

Part 4 – Financial statements

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INDEPENDENT AUDITOR'S REPORT

For the Australian National Audit Office

Report on the financial statements

I have audited the accompanying financial statements of the Australian National Audit Office, which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity, cash flow statement, administered schedule of comprehensive income, administered reconciliation schedule, administered cash flow statement for the year ended on that date, explanatory notes and the statement by the Auditor-General and Chief Finance Officer.

Auditor-General's responsibility for the financial statements

The Auditor-General is responsible for the preparation of financial statements that give a true and fair view in accordance with the *Public Governance, Performance and Accountability Act 2013*, Australian Accounting Standards and for such internal control as is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Auditor-General, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting my audit, I have complied with the independence requirements of the Accounting Professional and Ethical Standards Board (*APES 110 – Code of Ethics for Professional Accountants*).

Auditor's opinion

In my opinion, the financial statements of the Australian National Audit Office:

- (a) give a true and fair view of the Australian National Audit Office's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (b) comply with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* and Australian Accounting Standards including the Australian Accounting Interpretations.



Peter van Dongen
Independent Auditor

Appointed under Clause 1 of Schedule 2 of the *Auditor-General Act 1997*

Sydney
9 August 2016

Australian National Audit Office


STATEMENT BY THE AUDITOR-GENERAL AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2016 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian National Audit Office will be able to pay its debts as and when they fall due.


Signed..... 

Grant Hehir
Auditor-General

 August 2016

Signed..... 

Sue Knox
Chief Finance Officer

 August 2016

Australian National Audit Office
Statement of Comprehensive Income
for the period ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000	2016 Original Budget \$'000
NET COST OF SERVICES				
EXPENSES				
Employee benefits	2.1	42,776	42,372	45,242
Suppliers	4.1A	32,489	32,393	30,988
Depreciation and amortisation	5.2A	1,802	1,853	1,905
Write-down and impairment of assets		5	28	-
Total expenses		77,072	76,646	78,135
OWN-SOURCE INCOME				
Audit services		2,036	2,085	1,500
International development funding		1,493	1,625	1,800
Rendering of other services		207	286	-
Sub lease of office accommodation		172	172	200
Total own-source income	4.2A	3,908	4,168	3,500
Net cost of services		73,164	72,478	74,635
REVENUE FROM GOVERNMENT				
Departmental annual appropriations		72,086	72,786	72,086
Departmental special appropriations		677	617	644
Total revenue from Government	4.3A	72,763	73,403	72,730
Surplus / (deficit)		(401)	925	(1,905)
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Changes in asset revaluation surplus		-	(62)	-
Total other comprehensive income		-	(62)	-
Total comprehensive income (loss)		(401)	863	(1,905)

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

Please refer to Note 1 for explanations of major variances between budgeted and actual amounts.

Australian National Audit Office
Statement of Financial Position
as at 30 June 2016

	Notes	2016 \$'000	2015 \$'000	2016 Original Budget \$'000
ASSETS				
Financial assets				
Cash and cash equivalents	5.1A	681	664	660
Trade and other receivables	5.1B	38,731	38,684	35,905
Work in progress - audit related services	5.1C	102	229	238
Total financial assets		39,514	39,577	36,803
Non-financial assets				
Leasehold improvements	5.2A	1,893	2,715	1,861
Plant and equipment	5.2A	1,524	1,494	1,590
Intangibles	5.2A	1,255	878	1,150
Prepayments		1,062	902	970
Total non-financial assets		5,734	5,989	5,571
Total assets		45,248	45,566	42,374
LIABILITIES				
Payables				
Suppliers	5.3A	3,643	3,851	4,191
Operating lease incentives	5.3B	441	639	439
Accrued salaries and other payables		373	1,633	-
Total payables		4,457	6,123	4,630
Provisions				
Employee provisions	2.2	13,739	12,991	14,964
Total provisions		13,739	12,991	14,964
Total liabilities		18,196	19,114	19,594
Net assets		27,052	26,452	22,780
EQUITY				
Contributed equity		11,586	10,585	11,586
Reserves		564	564	626
Retained surplus		14,902	15,303	10,568
Total equity		27,052	26,452	22,780

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

Please refer to Note 1 for explanations of major variances between budgeted and actual amounts.

Australian National Audit Office
Statement of Changes in Equity
for the year ended 30 June 2016

	Note	Retained surplus		Asset revaluation surplus		Contributed equity/capital			Total equity		
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance		15,303	14,378	564	626	10,585	9,572	10,585	26,452	24,576	
Comprehensive income											
Surplus / (deficit) for the period		(401)	925	-	-	-	-	-	(401)	925	
Other comprehensive income / (loss)		-	-	(62)	-	-	-	-	-	(62)	
Total comprehensive income		(401)	925	-	(62)	-	-	-	(401)	863	
Transactions with owners											
Contributions by owners											
Departmental capital budget	4.3A	-	-	-	-	-	-	1,001	1,001	1,013	
Total transactions with owners		-	-	-	-	-	-	1,001	1,001	1,013	
Closing balance as at 30 June		14,902	15,303	564	626	11,586	10,585	11,586	27,052	26,452	

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

Please refer to Note 1 for explanations of major variances between budgeted and actual amounts.

Australian National Audit Office
Cash Flow Statement
for the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000	2016 Original Budget \$ ' 000
OPERATING ACTIVITIES				
Cash received				
Appropriations for operating activities		78,203	76,094	72,928
Rendering of services		5,058	3,506	1,700
Net GST received		3,414	3,007	1,800
Total cash received		86,675	82,607	76,428
Cash used				
Employees		43,292	42,742	45,242
Suppliers		36,943	35,986	31,186
Receipts transferred to OPA		6,137	3,875	-
Total cash used		86,372	82,603	76,428
Net cash from operating activities	3.3	303	4	-
INVESTING ACTIVITIES				
Cash used				
Purchase of leasehold improvements		14	32	1,001
Purchase of plant and equipment		495	739	-
Purchase of intangibles		736	177	-
Total cash used		1,245	948	1,001
Net cash used by investing activities		(1,245)	(948)	(1,001)
FINANCING ACTIVITIES				
Cash received				
Contributed equity		959	948	1,001
Total cash received		959	948	1,001
Net cash from financing activities		959	948	1,001
Net increase in cash held		17	4	
Cash and cash equivalents at the beginning of the reporting period		664	660	660
Cash and cash equivalents at the end of the reporting period¹		681	664	660

¹ As shown in the Statement of Financial Position.

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

Please refer to Note 1 for explanations of major variances between budgeted and actual amounts.

Australian National Audit Office
Administered Schedule of Comprehensive Income
for the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000	2016 Original Budget \$'000
INCOME				
Non-taxation revenue				
Rendering of audit services		11,692	11,953	13,000
Total income administered on behalf of Government¹		11,692	11,953	13,000

¹ Total comprehensive income is equal to total income as there have been no administered expenses or movements in other comprehensive income.

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

Please refer to Note 1 for explanations of major variances between budgeted and actual amounts.

Administered Schedule of Assets and Liabilities
as at 30 June 2016

	Notes	2016 \$'000	2015 \$'000	2016 Original Budget \$'000
ASSETS				
Financial assets				
Cash and cash equivalents		371	103	-
Trade receivables	6.1A	4,783	4,297	3,899
Work in progress - audit related services	5.1C	1,240	2,009	2,010
Total financial assets		6,394	6,409	5,909
Total assets administered on behalf of Government		6,394	6,409	5,909
LIABILITIES				
Payables				
GST payable		435	391	355
Total payables		435	391	355
Total liabilities administered on behalf of Government		435	391	355
Net assets		5,959	6,018	5,554

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

Please refer to Note 1 for explanations of major variances between budgeted and actual amounts.

**Australian National Audit Office
Administered Reconciliation Schedule
as at 30 June 2016**

	2016 \$'000	2015 \$'000
Opening assets less liabilities as at 1 July	6,018	5,893
Net contribution by services:		
Income	11,692	11,953
Transfers to the Australian Government:		
Transfers to the Official Public Account	(11,751)	(11,828)
Closing assets less liabilities as at 30 June	5,959	6,018

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

**Administered Cash Flow Statement
for the year ended 30 June 2016**

	Notes	2016 \$'000	2015 \$'000
OPERATING ACTIVITIES			
Cash received			
Rendering of audit services		13,217	12,748
Total cash received		13,217	12,748
Cash used			
Net GST paid		1,198	1,156
Total cash used		1,198	1,156
Net cash flows from operating activities	3.4	12,019	11,592
Net increase in cash held		12,019	11,592
Cash and cash equivalents at the beginning of the reporting period		103	339
Cash to Official Public Account for:			
- Appropriations		11,751	11,828
Cash and cash equivalents at the end of the reporting period¹		371	103

¹ As shown in the Administered Schedule of Assets and Liabilities.

This schedule should be read in conjunction with the accompanying notes.

Australian National Audit Office

Overview

Objectives of the ANAO

The Australian National Audit Office (ANAO) is an Australian Government not-for-profit entity. The objective of the entity is to assist the Auditor-General to carry out his duties and responsibilities under the *Auditor-General Act 1997* and other relevant legislation.

For the financial year ended 30 June 2016, the ANAO was structured to meet the following outcome:

- Outcome 1: To improve public sector performance and accountability through independent reporting on Australian Government administration to Parliament, the Executive and the public.

The net cost of delivering this outcome was \$61.472m (2015: \$60.525m)¹.

Through the conduct of financial statement audits and other services associated with the conduct of financial statement audits, the ANAO contributes to providing assurance to the Parliament, the Executive and the public.

Through the conduct of performance audits, the dissemination of better practice guides and the provision of direct and indirect assistance to the Parliament, the ANAO contributes to improving the efficiency and administrative effectiveness of the Australian Government public sector.

The continued existence of the ANAO in its present form and with its present programs is dependent on continuing funding by Parliament.

Basis of Preparation of the Financial Statements

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

The financial statements have been prepared in accordance with:

- a) the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* for reporting periods ending on or after 1 July 2015; and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Significant Accounting Judgements and Estimates

The ANAO has made assumptions or estimates in the following areas that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of property, plant and equipment is assessed at market value or depreciated replacement costs as determined by an independent valuer and is subject to management assessment in between formal valuations; and
- Leave provisions involve assumptions based on the expected tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates.

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

Taxation

The ANAO is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Revenues, expenses and assets are recognised net of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office, and for receivables and payables.

¹ The net cost to deliver the outcome is calculated as the difference between the net cost of services (\$73.164m) and administered comprehensive income of \$11.692m.

**Australian National Audit Office
Overview (continued)**

Reporting of Administered Activities

The ANAO charges an audit fee for the financial statement audits of corporate Commonwealth entities, companies and their subsidiaries subject to the *Public Governance, Performance and Accountability Act 2013*. These fees are based on a scale determined by the Auditor-General under section 14 of the *Auditor-General Act 1997*, calculated on the basis of a cost attribution model. Revenues from these audit fees are paid into the Official Public Account and are not available to the ANAO. The revenue and receipts associated with conducting these audits are treated as administered activities within the financial statements.

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes. Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

New Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

The ANAO has elected to apply *AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities* for this financial year, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 July 2016. AASB 2015-7 provides relief from disclosing quantitative information about significant unobservable inputs used in fair value, where property, plant and equipment is held for its current service potential rather than to generate future net cash inflows.

Future Australian Accounting Standard Requirements

As a not-for-profit public sector entity, the ANAO is currently exempt from the requirements of *AASB 124 Related Party Disclosures*. For reporting periods commencing on or after 1 July 2016, AASB 124 will be extended to apply to all not-for-profit public sector entities and the ANAO will be required to disclose related party transactions in accordance with the revised standard. Disclosure of comparative information is not required in the first year of application.

The final version of *AASB 15 Revenue from Contracts with Customers* was issued in December 2015, to apply in reporting periods beginning on or after 1 January 2018. The ANAO intends to apply AASB 15 from 1 July 2018. Application of AASB 15 will result in alignment of revenue recognition with the satisfaction of performance obligations in contracts with customers. The ANAO is assessing the potential impact of this standard on its financial statements.

The Australian Accounting Standards Board issued the final version of *AASB 16 Leases* in February 2016, to apply in reporting periods beginning on or after 1 January 2019. The ANAO intends to apply AASB 16 from 1 July 2019 onwards. AASB 16 introduces new criteria for assessing contracts to identify leases. From 1 July 2019 certain leases previously reported as expenses and commitments will be recorded on the Statement of Financial Position as right-of-use assets recorded at cost, and adjusted for depreciation and impairment or subject to revaluation, and lease liabilities adjusted for interest on the lease liability and payments made. Leases with terms of 12 months or less and for low-value items will be recorded as expenses. The ANAO is assessing the potential impact of this standard on its financial statements.

Events After the Reporting Period

Departmental

No events have occurred after balance date that should be brought to account or noted in the 2015-16 financial statements.

Administered

No events have occurred after balance date that should be brought to account or noted in the 2015-16 financial statements.

Australian National Audit Office
Notes to and forming part of the financial statements

Note 1: Budget Variances

The following tables provide high level commentary of major variances between budgeted information for the ANAO published in the Prime Minister and Cabinet's 2015-16 Portfolio Budget Statements (PBS) and the 2015-16 final outcome as presented in accordance with Australian Accounting Standards for the ANAO. The Budget is not audited. Major variances are those deemed relevant to an analysis of ANAO's performance and are not focussed merely on numerical differences between the budget and actual amounts.

Explanations of major variances are as follows:

Affected line items	Variance to Budget \$'000	Explanation of major variances
<i>Statement of Comprehensive Income</i>		
Employee Benefits Expense	(2,466)	Audit staffing vacancies throughout the year were higher than budgeted. Contractor arrangements were used to supplement the ANAO workforce and ensure key deliverables were met.
Suppliers Expense	1,501	Increased costs resulting from the use of additional contractor arrangements to supplement the ANAO workforce during the year were offset by efficiency measures across other supplier categories and savings realised through adjustments in Government structures.
Audit services	536	Audit services income relates to fees charged for audits by arrangement. Income from this source is subject to volatility based on volume and scope of requests each year.
<i>Statement of Financial Position</i>		
Trade and other receivables; Retained surplus	2,826	The appropriation receivable was higher than budgeted primarily due to the final operating result in 2015-16 being \$1.5 million better than budgeted. Trade receivables were lower due to timing of receipts from other Commonwealth entities.
Employee Provisions	(1,225)	Audit staffing vacancies at 30 June 2016 were higher than budgeted, and as a result the employee provision balance was lower than expected.
<i>Administered Items</i>		
Rendering of audit services	(1,308)	Audit fees are based on a scale determined by the Auditor-General under section 14 of the <i>Auditor-General Act 1997</i> , calculated on the basis of a cost attribution model. The fees charged were lower than budget due to reduced actual costs being incurred for a number of these audits.

Australian National Audit Office
Notes to and forming part of the financial statements

People and Relationships	<i>This section describes a range of employment and post employment benefits provided to our people and our relationships with other key people.</i>
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Note 2.1: Employee Expenses

	2016 \$'000	2015 \$'000
Wages and salaries	31,860	32,344
Superannuation:		
Defined contribution plans	2,919	2,542
Defined benefit plans	3,027	3,119
Leave and other entitlements	4,903	4,089
Other employee expenses	67	278
Total employee benefits	42,776	42,372

Note 2.2: Employee Provisions

	2016 \$'000	2015 \$'000
Total employee leave provisions are expected to be settled in:		
No more than 12 months	4,522	4,459
More than 12 months	9,217	8,532
Total employee provisions	13,739	12,991

Accounting Policy

Employee Benefits:

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits expected within twelve months of end of reporting period are measured at their nominal amounts.

Leave:

The liability for employee benefits includes provision for annual leave and long service leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will apply at the time the leave is taken, plus the ANAO's employer superannuation contribution rates and applicable on-costs, to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR) 24.1(a)* using the shorthand method. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation:

The ANAO's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), PSS accumulation plan (PSSap) or other elected defined contribution schemes. The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance administered schedules and notes.

The ANAO makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government, and accounts for the contributions as if they were contributions to defined contribution plans. The liability for superannuation recognised as at 30 June represents outstanding contributions.

Australian National Audit Office
Notes to and forming part of the financial statements

Note 2.3: Senior Management Personnel Remuneration

	2016 \$	2015 \$
Short-term employee benefits:		
Salary	6,190,066	5,824,566
Performance bonuses	102,950	298,500
Motor vehicle and other allowances	57,885	88,854
Total short-term employee benefits	<u>6,350,901</u>	<u>6,211,920</u>
Post-employment benefits:		
Superannuation	1,190,576	950,963
Total post-employment benefits	<u>1,190,576</u>	<u>950,963</u>
Other long-term benefits:		
Annual leave	553,980	524,972
Long-service leave	177,129	151,062
Total other long-term benefits	<u>731,109</u>	<u>676,034</u>
Total senior executive remuneration expenses	<u>8,272,586</u>	<u>7,838,917</u>

Notes:

1. The ANAO operated within a substantive senior management personnel cap of 28 during the reporting period.
2. The total number of senior management personnel that are included in the above table are 36 (2015: 31). The number includes senior executives who commenced, departed, or were on long term leave during the reporting period. Staff who have acted in a senior management role for a period of more than three months have also been included in the note.
3. An adjustment has been made to the 2015 comparative numbers, with a reduction in the reported salary expense of \$112,233 for leave taken throughout the year. In addition, a reclassification between reported salary expense and annual leave accrued of \$74,801 was made.

Australian National Audit Office
Notes to and forming part of the financial statements

Funding

This section identifies the ANAO's funding structure.

Note 3.1: Appropriations

Note 3.1A: Annual Appropriations (Recoverable GST exclusive)

	2016	2015
	\$ ' 000	\$ ' 000
Ordinary annual services	72,086	72,786
Capital Budget ¹	1,001	1,013
Receipts retained under <i>PGPA Act - Section 74</i>	5,545	3,694
Total Appropriation	78,632	77,493
Appropriations applied (current and prior years)	77,876	76,240
Variance	756	1,253

¹ Departmental Capital Budgets are appropriated through *Appropriation Acts (No.1,3)*. They form part of ordinary annual services and are not separately identified in the Appropriation Acts.

Note 3.1B: Unspent Annual Appropriations (Recoverable GST exclusive)

	2016	2015
	\$ ' 000	\$ ' 000
Departmental		
<i>Appropriation Act (No. 1) 2014-15</i>	-	37,188
<i>Appropriation Act (No. 1) 2015-16</i>	37,945	-
Total	37,945	37,188

Note 3.1C: Special Appropriations (Recoverable GST exclusive)

	Appropriation applied	
Authority	2016	2015
	\$ ' 000	\$ ' 000
<i>Auditor-General Act 1997, Schedule 1 sections 3 and 7</i>	677	617
Unlimited amount for remuneration of the Auditor-General	677	617
Total	677	617

Australian National Audit Office
Notes to and forming part of the financial statements

Note 3.2: Special Accounts

Appropriation: *Public Governance, Performance and Accountability Act 2013*; section 78
 Establishing Instrument: *Financial Management and Accountability Determination 2012/06* on 30 May 2012

The purpose of the Services for Other Entities and Trust Moneys Special Account is to:

- a) disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth;
- b) disburse amounts in connection with services performed on behalf of other governments and bodies that are not non-corporate Commonwealth entities; and
- c) to repay amounts where an act or law requires or permits the repayment of an amount received.

For the year ended 30 June 2016 the account had a nil balance and there were no transactions debited or credited to it during the current or prior reporting periods.

Note 3.3: Cash Flow Reconciliation

	2016 \$'000	2015 \$'000
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(73,164)	(72,478)
Add revenue from Government	<u>72,763</u>	<u>73,403</u>
	(401)	925
Adjustments for non-cash items		
Depreciation / amortisation	1,802	1,853
Impairments recognised in the operating result	5	28
Movements in assets and liabilities		
Assets		
(Increase) in trade and other receivables	(5)	(2,059)
Decrease / (increase) in prepayments	(160)	68
Decrease in work in progress - audit related services	127	10
Liabilities		
(Decrease) in supplier payables	(355)	(223)
(Decrease) / Increase in accrued salaries and other payables	(1,260)	315
(Decrease) in operating lease incentives	(198)	(198)
(Decrease) / increase in employee provisions	<u>748</u>	<u>(715)</u>
Net cash from operating activities	<u>303</u>	<u>4</u>

Note 3.4: Administered - Cash Flow Reconciliation

	2016 \$'000	2015 \$'000
Reconciliation of net cost of services to net cash from operating activities:		
Net contribution by services	11,692	11,953
Movement in assets and liabilities		
Assets		
(Increase) in trade receivables	(486)	(398)
Decrease in work in progress - audit related services	769	1
Liabilities		
Increase in GST payable	<u>44</u>	<u>36</u>
Net cash from operating activities	<u>12,019</u>	<u>11,592</u>

Australian National Audit Office
Notes to and forming part of the financial statements

Financial Performance

This section analyses the financial performance of the ANAO for the year ended 2016.

4.1 Expenses

	2016	2015
	\$'000	\$'000
Note 4.1A: Suppliers		
Goods and services		
Contractors and consultants	19,796	19,446
Information and communication technology	3,876	3,965
Travel	1,257	1,167
Professional development	963	1,418
Recruitment	528	252
Property operating expenses	415	356
Staff related expenses	366	184
Printing	91	402
Other	1,365	1,358
Total goods and services	28,657	28,548
Other suppliers		
Operating lease rentals:		
Minimum lease payments	3,081	3,071
Contingent rentals	460	368
Workers compensation expenses	291	406
Total other suppliers	3,832	3,845
Total Suppliers	32,489	32,393

Accounting policy

Operating lease payments are expensed on a straight-line basis, which is representative of the pattern of benefits derived from the leased assets.

Leasing Commitments

The ANAO in its capacity as lessee has entered the following non-cancellable leases:

- *Lease for office accommodation*

The ANAO has one current accommodation lease in the ACT. The lease commenced on 23 September 2008 for a period of 10 years and is for the ANAO's present accommodation in the ACT. There is an option to extend for a further 10 years and any increases in rent will be at a rate commensurate with CPI. As part of the lease agreement, the ANAO received a contribution of \$1 million from the landlord towards refurbishment of the premises and release from any future make good obligations. These incentives are being recognised progressively over the lease as a reduction in rent expense.

- *Lease for data centre facilities*

The ANAO leases a secure offsite facility for data storage and business continuity purposes. The lease commenced on 1 November 2012 for a period of 10 years with fixed rent increases of 4% until 2016 and rental increases over the remaining lease at a rate commensurate with CPI.

Australian National Audit Office
Notes to and forming part of the financial statements

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable:

	2016 \$'000	2015 \$'000
Within 1 year	4,199	4,141
Between 1 to 5 years	5,213	9,448
More than 5 years	98	170
Total operating lease commitments	9,510	13,759

4.2 Own-source Revenue

Note 4.2A Accounting policy

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

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

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

4.3 Revenue from Government

Note 4.3A: Accounting policy

Amounts appropriated for departmental operating activities for the year (adjusted for any formal additions or reductions and less Departmental Capital Budgets) are recognised as Revenue from Government when the ANAO gains control of the appropriation. Appropriations receivable are recognised at their nominal amounts. Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Australian National Audit Office
Notes to and forming part of the financial statements

Financial Position	<i>This section analyses the ANAO's assets used to conduct its operations and the operating liabilities incurred as a result. Employee related information is disclosed in the People and Relationships section.</i>
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Note 5.1: Financial Assets

Note 5.1A Cash and cash equivalents - accounting policy

Cash is recognised at its nominal amount. Cash and cash equivalents include cash on hand and deposits on hand in bank accounts.

Note 5.1B: Trade and Other Receivables

	2016 \$'000	2015 \$'000
Goods and services		
Appropriation receivable	37,264	36,524
Trade receivables	1,208	1,613
GST receivable from the Australian Taxation Office	259	547
Total trade and other receivables	38,731	38,684
Trade and other receivables aged as follows:		
Not overdue	38,702	38,150
Overdue by:		
0 to 30 days	-	10
31 to 60 days	-	524
More than 90 days	29	-
Total trade and other receivables	38,731	38,684

All receivables have credit terms of no greater than 30 days (2015: 30 days).

Accounting policy

Trade receivables are classified as 'loans and receivables' and recorded at face value less any impairment. Trade receivables are recognised where the ANAO becomes party to a contract and has a legal right to receive cash. Loans and receivables are assessed for impairment at the end of each reporting period. Allowances are made when collectability of the debt is no longer probable. Trade receivables are derecognised on payment.

The fair values of the ANAO's financial assets and liabilities approximate their carrying amounts. The ANAO derived no interest income from financial assets in either the current or prior year.

The ANAO is exposed to minimal credit risk with the maximum exposure arising from potential default of a debtor. This amount is equal to the total amount of receivables for services of \$1,208,000 (2015: \$1,613,058).

The ANAO has policies and procedures that guide employees' debt recovery. The ANAO does not require collateral in respect of trade and other receivables. No impairment has been recognised (2015: nil).

The ANAO has sufficient available financial assets to meet all financial liabilities at 30 June 2016.

5.1C Work-in-progress – accounting policy

Work in progress includes the total costs incurred on audit work yet to be completed less interim billings. It is valued at the amount expected to be recovered.

Australian National Audit Office
Notes to and forming part of the financial statements

Note 5.2: Non-Financial Assets

Note 5.2A: Property, Plant and Equipment and Intangibles

Reconciliation of opening and closing balances of property, plant and equipment and intangibles for 2016

	Leasehold Improvements	Plant & equipment	Intangibles - Computer Software	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2015				
Gross book value	2,715	1,494	4,925	9,134
Accumulated depreciation and impairment	-	-	(4,047)	(4,047)
Total as at 1 July 2015	2,715	1,494	878	5,087
Additions - by purchase	14	546	832	1,392
Depreciation and amortisation expense	(836)	(511)	(455)	(1,802)
Disposals	-	(5)	-	(5)
Total as at 30 June 2016	1,893	1,524	1,255	4,672
Total as at 30 June 2016 represented by:				
Gross book value	2,729	2,025	5,570	10,324
Accumulated depreciation, amortisation and impairment	(836)	(501)	(4,315)	(5,652)
Total	1,893	1,524	1,255	4,672

Reconciliation of opening and closing balances of property, plant and equipment and intangibles for 2015

	Leasehold Improvements	Plant & equipment	Intangibles - Computer Software	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2014				
Gross book value	5,417	2,088	4,751	12,256
Accumulated depreciation, amortisation and impairment	(1,776)	(817)	(3,525)	(6,118)
Total as at 1 July 2014	3,641	1,271	1,226	6,138
Additions - by purchase	12	706	174	892
Revaluations and impairments recognised in other comprehensive income	(50)	(12)	-	(62)
Impairments recognised in operating result	-	(28)	-	(28)
Depreciation and amortisation expense	(888)	(443)	(522)	(1,853)
Total as at 30 June 2015	2,715	1,494	878	5,087
Total as at 30 June 2015 represented by:				
Gross book value	2,715	1,494	4,925	9,134
Accumulated depreciation, amortisation and impairment	-	-	(4,047)	(4,047)
Total	2,715	1,494	878	5,087

All assets were assessed for indications of impairment at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount was estimated and an impairment loss recognised if the asset's recoverable amount was less than its carrying amount.

Australian National Audit Office
Notes to and forming part of the financial statements

Accounting Policy - Property, plant and equipment

Acquisition of Assets:

Purchases of non-financial assets are initially recognised at cost in the Statement of Financial Position, except for purchases costing less than \$4,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total). The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Revaluations:

Following initial recognition at cost, leasehold improvements and plant and equipment are carried at fair value. Carrying amounts are reviewed every year to determine if an independent valuation is required. The regularity of independent valuations depend upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments were made on a class basis. Any revaluation increment was credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets were recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class. Upon revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the asset.

Depreciation:

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the ANAO, using in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated over the lesser of the estimated useful life of the improvement or the lease term. Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date. Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2016	2015
<i>Leasehold improvements</i>	<i>Lease term</i>	<i>Lease term</i>
<i>IT Assets</i>	2 to 11 <i>years</i>	2 to 11 <i>years</i>
<i>Office equipment</i>	5 to 30 <i>years</i>	5 to 30 <i>years</i>
<i>Antique furniture</i>	30 to 80 <i>years</i>	30 to 80 <i>years</i>

Accounting policy - intangibles

The ANAO's intangibles comprise off-the-shelf software and associated enhancement costs. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the ANAO's software are 3 to 5 years (2015: 3 to 5 years).

Australian National Audit Office
Notes to and forming part of the financial statements

Note 5.2B: Fair Value Measurements

Valuation Technique and input for level 3 fair value measurements¹

	Fair value		Valuation Techniques	Significant inputs ²
	2016	2015		
	\$'000	\$'000		
Non-financial assets				
Plant and equipment	1,524	1,494	cost / market	<ul style="list-style-type: none"> Useful life Adjusted prices of second hand equipment Market transactions for second hand equipment
Leasehold improvements	1,893	2,715	Cost	<ul style="list-style-type: none"> Lease term
Total non-financial assets	3,417	4,209		

¹Level 3 measurements use inputs to estimate fair value where there are no observable market prices for the assets being valued.

²The future economic benefits of the ANAO's plant and equipment and leasehold improvements are not primarily dependent on their ability to generate cash flows. The ANAO has not disclosed quantitative information about the significant unobservable inputs for the level 3 measurements in these classes.

All property, plant and equipment is measured at fair value in the Statement of Financial Position. When estimating fair value, market prices (with adjustment) were used where available. Where market prices were not available, depreciated replacement cost was used.

Note 5.3: Liabilities

Note 5.3A: Suppliers - Accounting policy

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Supplier and other payables are derecognised on payment. Supplier payables are settled within 30 days.

Note 5.3B: Operating lease incentives

	2016	2015
	\$ ' 000	\$ ' 000
Total operating lease incentives are expected to be settled in:		
No more than 12 months	196	196
More than 12 months	245	443
Total operating lease incentives	441	639

Australian National Audit Office
Notes to and forming part of the financial statements

**Assets and Liabilities
Administered on Behalf of the
Government**

This section analyses the assets used to conduct operations and the operating liabilities the ANAO does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting

Note 6.1: Administered Financial Assets

Note 6.1A: Administered Trade Receivables

	2016	2015
	\$'000	\$'000
Financial statement audit fees	<u>4,783</u>	<u>4,297</u>
Total trade receivables	<u>4,783</u>	<u>4,297</u>
Trade receivables were aged as follows:		
Not overdue	4,783	3,976
Overdue by:		
0 to 30 days	-	286
More than 90 days	-	35
Total trade receivables	<u>4,783</u>	<u>4,297</u>

Credit terms for goods and services are net 30 days (2015: 30 days).

Accounting policy - administered financial instruments

The net fair value of the financial assets approximates their carrying amounts. The ANAO derived no interest income from financial assets in either the current and prior year.

The administered activities of the ANAO are exposed to minimal credit risk with the maximum exposure arising from potential default of a debtor. This amount is equal to the total amount of trade and other receivables of \$4,783,109 (2015: \$4,296,787).

Australian National Audit Office
Notes to and forming part of the financial statements

Other Information

Note 7.1: Remuneration of Auditors

	2016	2015
	\$	\$
Fees for services provided		
Financial statement audit services	87,600	87,600
Performance audit services	38,998	32,540
Total	<u>126,598</u>	<u>120,140</u>

Under clause 1 of Schedule 2 to the *Auditor-General Act 1997*, Mr Peter van Dongen, a partner from the firm of PricewaterhouseCoopers, was appointed as Independent Auditor for the term 12 June 2014 to 1 January 2019. Mr van Dongen is appointed in a personal capacity and he performed no other services for the ANAO.

In 2015-16, the Independent Auditor completed a performance audit of the ANAO's communication processes.

PricewaterhouseCoopers provides other services for the ANAO, including as contract auditor for the ANAO in certain circumstances, on commercial terms and arrangements.