular interest in view of the nature and complexity of the respective businesses. The ANAO reviewed the valuation calculations to gain assurance over the balance included in the financial statements as at 30 June 2012.

## Audit results

### Summary of audit findings

#### New audit finding

**6.122** The ANAO identified one moderate issue in relation to user access to DBCDE's network after the termination of employment. The ANAO's review of DBCDE's termination processes identified that there were three users who accessed DBCDE's network after their employment was terminated. The reasons for access to the network were not able to be established. Unauthorised system access increases the risk of data leakage and a risk of inappropriate use of DBCDE's systems.

**6.123** DBCDE agreed that the process of terminating a user's network access could be improved, and it has amended the standard operating procedure for staff terminations. These improvements introduce an automated process which includes resetting the user's password and logging the actions taken to a centralised directory which is regularly backed up. The ANAO will review the status of the issue as part of its 2012–13 audit.

**6.124** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>L1</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

# Australian Broadcasting Corporation

## Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	1 006.8	953.6
Revenue from government	997.4	955.5
Surplus/(deficit)	(11.7)	0.2
Total other comprehensive income after income tax	21.4	(7.2)
Total comprehensive income	9.7	(7.0)
Total assets	1 241.5	1 219.6
Total liabilities	252.9	233.9

**6.125** Revenue from government increased in accordance with the Australian Broadcasting Corporation's (ABC) 1 July 2012 to 30 June 2015 triennial funding arrangement. The additional funding related to the ABC's core functions of informing, educating and entertainment of audiences throughout Australia and overseas. The net cost of services increased by a similar amount and included a \$43 million increase in employee expenses that was predominately related to expansion of activity as a result of the funding increase.

**6.126** Other comprehensive income after tax increased mainly due to an appreciation in the valuations of land and buildings, compared to a reduction in valuation of these assets in 2010–11.

## Areas of audit focus

**6.127** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of land and buildings;
- the valuation of programs;
- recognition of appropriations and commercial revenue; and
- reporting of payroll expenses and employee provisions.

## Audit results

### *Summary of audit findings*

**6.128** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Australian Communications and Media Authority

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	111.1	109.8
Revenue from government	103.5	98.9
Surplus/(deficit)	(7.6)	(10.9)
Total other comprehensive income	(0.6)	(0.3)
Total comprehensive income	(8.2)	(11.2)
Total assets	72.4	68.3
Total liabilities	29.9	26.4

**6.129** All movements were not significant and reflect fluctuations in normal business activities.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	646.4	580.1
Total expenses	161.9	161.4
Surplus	484.5	419.7
Total assets	247.0	197.2
Total liabilities	6.5	3.7
Net Assets	240.5	193.5

**6.130** Administered income increased mainly due to an increase in broadcasting license fees received in 2011–12, as compared to 2010–11.

**6.131** The increase in assets is attributed to an increase in broadcasting licence fees receivable, which has increased in line with the increase revenue from broadcasting license fees.

**6.132** All other movements were not significant and reflect fluctuations in normal business activities.

## **Areas of audit focus**

**6.133** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- administered revenue, due to the uncertainty in the estimation of broadcasting license fees expected to be collected;
- non financial assets, particularly the significant investment in internally generated software and the capitalisation of intangibles;
- the valuation of employee expenses and provisions;
- the completeness and accuracy of supplier expenses and payables; and
- legislative compliance, particularly the risk of breaches of section 83 of the Constitution in relation to payments from special accounts and special appropriations.

## **Audit results**

### *Summary of audit findings*

**6.134** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

### *Resolved section 83 of the Constitution issue*

**6.135** The 2010–11 auditor's report on the financial statements of the Australian Communications and Media Authority (ACMA) referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. ACMA undertook to investigate this issue in 2011–12. A review undertaken by ACMA in 2011–12 concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial



statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

## Australian Postal Corporation

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	5 126.2	4 986.4
Total expenses	4 739.0	4 640.6
Profit/(loss) after income tax	281.2	241.2
Total other comprehensive income/(loss) after income tax	(385.2)	82.1
Total comprehensive income	(104.0)	323.3
Total assets *	4 175.8	4 132.3
Total liabilities *	2 669.8	2 328.4

\* The assets and liabilities figures reported in 2010–11 financial statements have been adjusted by \$3 million to correct minor prior year reclassification errors that had no impact on the net assets position.

**6.136** Income increased mainly due to an increase in parcel and express services as a result of price and volume increases. Interest revenue also increased during 2011–12.

**6.137** The increase in expenses was mainly due to the decline in the discount rate reflecting movements in the long term government bond rate<sup>55</sup> that affected the calculation of employee provisions. In addition, supplier expenses increased due to the combined effect of a rise in mail contractor delivery costs and increased parcel volumes.

**6.138** The total comprehensive income loss after tax reported in 2011–12 is due to the significant actuarial losses on the Corporation's defined benefit plan as a result of a decline in the discount rate mentioned above.

**6.139** The increase in liabilities was mainly due to the movement in the defined benefit plan position from a net asset to a net liability at 30 June 2012. This was primarily due to the loss arising from the decrease in government bond rates used to discount the liability. The valuation of the plan's assets also contributed to the loss. In addition, the Corporation's bond facility increased by a net \$50 million to supplement working capital requirements.

<sup>55</sup> Op cit (refer footnote 21 on p. 39)

**6.140** All other movements were not significant and reflect fluctuations in normal business activities.

## **Areas of audit focus**

**6.141** The Corporation's Strategic Plan identified initiatives that are designed to deliver increased profits in the coming years. The strategy involves an investment to assist in creating a self sustaining letters business, growing parcels business and the building of new services in the Corporation's retail outlets which includes providing electronic digital services.

**6.142** The ANAO's audit approach identified the following areas that are significant in terms of their potential impact on the 2011–12 financial statements:

- the assessment of the capitalisation of costs associated with the Parcels e-Commerce Program and Digital Mailbox programs;
- areas of significant judgement and estimates particularly those associated with the voluntary redundancy provision, long service leave, workers' compensation, the Corporation's defined benefit superannuation plan, and the valuation of investment properties;
- the recognition and disclosure of provisions;
- ageing and recoverability of debts;
- tax effect accounting; and
- IT general and application controls as they relate to the financial statements.

## **Audit results**

### *Summary of audit findings*

#### *Resolved audit findings*

**6.143** The ANAO identified four moderate audit issues during the 2010–11 audit relating to the following areas:

- user access for employees no longer employed by the Corporation had not been removed from the Corporation's financial management information system;
- the implementation in 2010–11 of a new bonus structure and methodology, that required a level of judgement and manual

processing in the calculation of the bonus provision, was not in accordance with the Corporation's final payment methodology;

- certain manual payments were not approved by the appropriate delegate; and
- weaknesses were identified in asset management processes in relation to stocktakes of the Corporation's postal and retail division fixed assets which had not been fully completed in a timely manner.

**6.144** During the 2011–12 audit, the ANAO confirmed that the Corporation had satisfactorily addressed these issues.

*New audit finding*

**6.145** During the 2011–12 final audit phase one new moderate audit issue relating to the Corporation's inventory items was identified. The audit identified discrepancies between inventory records and the number of inventory items on hand at the Corporation's warehouse. While the value of these assets was not material, these discrepancies increase the risk that inventory recorded may not exist and may not be reported at the correct value in the Corporation's financial statements. The Corporation advised that it was addressing this issue and progress will be monitored by the ANAO during the 2012–13 audit.

**6.146** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>	4	(4)	1	1
<b>L1</b>	0	0	0	0
<b>Total</b>	<b>4</b>	<b>(4)</b>	<b>1</b>	<b>1</b>

## NBN Co Limited

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	62.1	32.6
Total expenses	589.1	355.8
Profit (loss) after income tax	(520.2)	(323.2)
Total comprehensive income	(504.5)	(323.2)
Total assets	2 467.4	1 082.7
Total liabilities	543.1	123.9

**6.147** The 2011–12 financial year was a key establishment year for NBN Co Limited (NBN). In addition to the commencement of the Telstra Definitive Agreements<sup>56</sup>, contracts were also signed with equipment suppliers and building contractors so that the foundations are in place to progress towards full-scale network construction.

**6.148** Income mainly comprised interest earned on funds received as an equity injection.<sup>57</sup> Total expenses continued to grow in line with the growth of NBN's business activities.

**6.149** The increase in assets was associated with the progressive roll-out of the national broadband network. At 30 June 2012 assets included \$779.0 million in cash, \$906.2 million in network assets and \$504.2 million related to licences and internally developed software.

### Areas of audit focus

**6.150** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of assets, primarily the broadband network and NBN's IT

<sup>56</sup> The Telstra Definitive Agreement includes the Telstra Infrastructure Services Agreement (ISA). The ISA addresses complex issues and outlines how NBN Co Limited and Telstra will work together in relation to assessing Telstra network infrastructure assets during the NBN build and operational life cycle. The Definitive Agreement also includes a subscribers agreement, implementation requirements and definitions of key terms.

<sup>57</sup> Up until 30 June 2012, the NBN has progressively received equity injections totalling to \$2.8 billion in the form of ordinary shares held by the Minister for Finance and Deregulation and the Minister for Broadband, Communications and the Digital Economy. Following the release of the 2012–2015 Corporate Plan on 8 August 2012, the Australian Government has increased total committed future funding from \$27.5 billion to \$30.4 billion.

systems;

- the IT general and application controls for key systems that support the preparation of NBN's financial statements;
- procurement processes, particularly the accounting treatment for Telstra and Optus contracts; and
- employee and consultant related expenses.

## Audit results

### *Summary of audit findings*

#### *Outstanding audit finding*

**6.151** During the 2010–11 audit, the ANAO's review of key IT security controls relevant to NBN's financial systems identified weaknesses in relation to the management of IT system access and change controls.

**6.152** During the 2011–12 audit, the ANAO continued to identify issues associated with the IT system access and change controls and the moderate audit issues remain outstanding. NBN has advised that procedures for regular monitoring of access have been enhanced to address these weaknesses. The ANAO will review these matters during the 2012–13 audit.

**6.153** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	2	0	0	2
L1	0	0	0	0
<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>

## Special Broadcasting Service Corporation

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	227.2	211.7
Revenue from government	222.5	209.0
Surplus/(deficit)	(4.7)	(3.0)
Total other comprehensive income after income tax	1.6	7.3
Total comprehensive income	(3.1)	4.3
Total assets	250.6	253.0
Total liabilities	66.8	79.1

**6.154** All movements were not significant and reflect fluctuations in normal business activities.

### Areas of audit focus

**6.155** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of land and buildings;
- the valuation of programs; and
- recognition of appropriations and commercial revenue.

### Audit results

#### *Summary of audit findings*

**6.156** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

### Comments on non-material entities

**6.157** 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	✓	4 Sept 12	4 Sept 12	◆
Clean Energy Regulator	Yes*	✓	5 Oct 12	5 Oct 12	◆
Office of the Renewable Energy Regulator	No	✓	5 Oct 12	5 Oct 12	
Low Carbon Australia Ltd	No	✓	23 Aug 12	23 Aug 12	

✓: auditor's report not modified

◆: new significant or moderate issues and/or legislative matters noted

\* The Clean Energy Regulator was established on 2 April 2012. For the purposes of the Consolidated Financial Statements, the Regulator is classified as a material entity, although the Regulator has not had a material impact on the 2011–12 Consolidated Financial Statements. It has therefore been treated as a non-material entity for the purposes of this report.

## Portfolio overview

**6.158** The Climate Change and Energy Efficiency portfolio is responsible for enhancing Australia's climate change response through adaptation and mitigation strategies in the areas of domestic emissions reduction, as well as international solutions. As at 30 June 2012, the portfolio comprised the Department of Climate Change and Energy Efficiency, the Clean Energy Regulator, the Office of the Renewable Energy Regulator, and Low Carbon Australia Ltd.

**6.159** 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.

**6.160** The Clean Energy Regulator (CER), which was established on 2 April 2012, is responsible for contributing to building a clean energy future for Australia through the implementation and administration of the carbon pricing mechanism, the Renewable Energy Target, the National Greenhouse and Energy Reporting scheme, the Carbon Farming Initiative, and the Australian National Registry of Emission Units.

**6.161** The Office of the Renewable Energy Regulator was responsible for implementing the Australian Government's mandatory renewable energy target until 2 April 2012 when it was abolished and its functions transferred to the Clean Energy Regulator.

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

## Department of Climate Change and Energy Efficiency

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	189.2	175.8
Revenue from government	163.9	221.0
Surplus/(deficit)	(25.3)	45.2
Total other comprehensive income	0.0	0.0
Total comprehensive income	(25.3)	45.2
Total assets	205.6	216.6
Total liabilities	67.1	50.7

**6.163** The increase in the net cost of services is mainly attributable to \$11 million in new grants paid as part of the government's Pacific Islands Strategy, a \$10.3 million increase in supplier expenses, and a \$13.6 million increase in employee related costs, including the impact of separations and redundancies as the department downsized its workforce from 995 to 803 during 2011–12, as a result of the winding down and closure of a number of climate change programs. The increase in costs was partially offset by a \$19.8 million increase in own-source revenue which included service charges to recover the costs incurred in establishing the new entities and funding from AusAID for the Pacific Islands Strategy.

**6.164** Revenue from government decreased significantly due to the winding down of energy efficiency programs, referred to above, and the transfer of appropriations to the CER on its establishment.



**6.165** Assets decreased mainly due to a reduction in unspent appropriations and the transfer of assets to CER, partially offset by increased expenditure on IT infrastructure and leasehold improvements.

**6.166** Liabilities increased mainly due to increases in unearned revenue from AusAID and the Department of Resources, Energy and Tourism.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	32.7	1.5
Total expenses	1 251.9	354.2
Surplus/(deficit)	(1 219.2)	(352.7)
Total assets	19.8	18.3
Total liabilities	54.8	36.2
Net assets/(liabilities)	(35.0)	(17.9)

**6.167** The significant increase in administered own-source income reflects recovery action against installers in relation to the Home Insulation program.

**6.168** Administered expenses in 2011–12 included \$1 billion in Energy Security Fund payments made in June 2012. Other expenses generally decreased due to the completion of demand driven programs, partially offset by the final costs associated with the Home Insulation Safety program and the revaluation of home insulation program debts.

**6.169** Administered liabilities increased due to home insulation inspections outstanding at 30 June 2012.

## Areas of audit focus

**6.170** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the establishment of, and the transfer of assets and liabilities to, the Clean Energy Regulator; and
- the department's assessment of the recoverability of debts in relation to payments made to installers under the Home Insulation Program, where work was not undertaken to the required standard.

**6.171** During the year, the ANAO also discussed the accounting treatments relating to the proposed carbon pricing scheme with the Department of Finance and Deregulation, and the ANAO will engage in more detailed discussions with the Clean Energy Regulator in 2013.

## Audit results

### *Summary of audit findings*

#### *New audit findings*

**6.172** In 2011–12, two moderate audit issues were raised with the department in relation to:

- the logging and monitoring of privileged user access to the human resource management information system; and
- improvements needed to monitor privileged user access to the financial management information system.

**6.173** The department has acknowledged the issues and plans to resolve them early in 2013.

**6.174** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0	2	2
L1	0	0	0	0
Total	0	0	2	2

## Comments on non-material entities

## Audit results

### *Summary of audit findings*

**6.175** There were no significant or moderate audit issues identified in non-material entities within the portfolio, except in relation to the Clean Energy Regulator.

*Clean Energy Regulator*

**6.176** A moderate audit issue was raised with the Clean Energy Regulator in relation to the preparation of the Regulator's financial statements. The ANAO identified a number of errors that resulted in considerable adjustments to the financial statements. These adjustments highlight the importance of a quality assurance process prior to the provision of financial information to the ANAO. The ANAO will review actions taken by the Regulator during the 2012–13 audit.

*Office of the Renewable Energy Regulator**Resolved section 83 of the Constitution issue*

**6.177** The 2010–11 auditor's report on the financial statements of the Office of the Renewable Energy Regulator (ORER) referred to the notes to the financial statements that included a reference to an increased risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. ORER undertook to investigate this issue in 2011–12. The review undertaken by ORER in 2011–12 did not identify any breaches or potential breaches of section 83. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# 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	✓L	28 Sept 12	28 Sept 12	◆▲
AAF Company	No	✓	19 Oct 12	19 Oct 12	
- Army Amenities Fund	No	✓	19 Oct 12	19 Oct 12	
- Messes Trust Fund	No	✓	19 Oct 12	19 Oct 12	
Army and Air Force Canteen Service	No	✓	4 Sept 12	4 Sept 12	
Australian Military Forces Relief Trust Fund	No	✓	17 Aug 12	17 Aug 12	
Australian Strategic Policy Institute Ltd	No	✓	28 Sept 12	28 Sept 12	
Australian War Memorial	Yes	✓	9 Aug 12	9 Aug 12	
Defence Housing Australia	Yes	✓	2 Aug 12	3 Aug 12	
Defence Materiel Organisation	Yes	✓	21 Sept 12	21 Sept 12	◆▲
Defence Service Homes Insurance Scheme	No	✓	10 Oct 12	12 Oct 12	
Department of Veterans' Affairs	Yes	✓EL	10 Oct 12	12 Oct 12	▲
Military Superannuation Benefits Scheme	No	✓	14 Sept 12	14 Sept 12	
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	1 Oct 12	2 Oct 12	
Royal Australian Air Force Welfare Recreational Company	No	✓	10 Oct 12	10 Oct 12	
- Royal Australian Air Force Central Welfare Trust Fund	No	✓	10 Oct 12	10 Oct 12	
Royal Australian Air Force Welfare Trust Fund	No	✓	22 Aug 12	22 Aug 12	
Royal Australian Navy Central Canteens Board	No	✓	28 Sept 12	28 Sept 12	◆
Royal Australian Navy Relief Trust Fund	No	✓	5 Sept 12	6 Sept 12	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.178** 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.

**6.179** 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 present and former members of the Australian Defence Force (ADF).

## Department of Defence

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	23 025.4	22 040.3
Revenue from government	22 466.4	21 069.5
Surplus/(deficit)	(558.9)	(970.7)
Total other comprehensive income	150.6	522.1
Total comprehensive income/(loss)	(408.4)	(448.6)
Total assets	70 631.4	68 519.3
Total liabilities	5 473.6	5 849.7

**6.180** The net cost of services increased primarily due to increased expenditure associated with employee benefits and suppliers' expenses.

**6.181** The increase in employee benefits reflects an increase in military and civilian salaries, and movements in military and civilian superannuation and leave benefits. Supplier expenses increased mainly due to increases in expenses relating to the sustainment of military capability, communications and information technology, property maintenance, and other expenses relating to building construction.

**6.182** Income increased primarily due to increases in revenue from government to support operational programs within Defence.

**6.183** Other comprehensive income decreased due to the value associated with the current year's revaluation of non-current assets being less than that of the prior year.

**6.184** Assets increased mainly due to the construction of new buildings, infrastructure, specialist military equipment (SME), and the purchase of inventory. The increase in building and infrastructure is largely related to supporting new platforms and the ongoing delivery of facilities under the Enhanced Land Force program at various locations around Australia. The increase in assets is partially offset by depreciation and disposals.

**6.185** SME assets increased due to increased expenditure on large scale projects, such as Land Helicopter Dock (LHD) ships, Air Warfare Destroyer ships and troop lift helicopters. In addition, the Defence Materiel Organisation (DMO) delivered to Defence in 2011–12 a number of significant assets, including the Airborne Early Warning and Control Aircraft, Air to Air Refuelling Capability, Super Hornets, Frigate Helicopter Anti-Ship Missile Defence, Ocean Shield and HMAS Choules.

**6.186** Inventories increased due to the acquisition of general stores inventory (GSI) and explosive ordnance (EO) consistent with ongoing operational requirements and Defence's strategic objective to increase reserve stock holdings of EO through the progressive acquisition of a range of EO items.

**6.187** Liabilities decreased mainly due to the amount owing to DMO for acquisition and sustainment activities at year end being substantially lower in 2011–12 than 2010–11.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	1 316.1	1 354.4
Total expenses	4 215.5	4 014.3
Surplus/(deficit)	(2 899.4)	(2 659.9)
Total assets	3 019.0	3 050.7
Total liabilities	85 795.3	50 118.2
Net assets/(liabilities)	(82 776.2)	(47 067.6)

**6.188** Administered expenses and liabilities increased due to increases in superannuation benefits paid and military superannuation provisions. These provision balances are calculated by an actuary and the movement in the balances is primarily affected by a decrease in the discount rate reflecting movements in the long term government bond rate<sup>58</sup>, and a higher number of scheme members taking pensions instead of lump sum payments. The increase in superannuation expense is the result of the movement in the provision.

**6.189** All other movements were not significant and reflect fluctuations in normal business activities.

### **Areas of audit focus**

**6.190** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- inventory and asset management due to the material nature of the inventory and asset balances, and outstanding prior year audit issues. The audit issues relate to weaknesses in management and supply chain business controls, supporting documentation, and the management of inventory and asset holdings at various Defence and DMO sites;
- the operation of the 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 operations and supports the financial reporting of assets and inventory;
- the valuation and classification of SME. These assets are a material balance and their valuation involves a high level of judgment and technical expertise; and
- 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.

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

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<sup>58</sup> Op cit (refer footnote 21 on p. 39)

- the 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;
- 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*

**6.192** During the final phase of the 2011–12 audit, Defence resolved seven moderate audit issues identified in prior years that had been outstanding for a number of years. The resolved issues relate to the reporting and management of General Service Inventory (GSI) and Repairable Items (RIs), and the verification and reporting of particular categories of SME assets known as Non-MILIS Non-Platform and DMO service delivery.

**6.193** Four moderate audit issues and a legislative compliance matter were identified during the 2011–12 final audit phase. The moderate audit issues relate to asset reporting and revaluation processes, accounting for special public monies and privileged user access to the financial management information system (ROMAN). The legislative compliance issue relates to potential breaches of section 83 of the Constitution. This issue is discussed in paragraphs 6.214 to 6.220 below.

**6.194** At the conclusion of the 2011–12 audit, ten moderate issues and a legislative compliance matter remained outstanding. In addition to the four new moderate audit issues referred to above, six moderate audit issues relating to Defence's inventory and asset management and the supporting IT systems remained outstanding.

**6.195** Details of the resolved and outstanding findings are outlined below.



*Resolved audit findings*

## Internal control and financial reporting

**6.196** The business and operational arrangements between Defence and DMO includes requirements for DMO to manage and process financial transactions and business processes on behalf of Defence. This issue related to weaknesses in Defence's monitoring and oversight of these financial transactions and business processes. During the 2011–12 final audit phase, the ANAO confirmed Defence had satisfactorily addressed these issues.

## Inventory and assets management

**6.197** During 2011–12, Defence continued to address the issues that arose following the implementation and operation of the MILIS system. These issues included governance and project management, management of changes to program and data files, data quality and the verification of inventory and assets reported in the balance sheet. The MILIS Inventory Assurance Program (MIAP) Phase 3 focussed on remediation activities including software system changes, defect remediation, and data analysis and monitoring through to the end of the audit cycle in 2011–12. These remediation activities were undertaken as part of an overall Inventory Assurance Strategy, which included control activities to gain assurance over the accuracy and completeness of inventory pricing and quantities. Issues relating to inaccurate inventory quantities and pricing were resolved as a result of these activities.

**6.198** In 2011, Defence established a National Asset and Inventory Sample (NAIS) program to provide assurance over the accuracy and completeness of inventory and asset quantities at year end and to resolve the audit issues relating to stocktake processes. Coupled with ongoing remediation work undertaken in relation to MILIS, this program was satisfactorily executed resulting in the issues concerning GSI and RI quantities, and assurance over the accuracy and completeness of third party assets held by contractors being satisfactorily resolved.

**6.199** In 2011–12, Defence also developed and implemented monitoring controls and assurance activities to reduce the risk of inventory pricing errors. These controls and assurance activities were reviewed by the ANAO and based on the results of audit testing, the issue has been satisfactorily resolved.

**6.200** In 2011–12, Defence also made substantial improvements to the methodology, supporting system, and procedures relating to the calculation of the provision for obsolescence (PFO) balance for inventory. Defence refined the

underlying assumptions in the model used to calculate the balance, implemented a supporting IT system across relevant business areas, and strengthened the procedures supporting the calculation of the provision. As a result, the audit issue has been satisfactorily resolved.

**6.201** During the final phase of the 2011–12 audit, Defence completed remediation activities relating to the verification and reporting of particular categories of SME assets, such as simulators and computer systems, that supported operating aircraft. As a result of the strengthened management assurance processes in this area, the issue has been satisfactorily resolved.

#### Financial management information system (ROMAN)

**6.202** In 2011–12, Defence advised that its risk assessment on the weaknesses in the ROMAN configuration settings was complete and compensating controls were operating effectively. During the 2011–12 final audit phase, the ANAO confirmed that the identified risks had been appropriately addressed and as a result the issue has been resolved.

#### *Outstanding audit findings*

#### Inventory and assets management

**6.203** Two moderate audit issues in relation to inventory and assets management were carried forward from prior years. These audit issues related to the need to improve IT and business process controls necessary for the timely and accurate processing of inventory returns and to improve the retention of supporting documentation for approval to dispose of certain Defence assets.

#### Military information logistics information system (MILIS)

**6.204** Significant issues in relation to weaknesses in project governance and change management for the MILIS system were reported in previous years. Substantial progress was made in the resolution of the issues relating to the effectiveness of governance arrangements for the MILIS system, change management controls, and upgrades to the MILIS databases as part of the execution of MIAP activities discussed in paragraph 6.197 above. The MIAP Phase 3 activities, and the ANAO's audit program, focussed on accuracy and completeness issues in the asset and inventory balances. This work has provided assurance that these balances were materiality correct at year end. Notwithstanding the substantial effort and positive results of these remediation activities, the ANAO continued to report three moderate issues relating to the MILIS system. These issues relate to governance, change

management, and data quality. Following the closure of MIAP, Defence implemented the MILIS Performance Improvement Program (MPIP) to continue improvements in the logistics systems. At the end of the 2011–12 audit, the ANAO identified that there is still a need for Defence to:

- have Final Operating Capability (FOC) of the MILIS system signed as agreed by the Defence capability owner. Accomplishing FOC would normally establish the operation of the systems as business as usual. However, in the case of the MILIS system there is a strong need for further improvements. Defence has advised that FOC was agreed in November 2012;
- continue to strengthen the governance arrangements around the MILIS system, including the implementation of additional governance arrangements identified as part of the MPIP;
- continue to strengthen data quality programs; and
- review the change management process and the testing of the MILIS program and data file changes.

**6.205** Defence's focus on executing appropriate and targeted assurance processes has resulted in improvements in the management of assets and inventory, and the supporting MILIS system. A continued focus on systems integrity and quality assurance will be required to maintain the good progress made by Defence in recent years.

#### Business continuity management

**6.206** 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.

**6.207** These plans are designed to provide assurance that Defence has adequate recovery mechanisms in the event of a major failure or disaster and to ensure that critical business functions remain operational. Defence has advised that work in this area was completed in October 2012. The ANAO will review this as part of the planning processes for the 2012–13 audit cycle.

#### *New audit findings*

**6.208** Four new moderate audit issues were identified during the 2011–12 audit relating to the appropriate accounting treatment of prior period errors,

inadequate reconciliation and review processes over the transfer of information from the revaluation reports to the fixed asset register, privileged user access to the financial management information system (ROMAN), and accounting for special public monies.

#### Internal control and financial reporting

**6.209** The ANAO identified issues concerning the accounting for assets that had previously been expensed in prior periods but were later identified as assets that required capitalisation. The incorrect accounting treatment resulted in a misstatement of gains in the income statement. These misstatements have the potential to be significant if not monitored appropriately. Defence adjusted the misstatements in the 2011–12 financial statements and advised that activities are underway to improve the review processes over the accounting for these assets.

**6.210** Special accounts are established for specific purposes and have particular conditions that must be met under the special account Determination made when the account is established. Payments made from these accounts must comply with the Determination. The ANAO identified some amounts deposited into a special account that if paid from the account were likely to result in a legislative breach. Defence has advised that the amounts have been transferred out of the special account and as a result reduced the risk of a legislative breach occurring. In October 2012, Defence advised that an analysis of the remaining funds within the account has been performed and no further issues had been identified.

#### General assets management

**6.211** Revaluation of Defence land, buildings, infrastructure and heritage and cultural assets is performed on an annual basis by a qualified independent valuer. As part of this established practice, updated revaluation information is provided to Defence for inclusion in the 2011–12 financial statements. In 2011–12, the transfer of information from the revaluation reports to the fixed asset register was incomplete and inaccurate. Inadequate reconciliation and review processes resulted in these errors remaining undetected prior to the ANAO's final audit. These shortfalls resulted in adjustments to Defence's financial statements to correct the identified errors.

**6.212** Defence has advised that its asset valuation processes and procedures will be updated to include a reconciliation between the independent expert's values and the values updated in the fixed assets register. In addition, quality

assurance processes to detect anomalies, following the updating of the fixed assets register, will be implemented by December 2012.

#### Financial management information system (ROMAN)

**6.213** During the final phase of the 2011–12 audit, the ANAO’s review of privileged user management for Defence’s financial management information system identified inadequate segregation of duties between administration functions and standard transactions processing. Specific system administrators with privileged access to ROMAN also had access to process specific financial transactions, such as invoice creation and journal entry processing. The roles of systems administrator and financial transaction processor are segregated to reduce the risk of inappropriate or unauthorised financial transactions being processed. Defence has advised that a review of ROMAN access profiles will be completed by December 2012. The ANAO will review this process as part of the 2012–13 interim audit phase.

#### *Potential breaches of section 83 of the Constitution*

**6.214** The notes to Defence’s 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.215** During 2011–12, Defence undertook a review to determine the risk of payments being made in breach of section 83 from the special appropriations and special accounts for which it is administratively responsible.

**6.216** The risk assessment and subsequent analysis conducted up to 30 June 2012 identified 919 potential breaches of section 83 totalling \$5.55 million in relation to various payments under the *Defence Force Retirement Benefits Act 1948*, *Defence Force Retirement and Death Benefits Act 1973*, *Military Superannuation and Benefits Act 1991*, *Military Superannuation and Benefits Act 1991*, *Defence Force (Home Loans Assistance) Act 1990*, *Defence Home Ownership Assistance Scheme Act 2008* and the *Financial Management and Accountability Act 1997*. Legislative amendments passed in late June 2012 reduced the risk of certain future payments being made in breach of section 83 to low.<sup>59</sup> The remaining risk is being mitigated through system and procedural changes. Of the above mentioned amounts, approximately \$4.12 million was recovered.

<sup>59</sup> A discussion of amendments made to legislation by the FFLA Act 2012 is at paragraphs 5.38 to 5.40 of Chapter 5 of this report.

**6.217** The risk of payments from other special appropriations being in breach of section 83 was assessed by Defence as low.

**6.218** The auditor's report included a report on other legal and regulatory requirements referring to the potential breaches identified. This is not a qualification of the audit opinion on Defence's financial statements, as the financial statements fairly presented the financial operations and position of Defence at year end.

**6.219** Defence has undertaken to continue to monitor its level of section 83 compliance across all legislation for which it is administratively responsible. The department has advised amendments to legislation will continue to be progressed, where possible.

**6.220** Full details of potential breaches identified during 2011–12 are outlined in Note 32 of Defence's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.221** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	13	(7)	4	10
L1	0	0	1	1
Total	13	(7)	5	11

## Australian War Memorial

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	41.3	37.3
Revenue from government	40.4	30.9
Surplus/(deficit)	(0.9)	(6.4)
Total other comprehensive income	70.1	3.6
Total comprehensive income	69.2	(2.8)
Total assets	1 234.8	1 157.6
Total liabilities	9.2	8.9

**6.222** The net cost of services increased mainly due to an increase in employee expenses of \$1.6 million as a result of an increase in staff numbers and the impact of the lower discount rate reflecting movements in the long term government bond rate<sup>60</sup> on the estimation of leave entitlements at 30 June 2012. The Memorial also incurred an increase in supplier expenses of \$1.3 million, and a decrease in other revenue from donations which in 2010–11 included two donated Victoria Crosses, valued at approximately \$1.1 million.

**6.223** Revenue from government increased as a result of additional appropriations of \$8.4 million provided to the Memorial in 2011–12 for departmental expenses and \$1.2 million for the redevelopment of World War I galleries.

**6.224** Total other comprehensive income increased due to the revaluation of heritage and cultural assets which, together with a \$13.5 million increase in investments at year end, also accounts for the increase in assets.

### Areas of audit focus

**6.225** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of land and buildings and the asset collection;
- the capitalisation of employee costs to the asset collection; and

<sup>60</sup> Op cit (refer footnote 21 on p. 39)

- the significant increase in government funding.

## Audit results

### *Summary of audit findings*

**6.226** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

## Defence Housing Australia

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	929.3	889.7
Total expenses	846.5	802.4
Profit (loss) after income tax	82.8	87.3
Total other comprehensive income after income tax	82.8	87.3
Total assets	2 130.5	2 096.8
Total liabilities	771.7	771.1

**6.227** Income increased primarily due to an increase in sales revenue associated with Defence Housing Australia's (DHA) sale and lease back program, an increase in rental income from Defence, and an increase in monies in relation the upgrade of properties rented by Defence.

**6.228** Expenses increased mainly due to the construction and upgrade activities as part of DHA's responsibility for housing and related services that meet Defence operational requirements.

**6.229** DHA has a comprehensive construction and acquisition program to meet Defence housing requirements. As a result, new properties are continually constructed or purchased, with the majority sold and then leased back under a sale and lease back program. The movement in assets is mainly due to an increase in the land and properties held at year end for sale, in comparison to land and properties held for sale in 2010–11.

**6.230** All other movements were not significant and reflect fluctuations in normal business activities.



## Areas of audit focus

**6.231** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 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; and
- IT general and application controls as they relate to the financial statements.

## Audit results

### *Summary of audit findings*

**6.232** There were no significant or moderate audit issues identified during the 2010–11 and 2011–12 audits.

## Defence Materiel Organisation

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	884.0	789.5
Revenue from government	931.3	847.3
Surplus/(deficit)	47.3	57.8
Total other comprehensive income	0.2	0.0
Total comprehensive income	47.5	57.8
Total assets	2 081.9	2 290.1*
Total liabilities	1 711.9	1 895.1*

\* The asset balance has been restated from \$2 403.6 million in 2010–11 as a result of a change in accounting policy. The liabilities balance has been restated from \$2 013.1 million in 2010–11 as a result of a change in accounting policy, refer to paragraph 6.237.

**6.233** Under the business arrangements between DMO and Defence, DMO is funded for expenses incurred in undertaking acquisition and sustainment activities on behalf of Defence. The annual funding requirements and

deliverables are defined and performed in accordance with the Materiel Acquisition Agreements (MAAs) and Materiel Sustainment Agreements (MSAs) established between the two agencies.

**6.234** The net cost of services increased primarily due to an increase in DMO operational expenses in relation to an increase in the number of employees, employee salaries and a number of industry grants. An increase in purchases for sustainment activity, performed by DMO on behalf of Defence, also contributed to the increase in the net cost of services.

**6.235** The increase in revenue from government is mainly due to an increase in appropriation funding for employee benefits and grants.

**6.236** The surplus decreased mainly due to a reduction in revenue from Defence for asset acquisition activities and an increase in expenses associated with sustainment activities undertaken by DMO on behalf of Defence. This decrease was partially offset by an increase in revenue from government.

**6.237** Assets decreased mainly as the result of the payment of moneys owed by Defence for acquisition and sustainment activities, and a retrospective adjustment in the prior year cash balance to reflect a change in DMO's accounting policy. The decrease in assets was partially offset by a retrospective reclassification of interest owing on Seasparrow, Air Warfare Destroyer, and Poseidon bank accounts, previously reported in DMO's administered financial statements.

**6.238** Liabilities were lower in 2011–12 due to a decrease in amounts payable to suppliers at year end, mainly for the Multi Role Helicopter and the Landing Helicopter Dock projects, and to Defence for foreign exchange gains and operation under no-win no-loss arrangements.<sup>61</sup>

**6.239** An increase or a decrease in the foreign currency amount payable, on purchases made by DMO, will result in either a foreign exchange gain or loss. The foreign exchange gains or loss are reported in DMO's financial statements as either amounts owing to Defence (a liability) or amounts owing from Defence (an asset). The 2011–12 liability balance includes an outstanding amount payable to Defence for foreign exchange gains and support for military operations under no-win no-loss funding arrangements.

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<sup>61</sup> No-win no-loss arrangements refers to funding provided by the Australian Government to fund changes as a result of foreign exchange rate differences. Funding is provided to cover any shortfall as a result of an unfavourable movement in foreign currency when converted into Australian dollars.

**6.240** The decrease in liabilities was partially offset by an increase in employee provisions as a result of an increase in full-time staff and salary increases.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	0.6	1.1*
Total expenses	(0.7)	0.0
Surplus/(deficit)	(0.1)	1.1
Total assets	4.3	8.1*
Total liabilities	0.0	0.0
Net assets/(liabilities)	4.3	8.1

\* The income balance has been restated from \$2.4 million in 2010–11 as a result of a change in accounting policy. The assets balance has been restated from \$11.3 million in 2010–11 in relation to the same change in accounting policy.

**6.241** Administered income and assets comprise interest revenue and interest owing to DMO. Under existing project arrangements, interest earned on specific project bank accounts is payable to DMO.

**6.242** Administered income and assets decreased due to the reclassification of interest revenue and interest owing to DMO from administered to departmental in relation to the Seasparrow, Air Warfare Destroyer and the Poseidon bank accounts. The change in accounting treatment reflects the nature of the funding arrangements for the projects, and DMO's ability to retain these amounts in a special account.

## Areas of audit focus

**6.243** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the value of the cost of goods sold, including inventory and fuel purchases, due to weakness in the control environment and historical issues associated with the accurate recording of purchase prices in the underlying financial systems;
- the classification and recognition of prepayments due to the complexity of underlying contractual arrangements with third party suppliers;
- the recognition and recording of MAA and MSA transactions through

DMO's special account due to the complexity, volume and timing of transactions, associated with these agreements; and

- the accounting and reporting of a high volume of transactions between Defence and the DMO.

## **Audit results**

### *Summary of audit findings*

**6.244** At the conclusion of the 2011–12 audit, two moderate audit issues were outstanding. One audit issue was raised during the 2010–11 audit and relates to the need to improve bureau service arrangements between Defence and DMO. The new audit issue relates to the need to improve controls over appropriation reporting.

#### *Outstanding audit finding*

Bureau service arrangements between Defence and DMO

**6.245** Defence manages specific financial 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 preparation of its financial statements.

**6.246** DMO obtains 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 areas of:

- the financial management controls and financial management information system (ROMAN); and
- system security and change management processes.

**6.247** 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.

**6.248** DMO has provided the ANAO with a paper that addressed this matter. Included in the paper are representations and details of controls that DMO

considers address the matters identified by the ANAO. The ANAO will assess DMO's representation during the 2012–13 interim audit phase.

*New audit finding*

Financial reporting of appropriation and cash management

**6.249** During the 2011–12 audit, the ANAO identified a number of reporting and disclosure issues relating to:

- the lack of reconciliation between the Department of Finance and Deregulation's (Finance) Central Budget and Management System (CBMS) and the financial management information system (ROMAN);
- delays in updating ROMAN to reflect appropriation reductions and CBMS processing errors identified by DMO's treasury reporting team;
- the inability to provide signed documentation supporting drawing rights; and
- the incorrect application of Finance's advice regarding the treatment of electronic funds payments to suppliers and drawdown amounts from the Consolidate Revenue Fund.

**6.250** The audit issues identified above have the potential to increase the risk of a legislative breach and incorrect financial statements disclosure of DMO's special account, cash, and the supplier payable balances. DMO has advised that it has strengthened the reconciliation controls between CBMS and ROMAN and financial reporting procedures for appropriations. The results of the ANAO's review of this process will be reported as part of the 2012–13 interim audit phase.

*Resolved section 83 of the Constitution issue*

**6.251** The 2010–11 auditor's report on the financial statements of DMO referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The DMO undertook to investigate this issue in 2011–12. The review undertaken by the DMO in 2011–12 concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.252** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	1	2
<b>L1</b>	0	0	0	0
<b>Total</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>2</b>

## Department of Veterans' Affairs

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	326.8	317.5
Revenue from government	296.3	289.8
Surplus/(deficit)	(30.5)	(27.7)
Total other comprehensive income	(1.2)	9.8
Total comprehensive income/(loss)	(31.8)	(17.9)
Total assets	227.7	242.1
Total liabilities	140.1	148.2

**6.253** The increase in the net cost of services and the deficit largely relates to increases in employee benefits, and depreciation and amortisation expenses, which were partially offset by a reduction in underwriting expenses relating to insurance activities of the Defence Service Homes Insurance Scheme. Significant reductions in insurance expenses occurred after the 2010–11 natural disasters in Queensland and Victoria.

**6.254** The reduction in assets is primarily due to \$36.9 million of unspent appropriations being used in 2011–12 to fund additional expenses, mainly associated with employee costs. This has been partially offset by a \$23.4 million increase in the value of computer software.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	7.0	9.0
Total expenses	13 722.0	12 370.0
Surplus/(deficit)	(13 715.0)	(12 361.0)
Total assets	1 357.0	1 309.0
Total liabilities	5 529.0	3 634.0
Net assets/(liabilities)	(4 172.0)	(2 325.0)

**6.255** Administered expenses increased mainly due to a \$1.7 billion increase in the military compensation provision. Increases in the military compensation provision directly affect the level of military compensation expenses.

**6.256** Administered liabilities increased significantly following an actuarial assessment of the valuation of the military compensation provision, resulting in an increase of \$1.7 billion in the provision at year end. This increase is mainly the result of the application of a lower discount rate reflecting movements in the long term government bond rate<sup>62</sup> adding \$1.5 billion to the provision and a \$192 million increase in the outstanding claims estimate. In addition, there was an increase of \$119 million in liabilities for payments to public hospitals for services rendered to veterans.

### Areas of audit focus

**6.257** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the significant number of transactions being processed on a regular basis by complex and ageing IT 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.

<sup>62</sup> Op cit (refer footnote 21 on p. 39)

## Audit results

### *Summary of audit findings*

**6.258** The auditor's report included an emphasis of matter 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 (\$4.8 billion at 30 June 2012) 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;
- difficulties in determining the appropriate discount rates to apply to projected future cash flows in establishing the present value of the military compensation provision.

**6.259** Similar to the 2010–11 auditor's report, 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 to the financial statements.

### *Resolved audit findings*

**6.260** One moderate audit issue relating to DVA's valuation of liabilities under the MRC Act and SRC Act that was identified during the 2010–11 audit has been satisfactorily resolved.

**6.261** During the 2011–12 final audit phase, the ANAO confirmed that DVA had valued the military compensation provision (referred to above) in accordance with the relevant accounting standards. This involved discounting the estimate to a present value using the long term government bond rate.

### *Outstanding audit findings*

#### Quality assurance framework

**6.262** DVA has a quality assurance (QA) framework that is designed to provide assurance over the correctness of administrative decisions, the achievement of program and policy outcomes, and the completeness and accuracy of financial statement reporting. This framework consists of 18 individual QA programs. Two programs, the Income Support and the Rehabilitation and Compensation programs, are designed to provide a necessary level of assurance relating to veterans' income, widow/ers and



disability support expenses of \$6.4 billion and military compensation expenses of \$2.0 billion.

**6.263** During the 2011–12 interim audit phase, a number of weaknesses were identified in the design, implementation and oversight of the Income Support and Rehabilitation and Compensation QA programs. The audit identified a lack of financial quantification of identified errors, inadequate segregation of duties within the IT application used for quality assurance, a lack of an audit trail for actions completed within this application, inadequate documentation of completed procedures, and the existence of errors not previously identified by DVA.

**6.264** The ANAO's review of the IT application (QUASARS) used in selecting samples of decisions and payments for quality assurance review and the reporting of quality assurance activities in DVA, also identified a large number of users with high levels of access, without logging and monitoring of actions performed by users within the system. This access included the ability to amend underlying data, sample selections, and quality assurance results.

**6.265** To address the above issues, DVA proposed a range of remediation measures which are in various stages of implementation with finalisation expected in June 2013.

#### Management of user access

**6.266** The ANAO's 2011–12 interim audit phase identified a significant number of users who continued to have user access that resulted in inadequate segregation of duties within key payment systems. In addition, there was no monitoring of user access. While DVA has established a number of controls seeking to address the resulting risks of providing extensive user access, the ANAO identified that these did not adequately address the risks involved. The 2011–12 interim audit concluded that this situation significantly increased the risk of incorrect payments being made through these systems.

**6.267** It was also identified during the 2011–12 interim audit phase that a number of the users with inadequate segregation of duties within key payment systems, also held high level access to DVA's QA IT application (QUASARS).

**6.268** The 2011–12 final audit phase concluded that while DVA had reduced the number of users with high level access to QUASARS, remediation of the remaining issues was being progressively implemented. This will be reviewed as part of the 2012–13 interim audit phase.

## Treatment account system

**6.269** The processing of medical, hospital and allied health services claims through the treatment accounts system is undertaken on behalf of DVA by the Department of Human Services (DHS). To facilitate treatment in private hospitals, DVA negotiates contracts with all private hospitals that provide for payments to be made based on an agreed schedule of fees. The claims made by the hospitals are processed either manually or online by DHS.

**6.270** During the 2011–12 audit the ANAO identified that the treatment account system had not been configured to enforce the agreed fees for online claims.

**6.271** In response to this issue, DVA has advised that all payments are now subject to manual assessment. The ANAO will review remediation of this issue during the 2012–13 interim audit phase.

## Reconciliations

**6.272** During the 2011–12 interim audit phase, the ANAO identified reconciliations between the general ledger and subsidiary systems for payroll, accounts receivable, and accounts payable, were not always completed and reviewed in a timely manner, with variances remaining unresolved for significant periods of time. Similar observations were made during the 2009–10 and 2010–11 audits in relation to payroll reconciliations. In addition, there were instances of a lack of evidence that appropriate reconciliations had been performed and reviewed for one bank account.

**6.273** Overall, these weaknesses increase the risk that financial transactions are not accurately recorded and reported.

**6.274** The 2011–12 audit identified that the performance and review of reconciliations had improved. The ANAO will review the sustainment of these improvements during the 2012–13 interim audit phase.

## Provision for payments to hospitals

**6.275** 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 and 2010–11 audits, weaknesses were identified in the quality and availability of data used to estimate this provision. Similar issues have also been raised in the 2011–12 audit.

**6.276** DVA advised it will continue to work closely with state and territory governments to improve the quality and availability of data for the estimation of this provision.

#### Management of waivers

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

**6.278** While DVA has implemented a range of remedial measures, including issuing further advice to relevant staff, and subsequent reviews to ascertain the level of compliance with the VE Act, these measures have not been effective in addressing the issue. This was due, for example, to waivers not being authorised by an appropriate delegate or not being supported by complete documentation. DVA has advised that a detailed project plan will be developed to resolve this issue.

#### *Potential breaches of section 83 of the Constitution*

**6.279** The notes to DVA's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.280** During 2011–12, DVA undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is responsible. The risk assessment and subsequent analysis identified the following potential breaches:

- payments under the VE Act totalling \$19.13 million were potential breaches of section 83 of the Constitution. Of these amounts, approximately \$1.75 million had been recovered; and
- one overpayment of \$40 under the Military Death Claim Compensation Special Account was a potential breach of section 83 of the Constitution. This amount has been recovered.

**6.281** The auditor's report included a report on other legal and regulatory requirements referring to the potential breaches identified. This is not a qualification or modification to the audit opinion on DVA's financial

statements, as the financial statements fairly presented the financial operations and position of DVA at year end.

**6.282** DVA has undertaken to continue to monitor its level of section 83 compliance across all legislation for which it is administratively responsible. Where possible, future changes to procedures and amendments to legislation will continue to be progressed.

**6.283** Full details of potential breaches identified during 2011–12 are outlined in Note 33 of DVA’s 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.284** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	6	(1)	0	5
L1	0	0	2	2*
<b>Total</b>	<b>6</b>	<b>(1)</b>	<b>2</b>	<b>7</b>

\* At the time of the interim audit phase, the position in respect of DVA’s remediation of potential breaches relating to waivers was to be assessed as part of the final phase of the 2011–12 audit. The final audit assessed that this issue has not been resolved.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.285** There were no significant or moderate audit issues identified in non-material entities within the portfolio, except in relation to the Royal Australian Navy Central Canteens Board.

#### *Royal Australian Navy Central Canteens Board*

##### *New audit finding*

**6.286** During 2011–12, the Royal Australian Navy Central Canteens Board (RANCCB) acquired a number of new canteen businesses. As a result of these acquisitions, there was a substantial increase in the value of the inventory balance in RANCCB’s 2011–12 financial statements.

**6.287** The ANAO's testing of RANCCB's inventory management processes and controls identified: weaknesses in controls relating to the receipting of inventory, and the transfer of inventories between various stores operated by RANCCB; stocktake policies and procedures were not adequately documented; and a lack of reconciliation of variances in the inventory balances recorded in the financial system and stocktake results. The absence of effective management of inventory increases the risk of unauthorised, inaccurate or fraudulent transactions.

**6.288** As a result of the weakness identified, the ANAO performed additional assurance activities to gain assurance over the quantities of stock on hand and the value of the inventory balance at year end. The result of this testing provided assurance that the inventory balance was not materially misstated.

**6.289** At the completion of the 2011–12 final audit phase, RANCCB advised that action was being taken to strengthen the controls over the receipt and transfer of inventories. In addition, RANCCB was updating documentation to include stocktake policy and procedures.

**6.290** The ANAO will review these activities during the 2012–13 interim audit phase.

# 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	✓AL	26 Sept 12	27 Sept 12	◆
Australian Curriculum Assessment and Reporting Authority	No	✓	30 Aug 12	30 Aug 12	
Australian Institute for Teaching and School Leadership Limited	No	✓E	24 Aug 12	24 Aug 12	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	4 Oct 12	4 Oct 12	
Comcare	Yes	✓	6 Sept 12	6 Sept 12	
Fair Work Australia	No	✓	21 Sept 12	24 Sept 12	
Office of the Australian Building and Construction Commissioner <sup>63</sup>	No	✓	20 Sept 12	21 Sept 12	
Office of the Fair Work Building Industry Inspectorate <sup>64</sup>	No	✓	20 Sept 12	21 Sept 12	
Office of the Fair Work Ombudsman	No	✓	12 Sept 12	12 Sept 12	
Safe Work Australia	No	✓	2 Oct 12	2 Oct 12	
Seafarers Safety, Rehabilitation and Compensation Authority	No	✓	20 Sept 12	20 Sept 12	

✓: auditor's report not modified

A: auditor's report contains additional statutory disclosure

E: auditor's report contains an emphasis of matter

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.291** The Australian Government takes a national leadership role in education 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 its portfolio agencies, the Australian Government works with state and territory governments, other government

<sup>63</sup> Office of the Australian Building and Construction Commissioner was abolished on 1 June 2012.

<sup>64</sup> Office of the Fair Work Building Industry Inspectorate was created on 1 June 2012.

agencies, various industries, and a range of contracted service providers to provide high quality policy, advice and services for the benefit of Australia.

**6.292** The Machinery of Government (MOG) changes that took effect on 14 December 2011 changed the structure and responsibilities of DEEWR. The responsibility for tertiary education, skills and international functions was transferred to the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE). Programs transferred included Higher Education Support, the Higher Education Loan program (HELP), Tertiary Student Assistance programs and Vocational Education and Training programs.

**6.293** As part of the MOG changes, the Australian National University, the Australian Learning and Teaching Council Limited, the newly created Australian Skills Quality Authority and the Tertiary Education Quality and Standards Agency were also transferred to the Industry, Innovation, Science, Research and Tertiary Education Portfolio.

## Department of Education, Employment and Workplace Relations

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	786.5	851.8
Revenue from government	712.8	740.2
Surplus/(deficit)	(73.7)	(111.6)
Total other comprehensive income	(3.0)	11.6
Total comprehensive income	(76.6)	(100.0)
Total assets	424.8	475.2
Total liabilities	254.9	275.3

**6.294** The movement in the net cost of services is primarily due to a reduction in depreciation and amortisation and supplier expenses. Depreciation and amortisation reduced as a result of a change in useful lives for a number of IT projects, in addition to the expiration of a number of leasehold improvement assets, in line with their operating lease terms. Supplier expenses reduced as a

result of the decreased use of IT contractors and changes in the terms, or expiry of, a number of operating leases.

**6.295** Revenue from government decreased as a result of the transfers of appropriations to DIISRTE as a result of the MOG changes referred to above.

**6.296** Assets and liabilities decreased primarily as a result of the transfer of functions to DIISRTE. Significant balances transferred included employee provisions and unspent appropriations. Assets also decreased due to a reduction in the value of infrastructure, plant and equipment as a result of the revaluation of assets during 2011–12.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	313.3	1 358.9
Total expenses	35 930.3	42 550.3
Surplus/(deficit)	(35 617.0)	(41 191.4)
Total assets	1 335.0	19 937.7
Total liabilities	3 886.4	8 711.0
Net assets/(liabilities)	(2 551.4)	11 226.6

**6.297** Administered income decreased mainly as a result of the transfer of the HELP and Student Financial Supplement Scheme (SFSS) austudy loan balances to DIISRTE. The Education Investment Fund Special Account was also transferred to DIISRTE, resulting in a decrease in administered income.

**6.298** Administered expenses decreased significantly mainly due to the transfer of tertiary related programs to DIISRTE. The balances involved include grants, subsidies, personal benefits and suppliers expenses.

**6.299** Assets decreased mainly due to the transfer of the HELP receivable and the investment in the Australian National University to DIISRTE.

**6.300** Liabilities decreased mainly due to the transfer of the unfunded university superannuation grants provision to DIISRTE.



## Areas of audit focus

**6.301** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- compliance activities and assurance processes underpinning personal benefits, child care and employment related payments;
- the financial management of grants as the management of grants is dispersed across a wide variety of programs and different business systems;
- the judgements and estimates in DEEWR's financial statements including the accrual elements of administered programs required to be reported at year end;
- the completeness and accuracy of balances transferred to DIISRTE as a result of the MOG changes in December 2011;
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2010–11 financial statements; and
- progress in addressing the significant audit finding in 2010–11 relating to user access controls and the change management processes for the training and youth internet management system (TYIMS).

## Audit results

### *Summary of audit findings*

**6.302** No new significant or moderate issues were noted during the 2011–12 final audit phase.

### *Resolved audit finding*

**6.303** In 2010–11, a review of the access controls and change management processes for the TYIMS identified that there was a significant risk that unauthorised changes could be made to the software application without being detected. TYIMS is an IT application that manages payments under the Australian Apprentices Incentive program to Australian apprenticeship centres, apprentices and employers of apprentices.

**6.304** During 2011–12, DEEWR reverted to a standard change management process that reduced the risk that unauthorised changes could be made to TYIMS. As a result the issue was downgraded to a moderate audit issue.

**6.305** During the 2011–12 final audit phase, procedures were undertaken to obtain assurance that DEEWR had confirmed that developers did not have access to the production environment, and that all changes to TYIMS were in accordance with established change management procedures. Controls were found to be operational for the period December 2011 to June 2012. As a result, the ANAO considers that DEEWR has effectively addressed this issue.

*Actual and potential breaches of section 83 of the Constitution*

**6.306** In 2010–11, DEEWR became aware of the possibility of potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.307** In 2011–12, DEEWR developed a plan to review the exposure to risks of non-compliance with statutory conditions on payments from special appropriations and special accounts. This plan involved assessing the difficulty of administering statutory conditions and assessing the extent to which existing payment systems and processes satisfy those conditions for each special appropriation and special account.

**6.308** The review identified payments totalling \$7 354 250 under the *Student Assistance Act 1973* and \$112 930 165 under the *Social Security (Administration) Act 1999* that were made in 2011–12 which were potentially in contravention of section 83 of the Constitution. Even though it is expected that a portion of these payments would have been correctly paid, DEEWR identified all overpayments raised for payments made in 2011–12 as potential breaches due to difficulties associated with investigating whether individual payments complied with legislative requirements. Breaches of section 83 can occur in circumstances where benefits are paid based on information provided by customers that is subsequently updated or found to be incorrect. Of these amounts, \$4 662 052 was recovered and \$5 131 194 was waived or written off.

**6.309** DEEWR also identified small amounts of potential and actual breaches of section 83 under the *A New Tax System (Family Assistance) Act 1999* and the *Schools Assistance Act 2008* legislation.

**6.310** DEEWR has indicated that it proposes to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for

which it is administratively responsible. Where possible, DEEWR will also continue to progress legislative amendments and system changes.

**6.311** Full details of actual and potential breaches identified during 2011–12 are outlined in Note 33 of DEEWR's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

#### *Section 61 of the Constitution*

**6.312** In its judgement in the *Williams v Commonwealth* case, the High Court held that payments made under the National School Chaplaincy program<sup>65</sup>, a program for the funding of chaplaincy services in schools, were constitutionally invalid as they were beyond the Executive power of the Commonwealth as set out in section 61 of the Constitution. The debts arising as a consequence of that decision, and debts that may have arisen under the National School Chaplaincy and Student Welfare program<sup>66</sup>, were waived under section 34(1)(a) of the *Financial Management and Accountability Act 1997*. The total amount waived by the Special Minister of State was \$208.283 million.

**6.313** The auditor's report on the financial statements was unmodified as the financial statements fairly presented the financial operations and position of DEEWR at year end. However, the report refers to the notes of the financial statements that include a reference to actual and potential breaches of section 83 of the Constitution under other legal and regulatory requirements. The auditor's report also referred to the payments made under the National School Chaplaincy program that were constitutionally invalid.

**6.314** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>L1</b>	0	0	1	1
<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

<sup>65</sup> The National School Chaplaincy program ran from 2007 until 31 December 2011.

<sup>66</sup> The National School Chaplaincy and Student Welfare program commenced on 1 January 2012.

# Coal Mining Industry (Long Service Leave Funding) Corporation

## Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	(61.8)	(92.8)
Revenue from government	147.1	119.3
Surplus/(deficit)	85.2	26.5
Total other comprehensive income after income tax	0.0	0.0
Total comprehensive income	85.2	26.5
Total assets	957.6	826.3
Total liabilities	923.6	877.5

**6.315** The net cost of services reduced mainly due to the impact of an increase in the provision for reimbursements that resulted in a corresponding increase in expenses. This provision relates to the expected reimbursements that will be made to employers for long service leave payments in the Australian black coal industry.

**6.316** Revenue from government increased due to higher levies being received by the Corporation during 2011–12, as a result of an increase in the number of active eligible employees.

**6.317** Assets increased mainly due to higher cash and cash equivalents holdings, as a result of increased levies received during the year.

**6.318** Liabilities increased mainly due to increases in the provision for reimbursement. The provision increased due to increases in the number of active eligible employees and fluctuations in salary levels.

## Areas of audit focus

**6.319** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of unlisted unit trust assets that can be complex;
- reliance on outsourced administration and custodian functions;
- the calculation of the long service leave provision; and

- the transition of employee data to a new administration systems used to calculate the reimbursement provision.

## Audit results

### *Summary of audit findings*

**6.320** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Comcare

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	(873.2)	(277.9)
Revenue from government	308.3	281.1
Surplus/(deficit)	(564.9)	3.2
Total other comprehensive income	0.0	0.0
Total comprehensive income	(564.9)	3.2
Total assets	2 798.2	2 522.4
Total liabilities	3 347.2	2 513.7

**6.321** The movement in the net cost of services and the associated deficit is primarily attributed to a significant increase in workers compensation and common law asbestos claims provisions during 2011–12 compared to 2010–11.

**6.322** Liabilities increased as a result of the significant increase in workers compensation claims and common law asbestos claims provisions. These provisions increased due to changes in actuarial assumptions in 2011–12 to reflect recent claims experience, in addition to changes in economic factors, particularly changes in interest rates.

**6.323** Increases in revenue from government and assets were the result of the increase in the value of the claims provision. The increase in liabilities is more significant than the increase in assets as a high proportion relates to elements of workers compensation claims which operate under a self funding

arrangement, meaning there is no corresponding receivable from the government.

## **Areas of audit focus**

**6.324** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the estimation and assumptions involved in the calculation of workers compensation and asbestos related disease claim provisions, and related expense accounts; and
- the application of revenue recognition in relation to legislative requirements under which Comcare operate, particularly in relation to workers compensation workers compensation and common law asbestos claims.

## **Audit results**

### *Summary of audit findings*

**6.325** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

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

## **Audit results**

### *Summary of audit findings*

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

### *Safe Work Australia*

#### *Resolved section 83 of the Constitution issue*

**6.327** The 2010–11 auditor's report on the financial statements of Safe Work Australia referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts. Safe Work Australia undertook to investigate this issue in 2011–12. A review undertaken in 2011–12 concluded that the risk of a section 83 breach was low and no breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general

discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

*Australian Institute for Teaching and School Leadership Limited*

*Emphasis of matter*

**6.328** The 2011–12 auditor’s report for the Australian Institute for Teaching and School Leadership Limited (AITSL) contained an emphasis of matter that draws attention to the notes in the 2011–12 financial statements which state that AITSL’s funding agreement with the Department of Education, Employment and Workplace Relations expires on 30 June 2013 and that the financial statements have been prepared on a going concern basis. The expiry of the current funding agreement may cast significant doubt about the company’s ability to continue as a going concern. The company may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

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

# Families, Housing, Community Services and Indigenous Affairs Portfolio

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	✓L	7 Sept 12	7 Sept 12	◆
- Aboriginals Benefit Account	No	✓L	7 Sept 12	7 Sept 12	◆
Aboriginal Hostels Ltd	No	✓	29 Sept 12	29 Sept 12	
Anindilyakwa Land Council	No	⇒			
Australian Institute of Family Studies	No	✓	27 Aug 12	27 Aug 12	
Central Land Council	No	✓	21 Aug 12	21 Aug 12	
Equal Opportunity for Women in the Workplace Agency	No	✓	23 Aug 12	23 Aug 12	
Indigenous Business Australia	Yes	✓	14 Sept 12	14 Sept 12	
- Anderleigh Enterprises Pty Ltd	No	✓	27 Nov 12	27 Nov 12	
- Anderleigh Holdings Trust	No	✓	28 Nov 12	28 Nov 12	
- Asset Leasing Trust	No	✓	28 Nov 12	28 Nov 12	
- Consolidated Manufacturing Enterprise Pty Ltd	No	✓	14 Nov 12	14 Nov 12	
- Darwin Hotel Holdings Trust	No	✓	29 Nov 12	29 Nov 12	
- Gagudju Crocodile Hotel Trust	No	✓	28 Nov 12	28 Nov 12	
- Gagudju Lodge Cooina Trust	No	✓	28 Nov 12	28 Nov 12	
- Hotel Enterprises Pty Ltd	No	✓	27 Nov 12	27 Nov 12	
- Hotel Holdings Trust	No	✓	28 Nov 12	28 Nov 12	
- Indigenous Fishing Trust	No	✓	27 Nov 12	27 Nov 12	
- Indigenous Investment Trust	No	✓	28 Nov 12	28 Nov 12	
- Kakadu Tourism (GCH) Pty Ltd	No	✓	27 Nov 12	27 Nov 12	
- Kakadu Tourism (GLC) Pty Ltd	No	✓	27 Nov 12	27 Nov 12	
- Larrakia Darwin Hotel Partnership	No	✓	29 Nov 12	29 Nov 12	
- Leonora Investment Trust	No	✓	30 Nov 12	30 Nov 12	
- Mungo Lodge Pty Ltd	No	✓	27 Nov 12	27 Nov 12	



Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
- National Indigenous Property Trust	No	✓	28 Nov 12	28 Nov 12	
- Port Botany Transfer Station Trust	No	✓	28 Nov 12	28 Nov 12	
- Scarborough House Investment Trust	No	✓	29 Nov 12	29 Nov 12	
- Scarborough House Office Trust	No	✓	29 Nov 12	29 Nov 12	
- South Hedland Indigenous Property Trust	No	✓	29 Nov 12	29 Nov 12	
- Swanbrook Road Holding Trust	No	✓	29 Nov 12	29 Nov 12	
- Tennant Creek Foodbarn Partnership	No	✓	31 Oct 12	31 Oct 12	
- Tennant Creek Land Holding Trust	No	✓	29 Nov 12	29 Nov 12	
- Tjapukai Aboriginal Cultural Park Partnership	No	✓	26 Nov 12	27 Nov 12	
- Wildman River Lodge Trust	No	✓	29 Nov 12	29 Nov 12	
- Wildman Wilderness Lodge Pty Ltd	No	✓	27 Nov 12	27 Nov 12	
Indigenous Land Corporation	No*	✓	29 Aug 12	29 Aug 12	
- National Centre of Indigenous Excellence Limited	No	⇒			
- National Indigenous Pastoral Enterprises Pty Ltd	No	⇒			
- The Owners - Strata Plan No. 86156	No	⇒			
- Voyages Indigenous Tourism Australia Pty Ltd (formerly ILC Tourism Pty Ltd)	Yes*	✓	18 Oct 12	18 Oct 12	
Northern Land Council	No	⇒			
Outback Stores Pty Ltd	No	✓	22 Aug 12	22 Aug 12	
Tiwi Land Council	No	✓	24 Oct 12	25 Oct 12	
Torres Strait Regional Authority	No	✓	6 Sept 12	6 Sept 12	
Wreck Bay Aboriginal Community Council	No	✓	29 Nov 12	29 Nov 12	◆
Wreck Bay Enterprises Ltd	No	✓	29 Nov 12	29 Nov 12	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters noted

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

\* 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

**6.330** 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	2011–12 \$m	2010–11 \$m
Net cost of services	594.1	582.5
Revenue from government	532.4	519.0
Surplus/(deficit)	(61.7)	(63.5)
Total other comprehensive income	0.3	0.1
Total comprehensive income/(loss)	(61.3)	(63.5)
Total assets	349.0	362.4
Total liabilities	147.0	129.2

**6.331** The net cost of services increased primarily due to an increase in contractor and consultancy expenses in 2011–12 associated with indigenous programs. The increase in expenses was partially offset by an increase in funding for new government measures relating to clean energy reforms and the National Disability Insurance Scheme.

**6.332** All other movements were not significant and reflect fluctuations in normal business activities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	638.5	440.3
Total expenses	80 081.0	72 862.2
Total assets	5 379.8	5 065.6
Total liabilities	8 713.0	8 047.5
Net assets/(liabilities)	(3 333.2)	(2 981.9)

**6.333** Own-source income increased mainly due to a change in the actuarial estimation of the family tax benefit (FTB) debt resulting from the reversal of some debts previously assessed as doubtful.

**6.334** Administered expenses increased mainly due to: an increase in pension schemes and FTB payments, primarily as a result of an increase in the average rates attributable to the indexation of payments and an increase in customer numbers; personal benefit payments related to the 'schoolkids' bonus and clean energy payments in 2011–12; and an increase in paid parental leave (PPL) benefit payments reflecting the first full year since the introduction of PPL from 1 January 2011. Administered expenses also increased as a result of FaHCSIA assuming responsibility for the Affordable Housing programs from the Department of Sustainability, Environment, Water, Population and Communities (DSEWPAC) in January 2012.

**6.335** Administered assets increased mainly due to increases in term deposits and government securities held and a reduction in the estimated doubtful FTB receivables following an actuarial assessment.

**6.336** Administered liabilities increased due to an increase in the estimates for the FTB, PPL and pension bonus scheme provisions, primarily as a result of an increase in customer numbers and indexation of payments.

### **Areas of audit focus**

**6.337** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- FaHCSIA's and the Department of Human Service's (DHS) controls over personal benefit payments and related debts that are processed by DHS;

- the valuation of personal benefit related asset and liability balances;
- the financial management of grants, including the adequacy of supporting documentation on action taken on grant acquittals;
- the identification and valuation of investments in fixed deposits and government securities;
- accounting processes and controls designed to ensure that transactions relating to various special accounts comply with their legislative purpose; and
- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the 2010–11 financial statements.

## Audit results

### *Summary of audit findings*

#### *Actual and potential breaches of section 83 of the Constitution*

**6.338** The notes to FaHCSIA's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.339** During 2011–12, FaHCSIA undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible. The risk assessment and subsequent analysis identified the following actual or potential breaches:

- nine payments totalling \$5.565 million made from the Aboriginal Benefits Accounts (ABA) under section 64(3) of the *Aboriginal Land Rights (Northern Territory) Act 1976* breached section 83 of the Constitution.<sup>67</sup> Of these amounts, approximately \$587 000 had been recovered or offset against a later payment and recovery action was in progress for the balance, which is expected to be fully recovered in future periods.

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<sup>67</sup> Payments are required to be made out of the ABA to Aboriginal land councils based on royalties received by the Northern Territory Government from mining companies. Where, subsequent to the payment of royalties to the Northern Territory Government, mining companies determine that they over estimated the royalties due, payments already made from the ABA that are higher than the revised royalty amount are in breach of section 83.

- 928 621 personal benefit payments totalling approximately \$1.16 billion were identified as potential breaches of section 83. Even though it is expected that a portion of these payments would have been correctly paid, FaHCSIA identified all overpayments as potential breaches due to the difficulties associated with investigating whether individual payments complied with legislative requirements. Breaches of section 83 can occur in circumstances where benefits are paid based on information provided by customers that is subsequently updated or found to be incorrect. The personal benefit payments in question were made pursuant to the following legislation:
  - *A New Tax System (Family Assistance ) Act 1999 and A New Tax System (Family Assistance) (Administration) Act 1999;*
  - *Paid Parental Leave Act 2010;* and
  - *Social Security Act 1991 and Social Security (Administration) Act 1999.*

As at 30 June 2012, overpayments of personal benefit payments recovered totalled approximately \$720.0 million and approximately \$46.6 million was subject to waiver or write-off action. As at date of signing the 2011–12 financial statements, FaHCSIA was seeking legal advice on whether payments made in certain circumstances pursuant to *A New Tax System (Family Assistance) Act 1999* or *A New Tax System (Family Assistance) (Administration) Act 1999* resulted in payments being in breach of section 83.

**6.340** The auditor’s report included a report on other legal and regulatory requirements referring to the actual and potential breaches identified. This is not a qualification or modification to the audit opinion on FaHCSIA’s financial statements, as the financial statements fairly presented the financial operations and position of FaHCSIA at year end.

**6.341** FaHCSIA has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Where possible, amendments to legislation will be progressed by the department with the aim of reducing the risk of future section 83 breaches.

**6.342** Full details of actual and potential breaches identified during 2011–12 are outlined in Note 29 of FaHCSIA’s 2011–12 financial statements,

and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.343** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0	0	0
L1	0	0	1	1
Total	0	0	1	1

## Indigenous Business Australia

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	11.5	32.6
Revenue from government	38.9	38.5
Surplus/(deficit) after income tax expenses*	25.1	3.4
Total other comprehensive income after income tax	(0.4)	10.6
Total comprehensive income**	24.0	14.0
Total assets	1 076.0	1 016.0
Total liabilities	32.5	32.4

\* The surplus/(deficit) also reflects income tax expenses of \$0.08 million (2010–11 \$0.60 million), the share of the operating surplus of associates of \$0.02 million (2010–11 \$1.54 million) and excludes the share of the surplus attributable to non-controlling interests \$2.34 million (2010–11 \$3.44 million).

\*\* This figure excludes the share of total comprehensive income attributable to non-controlling interests.

**6.344** The decrease in the net cost of services was largely attributable to reductions in both income of \$6 million and expenses of \$27 million arising from the following factors:

- income decreased principally as a result of changes in the fair value of investment properties and enterprise loans; and
- expenses decreased mainly as a result of a reduction in the value of loans to Aboriginal and Torres Strait Islander people, mainly due to

declining interest rates.

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

**6.346** The movement in assets was mainly due to an increase in new home loans associated with improved awareness of the home loans program resulting in more applications.

**6.347** 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**

**6.348** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of loans made by IBA under its home ownership and business ownership loan programs, including gains and losses arising from changes in the fair value of loans; and
- the valuation of investments in associate companies.

### **Audit results**

#### *Summary of audit findings*

**6.349** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.350** There were no significant or moderate audit issues identified in non-material entities within the portfolio except in relation to the Wreck Bay Aboriginal Community Council.

#### *Wreck Bay Aboriginal Community Council*

**6.351** During the 2011–12 audit, the ANAO identified deficiencies in the Council's corporate governance framework. The Council did not have approved financial and operational policies and procedures, there were minimal internal controls over key business processes and no monitoring and reporting of activities to the Board was in place. As a result, the ANAO considered that the Board should initiate a full review of its corporate governance framework. The Council has agreed to develop a comprehensive policy and procedures manual and will also address the other issues raised by the ANAO.

#### *Aboriginals Benefits Account*

**6.352** The actual breaches of section 83 of the Constitution relating to payments made from the Aboriginals Benefit Account are discussed at paragraph 6.339 above.



# 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	✓L	28 Aug 12	29 Aug 12	◆
Albury-Wodonga Development Corporation	Yes	✓	26 Sept 12	26 Sept 12	
ASC Pty Ltd	Yes	✓	6 Sept 12	6 Sept 12	
Australian Electoral Commission	Yes	✓	5 Sept 12	6 Sept 12	▲
Australian River Co Limited**	Yes*	✓	22 Feb 12	23 Feb 12	
Commonwealth Superannuation Corporation	No	✓	14 Sept 12	14 Sept 12	◆
Commonwealth Superannuation Scheme	No	✓	14 Sept 12	14 Sept 12	
ComSuper	No	✓L	29 Aug 12	29 Aug 12	◆
Future Fund Management Agency	Yes	✓	25 Sept 12	25 Sept 12	
Medibank Private Limited	Yes	✓	31 Aug 12	31 Aug 12	
- Australian Health Management Group Pty Ltd	No	✓	31 Aug 12	31 Aug 12	
- Medibank Health Solutions Pty Ltd	No	✓	31 Aug 12	31 Aug 12	
Public Sector Superannuation Accumulation Plan (PSSap)	No	✓	14 Sept 12	14 Sept 12	
Public Sector Superannuation Scheme (PSS)	No	✓	14 Sept 12	14 Sept 12	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

\* The Australian River Co Ltd (ARCo) is a public non-financial corporation and is classified as a material entity for the purposes of the Consolidated Financial Statements. ARCo does not produce an annual report and the balances are not material. ARCo has not been included in the detailed analysis within this report.

\*\* 30 November 2011 year end.

## Portfolio overview

**6.353** The Finance and Deregulation portfolio provides a broad range of support and services to government. These include 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 is also responsible for ensuring best practice government regulation.

## Department of Finance and Deregulation

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	184.2	256.0
Revenue from government	235.5	239.8
Surplus/(deficit) after income tax expenses *	42.2	(29.7)
Total other comprehensive income	(58.5)	(7.4)
Total comprehensive income	(16.3)	(37.1)
Total assets	2 276.2	2 150.3
Total liabilities	457.1	503.6

\* The surplus/(deficit) also reflects income tax expenses of \$9.0 million (2010–11: \$13.5 million).

**6.354** The net cost of services decreased primarily due to a decrease in insurance claims compared to 2010–11 when insurance claims included one off insurance costs associated with natural disasters. The decrease was partially offset by an increase in the level of the write-down of land and buildings in 2011–12, compared with 2010–11, following the reclassification in 2011–12 of the Commonwealth Law Courts from investment properties to land and buildings.

**6.355** Revenue from government is consistent with the prior year as there has been no significant change in the operations of the department.

**6.356** Assets increased mainly as a result of the construction of the Australian Security Intelligence Organisation's new office building and the development of a new central budget management system (CBMS).

**6.357** Liabilities decreased due to the settling of the prior year insurance liability for damage from the Queensland floods and cyclones, and a general decrease in insurance claims.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	2 915.4	4 489.2
Total expenses	12 082.3	10 702.6
Surplus/(deficit)	(9 166.9)	(6 213.4)
Total assets	18 571.2	23 360.2
Total liabilities	151 472.0	96 987.2
Net assets/(liabilities)	(132 900.8)	(73 627.0)

**6.358** Administered income decreased substantially as a result of decreased gains on Nation Building Funds investments and due to the 2010–11 balance including a special dividend of \$300 million from Medibank Private Limited.

**6.359** Administered expenses increased due to increased payments out of the Nation Building Funds, partially offset by no unrealised losses being reported in 2011–12 on the Nation Building Funds financial investments. Unrealised losses of \$924.9 million were reported in 2010–11.

**6.360** The reduction in administered assets is primarily as a result of payments for infrastructure projects funded from the Nation Building Funds, including contributions for the national broadband network (NBN).

**6.361** Administered liabilities increased mainly due to an increase in the superannuation liability for public servants, other office holders such as judges and magistrates and Parliamentarians, due to the lower discount rate reflecting movements in the long term government bond rate<sup>68</sup>, the growth in member salaries and an increase in the length of service of members, partially offset by a reducing number of members, as a result of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) being closed to new members.

## Areas of audit focus

**6.362** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the complexity of the assumptions and calculations underpinning the

<sup>68</sup> Op cit (refer footnote 21 on p. 39)

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 financial management of the Australian Government's self-managed general insurance fund (Comcover);
- the validity and accuracy of entitlements paid to Parliamentarians and their staff; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

#### *Actual breaches of section 83 of the Constitution*

**6.363** The notes to Finance's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.364** During 2011–12, Finance undertook a review to determine the risk of payments being made in breach of section 83 from the special appropriations and special accounts for which it is administratively responsible.

**6.365** The risk assessment and subsequent analysis conducted up to 30 June 2012 identified 2 521 breaches of section 83 totalling \$5.6 million in relation to various superannuation payments under the *Superannuation Act 1976*, the *Superannuation Act 1990*, the *Parliamentary Contribution Superannuation Act 1948* and the *Judges Pensions Act 1968*.<sup>69</sup> Of these amounts, approximately \$4.9 million had been recovered and recovery action was in progress for the balance. Legislative amendments passed in late June 2012 reduced the risk of payments in the future being made in breach of section 83 to low.

**6.366** The risk of payments from other special appropriations being in breach of section 83 was assessed by Finance as low or moderate, with the exception

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<sup>69</sup> Breaches of section 83 can occur in circumstances where superannuation payments are made to recipients that are no longer entitled to the benefit, for reasons such as death or court order, or where a payment relied on incorrect information provided by the recipient or their employer.

of the following legislation, where the review process, including obtaining legal advice, was well advanced, but not completed, at 30 June 2012:

- *Parliamentary Superannuation Act 2004*;
- *Parliamentary Entitlements Act 1990*;
- *Ministers of Parliament (Life Gold Pass) Act 2002*; and
- section 66 of the Constitution in relation to the salaries of Ministers.

**6.367** The auditor's report included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on Finance's financial statements, as the financial statements fairly presented the financial operations and position of Finance at year end.

**6.368** Finance has undertaken to continue to monitor its level of section 83 compliance across all legislation for which it is administratively responsible. Where possible, amendments to legislation will continue to be progressed.

**6.369** Full details of actual breaches identified during 2011–12 are outlined in Note 34 of Finance's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.370** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

# Albury-Wodonga Development Corporation

## Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	(0.1)	4.3
Revenue from government	0.0	0.0
Surplus/deficit*	(0.1)	4.3
Total other comprehensive income	(6.0)	(6.2)
Total comprehensive income	(6.2)	(1.8)
Total assets	91.0	115.4
Total liabilities	5.2	15.4

\* The surplus also includes the Corporation's share of surpluses in associates and joint ventures of \$16 000 (2010–11: \$3 000).

**6.371** The decrease in net cost of services is due mainly to a reduction in the number of developed residential land sales and a decline in net gains from the disposal of other land assets. In addition, the 2010–11 balance included the impact of a change in accounting policy for the recognition of the proceeds of sales that have an extended settlement period. The Corporation's previous policy was to recognise revenue at the point of exchanging contracts, with settlement to occur soon after. Due to a change in business arrangements, the Corporation was entering into contracts with longer settlement periods. This resulted in a change in the revenue recognition policy.

**6.372** The decrease in total other comprehensive income relates to the net decline in the value of land assets at the end of each year.

**6.373** Assets decreased due to an ongoing land disposal program and the partial payment of a dividend to the Australian Government.

**6.374** Liabilities decreased due mainly to a reduction in the provision for dividend to the Australian Government, and grant liabilities relating to corporation land that have been preserved for environmental purposes after their transfer to particular state or local governments.

## Areas of audit focus

**6.375** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- revenue recognition;
- valuation of land; and
- accounting for joint ventures;

## Audit results

### *Summary of audit findings*

**6.376** There were no significant or moderate audit issues identified during the 2011–12 or 2010–11 audits.

## ASC Pty Ltd

**6.377** ASC Consolidated Group (ASC) built Australia's fleet of Collins Class submarines for the Royal Australian Navy (RAN) and is now responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines. ASC also forms part of the alliance based contract arrangement to deliver three Air Warfare Destroyers (AWD) for the RAN.

**6.378** ASC is a proprietary company limited by shares registered under the *Corporations Act 2001* and is subject to the *Commonwealth Authorities and Companies Act 1997*. All shares issued in the capital of ASC are held by the Finance Minister.

## Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	803.8	700.0
Total expenses	789.1	689.4
Profit/(loss) after income tax	14.7	10.6
Total other comprehensive income net of income tax	4.7	0.7
Total comprehensive income	19.3	11.3
Total assets	616.8	577.2
Total liabilities	386.6	360.0

**6.379** Income and expenses increased primarily as a result of increased activity for the Collins Class Through Life Support (TLS) contract and the AWD project.

**6.380** Other comprehensive income increased mainly due to an increase in asset values following an asset revaluation, partly offset by the expense reflecting the actuarial loss on ASC's defined benefit plan.

**6.381** Assets increased mainly due to increased cash balances and trade receivables as at balance date, associated with growing AWD activity and increased work performed under the Collins Class TLS contract.

**6.382** Liabilities increased mainly as a result of a working capital advances provided by the Commonwealth.

### **Areas of audit focus**

**6.383** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- profit recognition on the AWD contract and associated tax impacts;
- revenue recognition on the TLS contract;
- accounting for the In Service Support Contract (replaces existing TLS) which was effective 1 July 2012;
- the valuation of land and buildings;
- the estimation of warranty obligations for potential warranty claims arising from ASC's design, engineering and maintenance activities;
- calculation of the defined benefit superannuation fund liability; and
- the estimate of the provision for self insurance for workers compensation.

**6.384** ASC's activities include the maintenance, design development, engineering and upgrading of submarines for the RAN and the design and construction of three Hobart Class AWDs. The accounting treatment, in particular revenue and profit recognition, in relation to these contracts is complex and subject to significant estimation and judgement. The ANAO reviewed the assessment and application of ASC's policies and processes for capturing and recording costs, the allocation of costs to projects, and the recognition of revenue and profits on these long term contracts.



## Audit results

### *Summary of audit findings*

**6.385** There have been no significant or moderate audit issues identified during the 2010–11 and 2011–12 audits.

## Australian Electoral Commission

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	115.4	208.0
Revenue from government	106.2	191.5
Surplus/(deficit)	(9.2)	(16.5)
Total other comprehensive income	0.2	0.4
Total comprehensive income/(loss)	(8.9)	(16.1)
Total assets	55.4	43.8
Total liabilities	42.5	29.5

**6.386** The net cost of services decreased largely due to the expenses associated with the August 2010 federal election not being incurred in 2011–12.

**6.387** Assets increased mainly due to increased unspent appropriations due to large supplier invoices being unpaid at 30 June 2012. In addition, there was an increase in the lease incentives receivable on new office leases, an increase in the software relating to an online postal voting application, and enhancements to the general enrolment information system.

**6.388** Liabilities increased mainly due to the timing of payments to suppliers relating to a campaign to encourage eligible people to register to vote and the commencement of new accommodation leases for several state electoral offices in 2011–12.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	0.0	2.0
Total expenses	0.0	53.2
Surplus/(deficit)	0.0	51.2
Total assets	0.0	0.0
Total liabilities	0.0	0.0
Net assets/(liabilities)	0.0	0.0

**6.389** Administered income and expenses decreased significantly as a result of election funding paid to political parties in association with the August 2010 federal election not being incurred in 2011–12.

### **Areas of audit focus**

**6.390** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- accounting for capitalisation of intangible assets;
- quantification and reporting of commitments and contingencies; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

### **Audit results**

#### *Summary of audit findings*

#### *Outstanding audit finding*

**6.391** The 2009–10 audit identified a moderate audit finding relating to business continuity management. During the 2011–12 final audit phase, the ANAO identified that the AEC had not undertaken testing of the business continuity plan (BCP). This increased the risk that in the event of an interruption to business operations, an accident, or disaster, the AEC would be unable to restore critical business systems within acceptable timeframes. The ANAO will review AEC's progress in addressing this finding during the 2012–13 audit.

*Resolved section 83 of the Constitution issue*

**6.392** The 2010–11 auditor’s report on the financial statements of the Australian Electoral Commission (AEC) referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. AEC undertook to investigate this issue in 2011–12. The review undertaken by AEC in 2011–12 concluded that the risk of a section 83 breach was assessed as low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor’s report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.393** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0	1
<b>L1</b>	0	0	0	0
<b>Total</b>	<b>1</b>	<b>0</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	2011–12 \$m	2010–11 \$m
Total income	2 103.6	8 679.4
Total expenses	427.6	524.3
Profit/(loss)	1676.0	8 155.1
Total other comprehensive income	(36.4)	(130.3)
Total comprehensive income	1 639.6	8 024.8
Total assets	78 250.5	77 643.0
Total liabilities	1 304.1	2 336.2

**6.394** Income decreased significantly mainly due to reductions in foreign currency gains on overseas investments. Dividend income decreased due to a lower holding of Telstra shares in 2011–12.

**6.395** Expenses decreased primarily due to reduced fees paid to investment managers as a result of lower investment performance returns.

**6.396** Assets increased slightly due to the reinvestment of income received. The allocation within the investment classes has remained relatively consistent with the prior year with slight increases in interest bearing securities and collective investment vehicles<sup>70</sup>, offset by a reduction in listed equities and derivatives.

**6.397** Liabilities decreased mainly due to a decrease in the value of the FFMA's unsettled purchases at year end.

## Areas of audit focus

**6.398** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of investments including governance arrangements, financial accuracy and regulatory oversight;

<sup>70</sup> Op cit (refer footnote 37 on p.65)

- the compliance function that reinforces internal assurance procedures;
- the processes for monitoring external service providers, including the investment custodian;
- group consolidation and tax implications relating to wholly owned subsidiaries; and
- assessing whether the payments from the FFMA special accounts meet constitutional requirements.

## Audit results

### *Summary of audit findings*

**6.399** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Medibank Private Limited

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	5 453.1	5 174.7
Total expenses	5 326.5	4 875.1
Profit after income tax	126.6	299.6
Total other comprehensive income	(1.4)	0.0
Total comprehensive income	125.2	299.6
Total assets	3 145.7	2 903.6
Total liabilities	1 526.5	1 318.4

**6.400** Income increased due to an increase in health insurance premiums.

**6.401** Expenses increased due to an increase in claims expenses and employee expenses. Claims expenses increased due to an increase in the cost of health services and an increase in claims from members. Employee expenses increased due to an increase in salaries and an increase in employee numbers to assist with new business projects. The increased expenses largely contributed to the significant reduction in profit after income tax.

**6.402** Assets increased due to an increase in receivables and investments. Receivables increased as result of members prepaying their health insurance

premiums before the introduction of means testing of the Government Premium Reduction Scheme. Investments increased primarily due to the re-investment of profits.

**6.403** Liabilities increased due to an increase in unearned revenue, partially offset by a reduction in the tax liability. The increase in unearned revenue is due to members prepaying their health insurance premiums mentioned above. The tax liability has decreased due to the prepayment of tax instalments throughout the year, and a reduction in the taxable profit.

## **Areas of audit focus**

**6.404** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- complex actuarial assessments of the outstanding claims provision, package bonus provision and financial statement disclosures;
- recognition of contribution revenue and premium liability;
- the valuation of identifiable intangibles and goodwill relating to Medibank subsidiaries; and
- IT general and application controls as they relate to the financial statements.

## **Audit results**

### *Summary of audit findings*

**6.405** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

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

## **Audit results**

### *Summary of audit findings*

**6.406** There were two new moderate audit issues identified in the Commonwealth Superannuation Corporation. These audit findings are detailed below. Action taken to address a prior year moderate audit issue relating to Medibank Health Solutions Pty Ltd and details of actual and

potential breaches of section 83 of the Constitution relating to ComSuper are also outlined below.

### *Commonwealth Superannuation Corporation*

#### *New audit findings*

**6.407** The Commonwealth Superannuation Corporation (CSC) is a statutory corporation (formed on 1 July 2011) and is the trustee of five regulated superannuation entities: the Commonwealth Superannuation Scheme (CSS); the Public Sector Superannuation Scheme (PSS); the PSS Accumulation Plan (PSSap); the ARIA Investments Trust (AIT) and the Military Superannuation and Benefits Scheme (MSBS).

**6.408** The financial statement and regulatory compliance audits for the CSC group identified two moderate audit issues requiring management attention. These were:

- compliance breach reporting by outsourced provider; and
- PPSap transition reconciliations.

**6.409** As CSC is a Registrable Superannuation Entity and an Australian Financial Services Licence holder it has certain reporting obligations to Commonwealth regulators, the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). The reporting obligations are to report significant actual and/or potential breaches of superannuation requirements. A number of compliance issues being investigated as breaches or potential breaches were not reported on a timely basis to CSC by its outsourced administrator, resulting in delays in reporting to the Commonwealth regulators.

**6.410** The second moderate audit issue arose from the transition of PSSap member accounts administration from ComSuper to Pillar<sup>71</sup> (while ComSuper remains responsible for member account administration and the outsourcing of work to Pillar, CSC, as trustee of the funds, has overall responsibility to PSSap members). An important part of the transition is a number of key reconciliations to demonstrate the completeness and accuracy of the transfer of PSSap member records. At year end, a number of reconciliations were outstanding from Pillar and as a result members' accounts remained suppressed (that is, the accounts were not able to be accessed by those members).

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<sup>71</sup> Pillar is a private sector superannuation administrator.

## *Medibank Health Solutions Pty Ltd (MHS)*

### *Resolved audit finding*

**6.411** In 2007–08 a number of moderate audit findings were identified in relation to IT change management and business continuity management. In 2008–09, 2009–10, and 2010–11 the ANAO identified that MHS had implemented a significant number of process improvements to address the finding relating to IT change management. However, MHS's business continuity plan did not cover all of MHS's business and operational environment, and formal testing of the plan had not been undertaken.

**6.412** During 2011–12, MHS progressed its development of a comprehensive business continuity management plan that covers all MHS's business and operational environment. Testing of the plan had commenced and is expected to be completed in 2012–13. This finding has been reclassified to a Category C issue.

### *ComSuper*

#### *Actual and potential breaches of section 83 of the Constitution*

**6.413** The notes to ComSuper's 2010–11 financial statements referred 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.

**6.414** The special appropriations involved are administered by the Department of Finance and Deregulation, the Department of Defence (Defence) and AusAID. ComSuper makes payments under delegation from these agencies.

**6.415** During 2011–12 ComSuper undertook a review to determine the risk of payments being made in breach of section 83. The risk and assessment analysis conducted up to 30 June 2012 identified 2 513 breaches of section 83 totalling \$5.6 million in relation to various superannuation payments made under the *Superannuation Act 1976*, the *Superannuation Act 1990*, and under Appropriation Act No.1 in relation to the *Papua New Guinea (Staffing Assistance) Act 1973*. Of these amounts approximately \$4.9 million had been recovered.

**6.416** In relation to special appropriations relating to Defence, 646 potential breaches of the *Defence Forces Retirement Benefits Act 1948*, the *Defence Forces Retirement and Death Benefits Act 1973*, and the *Military Superannuation and*



*Benefits Act 1991* were identified. The total value of potential breaches was approximately \$1.9 million and of these amounts \$1.2 million has been recovered.

**6.417** Legislative amendments were passed in June 2012 to reduce the risk of payments being in breach of section 83, and procedural and system changes are being pursued that are also aimed at reducing this risk.

**6.418** The auditor's report included a report on other legal and regulatory requirements referring to the actual and potential breaches identified. This is not a qualification or modification to the audit opinion on ComSuper's financial statements, as the financial statements fairly presented the financial operations and position of ComSuper at year end.

**6.419** Full details of actual and potential breaches identified during 2011–12 are outlined in Note 15 of ComSuper's 2011–12 financial statements and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# 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	✓	17 Sept 12	18 Sept 12	
Australian Agency for International Development (AusAID)	Yes	✓L	4 Sept 12	4 Sept 12	◆
Australian Centre for International Agricultural Research	No	✓	13 Sept 12	13 Sept 12	
Australian Secret Intelligence Service	No	✓	17 Sept 12	17 Sept 12	
Australian Trade Commission (Austrade)	Yes	✓	10 Aug 12	10 Aug 12	
Export Finance and Insurance Corporation	Yes	✓	16 Aug 12	16 Aug 12	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.420** 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.

**6.421** 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	2011–12 \$m	2010–11 \$m
Net cost of services	876.4	845.7
Revenue from government	821.5	875.6
Surplus/(deficit)	(54.9)	29.9
Total other comprehensive income	63.0	(90.3)
Total comprehensive income	8.1	(60.4)
Total assets	3 093.7	2 935.1
Total liabilities	270.0	262.0

**6.422** The net cost of services increased mainly due to an increase in security costs at several high risk overseas posts and an increase in employee

provisions due to the lower discount rate reflecting movements in the long term government bond rate.<sup>72</sup>

**6.423** The increased net cost of services, together with a reduction in revenue from government resulted in a deficit in 2011–12.

**6.424** Assets increased primarily due to overseas property revaluations and property additions. This increase also resulted in a significant increase in comprehensive income.

**6.425** All other movements were not significant and reflect fluctuations in normal business activities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	433.4	421.0
Total expenses	279.5	286.0
Surplus/(deficit)	153.9	135.0
Total assets	453.6	414.8
Total liabilities	61.0	65.0
Net assets/(liabilities)	392.6	349.8
Net assets/(liabilities)	392.6	349.8

**6.426** Total own-source income increased largely due to a return of prior year contributions that were unspent by United Nations peacekeeping organisations, higher dividend revenue from EFIC and an increase in passport fees from 1 January 2012.

**6.427** Administered expenses decreased mainly due to the effect of foreign exchange rate movements on contributions to international organisations, partially offset by an increase in exhibition expenses for the Yeosu Expo, held in South Korea.

**6.428** Administered liabilities decreased due to a reduction in National Interest Account (NIA) foreign currency liabilities partially offset by an increase in overseas pension scheme liabilities.

<sup>72</sup> Op cit (refer footnote 21 on p. 39)

**6.429** Administered assets increased significantly due to the recognition of a dividend receivable from EFIC.

### **Areas of audit focus**

**6.430** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the measurement and associated disclosures of the administered balances relating to the NIA managed by EFIC;
- controls and processes around 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;
- departmental revenue recognition for services provided to Commonwealth agencies at overseas posts; and
- appropriation and executive remuneration note disclosures as a result of changes to the FMOs.

### **Audit results**

#### *Summary of audit findings*

**6.431** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

# Australian Agency for International Development

## Summary of financial results

### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	286.6	249.3
Revenue from government	274.7	251.2
Surplus/(deficit)	(11.9)	1.9
Total other comprehensive income	0.0	0.0
Total comprehensive income	(11.9)	1.9
Total assets	131.8	114.9
Total liabilities	69.5	59.5

**6.432** The increase in net cost of services is mainly due to an increase in employee expenses resulting from an increase in staff numbers to meet increased operational requirements under Australian Government initiatives to promote aid to international communities.

**6.433** Revenue from government increased as a result of increased appropriations in line with the Government's objective to increase Australia's contribution to international development.

**6.434** Assets increased mainly due to IT asset acquisitions, and refurbishment work and additional fittings purchased in 2011–12 for a number of office sites in Australia and overseas.

**6.435** Liabilities increased reflecting higher employee provisions as a result of the reduction in the discount rate reflecting movements in the long term government bond rate<sup>73</sup> and the increase in staff numbers mentioned above.

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<sup>73</sup> Op cit (refer footnote 21 on p. 39)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	332.7	22.6
Total expenses	4 014.2	4 226.9
Surplus/(deficit)	(3 681.5)	(4 204.3)
Total assets	1 414.7	1 130.7
Total liabilities	1 455.2	1 602.1
Net assets/(liabilities)	(40.5)	(471.4)

**6.436** AusAID has 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 the Asian Development Fund (ADF). The multilateral grant liabilities represent obligations the Australian Government has in relation to fulfilling its aid responsibilities with international organisations.

**6.437** The increase in administered income is principally due to a reversal of previous asset write-downs for subscription assets which were revalued in 2011–12 and appreciated as a result of a decrease in the discount rate reflecting movements in the long term government bond rate<sup>74</sup> used to calculate the present value of these assets.

**6.438** Administered expenses increased as a result of AusAID providing international aid assistance in line with the Australian Government's aid initiatives. This increase was partially offset by a reduction in grants paid in 2011–12 due to the reduced number of programs managed by AusAID as these programs approach completion and a decrease in losses resulting from the re-measurement of multilateral liabilities, due to a reduction in the bond rate, mentioned above, used to determine the present value of multilateral liabilities.

**6.439** Administered assets increased mainly as a result of the revaluation of subscription assets in 2011–12 mentioned above.

<sup>74</sup> Op cit (refer footnote 21 on p. 39)

**6.440** The decrease in administered liabilities was due to a decrease in grants payable and a decrease in the unpaid subscription component of multilateral agreements in 2011–12.

## **Areas of audit focus**

**6.441** The ANAO's audit approach identified the following areas that were significant in terms of their impact on the 2011–12 financial statements:

- valuation, accounting and reporting disclosures associated with loans and subscriptions and multilateral liabilities;
- grant accounting and expenditure processes; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

**6.442** There were no significant or moderate audit issues identified during the 2010–11 or 2011–12 audits.

### *Actual breaches of section 83 of the Constitution*

**6.443** The notes to AusAID's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.444** During 2011–12, AusAID undertook a review to determine the risk of payments being made in breach of section 83 from the special appropriations and special accounts for which it is administratively responsible.

**6.445** The risk assessment and subsequent analysis conducted up to 30 June 2012 identified 13 breaches of section 83 totalling \$29 000 in relation to various payments made by ComSuper on behalf of AusAID under the *Papua New Guinea (Staffing Assistance) Act 1973* (PNG Super Act).<sup>75</sup> The breaches were confirmed in legal advice received by AusAID from the Australian Government Solicitor.

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<sup>75</sup> The breaches related to superannuation overpayments made to deceased beneficiaries prior to ComSuper being notified of the beneficiary's death. As at 30 June 2012, \$27 000 of the overpayments had been recovered.



**6.446** The risk of payments from other special appropriations being in breach of section 83 was assessed by AusAID as low.

**6.447** The auditor's report included a report on other legal and regulatory requirements referring to the actual breaches identified. This is not a qualification or modification to the audit opinion on AusAID's financial statements, as the financial statements fairly presented the financial operations and position of AusAID at year end.

**6.448** Full details of actual breaches identified during 2011–12 are outlined in Note 27 of AusAID's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.449** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Australian Trade Commission

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	(181.8)	(192.1)
Revenue from government	167.2	173.3
Surplus/(deficit)	(14.6)	(18.8)
Total other comprehensive income	0.2	(0.9)
Total comprehensive income	(14.4)	(19.7)
Total assets	104.3	104.0
Total liabilities	49.2	49.8

**6.450** The net cost of services decreased due to changes in Austrade's market strategies, resulting in lower expenses due to restructuring arrangements, and also a reduction in revenue from tailored services to clients and a lower level of trade shows.

**6.451** All other movements were not significant and reflect fluctuations in normal business activities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	0.0	0.0
Total expenses	135.1	145.4
Surplus/(deficit)	(135.1)	(145.4)
Total assets	0.1	0.0
Total liabilities	11.0	9.2
Net assets/(liabilities)	(10.9)	(9.2)

**6.452** Administered expenses decreased due to a decrease in applications for export market development grants.

**6.453** All other movements were not significant and reflect fluctuations in normal business activities.

## Areas of audit focus

**6.454** The ANAO's audit approach identified the following areas that had a higher risk of material misstatement and required additional audit attention:

- controls over employee benefits and provisions; and
- accounting for operating leases.

## Audit results

### *Summary of audit findings*

**6.455** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Export Finance and Insurance Corporation

### Summary of financial results

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	263.4	144.9
Total expenses	236.6	114.7
Surplus/(deficit)	26.8	30.2
Total assets	3 273.9	3 036.1
Total liabilities	2 855.8	2 628.0
Net assets/(liabilities)	418.1	408.1

**6.456** Income and expenses increased mainly due to a change in accounting policy in 2011–12 that recognised interest income and interest expense on derivative financial instruments on a gross basis rather than a net basis, as in previous years.

**6.457** Assets and liabilities increased largely due to an increase in the fair value of loan receivables from \$480.6 million to \$626.7 million and a corresponding increase in borrowings to fund the increase in assets. The increase is primarily due to EFIC entering into new loan arrangements during 2011–12.

### Areas of audit focus

**6.458** The ANAO's audit approach identified the following areas that were significant in terms of their impact on the 2011–12 financial statements:

- funding and liquidity management, including the availability and cost of funds;
- complex treasury activities involving highly structured and complex financial transactions;
- the valuation of loans, guarantees, and available-for-sale investments; and
- compliance with applicable accounting standards, including hedge accounting.

## **Audit results**

### *Summary of audit findings*

**6.459** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

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

## **Audit results**

### *Summary of audit findings*

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

### *Australian Centre for International Agricultural Research*

#### *Resolved section 83 of the Constitution issue*

**6.461** The 2010–11 auditor's report on the financial statements of the Australian Centre for International Agricultural Research (ACIAR) referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. ACIAR undertook to investigate this issue in 2011–12. A review undertaken by ACIAR in 2011–12 concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# 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	✓L	7 Sept 12	7 Sept 12	◆
- Therapeutic Goods Administration	No	✓	7 Sept 12	7 Sept 12	
Aged Care Standards and Accreditation Agency Ltd	No	✓	10 Sept 12	10 Sept 12	
Australian Commission on Safety and Quality in Health Care	No	✓	27 Sept 12	27 Sept 12	
Australian Institute of Health and Welfare	No	✓	20 Sept 12	20 Sept 12	
Australian National Preventive Health Agency	No	✓	24 Sept 12	24 Sept 12	
Australian Organ and Tissue Donation and Transplantation Authority	No	✓	19 Sept 12	19 Sept 12	
Australian Radiation Protection and Nuclear Safety Agency	No	✓	14 Sept 12	14 Sept 12	
Cancer Australia	No	✓	18 Oct 12	18 Oct 12	
Food Standards Australia New Zealand	No	✓	20 Sept 12	20 Sept 12	
General Practice Education and Training Limited	No	✓	5 Oct 12	5 Oct 12	
Health Workforce Australia	No	✓	7 Sept 12	7 Sept 12	
Independent Hospital Pricing Authority	No	✓	27 Sept 12	27 Sept 12	
National Blood Authority	Yes	✓	7 Aug 12	7 Aug 12	
National Health and Medical Research Council	Yes	✓	29 Aug 12	29 Aug 12	
National Health Performance Authority	No	✓	28 Sept 12	28 Sept 12	
Private Health Insurance Administration Council	No	✓	7 Sept 12	7 Sept 12	
Private Health Insurance Ombudsman	No	✓	29 Aug 12	29 Aug 12	
Professional Services Review Scheme	No	✓	24 Sept 12	24 Sept 12	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.462** 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. Each portfolio entity has developed performance information to aid in assessing their effectiveness in achieving entity-specific outcomes.

**6.463** Portfolio entities also work towards the following whole-of-portfolio targets over time in relation to the health status of Australians:

- continued improvement in life expectancy for both males and females;
- further reductions in infant mortality rates;
- additional improvements in disability adjusted life expectancy;
- 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.

**6.464** As a result of the staged implementation of the Government's structural changes under the National Health and Hospitals Network, the following entities were established in 2011–12:

- the Australian Commission on Safety and Quality in Health Care;
- the Independent Hospital and Pricing Authority; and
- the National Health Performance Authority.

## Department of Health and Ageing

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	667.3	616.7
Revenue from government	636.1	600.2
Surplus/(deficit)	(31.2)	(16.5)
Total other comprehensive income	2.6	0.0
Total comprehensive income/(loss)	(28.6)	(16.5)
Total assets	524.4	461.9
Total liabilities	328.6	262.9

**6.465** The net cost of services and the associated deficit increased due to higher employee expenses for additional long service leave provision as a result of a reduction in the discount rate reflecting movements in the long term government bond rate<sup>76</sup>, voluntary redundancy payments and salary increases.

**6.466** Assets increased mainly due to an increase in internally developed software in relation to the National Health Reforms.

**6.467** Liabilities increased mainly due to an increase in amounts owing to suppliers at year end and an increase in employee benefits provisions due to the reduction in the bond rate mentioned above.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	2 207.9	1 305.6
Total expenses	49 704.2	44 721.2
Surplus/(deficit)	(47 496.3)	(43 415.6)
Total assets	1 009.1	944.9
Total liabilities	3 418 .4	2 851.0
Net assets/(liabilities)	(2 409.3)	(1 906.1)

<sup>76</sup> Op cit (refer footnote 21 on p. 39)

**6.468** Administered income increased mainly due to increases in recoveries from pharmaceutical companies under the High Cost Drugs Recoveries program and an increase in revenue from the Health and Hospital Fund Special Account.

**6.469** Administered expenses increased mainly as a result of higher expenditure associated with the Medicare Benefits Scheme and the Pharmaceutical Benefits Scheme. There was also an increase in private health insurance rebates as a result of changes to the private health insurance legislation that provided for customers, above a specific income threshold, to be eligible for rebates by paying private health premiums in advance for a certain period.

**6.470** Administered assets increased due to increases in concessional loans given to aged care facilities, recognition of the e-health system and recoveries of overpayments relating to Medicare and pharmaceutical benefits. The increase was partially off-set by a decrease in investments in Australian Government portfolio entities.

**6.471** Administered liabilities increased mainly due to an increase in grant payments to not-for-profit organisations outstanding at 30 June and an increase in personal benefits and subsidies liabilities in 2011–12 compared to 2010–11. These increases were due to fluctuations in normal business activity.

## **Areas of audit focus**

**6.472** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the high volume and complexity of administered personal benefits and subsidies;
- actuarial estimation for the reporting of the government's liabilities under the medical indemnity program;
- the diverse range of administered grant payments;
- the reporting of the complex appropriations structure; and
- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the 2010–11 financial statements.



**6.473** The calculation of liabilities for the medical indemnity program and other personal benefits, was of particular audit interest in view of the complexity of the underlying calculation of these provisions. The calculation was based on or supported by actuarial assessments from the Australian Government Actuary. The ANAO reviewed the assessments and the underlying data used in the calculation to gain assurance over the balance included in the financial statements.

## Audit results

### *Summary of audit findings*

#### *Actual and potential breaches of section 83 of the Constitution*

**6.474** The notes to DoHA's 2010–11 financial statements referred to an increased risk of non-compliance with section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.475** During 2011–12, DoHA undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible. The risk assessment and subsequent analysis identified the following actual or potential breaches:

- Medicare payments made under the *Health Insurance Act 1973*: DoHA identified payments totalling \$189.379 million relating to current and prior years which were actual breaches of section 83 of the Constitution. These comprise 16 different types of payments, the primary ones being: an incorrect application of the start date of the Extended Medicare Safety Net; the incorrect application of criteria set out in Determinations made under section 3C of the *Health Insurance Act 1973*; and errors in the drafting of items in the *Health Insurance (General Medical Services Table) Regulations 2011*. During 2011–12 DoHA implemented remedial action involving regulatory amendments and the enactment of legislative instruments. These breaches were waived by the relevant delegate. DoHA also identified potential section 83 breaches under the *Health Insurance Act 1973* totalling \$22.924 million which were expected to be recovered.
- Payments made under the *Private Health Insurance Act 2007*: DoHA has

identified potential breaches totalling \$20.013 million in relation to payments made to health insurers prior to a receipt of an application from the claimant. Appropriate changes were made to the related systems and internal processes in the Department of Human Services (DHS), the payment delivery agency, to prevent further potential breaches.

- Payments made under the *National Health Act 1953*: DoHA identified potential breaches totalling \$1.091 million in relation to overpayments made by DHS, on behalf of DoHA, through DHS' compliance process.
- Payments made under the *Aged Care Act 1997*: potential breaches totalling \$1.891 million have been identified by DHS for overpayments made for a number of residential aged care facilities due to a system error.

**6.476** As at 30 June 2012, \$33.357 million of the above potential breaches had been recovered.

**6.477** The auditor's report included a report on other legal and regulatory requirements referring to the actual and potential breaches identified. This is not a qualification or modification to the audit opinion on DoHA's financial statements, as the financial statements fairly presented the financial operations and position of DoHA at year end.

**6.478** Full details of actual and potential breaches identified in 2011–12 are outlined in Note 25B of DoHA's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.479** DoHA has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Where possible, further amendments to legislation will be progressed by the department with the aim of reducing the risk of future section 83 breaches. The department has also proposed to review the operational rules between DHS and DoHA to identify areas where controls could be strengthened.

**6.480** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0
<b>L1</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	2011–12 \$m	2010–11 \$m
Net cost of services	6.4	5.7
Revenue from government	5.7	5.9
Surplus/(deficit)	(0.7)	0.2
Total other comprehensive income	0.0	0.0
Total comprehensive income	(0.7)	0.2
Total assets	9.3	10.6
Total liabilities	1.9	3.1

**6.481** The net cost of services increased as a result of a small increase in staff numbers and an increase in salaries in accordance with the Authority's enterprise agreement.

**6.482** Liabilities decreased due to unearned revenue that was classed as a liability in the prior year being recognised as income in 2011–12.

**6.483** All other movements were not significant and reflect fluctuations in normal business activities.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	1 034.9	941.0
Total expenses	955.9	938.3
Surplus/(deficit)	79.0	2.7
Total assets	439.8	360.4
Total liabilities	61.6	68.9
Net assets/(liabilities)	378.2	291.5

**6.484** Administered income increased due to normal fluctuations in the price of blood products.

**6.485** Administered assets increased due to an increase in the balance of the Authority's special account resulting from the demand for blood products being less than planned.

**6.486** All other movements were not significant and reflect fluctuations in normal business activities.

### **Areas of audit focus**

**6.487** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the recognition and measurement of the Authority's blood product inventories due to the nature of these items; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution.

### **Audit results**

#### *Summary of audit findings*

**6.488** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

## National Health and Medical Research Council

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	44.3	41.6
Revenue from government	41.5	39.4
Surplus/(deficit)	(2.8)	(2.2)
Total other comprehensive income	0.0	0.0
Total comprehensive income	(2.8)	(2.2)
Total assets	28.9	31.9
Total liabilities	12.8	13.1

**6.489** The net cost of services increased mainly due to higher employee expenses as a result of movements in the long term government bond rate<sup>77</sup> and an increase in staff numbers.

**6.490** All other movements were not significant and reflect fluctuations in normal business activities.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	18.6	27.4
Total expenses	842.9	752.7
Surplus/(deficit)	(824.3)	(725.3)
Total assets	4.0	7.0
Total liabilities	32.7	11.8
Net assets/(liabilities)	(28.7)	(4.8)

**6.491** Administered expenses increased mainly due to an increase in grant expenditure during 2011–12 as a result of fluctuations in normal business activity.

<sup>77</sup> Op cit (refer footnote 21 on p. 39)

**6.492** The increase in administered liabilities is mainly due to an increase in grant monies due and payable at 30 June not being paid. This is a result of a difference in the timing of payments in 2011–12 compared to 2010–11.

## **Areas of audit focus**

**6.493** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the management of administered grant programs; and
- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

**6.494** There were no new significant or moderate audit findings identified during the 2010–11 and 2011–12 audits.

### *Resolved section 83 of the Constitution issue*

**6.495** The 2010–11 auditor's report on the financial statements of the National Health and Medical Research Council (NHMRC) referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. NHMRC undertook to investigate this issue in 2011–12. The review undertaken by NHMRC in 2011–12 concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

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

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

# 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	✓L	7 Sept 12	7 Sept 12	▲◆
Australian Hearing	Yes	✓	31 Aug 12	31 Aug 12	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.497** The Human Services portfolio comprises the Department of Human Services (DHS) and Australian Hearing. On 1 July 2011 the *Human Services Legislation Amendment Act 2011* integrated Medicare Australia and Centrelink into DHS.

**6.498** The Human Services portfolio covers the delivery of a range of government and other payments and services to individuals, families and communities including:

- providing policy advice on service delivery matters to government designed to ensure effective, innovative and efficient implementation of government service delivery;
- administering a range of health and benefit payment programs on behalf of other agencies;
- providing payments and services to disadvantaged people, families, people with disabilities, indigenous people and people from diverse cultural and linguistic backgrounds;
- 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;
- providing people with a better quality of life by managing their hearing impairment; and

- providing occupational health, safety and medical assessments.

## Department of Human Services

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	4 237.0	609.2
Revenue from government	3 938.3	503.7
Surplus/(deficit)	(299.4)	(105.5)
Total other comprehensive income	18.5	9.9
Total comprehensive income (loss)	(280.9)	(95.6)
Total assets	2 020.4	379.2
Total liabilities	1 400.1	262.0

Note: figures provided for 2010–11 comparatives are for DHS prior to the integration of Medicare Australia and Centrelink into DHS on 1 July 2011.

**6.499** The integration of Medicare Australia and Centrelink into DHS on 1 July 2011 had a major effect on DHS's operation and financial position in 2011–12. The integration resulted in a significant increase in employee and supplier expenses that contributed to an increase in the net cost of services and resulting deficit. This, together with the significant increase in revenue from government, reflects the combined services delivered by DHS. Assets and liabilities also increased significantly as the assets and liabilities of Medicare Australia and Centrelink were transferred to DHS on 1 July 2011.

**6.500** The increase in the net cost of services was also due, in part, to the introduction of a new enterprise agreement in December 2011 giving salary rises to approximately 34 000 employees, together with an increase in employee related expenses as a result of a reduction in the discount rate reflecting movements in the long term government bond rate<sup>78</sup> used to calculate the employee entitlement liabilities.

<sup>78</sup> Op cit (refer footnote 21 on p. 39)



*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	1 413.1	1 256.5
Total expenses	1 398.0	1 235.6
Surplus/(deficit)	15. 1	20 9
Total assets	747.7	627.3
Total liabilities	741.5	619.9
Net assets/(liabilities)	6 .2	7. 4

**6.501** The increase in own-source income was mainly due to an increase in child support receipts from non-custodial parents.

**6.502** Administered expenses increased mainly due to an increase in child support payments to custodial parents.

**6.503** Administered assets and liabilities increased mainly due to an increase in child support debt and the related child support provision.

### Areas of audit focus

**6.504** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements and the financial information provided to other agencies:

- programs and related payments delivered by DHS on behalf of other agencies, including the Departments of Health and Ageing, Veterans' Affairs (DVA), Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and Employment and Workplace Relations (DEEWR);
- child support payments and related transactions specifically focusing on IT system controls and the valuation methodology used to determine child support debts not paid by the non-custodian parent;
- the valuation and measurement of intangible assets;
- employee benefit payments, noting the implementation of a new enterprise agreement during 2011–12 and the consequential revised actuarial assumptions for determining employee benefit balances;
- other material balances including non-financial assets and liabilities,

supplier expenses, revenue and receivables following the passage of the *Human Services Legislation Amendment Act 2011*; and

- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements of DHS and Medicare Australia.

## **Audit results**

### *Summary of audit findings*

#### *Resolved audit finding*

##### Electronic payment records

**6.505** During the 2011–12 interim audit phase, the ANAO identified a number of users who had been given access authority that allowed them to edit electronic payment files. The activities of these users were logged but not monitored. The ANAO also identified a number of users with editing access rights to electronic payment files who did not require this level of access, and instances where there was insufficient documentation to support the authorisation of edits made to electronic payment files. During the 2011–12 final audit phase, the ANAO identified that DHS had implemented procedures to strengthen the management of access arrangements for the editing of electronic payment files. As a result, this finding has been satisfactorily resolved.

#### *Outstanding audit finding*

##### Update to personal benefit fee details

**6.506** In the 2011–12 interim audit phase, the ANAO reported a number of discrepancies between the fee details recorded in the treatment accounts system (TAS) for medical, hospital and allied health services claims processed by DHS on behalf of DVA and the amounts that can be claimed (the fee) for each type of service as detailed in the approved Schedule of Benefit. During the 2011–12 final audit phase, the ANAO identified that work was in progress to address this issue.

#### *New audit finding*

##### User access management

**6.507** Change management is a key IT control used to ensure that only authorised and appropriately tested changes are introduced into the IT production environment. The ANAO reviewed the controls over access to

production source code for all computer applications relevant to the financial statements. The review identified that activities of users with privileged access to financial computer applications were only monitored on an ad hoc basis. In addition, some users could change source code in the production environment, system access rights of a number of terminated DHS employees had not been deactivated, and instances where there was a lack of documentation supporting new user access to the DHS network. These weaknesses increased the risk of unauthorised system changes that could compromise the integrity of the data maintained in the applications supporting the financial information. DHS has acknowledged these issues and has commenced remedial action.

*Actual breaches of section 83 of the Constitution*

**6.508** The notes to the DHS and Medicare Australia's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.509** During 2011–12, DHS undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is responsible. The risk assessment and subsequent analysis identified the following actual section 83 breaches:

- Child Support Special Account – two payments totalling \$2.019 million made under the *Child Support (Registration and Collection) Act 1988* breached section 83. Of these amounts, \$76 had been recovered at 30 June 2012 and recovery action was in progress for the balance, which DHS expects to recover in future periods.
- Superannuation Clearing House Special Account – three payments totalling \$9 044 made from the account breached section 83. As at 30 June 2012 these amounts had been recovered or offset against later payments.
- Recovery of Compensation for Health Care and Other Services Special Account – two payments totalling \$6 272 breached section 83. As at 30 June 2012 these amounts had been recovered or offset against later payments.

**6.510** The auditor's report included a report on other legal and regulatory requirements referring to the actual breaches identified. This is not a qualification or modification to the audit opinion on DHS' financial statements, as the financial statements fairly presented the financial operations and position of DHS at year end.

**6.511** In order to reduce the risks of non-compliance with section 83 of the Constitution, DHS has actioned system and procedural changes and is reviewing legislation for which it is administratively responsible.

**6.512** Full details of actual breaches identified during 2011–12 are outlined in Note 35 of DHS' 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.513** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	1	2
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>3</b>

## Australian Hearing

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	(9.7)	(13.8)
Revenue from government	0.0	0.0
Surplus/(deficit)	9.7	13.8
Total other comprehensive income	0.0	0.0
Total comprehensive income	6.8	9.6
Total assets	96.8	91.8
Total liabilities	59.5	57.2

**6.514** The movement in net cost of services was mainly due to an increase in sales and the impact of a change to the age of eligibility for community service organisation income in 2011–12. This increase was partially offset by an increase in employee expenses due to an increase in salaries under the enterprise agreement.

**6.515** Assets increased mainly due to increases in investments held and the implementation of various software programs during 2011–12.

**6.516** All other movements were not significant and reflect fluctuations in normal business activities.

### **Areas of audit focus**

**6.517** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- revenue recognition;
- accounting for the recognition and valuation of property, plant and equipment and intangibles; and
- the use of management estimates relating to various liability balances.

### **Audit results**

#### *Summary of audit findings*

**6.518** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

# 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	✓	18 Sept 12	18 Sept 12	
Migration Review Tribunal and Refugee Review Tribunal	No	✓	7 Sept 12	7 Sept 12	

✓: auditor's report not modified

## Portfolio overview

**6.519** 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.

**6.520** DIAC's responsibilities include:

- administering the Australian Government's immigration laws and migration programs;
- development of migration policy and managing migration;
- protecting refugees and contributing to humanitarian policy internationally;
- contributing to Australia's security through border management and traveller facilitation;
- delivering services to support migrants and refugees to settle into the Australian community and participate in Australian society; and
- promoting Australian citizenship and a multicultural Australia.

**6.521** 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	2011–12 \$m	2010–11 \$m
Net cost of services	1 429.2	1 251.5
Revenue from government	1 330.6	1 188.4
Surplus/(deficit)	(98.5)	(63.1)
Total other comprehensive income	0.0	(12.9)
Total comprehensive income	(98.5)	(76.0)
Total assets	797.0	744.7
Total liabilities	414.8	380.5

**6.522** The net cost of services increased mainly due to increases in supplier expenses relating to an increase in asylum seeker activity resulting in an expansion of the immigration detention network; increased employee expenses mainly due to the downward movement of the discount rate reflecting movements in the long term government bond rate<sup>79</sup> as at 30 June 2012 that caused an increase in the provision for employee leave entitlements; and increased depreciation and amortisation expenses as a result of the higher carrying value of property, plant and equipment, and intangibles.

**6.523** The increased expenditure also resulted in an increase in revenue from government under DIAC's no-win no-loss funding arrangements.<sup>80</sup>

**6.524** Total other comprehensive income decreased as there had been a charge to the asset revaluation reserve in 2010–11, that was not repeated in 2011–12.

**6.525** Assets increased largely due to costs associated with internally developed and purchased software relating to DIAC's visa and business support systems.

**6.526** The increase in liabilities relates to the increases in supplier expenses and employee expenses.

<sup>79</sup> Op cit (refer footnote 21 on p. 39)

<sup>80</sup> No-win no-loss arrangements refer to funding provided by the Australian Government to fund all expenditure incurred relating to DIAC's handling of asylum seekers

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	1 082.5	977.0
Total expenses	1 539.7	1 099.5
Surplus/(deficit)	(457.1)	(122.5)
Total assets	961.5	788.5
Total liabilities	388.9	285.0
Net assets/(liabilities)	572.5	503.4

**6.527** Administered income increased mainly due to increased visa application charges, changes to the revenue receipting process resulting in the more timely recognition of revenue, and an increase in citizenship conferrals due to changes in eligibility requirements during 2011–12.

**6.528** Administered expenses and liabilities increased significantly due to an unexpected rise in asylum seeker activity, requiring an expansion of the immigration detention network.

**6.529** Administered assets increased mainly due to the expansion of the immigration detention network, which involved the construction and upgrade of detention centres.

### **Areas of audit focus**

**6.530** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- accounting for expenditure incurred, and the increase in administered fixed assets purchased, as a result of the expansion of the immigration detention network;
- accounting for the impact of new contractual arrangements for the two administered programs relating to English learning and humanitarian settlement of migrants in Australia;
- appropriation revenue recognised under DIAC's funding agreement with the Department of Finance and Deregulation;
- the valuation of internally developed software, particularly in view of the finalisation of the Systems for People program towards the end of



2010–11;

- accounting for, and disclosure of, liabilities and potential liabilities arising from litigation in view of an increase in litigation in relation to the management of the immigration detention network; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

**6.531** There were no significant or moderate audit issues identified during the 2011–12 final audit phase.

#### *Resolved audit finding*

**6.532** A moderate audit issue was identified during the 2011–12 interim audit phase relating to DIAC's enterprise resource planning system that supports both departmental and administered business and accounting processes. The ANAO reviewed the access controls and change management processes and identified that there was a risk that unauthorised business transactions and system changes could be made without being detected.

**6.533** In response, DIAC re-introduced access controls and change management to support monitoring of access and segregation of duties. This issue has been satisfactorily resolved.

#### *Resolved section 83 of the Constitution issue*

**6.534** The 2010–11 auditor's report on the financial statements of the department referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. DIAC undertook to investigate this issue in 2011–12. The review undertaken by DIAC in 2011–12 concluded that a risk of section 83 breaches in one special appropriation exists; however, no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.535** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>L1</b>	0	0	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

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

#### *Migration Review Tribunal and Refugee Review Tribunal*

##### *Resolved section 83 of the Constitution issue*

**6.537** The 2010–11 auditor’s report on the financial statements of the Migration Review Tribunal and Refugee Review Tribunal referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The Tribunal undertook to investigate this issue in 2011–12. The review undertaken by the Tribunal in 2011–12 concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor’s report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# 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	Yes	✓L	21 Sept 12	21 Sept 12	◆
Airservices Australia	Yes	✓	23 Aug 12	23 Aug 12	
Australian Maritime Safety Authority	No	✓	20 Sept 12	20 Sept 12	
Australian Rail Track Corporation Limited	Yes	✓	30 Aug 12	30 Aug 12	◆
Australian Transport Safety Bureau	No	✓	28 Sept 12	28 Sept 12	
Civil Aviation Safety Authority	Yes	✓	28 Aug 12	28 Aug 12	
National Transport Commission	No	✓	17 Aug 12	17 Aug 12	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.538** The Infrastructure and Transport portfolio comprises the Department of Infrastructure and Transport (Infrastructure) and a number of statutory authorities. The portfolio is responsible for:

- improved infrastructure across Australia through investment in, and coordination of, transport and other infrastructure; and
- an efficient, sustainable, competitive, safe and secure transport system for all transport users through regulation, financial assistance and safety investigations.

# Department of Infrastructure and Transport

## Summary of financial results

### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	204.8	201.1
Revenue from government	192.5	188.9
Surplus/(deficit)	(12.3)	(12.2)
Total other comprehensive income	0.1	3.7
Total comprehensive income	(12.2)	(8.5)
Total assets	138.5	138.9
Total liabilities	80.4	72.0

**6.539** The reduction in other comprehensive income reflects a less significant change in asset revaluation reserves than in 2010–11 following the revaluation of leasehold improvements and restoration provisions during 2011–12.

**6.540** Liabilities increased mainly as a result of an increase in employee provisions as a result of a decrease in the discount rate reflecting movements in the long term government bond rate<sup>81</sup> that is used to estimate the value of future liabilities at present value at year end.

**6.541** All other movements were not significant and reflect fluctuations in normal business activity.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	2 485.8	1 065.4
Total expenses	3 305.7	1 962.1
Surplus/(deficit)	(819.9)	(896.7)
Total assets	4 411.7	4 391.7
Total liabilities	27.4	25.6
Net assets/(liabilities)	4 384.2	4 366.2

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<sup>81</sup> Op cit (refer footnote 21 on p. 39)

**6.542** Administered income increased substantially as a result of an increase of \$1.4 billion in Building Australia Fund (BAF) grants for road and rail projects. In particular, an initial payment of \$400 million was made for the Dinmore to Goodna component of the Ipswich Motorway, while project expenditure for the Hunter Expressway and Regional Rail Link in Victoria increased by \$601 million and \$201 million respectively.

**6.543** Administered expenses increased as a result of an increase in expenditure from the BAF for the road and rail projects mentioned above.

**6.544** Administered assets increased mainly due to an \$18 million appreciation in the value of the department's administered investment in Airservices Australia.

## **Areas of audit focus**

**6.545** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the financial management and reporting of grant and subsidy programs administered by the department;
- the carrying value of administered investments, which represent a significant balance in Infrastructure's financial statements; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

#### *Resolved audit finding*

**6.546** During the 2011–12 interim audit phase, the ANAO reported a moderate audit issue relating to Infrastructure's financial statements preparation process. In particular, the audit identified the need to improve the application of project management practices that contribute to the timely and accurate completion of financial statement information, and related quality assurance and review procedures.

**6.547** The 2011–12 final audit phase identified that, although more improvements were needed in relation to the financial statement quality

assurance and review processes, the department had strengthened these processes sufficiently for this issue to be reclassified to a Category C finding.

*Potential breaches of section 83 of the Constitution*

**6.548** The notes to Infrastructure's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.549** During 2011–12, the department undertook a review to determine the risk of payments being made in breach of section 83 from all special appropriations and special accounts for which it is administratively responsible.

**6.550** Infrastructure's review of special appropriations and special accounts identified 14 appropriations involving statutory conditions for payment, comprising ten special appropriations and four special accounts. Although no breaches were identified, the department's risk assessment and subsequent analysis conducted up to 30 June 2012 identified one special appropriation, *Australian Maritime Safety Authority Act 1990* (AMSA Act)<sup>82</sup>, with a high risk of non-compliance with statutory conditions for payments. The total value of potential breaches in 2011–12 was \$1 079 285, representing 120 payments. Legislative amendments contained in the *Financial Framework Legislation Amendment Act (No. 2) 2012*<sup>83</sup> were made to ensure that future transfers of payments to AMSA will be appropriated under the AMSA Act.

**6.551** The auditor's report included a report on other legal and regulatory requirements referring to the potential breaches identified. This is not a qualification or modification to the audit opinion on Infrastructure's financial statements, as the financial statements fairly presented the financial operations and position of the department at year end.

**6.552** Infrastructure has undertaken to continue to monitor its level of section 83 compliance across all legislation for which it is administratively responsible.

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<sup>82</sup> The review identified potential breaches of section 83 where levies could be paid in error and such payments would be found to be not "levy received" and hence would not fall within the appropriation under the AMSA Act. Where these payments are later transferred to the Australian Maritime Safety Authority (AMSA), despite identified errors being refunded by AMSA to the payer, a section 83 breach may have occurred.

<sup>83</sup> A discussion of amendments made to legislation by the FFLA Act 2012 is at paragraphs 5.38 to 5.40 in Chapter 5 of this report.

**6.553** Full details of potential breaches identified during 2011–12 are outlined in Note 28 of the department's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.554** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>L1</b>	0	0	1	1
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>1</b>	<b>1</b>

\* The issue relating to financial statement preparation was reclassified to a Category C finding.

## Airservices Australia

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	898.0	824.5
Total expenses	852.5	788.1
Profit/(loss) after income tax	45.5	36.4
Total other comprehensive income after income tax	(82.8)	35.3
Total comprehensive income after income tax	(37.3)	71.7
Total assets	1 338.1	1 199.2
Total liabilities	988.6	793.6

**6.555** Income increased mainly due to an increase in both domestic and international airline activity.

**6.556** Expenses increased mainly due to an increase in employee costs as a result of a decrease in the discount rate reflecting movements in the long term

government bond rate<sup>84</sup> that is used to estimate the cost of future employee leave entitlements at present value at year end.

**6.557** The movement in other comprehensive income was mainly due to actuarial losses related to Airservices' defined benefit superannuation fund obligations.

**6.558** Assets increased as a result of a major capital expenditure program designed to enhance Airservices' air traffic management systems.

**6.559** Liabilities increased mainly due to increased superannuation liabilities under Airservices' defined benefit superannuation plan, and increased longer term borrowings to assist with Airservices' expanded capital expenditure program.

## **Areas of audit focus**

**6.560** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- accounting for a number of complex areas including: asset impairments and assets under construction; deferred tax assets; land contamination provisions; employee entitlements including defined benefit superannuation obligations; contingent liabilities and cross border leases; and
- IT general and application controls as they relate to the financial statements.

## **Audit results**

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

**6.561** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

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<sup>84</sup> Op cit (refer footnote 21 on p. 39)



## Australian Rail Track Corporation Limited

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	690.1	684.9
Total expenses	837.2	972.2
Profit/(loss) after income tax	(219.9)	(49.7)
Total other comprehensive income/(loss) after income tax	(224.4)	366.5
Total comprehensive income/(loss)	(444.3)	316.9
Total assets	4 701.5	4 500.9
Total liabilities	1 363.5	1 127.9

**6.562** Income increased mainly due to increased revenues from rail access charges offset by reduced Country Regional Network (CRN) income and interest.

**6.563** Expenses decreased mainly due to a decrease in impairment losses of \$144 million, and a decrease in infrastructure maintenance of \$39.5 million. This decrease was partially offset by an increase in depreciation and amortisation expenses of \$42.4 million.

**6.564** The significant loss after income tax in 2011–12 was the result of the reporting of a \$249.4 million income tax benefit in 2010–11, while a \$54.4 million income tax expense was reported in 2011–12.

**6.565** The significant decrease in other comprehensive income was primarily attributable to an adjustment of \$832.2 million to the asset revaluation reserve as a result of the revaluation of property, plant and equipment. The adjustment was partly offset by a \$248.5 million movement in the reserve to reflect the related income tax effect.

**6.566** Assets increased largely due to net asset additions of \$1 158 million related to major capital works, offset by depreciation and revaluation adjustments totalling \$738.7 million, a \$48.8 million decrease in deferred tax assets and a \$41.9 million decrease in trade and other receivables.

**6.567** Liabilities increased primarily due to an increase in interest-bearing liabilities, which relate to a bond issue during 2011–12 of \$300 million. This was partially offset by a \$92.3 million reduction in deferred tax liabilities.

## Areas of audit focus

**6.568** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- impairment of infrastructure assets, particularly the judgemental nature of the assumptions;
- taxation related balances, in that judgement is required related to the recognition of deferred tax assets;
- revenue recognition for a variety of income streams;
- estimates of provisions where significant judgements are required; and
- the appropriate recognition of a bond issuance.

## Audit results

### *Summary of audit findings*

#### *New audit finding*

**6.569** During the year, ARTC changed the methodology underpinning its impairment and revaluation methodology relating to infrastructure assets. In response to issues raised during the 2010–11 audit regarding the assessment of the impairment of infrastructure assets, the Corporation introduced a review checklist designed to ensure all items within the methodology were appropriately reviewed. However, the 2011–12 audit identified a number of errors in the methodology, including calculation and input errors, that were not identified by the Corporation's review processes.

**6.570** The Corporation has agreed to: a further comprehensive review of the methodology, including developing additional checks, both mathematical and for reasonableness; strengthening the documentation and review process; and introducing processes to assess the reasonableness of the inputs.

**6.571** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>L1</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Civil Aviation Safety Authority

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	155.5	150.1
Revenue from government	153.7	148.8
Surplus/(deficit)	(1.8)	(1.2)
Total other comprehensive income	0.2	(1.0)
Total comprehensive income	(1.6)	(2.2)
Total assets	115.7	121.3
Total liabilities	56.8	60.7

**6.572** The increased net cost of services included increased employee-related costs and other movements that were the result of fluctuations in normal business activity. The increase in revenue from government was largely due to increased aviation fuel excise receipts.

**6.573** Assets decreased mainly due to a reduction in cash and term deposits, partially offset by increased property, plant and equipment and accrued revenue at year end.

### Areas of audit focus

**6.574** The ANAO's audit approach identified the following areas of audit focus due to their potential impact on the 2011–12 financial statements:

- the capitalisation and valuation of non-financial assets;

- provisions for legal claims and contingent liabilities;
- the estimation of employee entitlements; and
- IT general and application controls as they relate to the financial statements.

## **Audit results**

### *Summary of audit findings*

**6.575** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

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

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

# Industry, Innovation, Science, Research and Tertiary Education Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Industry, Innovation, Science, Research and Tertiary Education	Yes	✓L	13 Sept 12	13 Sept 12	▲
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	11 Sept 12	11 Sept 12	
Australian Institute of Marine Science	No	✓	21 Aug 12	21 Aug 12	
Australian National University*	No	✓	23 Mar 12	23 Mar 12	
- ANU Enterprise Ltd*	No	✓	21 Mar 12	23 Mar 12	
- Australian Scientific Instruments Pty Ltd (subsidiary of ANU Enterprise Ltd)*	No	✓	21 Mar 12	23 Mar 12	
- ANU Section 68 Pty Ltd*	No	✓E	22 Mar 12	23 Mar 12	
- BRU Holdings Pty Ltd*	No	✓	22 Mar 12	23 Mar 12	
- SA2 Holdings Pty Ltd*	No	✓	22 Mar 12	23 Mar 12	
Australian Nuclear Science and Technology Organisation	Yes	✓	15 Aug 12	15 Aug 12	
- PETNET Australia Pty Ltd	No	✓	15 Aug 12	15 Aug 12	
Australian Research Council	Yes	✓	7 Sept 12	7 Sept 12	
Australian Skills Quality Authority	No	✓	21 Sept 12	21 Sept 12	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	23 Aug 12	23 Aug 12	
- Science and Industry Endowment Fund	No	✓	20 Aug 12	20 Aug 12	
- WLAN Services Pty Limited	No	✓	17 Aug 12	20 Aug 12	
IIF Investments Pty Limited	No	✓	30 Oct 12	30 Oct 12	
IP Australia	No	✓	26 Sept 12	26 Sept 12	
Tertiary Education Quality and Standards Agency	No	✓	5 Sept 12	5 Sept 12	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

\* 31 December 2011 year end.

## Portfolio overview

**6.577** The key priorities for the portfolio is to encourage growth:

- of Australian industries by developing a national innovation system that drives knowledge creation, cutting-edge science and research, international competitiveness and greater productivity; and
- in skills, qualifications and productivity through funding teaching quality, learning and tertiary sector infrastructure, international promotion of Australia's education and training sectors, and partnerships with industry.

**6.578** Machinery of Government Changes (MOG), which took effect on 14 December 2011, involved the tertiary education function being transferred from the Department of Education, Employment and Workplace Relations (DEEWR). This resulted in over 1 000 staff being transferred to the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE).

## Department of Industry, Innovation, Science, Research and Tertiary Education

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	402.3	330.3
Revenue from government	358.9	306.1
Surplus/(deficit)	(43.5)	(24.2)
Total other comprehensive income	1.8	0.0
Total comprehensive income	(43.5)	(24.2)
Total assets	413.1	321.1
Total liabilities	184.0	113.1

**6.579** The increase in the net cost of services, revenue from government, assets and liabilities is mainly due to the MOG changes referred to above.

**6.580** The increase in the deficit is due to a rise in unfunded depreciation and amortisation costs and an increase in long service leave provisions due to a

decrease in the discount rate reflecting movements in the long term government bond rate.<sup>85</sup>

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	2 663.1	539.7
Total expenses	13 377.9	4 025.8
Surplus/(deficit)	(10 714.8)	(3 486.2)
Total assets	26 160.3	3 123.0
Total liabilities	7 740.8	239.4
Net assets/(liabilities)	18 419.4	2 883.6

**6.581** The increase in total own-source income, total expenses, total assets and total liabilities is due to the MOG changes referred to above. In particular the following balances and programs were transferred in 2011–12:

- income of \$773 million relating to HELP interest and an adjustment of \$1.1 billion to the fair value of the HELP loans;
- payments to apprenticeship centres, vocation and industry, youth allowance and austudy; and
- the year end unfunded superannuation provision of \$7.4 billion representing the unfunded amounts in relation to university superannuation funds.

## Areas of audit focus

**6.582** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- accounting for MOG changes;
- the valuation of the HELP receivable;
- the valuation of the unfunded university superannuation;
- the grants management system; and
- legislative compliance, particularly the implementation of measures

<sup>85</sup> Op cit (refer footnote 21 on p. 39)

designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

#### *Potential breaches of section 83 of the Constitution*

**6.583** The notes to DIISRTE's 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.584** During 2011–12, DIISRTE undertook a review to determine the risk of payments being made in breach of section 83 from the special appropriations and special accounts for which it is administratively responsible. This review concluded that the risk of a breach was low and no actual or potential breaches were identified. However, a risk assessment was not completed for the *Social Security (Administration) Act 1999* due to the Act's complexity, the number of preconditions embedded in the legislation, and the volume of transactions. Consequently, DIISRTE has determined that the debts raised under this Act are potential breaches, rather than investigating individual payments for compliance against legislative requirements. It is expected that a portion of these potential breaches would have been correctly paid. Potential breaches under the Act totalling \$43.3 million and involving 44 858 payments were identified in 2011–12.

**6.585** The auditor's report included a report on other legal and regulatory requirements referring to the potential breaches identified. This is not a qualification or modification to the audit opinion on DIISRTE's financial statements, as the financial statements fairly presented the financial operations and position at year end.

**6.586** DIISRTE has undertaken to continue to monitor its level of section 83 compliance across all legislation for which it is administratively responsible. Where possible, amendments to legislation will be progressed by the department.

**6.587** Full details of potential breaches identified during 2011–12 are outlined in Note 28 of DIISRTE's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.



**6.588** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Australian Nuclear Science and Technology Organisation

### Summary of financial results

#### *Departmental items*

Key financial measures for year*	2011–12 \$m	2010–11 \$m
Net cost of services	194.2	205.3
Revenue from government	157.7	165.6
Surplus/(deficit) after income tax	(35.3)	(40.1)
Total other comprehensive income	129.1	10.6
Total comprehensive income	93.8	(29.4)
Total assets	1 155.5	1 077.8
Total liabilities	316.8	340.1

\* The above figures relate to ANSTO and its controlled entities.

**6.589** The increase in assets and other comprehensive income was mainly the result of the revaluation of buildings, infrastructure, plant and equipment, and major facilities assets conducted in 2011–12.

**6.590** The decrease in liabilities was due to a decrease in the provision for the decommissioning of the nuclear reactor.

**6.591** The movements in the net cost of services and revenue from government were not significant and were the result of fluctuations in normal business activities.

## Areas of audit focus

**6.592** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation, including the write down, of fixed assets, especially the Open Pool Australian Lightwater (OPAL) reactor;
- the carrying value of investments in related entities and the recoverability of intercompany loans;
- the estimation of the decommissioning provision (including waste);
- the accounting treatment of new and continued business development opportunities;
- the recognition and recording of the numerous streams of commercial revenue;
- compliance with a complex regulatory environment; and
- recognition of the 'heavy water purification plant' (OPAL reactor).

## Audit results

### *Summary of audit findings*

**6.593** There were no significant or moderate audit findings arising from the 2011–12 audit. There was one moderate audit finding arising from the 2010–11 audit that was resolved during the 2011–12 audit.

### *Resolved audit finding*

**6.594** During 2010–11, ANSTO identified 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. During 2011–12 ANSTO performed a review of the supporting documentation and assumptions used to calculate the liability of the radioactive waste and spent fuel. As a result this finding is considered to be resolved.

**6.595** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>L1</b>	0	0	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

## Australian Research Council

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	19.2	21.3
Revenue from government	18.8	19.2
Surplus/(deficit)	(0.4)	(2.1)
Total other comprehensive income	(0.4)	(2.1)
Total comprehensive income	(0.4)	(2.2)
Total assets	29.6	27.2
Total liabilities	6.4	6.7

**6.596** All movements were not significant and reflect fluctuations in normal business activities.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	3.9	8.3
Total expenses	827.0	756.1
Surplus/(deficit)	(823.1)	(747.8)
Total assets	1.6	1.4
Total liabilities	324.3	292.1
Net assets/(liabilities)	(322.6)	(290.7)

**6.597** Administered expenses and liabilities increased mainly due to an increase in grant activity relating to the Future Fellowship and Super Science Fellowship schemes, Bionic Vision Technology initiative and additional funding provided to the National Information and Communication Technology Centre of Excellence.

### **Areas of audit focus**

**6.598** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 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.

### **Audit results**

#### *Summary of audit findings*

**6.599** There were no significant or moderate audit findings arising from the 2010–11 or 2011–12 audits.

#### *Resolved section 83 of the Constitution issue*

**6.600** The 2010–11 auditor's report on the financial statements of the Australian Research Council (ARC) referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The ARC undertook to investigate this issue in 2011–12. The

review undertaken by the ARC in 2011–12 concluded that the risk of a section 83 breach was medium and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

## Commonwealth Scientific and Industrial Research Organisation (CSIRO)

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	531.4	733.9
Revenues from government	724.9	720.2
Surplus/(deficit)	193.5	(13.7)
Total other comprehensive income	1.3	241.9
Total comprehensive income	194.8	228.2
Total assets	2,814.0	2 542.6
Total liabilities	558.2	514.6

**6.601** The net cost of services decreased due to a \$233 million increase in own sourced revenue as a result of patent litigation legal settlements relating to licence agreements for wireless networking technology.

**6.602** The decrease in other comprehensive income was mainly a result of a \$226 million decrease in the amount charged to the asset revaluation reserve following the valuation of land and buildings in 2011–12.

**6.603** Assets increased due to an increase in the trade receivable balance related to the patent litigation legal settlements referred to above and the growth in capital assets under construction for new projects.

**6.604** All other movements were not significant and reflect fluctuations in normal business activities.

## Areas of audit focus

**6.605** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the accounting treatment and calculations applied to research project income, work-in-progress and deferred revenue balances;
- the valuation of investments in start-up companies and compliance with disclosure requirements for financial instruments;
- the assessment of impairment indicators for listed and unlisted equity investments;
- the valuation of significant ongoing capital projects (assets under construction); and
- the application of changes to the Finance Minister's Orders relating to senior executive remuneration disclosure.

## Audit results

### *Summary of audit findings*

**6.606** There were no significant or moderate audit issues arising from the 2010–11 and 2011–12 audits.

## Comments on non-material entities

## Audit results

### *Summary of audit findings*

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

### *IP Australia*

#### *Resolved section 83 of the Constitution issue*

**6.608** The 2010–11 auditor's report on the financial statements of IP Australia referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts. IP Australia undertook to investigate this issue in 2011–12. The review undertaken by IP Australia in 2011–12 concluded that the risk of a section 83 breach was low and no breaches of section 83 were identified. As the

ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

***ANU Section 68 Pty Ltd***

***Emphasis of matter***

**6.609** The auditor's report for the ANU Section 68 Pty Ltd contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis as it was the expectation of the company that it would be wound up within a 12 month period.

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

# 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	✓	2 Oct 12	2 Oct 12	
Department of the House of Representatives	No	✓	28 Sept 12	28 Sept 12	
Department of the Senate	No	✓	21 Sept 12	21 Sept 12	

✓: auditor's report not modified

## Parliamentary Departments' overview

**6.611** 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).

**6.612** 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.

**6.613** 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.

**6.614** 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.

**6.615** A fourth parliamentary department, the Department of the Parliamentary Budget Office was established on 23 July 2012 with the appointment of the Parliamentary Budget Officer. Its purpose is to inform the



Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals.

## Department of Parliamentary Services

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	125.8	116.2
Revenue from government	103.6	102.0
Surplus/(deficit)	(22.2)	(14.2)
Total other comprehensive income	0.4	3.4
Total comprehensive income	(21.8)	(10.8)
Total assets	144.1	148.6
Total liabilities	26.2	29.1

**6.616** The increased deficit was mainly due to higher expenses for employee benefits, depreciation and amortisation. The higher employee benefit expense is the result of a reduction in the discount rate reflecting movements in the long term government bond rate.<sup>86</sup>

**6.617** Assets decreased mainly due to a reduction in unspent appropriations and GST receivable.

**6.618** All other movements were not significant and reflect fluctuations in normal business activity.

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<sup>86</sup> Op cit (refer footnote 21 on p. 39)

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	0.0	7.2
Total expenses	27.2	33.6
Surplus/(deficit)	(27.1)	(26.4)
Total assets	2 155.5	2 147.6
Total liabilities	1.1	0.9
Net assets/(liabilities)	2 154.4	2 146.7

**6.619** Administered income decreased because the 2010–11 balance reported a one off gain of \$7 million that related to the transfer of responsibility for a parliamentary briefing room from the Attorney–General’s Department. Unrelated to this gain, administered expenses decreased mainly due to other asset write downs of \$7 million in 2010–11.

**6.620** Administered assets increased mainly due to the completion of projects accounted for as work in progress in 2010–11.

### **Areas of audit focus**

**6.621** The ANAO’s audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 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 arrangements of this function.

### **Audit results**

#### *Summary of audit findings*

**6.622** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.623** There were no significant or moderate audit issues noted in the Departments of the House of Representatives and the Senate in 2011–12.

#### *Department of the House of Representatives and the Department of the Senate*

##### *Resolved section 83 of the Constitution issue*

**6.624** The 2010–11 auditor's reports on the financial statements of the Departments of the House of Representatives and the Senate referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The departments undertook to investigate this issue in 2011–12. A review undertaken by both departments in 2011–12 concluded that the risk of a section 83 breach was low. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's reports on the 2011–12 financial statements of either department.

**6.625** A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# 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	✓	22 Aug 12	22 Aug 12	
Australian Public Service Commission	No	✓L	19 Sept 12	19 Sept 12	◆
National Australia Day Council Limited	No	✓	13 Sept 12	13 Sept 12	
National Mental Health Commission	No	✓	2 Oct 12	3 Oct 12	
Office of National Assessments	No	✓	17 Sept 12	17 Sept 12	
Office of the Commonwealth Ombudsman	No	✓	12 Sept 12	13 Sept 12	
Office of the Inspector-General of Intelligence and Security	No	✓	6 Sept 12	6 Sept 12	
Office of the Official Secretary to the Governor-General	No	✓	24 Sept 12	24 Sept 12	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters 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

**6.626** The primary responsibilities of the Prime Minister and Cabinet (PM&C) portfolio comprise:

- 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, counter terrorism and cyber policy coordination;
- intergovernmental relations and communications with state and territory governments;
- social inclusion, non-profit sector and volunteering;
- coordination of government administration;
- Australian Government employment workplace relationships policy,

including equal employment opportunity and administration of the framework for agreement making and remuneration and conditions;

- Australian honours and symbols policy; and
- government ceremonial and hospitality.

**6.627** The Administrative Arrangements Orders (AAO) of 19 October 2011 and 14 December 2011, resulted in a number of Machinery of Government (MOG) changes to the portfolio, including: responsibility for the *Freedom of Information Act 1982* and the *Privacy Act 1988* being transferred to the Attorney-General's Department; the arts and culture function and the sport and recreation function being transferred to the Department of Regional Australia, Local Government, Arts and Sports; the national security science and innovation function being transferred to the Department of Defence; and cyber security policy coordination being transferred from the Attorney-General's Department to PM&C. In addition, on 1 January 2012, the National Mental Health Commission, which previously operated within PM&C, was established as an executive agency under the *Public Service Act 1999*.

## Department of the Prime Minister and Cabinet

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	181.9	156.9
Revenue from government	171.4	155.5
Surplus/(deficit)	(10.5)	(1.3)
Total other comprehensive income	0.0	0.0
Total comprehensive income	(10.5)	(1.3)
Total assets	66.5	249.9
Total liabilities	39.2	60.5

**6.628** The increase in the net cost of services is attributable to an increase in employee and supplier expenses. Employee expenses increased as a result of an increase in average staffing levels relating to the arts and culture and sport and recreation functions being part of PM&C for five months in 2010–11 compared to seven months in 2011–12. Supplier expenses increased as a result

of expenses associated with the Commonwealth Heads of Government Meeting (CHOGM) held in October 2011, and an increase in IT related costs.

**6.629** Revenue from government increased mainly as a result of appropriations provided for CHOGM.

**6.630** Assets decreased as a result of decreases in trade and other receivables, land and buildings and property, plant and equipment as a result of the MOG changes in 2011–12.

**6.631** Liabilities decreased as a result of a decrease in supplier and other payables, and employee provisions relating to the arts and culture and the sport and recreation functions being transferred to the Department of Regional Australia, Local Government, Arts and Sports.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	2.7	2.6
Total expenses	616.5	400.5
Surplus/(deficit)	(613.8)	(397.9)
Total assets	2.9	7 332.2
Total liabilities	14.9	18.5
Net assets/(liabilities)	(12.0)	(7 313.7)

**6.632** Administered expenses increased mainly as a result of grant payments, and higher payments to CAC Act bodies in 2011–12 as compared to 2010–11 as the CAC authorities were part of the portfolio for a longer portion of the year.

**6.633** Administered assets decreased substantially, mainly as a result of decreased investments in CAC Act bodies that were transferred to other portfolios during 2011–12.

## Areas of audit focus

**6.634** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the management, finalisation and financial reporting of CHOGM;
- the incorporation and transfer of functions resulting from the multiple

MOG changes that occurred as a result of the October 2011 and December 2011 AAOs; and

- the reporting and disclosure of appropriations.

## **Audit results**

### *Summary of audit findings*

**6.635** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

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

## **Audit results**

### *Summary of audit findings*

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

### *Australian Public Service Commission*

#### *Actual breaches of section 83 of the Constitution*

**6.637** The notes to the Australian Public Service Commission's (APSC) 2010–11 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.638** During 2011–12, the APSC undertook a review to determine the risk of payments being made in breach of section 83 from the special appropriations and special accounts for which it is administratively responsible.

**6.639** The risk assessment and subsequent analysis conducted up to 30 June 2012 identified three breaches of section 83 totalling \$3 605 in relation to payments under the *Remuneration Tribunal Act 1973*. These amounts have been fully recovered or offset against a future payment.

**6.640** The risk of payments from other special appropriations being in breach of section 83 was assessed by the APSC as moderate. The review undertaken by APSC did not identify any further breaches.

**6.641** The auditor's report included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on the APSC's financial statements, as the

financial statements fairly presented the financial operations and position of the APSC at year end.

**6.642** The APSC has undertaken to continue to monitor its level of section 83 compliance across all legislation for which it is administratively responsible. Where possible, amendments to legislation will be progressed.

**6.643** Full details of actual breaches identified during 2011–12 are outlined in Note 21 of the APSC's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.



# Regional Australia, Local Government, Arts and Sport Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Regional Australia, Local Government, Arts and Sport	Yes	✓	30 Aug 12	30 Aug 12	
Australia Business Arts Foundation Limited	No	✓	24 Sept 12	24 Sept 12	
Australia Council	No	✓	30 Aug 12	30 Aug 12	
Australian Film, Television and Radio School	No	✓	31 Aug 12	31 Aug 12	
Australian National Maritime Foundation	No	✓	12 Oct 12	12 Oct 12	
Australian National Maritime Museum	No	✓	12 Oct 12	12 Oct 12	◆
Australian Sports Anti-Doping Authority	No	✓	7 Sept 12	7 Sept 12	
Australian Sports Commission	Yes	✓	28 Aug 12	29 Aug 12	
Australian Sports Foundation Limited	No	✓	21 Sept 12	21 Sept 12	
Bundanon Trust	No	✓	7 Sept 12	7 Sept 12	
National Archives of Australia	Yes	✓	17 Aug 12	17 Aug 12	
National Capital Authority	Yes	✓	5 Sept 12	5 Sept 12	
National Film and Sound Archive of Australia	No	✓	25 Sept 12	26 Sept 12	
National Gallery of Australia	Yes	✓	29 Aug 12	29 Aug 12	◆
National Gallery of Australia Foundation	No	✓	29 Aug 12	29 Aug 12	
National Library of Australia	Yes	✓	3 Aug 12	6 Aug 12	
National Museum of Australia	Yes	✓	10 Aug 12	10 Aug 12	
Old Parliament House	No	✓	15 Aug 12	15 Aug 12	
Screen Australia	No	✓	5 Sept 12	5 Sept 12	

✓: auditor's report not modified

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.644** The portfolio is responsible for:

- regional Australia policy and co-ordination;
- support for Ministers and Parliamentary Secretaries with regional responsibilities;
- regional development, and the delivery of regional and rural specific services;
- matters relating to local government, including financial assistance grants to councils and shires;
- planning and land management of the Australian Capital Territory;
- administration of the Jervis Bay Territory, the Territory of Cocos (Keeling) Islands, the Territory of Christmas Island, the Coral Sea Islands Territory, the Territory of Ashmore and Cartier Islands, and the Commonwealth responsibilities on Norfolk Island;
- regional capacity and community participation in sport and recreation;
- cultural affairs, including movable cultural heritage and support for the arts;
- management of government records;
- constitutional development of the Northern Territory and the Australian Capital Territory; and
- management of Old Parliament House.

**6.645** The Administrative Arrangements Order (AAO) of 14 December 2011 resulted in a number of Machinery of Government (MOG) changes impacting the portfolio including: the transfer of the Department of Regional Australia, Local Government, Arts and Sports to a separate portfolio; responsibility for the administration of Australian Territories being transferred to the portfolio from the Attorney-General's portfolio; and responsibility for the arts and sports functions being transferred to the portfolio from Prime Minister and Cabinet portfolio.

## Department of Regional Australia, Local Government, Arts and Sport

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	90.2	38.5
Revenue from government	84.6	38.1
Surplus/(deficit)	(5.6)	(0.4)
Total other comprehensive income	2.5	0.0
Total comprehensive income	(3.1)	(0.4)
Total assets	207.7	20.6
Total liabilities	49.3	18.1

**6.646** The increase in the net cost of services and revenue from government is a result of 2011–12 being the first full year of operation of the department and also reflects the transfer of resources associated with arts and sport functions for the five month period from February 2012.

**6.647** Assets increased due to the MOG changes mentioned above. Significant asset transfers included \$81.5 million for the National Portrait Gallery building and associated property, plant and equipment and \$63 million in heritage and cultural artwork associated with the National Portrait Gallery and Artbank.

**6.648** Liabilities increased as a result of increases in trade and other payables and employee provisions, mainly as a result of the MOG changes.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	41.2	23.8
Total expenses	3 611.8	2 501.5
Surplus/(deficit)	(3 570.6)	(2 477.7)
Total assets	8 927.9	789.2
Total liabilities	25.9	50.8
Net assets/(liabilities)	8 902.0	738.4

**6.649** The increase in administered expenses was due to:

- a net \$508 million in additional grant payments associated with the Financial Assistance Grant program, which were brought forward from 2012–13;
- payments of \$229 million to CAC Act bodies transferred to the portfolio as a result of the MOG changes;
- expenses of \$110 million associated with the write-down of the department's regional territories assets, as a result of an asset revaluation in 2011–12; and
- an increase in expenses is a result of 2011–12 being the first full year of operation of the department and the transfer of resources associated with arts and sport functions for the five month period from February 2012.

**6.650** Administered assets increased substantially mainly as a result of investments in CAC Act bodies new to the portfolio.

### **Areas of audit focus**

**6.651** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the transfer of appropriations, the establishment of delegations, and accounting for balances transferred to the department as a result of the 2011–12 MOG changes;
- the effectiveness of internal controls designed to ensure the accurate

and complete processing of transactions undertaken by the Departments of Infrastructure and Transport and Prime Minister and Cabinet, on behalf of the department, in accordance with shared services arrangements with those agencies;

- the valuation and stocktake of the department's regional territories assets;
- control activities and financial reporting arrangements in respect of large grant programs administered by the department, administered revenue, and non-financial assets held in dispersed locations; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements of the former Department of Regional Australia, Regional Development and Local Government.

## **Audit results**

### *Summary of audit findings*

**6.652** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

### *Resolved section 83 of the Constitution issue*

**6.653** The 2010–11 auditor's report on the financial statements of the former department of Regional Australia, Regional Development and Local Government referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. DRALGAS undertook to investigate this issue in 2011–12. The review undertaken by DRALGAS in 2011–12 identified no breaches of section 83, but that system and legislative changes were required to reduce the risk of a section 83 breach to low. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# Australian Sports Commission

## Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	276.8	261.5
Revenue from government	268.7	269.5
Surplus/(deficit)	(8.1)	8.0
Total other comprehensive income	34.1	1.2
Total comprehensive income	26.0	9.2
Total assets	331.6	306.1
Total liabilities	28.2	28.7

**6.654** The increase in net cost of services and the corresponding impact on the 2011–12 deficit is mainly due to an increase in employee benefits and an increase in the depreciation expense of buildings arising from an increase in the value of these assets. Employee benefits increased mainly as a result of an actuarial review of employee entitlements that found that employees were more likely to reach ten years in tenure than previously estimated and therefore the discount factor was adjusted, and the decrease in the discount rate reflecting movements in the long term government bond rate<sup>87</sup>.

**6.655** Assets increased due to a revaluation of the Commission's land and buildings undertaken by an independent expert during 2011–12.

**6.656** All other movements were not significant and reflect fluctuations in normal business activity.

## Areas of audit focus

**6.657** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- an upgrade to the financial management information system; and
- the valuation of land and buildings.

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<sup>87</sup> Op cit (refer footnote 21 on p. 39)

## Audit results

### Summary of audit findings

**6.658** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## National Archives of Australia

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	70.0	62.0
Revenue from government	55.4	55.0
Surplus/(deficit)	(14.5)	(6.9)
Total other comprehensive income	60.9	(1.7)
Total comprehensive income	46.3	(8.7)
Total assets	1 483.0	1 425.8
Total liabilities	21.3	17.4

**6.659** The net cost of services increased mainly due to an increase in employee expenses as a result of the reduction in the discount rate reflecting movements in the long term government bond rate<sup>88</sup> and a decrease of \$5 million in other own source revenue that consists mainly of gains recognised from the acquisition of heritage and cultural assets at no cost. Own source revenue fluctuates from year to year as it is dependent on other agencies providing their records to the National Archives of Australia.

**6.660** Total other comprehensive income and total assets increased due to the revaluation of heritage and cultural assets.

### Areas of audit focus

**6.661** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- valuation of heritage and cultural assets;
- determination of the useful life of the digitised collection;

<sup>88</sup> Op cit (refer footnote 21 on p. 39)

- capitalisation and valuation of non-financial and intangible assets; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

**6.662** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

### *Resolved section 83 of the Constitution issue*

**6.663** The 2010–11 auditor’s report on the financial statements of the National Archives of Australia (NAA) referred to the notes to the financial statements that included a reference to an increased risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. NAA undertook to investigate this issue in 2011–12. The review undertaken by NAA in 2011–12 concluded that the risk of a section 83 breach was low and no breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor’s report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.



## National Capital Authority

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	15.1	13.4
Revenue from government	13.4	13.2
Surplus/(deficit)	(1.8)	(0.2)
Total other comprehensive income	0.4	0.2
Total comprehensive income	(1.4)	0.0
Total assets	21.9	19.7
Total liabilities	7.3	4.7

**6.664** All movements were not significant and reflect fluctuations in normal business activity.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	2.3	1.8
Total expenses	23	20.9
Surplus/(deficit)	(20.7)	(19.1)
Total assets	801.3	737.2
Total liabilities	17.7	17.3
Net assets/(liabilities)	783.6	719.9

**6.665** Administered assets increased mainly due to a revaluation of land in 2011–12.

**6.666** All other movements were not significant and reflect fluctuations in normal business activity.

## Areas of audit focus

**6.667** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 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.

## Audit results

### *Summary of audit findings*

**6.668** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## National Gallery of Australia

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	33.0	30.8
Revenue from government	32.6	32.6
Surplus/(deficit)	(0.4)	1.8
Total other comprehensive income after income tax	403.8	240.0
Total comprehensive income	403.4	241.8
Total assets	4 927.0	4 510.5
Total liabilities	11.8	15.0

**6.669** Total comprehensive income increased due to a revaluation of heritage and cultural assets.

**6.670** Total assets increased mainly due to an increase in the valuation of heritage and cultural assets. The increase in assets was partially offset by a decrease in the value of land and buildings.

**6.671** Liabilities decreased due to the repayment of the loan to the Australian Government.

## Areas of audit focus

**6.672** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- valuation of the Gallery's art collection;
- capitalisation of work in progress associated with new building work; and
- IT general and application controls as they relate to the financial statements.

## Audit results

### *Summary of audit findings*

#### *New audit finding*

**6.673** The 2011–12 audit identified numerous deficiencies in the quality assurance performed by the Gallery over the independent valuation of heritage and cultural assets. As a result, the Gallery has developed and documented a quality assurance process that will be implemented in 2012–13.

**6.674** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>L1</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

# National Library of Australia

## Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	58.8	56.7
Revenue from government	49.0	49.1
Surplus/(deficit)	(9.8)	(7.6)
Total other comprehensive income	86.8	3.4
Total comprehensive income	77.0	(4.2)
Total assets	1 793.7	1 707.4
Total liabilities	17.2	17.6

**6.675** The significant increase in total other comprehensive income and total comprehensive income, and the corresponding increase in assets, is mainly a result of a revaluation undertaken of the Library's heritage and cultural national collection, which is undertaken every three years.

**6.676** All other movements were not significant and reflect fluctuations in normal business activity.

## Areas of audit focus

**6.677** The ANAO's audit approach identified that the valuation and classification of the Library's heritage and cultural national collection was significant in terms of the potential impact on the 2011–12 financial statements.

**6.678** Audit coverage of this area was finalised during the 2011–12 final audit. The ANAO assessed the valuation report provided by an independent valuer, including the underlying information and assumptions, and found these to be complete and appropriate.

## Audit results

### *Summary of audit findings*

**6.679** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## National Museum of Australia

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	41.1	40.4*
Revenue from government	40.3	40.1
Surplus/(deficit)	(0.8)	(0.3)*
Total other comprehensive income	12.5	17.9
Total comprehensive income	11.8	17.6*
Total assets	441.6	426.0
Total liabilities	9.9	7.9

\* These prior year figures have been adjusted to correctly recognise contribution revenue when received as required by AASB 1004 *Contributions*.

**6.680** Total other comprehensive income reflects the impact of the annual valuation of the Museum's assets. The increase in the value of these assets was less in 2011–12 than in 2010–11.

**6.681** Assets increased as a result of an annual valuation, as well as the purchase of heritage and cultural assets and infrastructure, plant and equipment during 2011–12.

**6.682** All other movements were not significant and reflect fluctuations in normal business activities.

### Areas of audit focus

**6.683** The ANAO's audit approach identified the valuation and classification of the Museum's heritage and cultural assets and land and buildings was significant in terms of the potential impact on the 2011–12 financial statements.

### Audit results

#### *Summary of audit findings*

**6.684** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.685** There were no significant or moderate audit issues noted in non-material entities within the portfolio except in respect of the Australian National Maritime Museum (ANMM).

#### *Australian National Maritime Museum*

##### *New audit finding*

**6.686** Australian Accounting Standards require agencies to assess the useful lives of their non-financial assets each year. During the year, the ANAO identified weaknesses in the useful life assessments of ANMM's non-financial assets, which resulted in a subsequent adjustment and correction to the financial statements. The ANAO considered that ANMM should review and strengthen its assessment process governing the useful lives of its non-financial assets. The ANMM agreed that assessments of useful lives of its non-financial assets should be undertaken in a more robust manner.

# 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	✓L	14 Aug 12	15 Aug 12	◆
Australian Solar Institute Limited	No	✓	24 Aug 12	24 Aug 12	
Geoscience Australia	No	✓	4 Oct 12	4 Oct 12	
National Offshore Petroleum Safety and Environmental Management Authority (formerly National Offshore Petroleum Safety Authority)	No	✓	19 Sept 12	19 Sept 12	
Tourism Australia	Yes	✓	17 Aug 12	17 Aug 12	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.687** 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	2011–12 \$m	2010–11 \$m
Net cost of services	119.7	85.9
Revenue from government	114.5	85.9
Surplus/(deficit)	(5.1)	0.0
Total other comprehensive income	0.0	0.0
Total comprehensive income	(5.1)	0.0
Total assets	41.1	42.7
Total liabilities	38.6	40.1

**6.688** The net cost of services and revenue from government increased as a result of the department's implementation of the Clean Energy Future budget measures. Employee expenses also increased due to the costs associated with a voluntary redundancy program conducted in 2011–12.

**6.689** All other movements were not significant and reflect fluctuations in normal business activities.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	1 701.6	1 663.9
Total expenses	700.3	539.8
Surplus/(deficit)	1 001.3	1 124.0
Total assets	983.8	830.4
Total liabilities	6.3	15.3
Net assets/(liabilities)	977.6	815.1

**6.690** Administered expenses increased mainly due to the impact of the Coal Sector Jobs Package program. This program, which assists existing high emissions coal mines transition to the introduction of a carbon price, commenced in 2011–12.



**6.691** Administered assets increased mainly due to an increase in the value of the Commonwealth's investment in Snowy Hydro Limited (SHL) and the Australian Solar Institute.

## Areas of audit focus

**6.692** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of the Commonwealth's investment in SHL that is recognised as an administered investment in RET's financial statements;
- accrued revenue relating to petroleum royalties, given the volatility of revenue streams and their material impact on the financial statements; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution.

## Audit results

### *Summary of audit findings*

#### *Actual breaches of section 83 of the Constitution*

**6.693** In 2011–12, RET undertook to address the risk of breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.694** During 2011–12, RET finalised its review to determine the risk of payments being made in breach of section 83 from the special appropriations and special accounts for which it is administratively responsible.

**6.695** The risk assessment and subsequent analysis to 30 June 2012 identified six breaches of section 83 totalling \$0.6 million in relation to payments under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* – Offshore Petroleum Fees. The breaches occurred because payments continued to be made under legislative conditions that were superseded by amendments to the Act. These amendments eliminate the risk of future section 83 breaches.

**6.696** The risk of payments from other special appropriations being in breach of section 83 was assessed by RET as low.

**6.697** The auditor's report included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on RET's financial statements, as the financial statements fairly presented the financial operations and position of the department at year end.

**6.698** Full details of actual breaches identified during 2011–12 are outlined in Note 26 of RET's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.699** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0
<b>L1</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Tourism Australia

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	132.7	123.6
Revenue from government	132.8	126.9
Surplus/(deficit)	0.1	3.3
Total other comprehensive income after tax	(0.1)	0.0
Total comprehensive income	0.0	3.3
Total assets	39.3	41.5
Total liabilities	13.0	12.3

**6.700** The movements in these balances were not significant and were the result of fluctuations in normal business activity.

## Areas of audit focus

**6.701** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- contract management and procurement; and
- reliance on industry partners to fund Tourism Australia trade and other events.

## Audit results

### *Summary of audit findings*

**6.702** There were no significant or moderate audit findings arising from the 2011–12 audit. There was one moderate audit finding from the 2010–11 audit that was resolved during the 2011–12 audit.

### *Resolved audit finding*

**6.703** During the 2010–11 audit, the ANAO reviewed user access to the financial management information system (FMIS). The ANAO identified a number of users with access to 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.

**6.704** 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. These measures were completed by Tourism Australia during 2011–12. As a result, the audit finding is considered to be resolved.

**6.705** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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>L1</b>	0	0	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

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

#### *National Offshore Petroleum Safety and Environmental Management Authority Resolved section 83 of the Constitution issue*

**6.707** The 2010–11 auditor’s report on the financial statements of the National Offshore Petroleum Safety and Environmental Management Authority referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The Authority undertook to investigate this issue in 2011–12. The review undertaken by the Authority concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor’s report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# 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	Yes	✓	30 Aug 12	30 Aug 12	
Bureau of Meteorology	Yes	✓	30 Aug 12	31 Aug 12	
Director of National Parks	No	✓	4 Oct 12	4 Oct 12	
Great Barrier Reef Marine Park Authority	No	✓	4 Sept 12	4 Sept 12	
Murray-Darling Basin Authority	No	✓	2 Nov 12	2 Nov 12	
National Environment Protection Council Service Corporation	No	✓	13 Sept 12	13 Sept 12	
National Water Commission	No	✓	16 Aug 12	16 Aug 12	
Natural Heritage Trust of Australia Account	No	✓	30 Aug 12	30 Aug 12	
Sydney Harbour Conservancy Limited	No	✓	11 Sept 12	11 Sept 12	
Sydney Harbour Federation Trust	No	✓	11 Sept 12	11 Sept 12	

✓: auditor's report not modified

## Portfolio overview

**6.708** The role of the Sustainability, Environment, Water, Population and Communities portfolio is to provide leadership on environment, water and sustainability matters. The portfolio is also responsible for advancing Australia's interests in Antarctica, and the provision of meteorological services to the Australian community.

**6.709** The Administrative Arrangements Order of 14 December 2011 transferred responsibility for housing supply policy to Department of Families, Housing, Community Services and Indigenous Affairs and affordability policy to the Department of the Treasury.

# Department of Sustainability, Environment, Water, Population and Communities

## Summary of financial results

### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	595.1	463.4
Revenue from government	466.3	405.0
Surplus/(deficit)	(128.8)	(58.4)
Total other comprehensive income	(36.9)	88.7
Total comprehensive income	(165.7)	30.3
Total assets	510.4	518.2
Total liabilities	552.5	425.6

**6.710** The net cost of services increased mainly due to the start-up of new departmental programs and an increase in employee expenses attributable largely to a reduction in the discount rate reflecting movements in the long term government bond rate<sup>89</sup>, increasing the value of longer term employee provisions.

**6.711** Revenue from government increased due to additional funding for both new and existing departmental programs. Liabilities increased mainly due to an increase in the cost estimated to restore and make-good the Antarctic bases.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	78.3	34.4
Total expenses	888.3	1 279.9
Surplus/(deficit)	(810.0)	(1 245.5)
Total assets	3 044.9	2 436.3
Total liabilities	42.0	54.9
Net assets/(liabilities)	3 002.9	2 381.4

<sup>89</sup> Op cit (refer footnote 21 on p. 39)

**6.712** The reduction in administered expenses was mainly due to a \$262 million decrease in payments to CAC Act entities that are no longer within the Sustainability, Environment, Water, Population and Communities portfolio, and a large decrease from the prior year's expense associated with the reduction in the value of water entitlements. This reduction in expenses was the main contributor to the reduced administered deficit.

**6.713** Administered assets increased significantly due to further acquisitions of water assets by the Department of Sustainability, Environment, Water, Population and Communities (DSEWPAC) on behalf of the Australian Government. Administered liabilities decreased mainly due to fluctuations in normal business activity.

## **Areas of audit focus**

**6.714** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the valuation of and accounting for, water entitlements;
- the valuation of the make-good and restoration obligations for the Antarctic bases;
- the financial management and reporting of grants, including those related to the Caring for our Country program, Water Smart Australia and the Sustainable Rural Water Use and Infrastructure program; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## **Audit results**

### *Summary of audit findings*

**6.715** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

### *Resolved section 83 of the Constitution issue*

**6.716** The 2010–11 auditor's report on the financial statements of the DSEWPAC referred to the notes to the financial statements that included a reference to an increased risk of non-compliance with section 83 of the Constitution in relation to payments from special accounts and special

appropriations. The department undertook to investigate this issue in 2011–12. The review undertaken by DSEWPAC in 2011–12 concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor’s report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

## Bureau of Meteorology

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	277.7	257.6
Revenue from government	208.6	202.4
Surplus/(deficit)	(69.1)	(55.2)
Total other comprehensive income	0.0	33.3
Total comprehensive income	(69.1)	(21.9)
Total assets	516.9	499.2
Total liabilities	143.6	120.8

**6.717** The net cost of services increased due to increases in employee, depreciation and amortisation expenses.

**6.718** In 2010–11, an asset revaluation was undertaken which increased total other comprehensive income. In 2011–12 no asset revaluations were undertaken, resulting in a decrease from the prior year.

**6.719** All other movements were not significant and reflected fluctuations in normal business activities.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	0.0	0.0
Total expenses	10.0	19.8
Surplus/(deficit)	(10.0)	(19.8)
Total assets	0.0	0.0
Total liabilities	0.0	0.0
Net assets/(liabilities)	0.0	0.0

**6.720** The decrease in expenses, which also resulted in a reduction in the deficit, was due to a decrease in grant funding provided in 2011–12.

### Areas of audit focus

**6.721** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- accounting for intangibles due to the complexity surrounding the capitalisation of internally generated software;
- accounting for inventory, including the determination of the account classification of spare parts and servicing equipment; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

### Audit results

#### *Summary of audit findings*

**6.722** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

#### *Resolved section 83 of the Constitution issue*

**6.723** The 2010–11 auditor's report on the financial statements of the Bureau of Meteorology referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The Bureau undertook to investigate this issue in 2011–12. The review undertaken by the

Bureau in 2011–12 concluded that the risk of a section 83 breach was low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

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

#### *Murray-Darling Basin Authority*

##### *Resolved section 83 of the Constitution issue*

**6.725** The 2010–11 auditor's report on the financial statements of Murray-Darling Basin Authority referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The Authority undertook to investigate this issue in 2011–12. The review undertaken by the Authority in 2011–12 concluded that the risk of a section 83 breach was assessed as low and no breaches or potential breaches of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

# 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	✓L	11 Oct 12	11 Oct 12	◆
- HHH Claims Support Limited	No	✓E	22 Aug 12	22 Aug 12	
- HHH Claims Support Trust	No	✓E	22 Aug 12	22 Aug 12	
Australian Bureau of Statistics	Yes	✓	13 Aug 12	14 Aug 12	
Australian Competition and Consumer Commission	No	✓	26 Aug 12	27 Aug 12	
Australian Office of Financial Management	Yes	✓	20 Aug 12	20 Aug 12	
Australian Prudential Regulation Authority	No	✓	21 Aug 12	21 Aug 12	
Australian Reinsurance Pool Corporation	Yes	✓	11 Sept 12	11 Sept 12	
Australian Securities and Investments Commission	Yes	✓	9 Aug 12	10 Aug 12	
Australian Taxation Office	Yes	✓L	17 Sept 12	17 Sept 12	◆
Commonwealth Grants Commission	No	✓	24 Sept 12	24 Sept 12	
Corporations and Markets Advisory Committee	No	✓	30 Aug 12	30 Aug 12	
Inspector-General of Taxation	No	✓	29 Aug 12	29 Aug 12	
National Competition Council	No	✓	28 Aug 12	28 Aug 12	
Office of the Auditing and Assurance Standards Board	No	✓	3 Sept 12	4 Sept 12	
Office of the Australian Accounting Standards Board	No	✓	3 Sept 12	4 Sept 12	
Productivity Commission	No	✓	24 Aug 12	24 Aug 12	
Reserve Bank of Australia	Yes	✓	5 Sept 12	5 Sept 12	
- Reserve Bank of Australia Note Printing Australia Ltd	No	✓	26 Jul 12	26 Jul 12	
- Reserve Bank of Australia Officers' Superannuation Fund	No	✓	22 Oct 12	22 Oct 12	
Royal Australian Mint	No	✓	9 Oct 12	10 Oct 12	◆

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

## Portfolio overview

**6.726** 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 the Treasury

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	183.1	167.8
Revenue from government	158.1	158.3
Surplus/(deficit)	(25.0)	(9.6)
Total other comprehensive income	0.0	0.0
Total comprehensive income/(loss)	(25.0)	(9.6)
Total assets	104.4	128.8
Total liabilities	49.5	50.1

**6.727** The increased deficit in 2011–12 was mainly due to depreciation and amortisation no longer being funded through revenue appropriations, the payout of voluntary redundancies and the reduction in the discount rate reflecting movements in the long term government bond rate<sup>90</sup> on the value of employee provisions.

**6.728** All other movements were not significant and reflect fluctuations in normal business activities.

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<sup>90</sup> Op cit (refer footnote 21 on p. 39)

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	5 752.2	3 306.7
Total expenses	86 868.5	86 961.1
Surplus/(deficit)	(81 110.3)	(83 316. 2)
Total assets	15 245.3	14 326.0
Total liabilities	13 589.8	16 049.2
Net assets/(liabilities)	1 655.5	(1 723.2)

**6.729** The Council of Australian Governments reforms relating to the federal financial relations framework continue to have a major impact on the Treasury's administered balances in 2011–12, as the Treasury is responsible for making payments to the States and Territories in the order of \$86 billion.

**6.730** Administered own-source income increased substantially due to the achievement of a number of significant milestones on key infrastructure projects under the Building Australia Fund.

**6.731** Administered expenses were largely consistent with 2011–12, with the small decrease relating to a reduction in grant payments to the States and Territories.

**6.732** Administered assets increased as a result of increases in the value of the investment in the Reserve Bank of Australia (RBA) and the Australian Reinsurance Pool Corporation (ARPC), and dividends receivable in relation to both entities.

**6.733** Administered liabilities decreased mainly due to the payment in cash of promissory notes for the International Monetary Fund under the Financial Transaction Plan, a decrease in the Natural Disaster Relief and Recovery Arrangements (NDRRA) provision and the winding down of the Guarantee Schemes for State and Territory Balances and Large Deposits and Wholesale Funding arrangements.

## Areas of audit focus

**6.734** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the recognition and measurement of grant payments under the federal financial relations framework as reflected in the *Federal Financial Relations Act 2009*;
- the methodology used to estimate the provision for NDRRA;
- the disclosure of administered commitments in view of their nature and complexity;
- the Treasury's administration of the guarantees of deposits and wholesale funding, and the temporary and voluntary guarantees over State and Territory Government borrowings;
- the administration of the *Commonwealth Places (Mirrors Taxes) Act 1998* and the treatment of notional payments to the States and Territories under the Act;
- the valuation of the Treasury's financial investment in international financial institutions, in light of increased volatility experienced in overseas markets;
- the administration of the Energy Security Council loans made under the Australian Government's Clean Energy Future initiative; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2010–11 financial statements.

## Audit results

### *Summary of audit findings*

**6.735** The results of the 2011–12 audit were satisfactory except in relation to the matters referred to below.

### *Resolved audit finding*

**6.736** The ANAO identified an issue during the 2010–11 interim audit phase relating to the Treasury's monitoring of portfolio legislation under the Administrative Arrangements Order. The 2010–11 final audit phase also

identified additional monitoring issues that had an impact on the appropriation note disclosure in the financial statements.

**6.737** The Treasury is continuing the process of repealing special appropriation clauses that are no longer required and has established a central database including supporting guidelines for the monitoring of administered legislation. The ANAO will review progress in addressing this issue as part of the 2012–13 interim audit phase. In view of the progress made to date, this issue has been reclassified to a Category C finding.

*Potential breaches of section 83 of the Constitution*

**6.738** The 2010–11 financial statements made reference at Notes 25 and 26, to a number of breaches of section 83 of the Constitution. 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 State and Territory Governments, based on advice received from the relevant department. The errors resulted in eight overpayments totalling \$26 million.

**6.739** In order to address the risks of further breaches, the Intergovernmental Agreement (IGA) was amended with effect from August 2011. The changes mean that payments made in good faith that are found to be erroneous do not result in breaches of section 83 of the Constitution.

**6.740** The notes to the Treasury's 2010–11 financial statements also referred to potential breaches of section 83 of the Constitution for payments made from other special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.741** During 2011–12, the Treasury undertook a review to determine the risk of payments being made in breach of section 83 from the special appropriations and special accounts for which it is administratively responsible. The review identified three groups of potential breaches of section 83 on which legal advice has been sought.

**6.742** Payments in 2011–12, on which legal advice has been sought, total \$4.3 million. These payments comprise a very small percentage of the approximately \$86 billion in payments made during the year. At the date of completing the final audit, the Treasury was still to receive the legal advice in respect of these payments.

**6.743** The auditor's report included a report on other legal and regulatory requirements referring to the potential breaches identified. This is not a qualification or modification to the audit opinion on the Treasury's financial statements, as the financial statements fairly presented the financial operations and position of the Treasury at year end.

**6.744** The Treasury has undertaken to continue to monitor its level of section 83 compliance across all legislation for which it is administratively responsible. Where possible, amendments to legislation will continue to be progressed by the department.

**6.745** Full details of potential breaches identified during 2011–12 are outlined in Note 29 of the Treasury's 2011–12 financial statements, and a general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.746** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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*	(3)*	0	0
<b>L1</b>	1	(1)	1	1
<b>Total</b>	<b>4</b>	<b>(4)</b>	<b>1</b>	<b>1</b>

\* A category B finding reported at the end of the interim audit phase has been reclassified to a category C finding at the conclusion of the final audit phase.



## Australian Bureau of Statistics

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	584.5	393.4
Revenue from government	548.6	354.9
Surplus/(deficit)	(35.9)	(38.5)
Total other comprehensive income/expense	5.5	0.9
Total assets	216.3	209.7
Total liabilities	165.7	147.8

**6.747** The increases in the net cost of services and revenue from government reflected the increased level of activity associated with the 2011 Census, which took place in August 2011.

**6.748** The deficit in 2011–12 was mainly due to revised depreciation funding arrangements.

**6.749** Assets increased mainly due to an increase in unspent appropriations at year end. Liabilities increased mainly due to: an increase in unearned revenue relating to subscriptions for future ABS services; an increase in the provision for redundancies; and an increase in employee leave provisions as a result of the reduction in the discount rate reflecting movements in the long term government bond rate<sup>91</sup> during 2011–12.

### Areas of audit focus

**6.750** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the capitalisation of internally-generated software;
- payroll activities in relation to casual Census staff; and
- controls over the payroll process.

<sup>91</sup> Op cit (refer footnote 21 on p. 39)

## Audit results

### *Summary of audit findings*

**6.751** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Australian Office of Financial Management

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	9.3	10.7
Revenue from government	12.4	15.9
Surplus/(deficit)	3.1	5.2
Total other comprehensive income	0.0	0.0
Total comprehensive income/(loss)	3.1	5.2
Total assets	26.7	20.0
Total liabilities	2.5	2.0

**6.752** The net cost of services reduced largely due to a decrease in supplier expenses, mainly as a result of costs arising from debt being funded from an administered appropriation rather than the departmental appropriation as was the case in previous years.

**6.753** Assets increased as a result of an increase in unspent appropriations at year end due mainly to capital expenditure planned for 2011–12 being deferred.

*Items administered on behalf of the Australian Government*

Key financial measures for year*	2011–12 \$m	2010–11 \$m
Total own-source income	1 412.7	1 375.8
Total expenses	11 420.9	9 272.9
Surplus/(deficit)	(10 008.2)	(7 897.1)
Total assets	28 118.1	27 650.6
Total liabilities	269 785.4	201 770.5
Net assets/(liabilities)	(241 667.3)	(174 119.9)

\* The AOFM also recognised a loss of \$8.5 million (2010–11 gain of \$1.5 million) and a re-measurement loss of \$20 565.8 million (2010–11 gain of \$325.9 million).

**6.754** Administered own source income increased due mainly to an increase in interest revenue as a result of higher daily investment levels in term deposits held in 2011–12.

**6.755** Administered expenses increased due to interest paid during the year on a higher balance of Commonwealth Government securities on issue than in 2010–11.

**6.756** Assets increased as a result of an increase in term deposits and residential mortgage-backed securities.

**6.757** Administered liabilities increased due to an increase in Commonwealth Government securities on issue during 2011–12.

### **Areas of audit focus**

**6.758** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the fair value measurement and disclosure of Residential Mortgage Backed Securities;
- the AOFM's management of an increase in the volume of issuance of debt instruments and implementation of debt buy backs;
- the fair value measurement, presentation and disclosure of the financial instruments held by AOFM;
- AOFM's appropriations including disclosure requirements and compliance requirements of section 83 of the Constitution.

## Audit results

### *Summary of audit findings*

**6.759** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Australian Reinsurance Pool Corporation

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	173.2	152.9
Total expenses	89.7	91.5
Operating result	83.5	61.4
Total assets	852.0	765.1
Total liabilities	491.8	99.3

**6.760** Income increased primarily as a result of increased premiums and income associated with the investment of funds.

**6.761** Assets increased mainly due to an increase in the funds invested as a result of higher premium revenue.

**6.762** Liabilities increased significantly as a result of the requirement to recognise dividend obligations of \$400 million to the Australian Government.

### Areas of audit focus

**6.763** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- exposure to the underwriting and claims handling risk associated with the occurrence of a declared terrorism incident;
- the recognition of accurate premium revenue and unearned premium revenues;
- investment activities being undertaken in accordance with legislative requirements; and
- reinsurance arrangements with third parties.

## Audit results

### *Summary of audit findings*

**6.764** There were no significant or moderate audit issues arising from the 2010–11 and 2011–12 audits.

## Australian Securities and Investments Commission

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	349.7	361.3
Revenue from government	304.3	324.0
Surplus/(deficit)	(45.5)	(37.3)
Total other comprehensive income	2.7	0.0
Total comprehensive income/(loss)	(42.7)	(37.3)
Total assets	320.1	288.9
Total liabilities	165.3	150.2

**6.765** The net cost of services decreased mainly due to an increase in revenue as a result of the transfer of funds 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.

**6.766** Revenue from government decreased mainly due to reduced funds required from the Enforcement Special Account for costs associated with investigation and litigation matters of significant public interest.

**6.767** Assets increased primarily as a result of the capitalisation of a number of internally developed IT systems during 2011–12.

**6.768** Liabilities increased as a result of an increase in unpaid trade creditors remaining at 30 June 2012, compared to 2010–11.

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

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total own-source income	733.6	684.9
Total expenses	82.2	72.5
Surplus/(deficit)	651.4	612.4
Total assets	106.1	100.9
Total liabilities	15.0	10.6
Net assets/(liabilities)	91.0	90.3

**6.769** Administered income increased primarily due to an increase in fees collected under the *Corporations Act 2001*, the *National Consumer Credit Protection Act 2009*, and the *Business Names Registration (Fees) Act 2011* in line with the movement in the Consumer Price Index and a growth in the number of companies. The 2011–12 administered income includes fees for the business names function that transferred to ASIC from 28 May 2011. Administered expenses increased mainly due to an increase in the amount of receivables from companies that were assessed as uncollectable during 2011–12.

**6.770** Administered assets increased primarily due to an increase in receivables in line with the increase in administered revenue. Administered liabilities increased mainly as a result of an increase in fee refunds payable at 30 June 2012, compared to 30 June 2011.

### **Areas of audit focus**

**6.771** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- accounting for administered revenue and the valuation of the associated receivables;
- accounting for the capitalisation and valuation of intangible assets;
- the implementation of a new Electronic Procurement System; and
- compliance with section 83 of the Constitution in relation to payments made under special appropriations, including special accounts.

## Audit results

### *Summary of audit findings*

**6.772** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

## Australian Taxation Office

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Net cost of services	3 342.7	3 146.3
Revenue from government	3 131.0	3 016.4
Surplus/(deficit) after income tax equivalent expenses	(212.3)	(131.3)
Total other comprehensive income	7.5	0.1
Total comprehensive income/(loss)	(204.8)	(131.2)
Total assets	1 244.6	1 057.4
Total liabilities	1 212.1	972.8

**6.773** The movement in net cost of services is primarily due to increased employee expense resulting from the impact of the reduction in the discount rate reflecting movements in the long term government bond rate<sup>92</sup> and salary increases.

**6.774** Revenue from government increased slightly as a result of funding for the implementation of new measures, including Tax Compliance, Stronger Super programs and the establishment of the Australian Charities and Not-for-Profit Commission from 3 December 2012.

**6.775** The deficit and associated total comprehensive loss is primarily due to the increase in employee benefits, associated with reduction in the discount rate mentioned above and unfunded depreciation.

**6.776** Assets increased due to the fit out of new office accommodation, improvements to existing office accommodation and the timing of payments to suppliers.

<sup>92</sup> Op cit (refer footnote 21 on p. 39)

**6.777** Liabilities increased primarily due to new lease incentives and the impact of the movement in the bond rate on employee provisions, referred to above.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	307 537.0	280 890.0
Total expenses	15 084.0	13 779.0
Surplus/(deficit)	292 453.0	267 111.0
Total assets	28 416.0	26 939.0
Total liabilities	7 451.0	6 227.0
Net assets/(liabilities)	20 965.0	20 712.0

**6.778** Income tax revenue increased primarily due to larger collections in relation to income tax withholding as a result of growth in the mining and construction industries and administrative and support services. Increases in taxation revenue have a flow on effect to taxation receivables (administered assets) and the provision for tax refunds (administered liabilities).

**6.779** Administered expenses increased as a result of an increase in fuel tax credits claimed as a result of strong growth in the mining and construction sectors in 2011–12 and an expansion of the research and development scheme by changing the eligible turnover for companies from \$5 million to \$20 million.

## Areas of audit focus

**6.780** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 financial statements:

- the Australian Taxation Office's (ATO) 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*

**6.781** There were no significant or moderate audit issues arising from the 2011–12 audit.

### *Actual breaches of section 83 of the Constitution*

**6.782** In 2011–12, as in previous years, the ATO 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.

**6.783** A total of 290 incorrect payments totalling \$4.9 million were identified during 2011–12. These payments comprise a very small percentage of the payments made during the year. At the time of signing the financial statements, 75 per cent of the incorrect payments had been recovered.

**6.784** The audit opinion 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 opinion did include a reference to the breach of section 83 of the Constitution under other legal and regulatory requirements.

**6.785** To address the risks of further section 83 breaches the *Financial Framework Legislation Amendment Act (No. 2) 2012* made amendments to relevant taxation legislation which enables the Commissioner of Taxation to make overpayments in certain circumstances, with effect from 29 June 2012. A

general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

**6.786** The following table provides a summary of the status of any previously reported audit issues as well as any new issues reported in the 2011–12 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	0	0
<b>L1</b>	0	0	1*	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1*</b>	<b>1</b>

\* Legislative breaches are treated on a year by year basis. The breaches in 2011–12 relate to section 83 of the Constitution and are similar to the breaches that have been reported in previous years.

## Reserve Bank of Australia

### Summary of financial results

Key financial measures for year	2011–12 \$m	2010–11 \$m
Total income	2 386.0	2 052.0
Total expenses	1 310.0	6 941.0
Profit/(loss) after income tax	1 076.0	(4 889.0)
Total other comprehensive income after income tax	454.0	(166.0)
Total comprehensive income	1 530.0	(5 055.0)
Total assets	81 079.0	75 313.0
Total liabilities	74 710.0	69 974.0

**6.787** The profit in 2011–12, compared to the loss incurred by the Reserve Bank of Australia (RBA) in 2010–11, reflected gains from the sale of domestic and foreign investments.

**6.788** Assets increased due to valuation gains on foreign investments and an increase in the value of gold holdings at year end.

**6.789** Liabilities increased due to an increase in Australian notes on issue and deposits held by the RBA on behalf of the Australian Government.

## Areas of audit focus

**6.790** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2011–12 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 issued by governments including the USA, Germany, France, the Netherlands, Canada and Japan, and deposits with the Bank for International Settlements and other central banks;
- accounting for holdings of gold and gold lending operations to financial institutions participating in the gold market;
- accounting for the issuing and redeeming of currency 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.

**6.791** Given the substantial movement in the value of the Australian dollar, the valuation of foreign investments and currency holdings has had a significant impact on the RBA's financial statements in recent years.

## **Audit results**

### *Summary of audit findings*

**6.792** There were no significant or moderate audit issues arising from the 2010–11 or 2011–12 audits.

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

## **Audit results**

### *Summary of audit findings*

**6.793** There were no significant or moderate audit issues noted in non-material entities within the portfolio except in relation to the Royal Australian Mint.

### *Royal Australian Mint*

#### *New audit finding*

**6.794** During the 2011–12 audit, the ANAO raised a Category B finding in relation to the allocation of overhead to inventory and cost of goods sold expense. The ANAO identified control weaknesses in the allocation process and a lack of documentation to support the allocation method. These weaknesses increased the risk of misstatements in expenses, including income tax expense, reported in the financial statements. This increased risk to the financial statements was addressed through additional audit procedures.

**6.795** The ANAO considered the Mint should undertake regular monitoring of the allocation process, document instructions for the allocation process and implement an automated IT system control to close off open work orders after a period of inactivity.

**6.796** The Mint has commenced action to address the audit finding.

### *Australian Competition and Consumer Commission*

#### *Resolved section 83 of the Constitution issue*

**6.797** The 2010–11 auditor's report on the financial statements of the Australian Competition and Consumer Commission (ACCC) referred to the notes to the financial statements that included a reference to a risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. The ACCC undertook to investigate this issue in 2011–12. The review undertaken by the ACCC in 2011–12 concluded that the risk of a section 83 breach was moderate and no breaches or potential breaches

of section 83 were identified. As the ANAO agreed with this assessment, no reference to this matter was made in the auditor's report on the 2011–12 financial statements. A general discussion of this matter is at paragraphs 5.30 to 5.43 in Chapter 5 of this report.

*Emphasis of matter*

*HIH Claims Support Limited*

**6.798** The 2011–12 auditor's report for HIH Claims Support Limited contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis as the company is expected to be wound up during 2012–13.

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

*HIH Claims Support Trust*

**6.800** The 2011–12 auditor's report for the HIH Claims Support Trust contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis as the Trust is expected to be terminated during 2012–13.

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

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Ian McPhee  
Auditor-General

Canberra ACT  
20 December 2012



# Appendices





## Appendix 1: Mandated Changes in 2011–12

The following is a listing of new entities in 2011–12 and entities that ceased to be audited by the Auditor-General in 2011–12.

### **New entities audited in 2011–12**

Australian Commission on Safety and Quality in Health Care  
Australian Institute of Family Studies  
Australian Skills Quality Authority  
Clean Energy Regulator  
Commonwealth Superannuation Corporation  
Independent Hospital Pricing Authority  
National Health Performance Authority  
National Mental Health Commission  
Office of the Australian Information Commissioner  
Office of the Fair Work Building Industry Inspectorate  
SecurePay Pty Ltd  
Tertiary Education Quality and Standards Agency

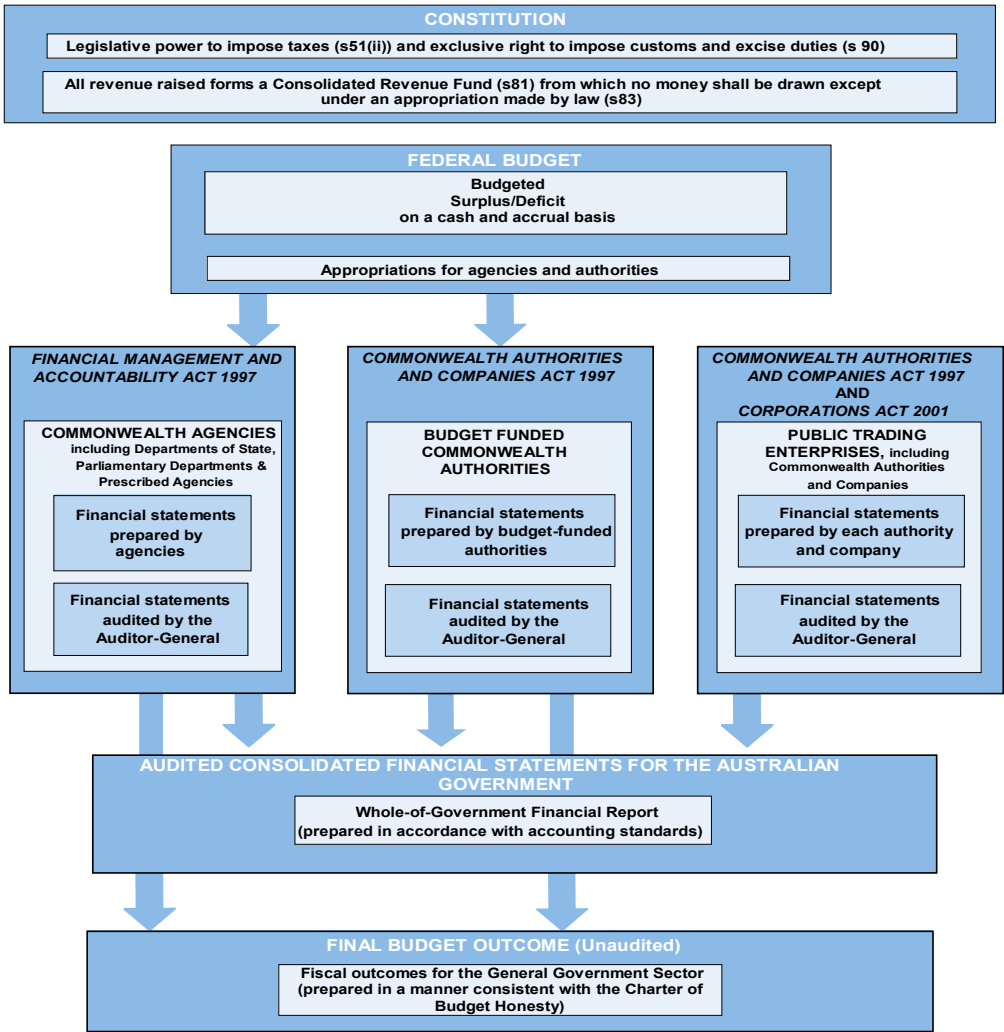
### **Entities that ceased to be audited by the Auditor-General**

Australian Learning and Teaching Council Ltd  
Australian Quarantine and Inspection Service  
Australian Reward Investment Alliance  
Cape Don Pty Ltd  
Centrelink  
Criminology Research Council  
CVC Reef Pty Ltd  
Interim Independent Hospital Pricing Authority  
Medicare Australia  
Military Superannuation Benefits Board of Trustees No. 1  
National Breast and Ovarian Cancer Centre  
National Residue Survey  
Office of National Assessments  
Office of the Privacy Commissioner  
Office of the Renewable Energy Regulator  
Pan TV Ltd

# 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.

## Key Elements of the Financial Reporting Framework



Source: ANAO

## 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 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 (ASAs), 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 ASAs 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 the 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 where appropriate may include an 'emphasis of matter' or 'other matters' paragraphs. A report on other legal and regulatory requirements, when the auditor is required or considers it necessary, to 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>93</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.

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<sup>93</sup> Under the Clarity ASAs, 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 included in this 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.

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 of the FMA Act<sup>94</sup>, the Auditor-General must state in the auditor's report, the particulars of the contravention.

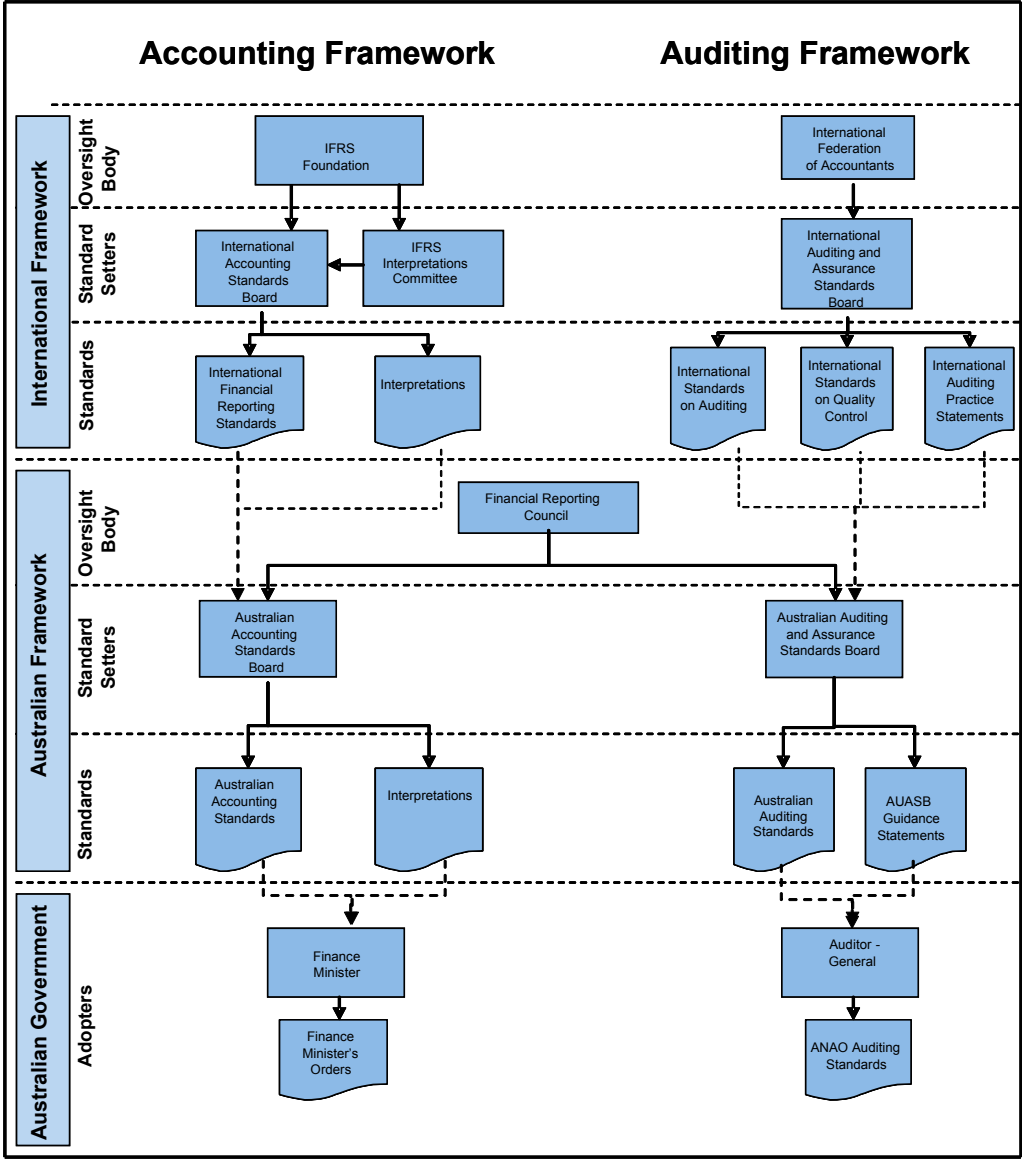
A report on other legal and regulatory requirements may also be used to draw attention to other legislative issues such as issues relating to agencies' compliance with section 83 of the Constitution.

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<sup>94</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 2011–12 interim phase, for agencies covered by the interim audit report, ANAO Audit Report No. 51 2011–12.

Entity	2011–12 Rating			2010–11 Rating		
	A	B	L1	A	B	L1
Department of Agriculture, Fisheries and Forestry	0	0	0	0	0	0
Attorney–General’s Department	0	0	0	0	1	0
Australian Customs and Border Protection Service	1	3	0	0	2	0
Department of Broadband, Communications and the Digital Economy	0	0	0	0	0	0
Department of Climate Change and Energy Efficiency	0	0	0	0	0	0
Department of Defence	0	13	0	3	14	0
Defence Materiel Organisation	0	1	0	0	3	0
Department of Veterans’ Affairs	0	6	0	0	2	0
Department of Education, Employment and Workplace Relations	0	1	0	0	0	0
Department of Families, Housing, Community Services and Indigenous Affairs	0	0	0	0	0	0
Department of Finance and Deregulation	0	0	0	0	0	0
Future Fund Management Agency	0	0	0	0	0	0
Department of Foreign Affairs and Trade	0	0	0	0	1	0
Department of Health and Ageing	0	0	0	0	0	0
Department of Human Services	0	2	0	0	1*	0
Department of Immigration and Citizenship	0	1	0	0	0	0
Department of Industry, Innovation, Science, Research and Tertiary Education**	0	0	0	0	0	0
Department of Infrastructure and Transport	0	1	0	0	0	0
Department of the Prime Minister and Cabinet	0	0	0	0	0	0
Department of Regional Australia, Local Government, Arts and Sport	0	0	0	0	0	0
Department of Resources, Energy and Tourism	0	0	0	0	0	0
Department of Sustainability, Environment, Water, Population and Communities	0	0	0	0	0	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	0	1	0	6	1
<b>Total</b>	<b>3</b>	<b>31</b>	<b>1</b>	<b>3</b>	<b>31</b>	<b>1</b>

\* Formerly a Centrelink finding.

\*\* Formerly the Department of Industry, Innovation, Science and Research.

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 2011–12 audits.

Entity	2011–12 Rating			2010–11 Rating		
	A	B	L1*	A	B	L1
Department of Agriculture, Fisheries and Forestry	0	0	1	0	0	0
Grains Research and Development Corporation	0	0	0	0	0	0
Attorney-General's Department	0	0	1	0	0	0
Australian Customs and Border Protection Service	0	3	1	0	1	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	0	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	1	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	1	0	0	4	0
NBN Co Limited	0	2	0	0	2	0
Special Broadcasting Service Corporation	0	0	0	0	0	0
Department of Climate Change and Energy Efficiency	0	2	0	0	0	0
Department of Defence	0	10	1	2	12	0
Australian War Memorial	0	0	0	0	0	0
Defence Housing Australia	0	0	0	0	0	0
Defence Materiel Organisation	0	2	0	0	1	0
Department of Veterans' Affairs	0	5	2	0	2	1
Department of Education, Employment and Workplace Relations	0	0	1	1	0	0
Coal Mining Industry (Long Service Leave Funding) Corporation	0	0	0	0	0	0
Comcare	0	0	0	0	0	0
Department of Families, Housing, Community Services and Indigenous Affairs	0	0	1	0	0	0
Indigenous Business Australia	0	0	0	0	0	0
Voyages Indigenous Tourism Australia Pty Ltd	0	0	0	0	0	0
Department of Finance and Deregulation	0	0	1	0	0	0
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	1	0
Future Fund Management Agency	0	0	0	0	0	0
Medibank Private Limited	0	0	0	0	0	0

Entity	2011–12 Rating			2010–11 Rating		
	A	B	L1*	A	B	L1
Department of Foreign Affairs and Trade	0	0	0	0	0	0
Australian Agency for International Development (AusAID)	0	0	1	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	0	1	0	1	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	2	1	0	0	0
Australian Hearing	0	0	0	0	0	0
Department of Immigration and Citizenship	0	0	0	0	0	0
Department of Industry, Innovation, Science, Research and Tertiary Education	0	0	1	0	0	0
Australian Nuclear Science and Technology Organisation	0	0	0	0	1	0
Australian Research Council	0	0	0	0	0	0
Commonwealth Scientific and Industrial Research Organisation	0	0	0	0	0	0
Department of Infrastructure and Transport	0	0	1	0	0	0
Airservices Australia	0	0	0	0	0	0
Australian Rail Track Corporation Limited	0	1	0	0	0	0
Civil Aviation Safety Authority	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, Local Government, Arts and Sport	0	0	0	0	0	0
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	0	0
National Gallery of Australia	0	1	0	0	0	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	1	0	0	0
Tourism Australia	0	0	0	0	1	0
Department of Sustainability, Environment, Water, Population and Communities	0	0	0	0	0	0
Bureau of Meteorology	0	0	0	0	0	0
Department of the Treasury	0	0	1	0	3	1
Australian Bureau of Statistics	0	0	0	0	0	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

Entity	2011–12 Rating			2010–11 Rating		
	A	B	L1*	A	B	L1
Australian Taxation Office	0	0	1	0	3	1
Reserve Bank of Australia	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>31</b>	<b>17</b>	<b>3</b>	<b>33</b>	<b>3</b>

\* In 2011–12 there are 16 L1 findings relating to actual and potential breaches of section 83 of the Constitution.

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