The Auditor-General
Audit Report No.21 2004–05
Financial Statement Audit

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004

Summary of Results

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
12 January 2005

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities in accordance with the authority contained in the 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 the report of this audit and the accompanying brochure. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004.*

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

P. J. Barrett
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. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ATSIC	Aboriginal and Torres Strait Islander Commission
Land Fund	Aboriginal and Torres Strait Islander Land Fund
ATSIS	Aboriginal and Torres Strait Islander Services
AAO	Administrative Arrangement Orders
Airservices	Airservices Australia
AAS	Australian Accounting Standard(s)
AASB	Australian Accounting Standards Board
AAT	Administrative Appeals Tribunal
AJF	Australia-Japan Foundation
AusAID	Australian Agency for International Development
ABA	Australian Broadcasting Authority
ACCC	Australian Competition and Consumer Commission
AEIFRS	Australian Equivalent International Financial Reporting Standards
AFP	Australian Federal Police
AGD	Attorney-General's Department
AGO	Australian Greenhouse Office
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APC	Australian Postal Corporation
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commision
ATO	Australian Taxation Office
AusTrade	Australian Trade Commission
ATSIS	Aboriginal and Torres Strait Islander Services
AUS	Australian Auditing Standard
BPG	Better Practice Guide
CAC Act	*Commonwealth Authorities and Companies Act 1997*

CUC	Capital Useage Charge
CEIs	Chief Executive Instructions
CEO	Chief Executive Officer
CSIRO	Commonwealth Scientific and Industrial Research Organisation
Comsuper	Commonwealth Superannuation Administration
CLERP	*Corporate Law Economic Reform Program*
CSA	Control Self Assessment
DAFF	Department of Agriculture, Fisheries and Forestry
Defence	Department of Defence
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DFAT	Department of Foreign Affairs and Trade
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DITR	Department of Industry, Tourism and Resources
DoCITA	Department of Communications, Information Technology and the Arts
DEH	Department of the Environment and Heritage
Finance	Department of Finance and Administration
DoHA	Department of Health and Ageing
DPS	Department of Parliamentary Services
DVA	Department of Veterans' Affairs
FaCS	Department of Family and Community Services
FBO	Final Budget Outcome
Finance	Department of Finance and Administration
FMA Act	*Financial Management and Accountability Act 1997*
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
GFS	Government Finance Statistics

HIC	Health Insurance Commission
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IT	Information Technology
NHT	Natural Heritage Trust of Australia Reserve
OPA	Official Public Account
Treasury	Department of the Treasury

Foreword

This report provides a summary of the final results of the audits of the financial statements of all Australian government reporting entities, including the Consolidated Financial Statements for the Australian Government.

This report is the second report on these audits for the financial year ended 30 June 2004, and complements Audit Report No.58 2003–2004. The latter provided an update of the assessment of audit findings relating to major entity control structures, including governance arrangements, information systems and control procedures, which supported the reporting of public sector financial performance and accountability, through to March 2004.

The audit report on the Consolidated Financial Statements of the Australian Government for the year ended 30 June 2004 was issued on 20 December 2004. The audit report expressed an 'except for' opinion, in accordance with the auditing standards, containing nine qualifications under two broad headings, Disagreements on Accounting Policies and Limitations on the Scope of the Audit. In addition, the audit report included one 'emphasis of matter' and one 'other statutory matters' paragraph.

The finalisation of the Consolidated Financial Statements was delayed due to the time needed to finalise the financial statements for the Department of Defence.

Audit reports on individual Australian Government entities included a total of 11 qualifications, seven references to an 'emphasis of matter', and four 'other statutory matters' references. The number of qualifications is considerably higher than in 2002–2003.

There has been a tendency in some agencies to attribute the deficiencies identified with the maintenance of adequate accounts and records in 2003–2004 to difficulties relating to the introduction of accrual accounting. It has to be said that, while there have been issues to be resolved in particular areas, such as asset valuation and employee liabilities, the fundamental issues about the adequacy of record-keeping and other system control and operational deficiencies in some entities, are basically management related.

The importance of the Government's decision to introduce accrual accounting for Australian Government entities continues to be reinforced by the need for executives and managers of entities, and indeed Government, to access quality information about the costs of Government outputs and outcomes and to have a good appreciation of the state of financial management in entities.

While material entities generally responded well to the challenge of earlier submission of audit cleared financial information to the Department of Finance and Administration, this achievement often was not matched by a corresponding improvement in the time taken to complete entity financial statements. A key to the achievement of shortened timelines for financial reporting is the robustness of monthly reporting by entities. Those entities that have not planned to use a 'hard close' process for the preparation of monthly financial information before 30 June 2005 would be well served to adopt this approach, as a minimum for reporting financial performance up to March 2005.

Given the resource cost and effort involved in meeting the 30 July deadline for submitting audit cleared financial information to the department of Finance and Administration, coupled with the move to full adoption of the International Financial Reporting Standards (IFRS), it would be of considerable assistance to entity management if the subsequent change to the 20 July deadline were delayed for one year, particularly where there have been administrative changes related to new Administrative Arrangements Orders and other Government policy initiatives.

The introduction of IFRS will impact upon all public sector entities. The extent of the impact will differ from entity to entity depending on the specifics of each entity's business. Each entity will need to review the changes arising under IFRS and assess how those changes will impact upon it. In 2004–2005, for the first time, entities will also need to quantify the financial impacts of the changes.

I would like to acknowledge the professionalism, contribution and commitment of my staff, entity Chief Finance Officers and other relevant entity staff. These individuals, working in partnership, have successfully focused on the achievement of the many and varied public sector financial management and reporting improvement initiatives.

P.J. Barrett
Auditor-General

Summary

Executive Summary

1. This report provides a summary of the final audit results of the audits of the financial statements of all Australian government reporting entities, including the Consolidated Financial Statements for the Australian Government.

2. This report is the second report on these audits for the financial year ended 30 June 2004, and complements Audit Report No.58 2003–2004[1]. The latter provided an update of the assessment of audit findings relating to major entity control structures, including governance arrangements, information systems and control procedures, which supported the reporting of public sector financial performance and accountability, through to March 2004.

3. Audit Report No.58 reported the more significant risk and control issues of major Australian Government entities identified during the interim phase of the financial statements audits that required management attention and action to strengthen and enhance the quality of each respective entity's control structures and to mitigate any potential risks.

4. The Australian National Audit Office (ANAO) has now updated its understanding of entity business and governance arrangements; re-confirmed entity audit risks; completed audit testing; and largely completed its program of final audits. The audit findings have been fully reported to the management of the entity and to the responsible Minister(s).

5. This report also outlines the results of reviews of the triple bottom line reports on the Department of Family and Community Services and the Department of the Environment and Heritage.

Results of the audits of financial statements

6. The ANAO is responsible for the audit of the financial statements of 245 Australian Government entities (refer to the following table). The total number reflects the net result of the:

- creation of a prescribed agency and a parliamentary department; and
- the wind-up of a number of Australian Government authorities, companies and three parliamentary departments.

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[1] *Control Structures as part of the Audit of Financial Statements of Major Australian Government Entities for the Year Ending 30 June 2004*, Audit Report No.58 2003–2004, Canberra 2004.

Table 1

Type and number of entities audited

Reporting entity	2003–2004	2002–2003
Australian Government's Consolidated Financial Statements	1	1
Agencies:		
—Departments of State	17	17
—Parliamentary Departments	3	5
—Prescribed Agencies	58	55
—Business Operations	8	9
Australian Government authorities and their subsidiaries	107	115
Australian Government companies and their subsidiaries	36	39
Other	15	16
Total	**245**	**257**

7. For the 2003-04 financial year, the ANAO has issued 217 unmodified audit opinions (clear opinions); 12 'qualified' audit opinions; 7 audit opinions containing an 'emphasis of matter'; and 4 unqualified opinions containing an 'other statutory matter'. At the date of this report, 5 sets of financial statements were still being audited. It should be noted that opinion on the Department of Defence and Department of Veterans' Affairs statements are included within the qualification numbers. However, these two entities' opinions also contain 'other statutory matters.' Additionally, the Aboriginal and Torres Strait Islander Commission is also included within the qualification numbers. However, this entity's audit opinion also contained an 'emphasis of matter.'

8. The material portion of the Australian Government's revenues, expenses, assets and liabilities in the 2003–2004 financial year are accounted for by a relatively small number of Australian Government entities, notably, the Departments of Defence, Family and Community Services, Health and Ageing, and the Australian Taxation Office. The focus of this report is on the final results of the financial statement audits for the 2003–2004 financial year. Financial management issues (where relevant) arising out of the audits and their relationship to internal control structures are also included in this report.

The report is organised as follows:

- Chapter One—The Australian Government Reporting Framework—provides ongoing commentary on the structure of and issues in relation to the Australian Government's financial framework. Comment is also made on the quality and timeliness of the preparation of entities' annual financial statements.

- Chapter Two—Results of the Audit of the Consolidated Financial Statements of the Australian Government—provides details of the audit of the Consolidated Financial Statements for 2003–2004.
- Chapter Three—Summary Results of the Audits of Financial Statements—describes the final results of audits of the financial statements, and provides details of qualifications and any matters emphasised in audit reports.
- Chapter Four—Results of Final Audit Testing—provides an overview of the results of the year-end substantiation of financial balances. It also provides a summary of continuing significant accounting issues.
- Chapter Five—Results of the Review of Triple Bottom Line Reporting—provides details of the results of audit procedures undertaken to provide a verification statement on the Triple Bottom Line Reports of the Department of Family and Community Services and the Department of the Environment and Heritage.
- Chapter Six—Results of the Audits of Financial Statements by Portfolio—provides the detailed results of the individual financial statement audits and any additional significant control matters identified since Audit Report No.58. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 18 December 2003 as amended by an Order in Council dated 24 June 2004, with effect from 1 July 2004, and an Order in Council dated 21 July 2004. For reporting purposes, this reflects the portfolio arrangements which existed at 30 June 2004.

Financial Statement Issues

1. Financial Reporting Framework

The Consolidated Financial Statements of the Australian Government and the Final Budget Outcome Report

Introduction

1.1 This part provides a brief outline of the annual financial statement reporting requirements for Australian Government entities including the Consolidated Financial Statements of the Australian Government. In addition, it includes discussion of proposals to change the current Australian Government Financial Reporting Framework and issues relating to performance by entities against the current framework.

1.2 Under section 57 of the FMA Act for agencies, and under clause 3, part 2 of Schedule 1 of the CAC Act for other bodies, the Auditor-General is required to report each year to the relevant Minister(s) whether the entity's financial statements give a true and fair view, of the matters required by applicable legislation, Accounting Standards and other mandatory financial reporting requirements in Australia.

1.3 In addition, at the close of each financial year, the Government prepares two key financial reports:

- the Consolidated Financial Statements of the Australian Government (CFS) which are prepared and audited pursuant to section 55 and 56 of the FMA Act to present the financial results and financial position of the Australian Government; and
- the Final Budget Outcome Report (FBO Report) is prepared pursuant to section 18 of the *Charter of Budget Honesty Act 1998* (the Charter). It presents the Australian Government budget sector and Australian Government general government sector fiscal outcomes for a financial year.

1.4 The CFS is prepared on an accrual accounting basis in accordance with applicable AAS, including AAS 31 *Financial Reporting by Governments*, and applicable legislation, and other mandatory financial reporting requirements in Australia.

1.5 Consistent with the requirements of the above Charter, the FBO Report is based on the Australian Bureau of Statistics' accrual Government Finance Statistics (GFS) framework as well as on AAS. The Charter also requires that departures from applicable external reporting standards be identified. In this regard, the major differences between the GFS and AAS treatments of transactions are reconciled and included in the Budget Papers.

1.6 While the CFS are audited, the FBO Report is not currently subject to audit. In this context, and in addressing a 2001 JCPAA Review[2], the ANAO confirmed its willingness to audit the FBO Report[3] if requested to do so, but acknowledged this was a matter for the Government and the Parliament to decide.

1.7 Such a request has not yet been made. However, if such a request were made, the issue of relevant standards to be used would be central to facilitate an audit of the FBO Report. Such an audit would require a review of the CFS to determine adherence with the relevant GFS framework.

Harmonisation of Australian GAAP and Government Finance Statistics

1.8 The 'Budget Estimates and Framework Review—Recommendations[4]' required the Department of Finance and Administration to continue to work towards harmonisation of Australian Generally Accepted Accounting Principles (GAAP) and the GFS frameworks. The Review proposed that this would be achieved via the development of an Australian accounting standard for government to harmonise the two frameworks. This was reinforced in April 2003, with the Australian Accounting Standards Board (AASB) tasked with implementing the Financial Reporting Council's (FRC) strategic direction for the convergence of Australian GAAP with GFS.

1.9 Various proposals for convergence were made by Heads of Treasuries (HOTs) to the AASB during 2003. In late 2003, the AASB issued two consultation papers for comment by the GAAP/GFS Convergence Project Advisory Panel. The current status of the project is that comments on the consultation papers were due by 31 January 2004, and are now under review by the Board. Potentially, the project will impact upon all government entities.

1.10 The ANAO supports this initiative from the viewpoint of overcoming the confusion that results from having two frameworks.

Adoption of International Financial Reporting Standards

1.11 In July 2002, the Financial Reporting Council gave the AASB a strategic direction to adopt International Financial Reporting Standards (IFRSs) in Australia for reporting periods starting on, or after, 1 January 2005. This will

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2 Australia, Parliament 2001 Joint Committee of Public Accounts and Audit: Review of Accrual Budget Documentation, Official Committee Hansard, Canberra.

3 ANAO response dated 6 September 2002 to Report 388 *Review of the Accrual Budget Documentation.*

4 Estimates Memorandum—2002/03, Department of Finance and Administration, which details the recommendations of the Budget Estimates and Framework Review approved by the Government.

result in the replacement of relevant existing standards with Australian Equivalents to IFRSs. The AASB issued all Australian Equivalent Standards on 15 July 2004 with operative dates of 1 January 2005. The standards being replaced are to be withdrawn when the new standards become operative, but continue to apply in the meantime.

1.12 The introduction of AEIFRSs will impact upon all public sector entities. Insofar as to the pubic sector is concerned, the extent of the impact will differ from entity to entity depending on the specifics of each entity's business. Each entity will need to review the changes arising under AEIFRSs and assess how those changes will impact upon it.

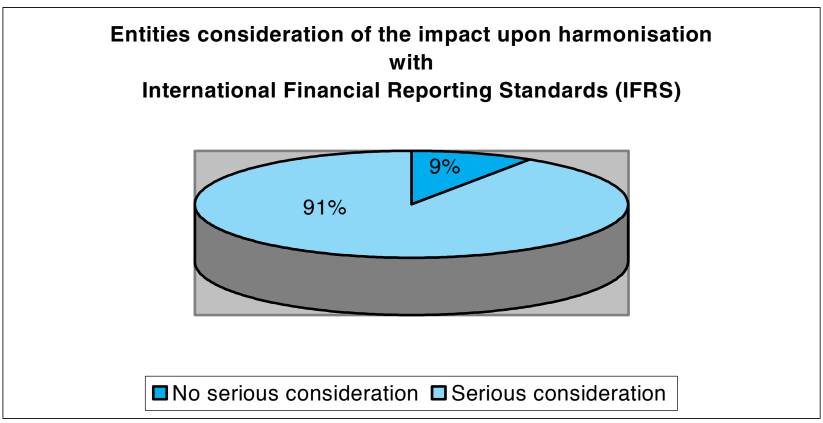
1.13 Accounting Standard *AASB 1047 Disclosing the impact of Adopting Australian Equivalents to International Financial Reporting Standards* required all entities to disclose within their 2003–2004 financial statements:

- an explanation of how the transition to the AASB Equivalents was being managed; and
- a narrative explanation of the key differences in accounting policies arising from the transition.

For 2004–2005, entities will also need to quantify the financial impacts of the changes.

1.14 A review by the ANAO of compliance to this requirement, and discussions with each entity confirm that the majority of Australian Government entities have considered the impact of the harmonisation of Australian Accounting Standards with International equivalents.

1.15 The following table illustrates the level of consideration of the impact of harmonisation with international financial reporting standards by material Australian Government entities.



1.16 The above table denotes a positive improvement in comparison to 2002–2003 by entities in terms of preparation for harmonisation, whereby, in 2002–2003, only 60 per cent of agencies had considered the impact of the adoption of international accounting standards.[5]

1.17 The adoption of Australian Equivalents from January 2005 is governed by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. First-time adoption for most Australian Government entities will be in the financial statements for the financial year 2005–2006. A key aspect of AASB 1 is the requirement for the new standards to be applied retrospectively. This has two important consequences. Firstly, entities will need to prepare a 'transitional' balance sheet as at 1 July 2004 under the new standards. To do this, they will need to:

(a) recognise all assets and liabilities whose recognition is required by Australian Equivalents;

(b) de-recognise assets or liabilities where Australian Equivalents do not permit recognition;

(c) reclassify items recognised under previous GAAP as one type of asset, liability or component of equity, but which are a different type of asset, liability or component of equity under Australian Equivalents; and

(d) apply Australian Equivalents in measuring all recognised assets and liabilities.

Secondly, comparative information in the 2005–2006 statements will also be reported under the new standards. Entities may need to maintain two sets of ledgers in 2004–2005 where the new standards differ from existing standards.

1.18 The key dates and events for implementation of the new standards are as follows:

Balance Date	Key Dates and Events				
				Full reporting under international standards	
	Prepare Opening Balance Sheet	Start collecting comparative data	Full year comparative data figures	Half year reporting period ending	Annual reporting period ending
30 June	30/06/2004	1/07/2004	30/06/2005	31/12/2005	30/06/2006
31 December	31/12/2003	1/01/2004	31/12/2004	30/06/2005	31/12/2005

5 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003*, Audit Report No.22 2003–2004, Canberra 2004.

1.19 The audit process conducted by ANAO for 2004–2005 will include a review of the assessment of the impact of IFRS on each respective entity and the preparation of the transitional balance sheet as of 1 July 2004. Any issues or concerns resulting from these reviews will be reported to the respective entities as they arise.

Timing for Financial Statements Preparation

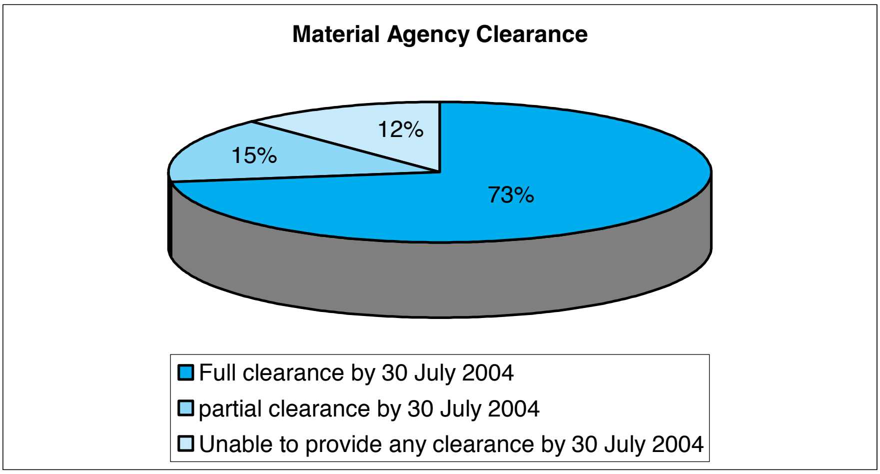
1.20 For Australian Government entities, under Section 57 of the FMA Act, and under clause 3, part 2 of Schedule 1 of the CAC Act , the Auditor-General is required to report each year to the relevant Minister on whether the entity's financial statements have been prepared in accordance with the FMOs and whether they give a true and fair view of the matters required by those orders. Both Acts outline the responsibilities of Australian Government entities regarding the maintenance of adequate accounting records and reporting obligations.

1.21 The Budget Estimates and Framework Review (BEFR), accepted by Government in September 2002, made twenty recommendations. A number of the recommendations relate to the progressive improvement in the timeliness of reporting accrual budget outcomes. For the financial year ending 30 June 2005, the delivery targets for material entity financial statements will be:

- 20 days from the end of the financial year for financial statements submissions to Government;
- 25 days from the end of the financial year for providing a preliminary accrual budget outcome to Government; and
- 45 days from the end of the financial year for the final budget outcome report to Government.

1.22 The submission of financial statements information within 20 calendar days is currently being phased in over the 2003–2004 and 2004–2005 financial years. All material entities forming part of the CFS were required to produce audit cleared material financial statements information by 30 July 2004 and will be required to produce audit cleared material financial statements information by 20 July 2005. Given the resource cost and effort involved in meeting the 30 July deadline, coupled with the move to full adoption of the IFRSs, it would be of considerable assistance to entity management if the subsequent change to the 20 July deadline were delayed for one year.

1.23 The ANAO review identified that, for the 2003–2004 financial year, 73 per cent of material entities were able to provide full audit clearance to Finance (refer to the following figure), in accordance with the requirements established under the BEFR.



1.24 Partial clearance (being clearance of audited balances with exceptions applying to one or a number of balances or involving the need to resolve issues) was achieved by a further 15 per cent of material agencies. The nature of these exceptions varied between entities and required further investigation and resolution by either the entity or the ANAO prior to clearance. A number of factors contributed to the delay in initial clearance by entities, including:

(a) the necessity to resolve issues arising from the ANAO Performance Audit on the Financial Management of Special Appropriations, as well as the need to obtain further legal or accounting advice for the resolution of issues;

(b) reliance on other parties to provide financial data post-clearance date; or

(c) having financial processes dependent upon the passing of time to provide reliable data for estimates. Several of these delays are considered to be reasonably isolated and not expected to occur in future years. However, other delays were considered to be within the domain of management control and could have been resolved in a more timely manner.

1.25 With reference to the above, all material entities of the Australian Government should be commended for their effort, and the patience and assistance provided to the ANAO, in satisfying the requirements of their reporting obligations under BEFR and achieving an improvement in the timeliness of reporting.

1.26 Although a quite positive result, with 73 per cent of entities satisfying the BEFR requirements, further analysis identifies that:

- only 80 per cent of entities provided acceptable quality financial statements to ANAO prior to 30 July 2004;
- entities required, on average, 26 days to produce acceptable quality financial statements; and
- entities required, on average, 52 days to produce signed financial statements.

1.27 The number of entities that were able to obtain audit clearance in accordance with the BEFR requirements, and obtain a signed audit opinion by the same date (30 July 2004), is consistent with experience in 2002–2003. In that year, 12 entities were able to obtain signed financial statements by 15 August 2003 (the audit clearance date required by BEFR for 2002–2003). Of those 12 entities, only three were able to achieve signed statements by 30 July 2003 (the clearance deadline for the following financial year, being 2003–2004).

1.28 For 2003–2004, the following entities obtained a signed audit opinion by 30 July 2004:

- Australian Broadcasting Corporation;
- Australian Bureau of Statistics;
- Australian Securities and Investments Commission;
- Australian Trade Commission;
- Centrelink;
- Coal Mining Industry (Long Service Leave Funding) Corporation;
- Department of Employment and Workplace Relations;
- Department of the Prime Minister and Cabinet;
- Export Finance and Insurance Corporation;
- National Blood Authority;
- National Capital Authority; and
- National Museum of Australia.

1.29 As noted earlier, the audit clearance date requirements under BEFR for 2004–2005 will reduce further to 20 July 2005. In 2003–2004, two entities were able to obtain a signed audit opinion by 20 July 2004, being:

- Department of Employment and Workplace Relations; and
- Department of the Prime Minister and Cabinet.

1.30 Although the ability of entities to achieve audit clearance by 30 July, as opposed to 15 August, is a positive improvement across the Australian Government, further improvements in the financial statement preparation process is required to satisfy the further compression of the audit clearance dates. Entities will need to continue to enhance and refine their reporting and financial statement preparation processes by an average of 10 days in order to meet the 2004–2005 audit clearance dates required under the BEFR. This will require the strengthening of communication channels between Finance, the ANAO and the respective agencies, to establish expectations, obligations and responsibilities, and to ensure a cohesive financial statement preparation and audit process.

1.31 Agencies can improve their current financial statement preparation processes to manage the tighter reporting deadlines, by[6]:

- ensuring that the executive and audit committees are continuously and comprehensively apprised on key financial issues and contentious accounting treatments and their financial impacts;
- ensuring that key decisions on significant financial and accounting issues are resolved with the ANAO well before the end of the financial year;
- ensuring that significant tasks such as undertaking, processing and accounting for property, plant and equipment revaluations and actuarial assessments for employee entitlements are not left until late in the financial year;
- ensuring that the entity's asset register is regularly updated by processing asset additions and disposals each month, reviewing depreciation rates, and ensuring that depreciation calculations are accurate;
- negotiating and monitoring service level agreements with external services providers to ensure quality and timeliness of data provided;
- ensuring that reconciliation processes for key financial statement balances, including administered and special accounts, are occurring at least on a monthly basis; and
- ensuring that time consuming tasks, such as executive remuneration calculations, are commenced well before the end of the financial year.

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6 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003* Audit Report No.22 2003-04, Canberra 2004.

1.32 Critical to a timely financial statement preparation process is the reliance on knowledgeable and qualified resources to assist in service delivery. This has resulted in the use of consultants and contractors across the Australian Government to assist in this process. A key challenge for entities is the dependence on third parties to assist in this process. Although there can be short-term benefits for an organisation by engaging external support with targeted assistance and specialisation, this can create longer-term issues that must be managed, such as dependence and a potential loss of corporate knowledge and intellectual property.

1.33 Further challenges faced by entities in the 2003–2004 financial year, which impacted the timely completion of individual entity financial statements, included:

- appropriation reporting;
- Outcome/Output framework reporting;
- quality and relevance of monthly reporting processes;
- management of Closing the Books processes; and
- changes to the reporting framework applying to Australian Government entities.

Appropriation Reporting

1.34 Under the Australian Government financial framework, budget funded entities are resourced primarily by either annual or special appropriations. The former appropriations are appropriated on an annual basis through Appropriation Acts and are limited by amount. Special Appropriations are established within specific Acts and are funded for specific purposes of spending under the respective Acts. Special appropriations may be limited by amount or purpose, or unlimited in amount.

1.35 An ANAO Performance Audit on the 'Financial Management of Special Appropriations'[7] commenced in 2003–2004 and was tabled in Parliament on 23 November 2004. Several issues arose from this review that have had a number of financial statement implications. These included identification of the requirement to keep proper accounts and records, for a number of Australian Government entities, including qualification, or the reporting of Other Statutory Matters within audit opinions. The results of this review for the respective entities are contained later within this report.

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7 *Financial Management of Special Appropriations* , Audit Report No.15 2004–2005.

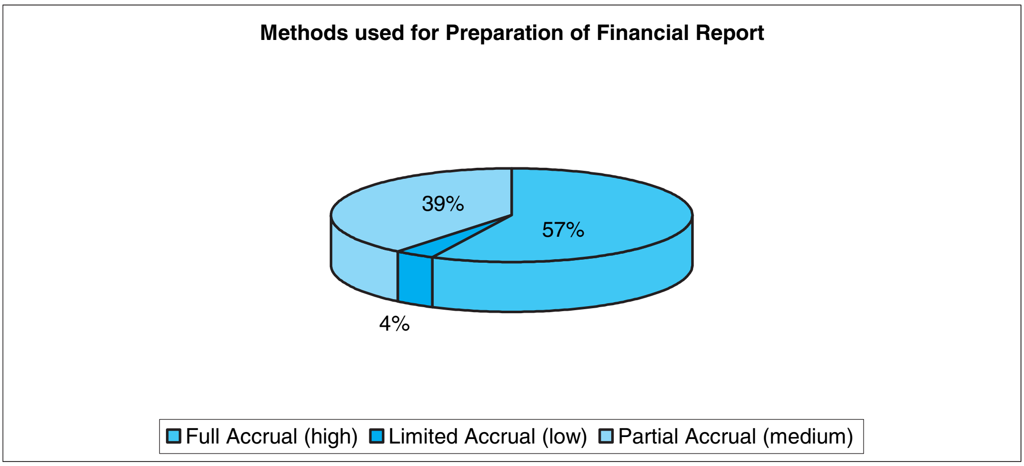
Outcome/Output framework reporting

1.36 Australian Accounting Standard *AAS29 Financial Reporting by Government Departments* requires revenue and expenses to be reported by major activities, where they can be reliably attributed. The 2003–2004 FMOs further expand the reporting requirements for the outcomes and output framework. Reporting under this framework 'assists users in assessing financial performance by activity and in assessing the net impact of an entity's total activities on the Budget and on taxpayers.[8] '

1.37 Entities again faced difficulties in understanding and complying with the reporting framework, contributing to delays in the completion of financial statements. This is further compounded by the fact that at present almost 50 per cent of the material entities of the Australian Government currently do not report against outcomes as a part of monthly reporting.

Quality and Relevance of Monthly Reporting Processes

1.38 Critical to the financial statement preparation process and to ensure issues, such as those detailed above, are identified and rectified in a timely manner, is the need to have quality monthly financial reporting framework. As shown in the following table, for the 2003–2004 financial year, the majority of entities reported on a partial, or full, accrual basis for their monthly reporting processes.



1.39 The adoption of either full, or partial, accrual based monthly financial reporting would assist in the year end reporting of entities by minimising the number of accounting adjustments required to be processed and assist in

8 Finance Ministers´ Orders for financial statements for reporting periods ending on or after 30 June 2004.

financial statement preparation teams understand the financial data and develop expectations for year end outcomes.

1.40 The majority of material Australian Government entities completed monthly financial reports within six to fifteen days after month end, which demonstrates a significant commitment by the governing bodies of the respective entities in properly managing financial performance.

1.41 However, the tighter timeframes required for an efficient reporting process are dependent on the flexibilities of the entities' operating systems. The quality of monthly reporting would be improved by allocating more time in the month-end cycle for review and analysis of draft financial information prior to the production of financial reports. Improved planning and better workload balancing would also contribute to making time available for review[9].

Management of Closing the Book processes

1.42 Audit Report No.60 2002–2003 *Closing the Books*, focused on the monthly closing the books processes undertaken at six of the material Australian Government organisations, in order to provide some generic conclusions on the operation and effectiveness of these periodic processes in the Australian Government and to identify opportunities for improvement.

1.43 Closing the books processes are sometimes referred to as 'month-end or year-end processing' and are undertaken by organisations in order to generate periodic financial information. These processes are used in the production of the organisation's annual financial statements (commonly referred to as 'hard closes') as well as on a periodic basis, usually monthly, at times throughout the financial year, in order to provide an organisation's managers and governing body with key financial information for internal use (commonly referred to as 'soft closes')[10].

1.44 The performance of hard close processes assist in the understanding of the derivation of financial statement items and the financial statement preparation process. Further, these processes facilitate in the meeting of reporting timeframes by allowing the financial statement preparation team and the auditors to focus on complex transactions or issues and may assist in the early identification and rectification of potential accounting and audit issues.

1.45 The hard close processes conducted by entities in the 2003–2004 financial year, and reviewed by ANAO, varied in success and were usually

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9 *Closing the Books*, Audit Report No.60 2002–2003, Canberra 2004.

10 ibid.

dependent upon the senior management endorsement of the process. The ANAO noted several deficiencies, including the provision of incomplete or poor quality information, and a lack of quality assurance that could be easily rectified in order to extract the most benefit.

1.46 To ensure that the maximum value is generated from such a process, a number of challenges need to be managed. Audit Report No.60 2002–2003 concluded that 'Closing the books is a standard financial process that should be routine and performed well.' However, 'there is a need to improve the quality of basic activities' and address the 'challenges in attracting and retaining appropriately qualified and experienced staff[11].'

Changes to the reporting framework applying to Australian Government Entities

1.47 The most significant changes to reporting requirements for the financial year ended 30 June 2004 are detailed below.

Finance Minister's Orders

1.48 There have been a number of noteworthy changes to the reporting requirements issued by the Finance Minister. They include the following developments:

- Financial statement preparers must have regard to Finance's Estimates Memoranda and Financial Management Guidelines.
- The Certification by the Chief Executive must state whether the financial statements have been prepared based on properly maintained financial records (clause 1C.3(b)).
- The rules for recognition of departmental appropriations in the accrual statements take account of new provisions in the Annual Appropriation Bills No.3 and No.4 of 2003–2004, relating to proposed reductions in the balance of these appropriations.
- Rules have been formalised for the recognition, in the accrual statements, of departmental appropriations transferred between agencies (under section 32 of the FMA Act*)* as a result of transfer of functions.
- Disclosures relating to the availability and use of appropriations have generally been enhanced by:

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11 ibid.

  - explicitly declaring these disclosures to be material by nature, which suggests that all appropriations should be reported, even if unused;
  - requiring the extent to which an administered appropriation is reported as 'lapsed' by the Finance Minister to be the actual amount lapsed, rather than an estimate; and
  - requiring more comprehensive disclosures relating to Special Accounts.

- A requirement to disclose expenditure against each special appropriation has been replaced by a requirement to disclose expenditure against each Act (an Act may contain more than one special appropriation). Disclosures are required of amounts by which departmental appropriations are formally reduced, under the proposed new provisions in Appropriation Bills No.3 and No.4, mentioned above.
- A requirement that all non-current assets carried at valuation must be measured at fair value for reporting periods beginning after 30 June 2004 (effectively ending progressive revaluations after this year and requiring fair values to be kept up-to-date for each balance date from 30 June 2005).
- Provisions introduced in the 2003 FMOs, dealing with the identification and recognition of impairment losses for non-current assets not dealt with in accounting standards, have been extended to capture assets measured at deprival value as well as those measured at cost. In addition, the provisions have been enhanced by specifying the basis for the measurement of impairment losses, by providing explicitly for the reversal of such losses when appropriate, and by requiring extensive relevant disclosures.
- Provisions within 2003 FMOs dealing with asset sales generally handled by Finance have been improved in 2004 to focus on the accounting at the point of decision to sell rather than as a transfer of assets to Finance.
- Provisions dealing explicitly with Heritage and Cultural Assets have been introduced.
- The nature and amounts of movements in contingent liabilities arising from indemnities are to be disclosed, as well as contingent liabilities arising from 'warranties' or 'letters of credit'.

- The accounting treatment for restructurings (which involve the non-reciprocal transfer of assets and liabilities between entities) has been extended to cover transfers that result from a written agreement between the relevant portfolio Minister and the Prime Minister.
- The accounting for relinquishing control of a departmental appropriation by debiting 'contributed equity' has been extended to incorporate the proposed new provisions in Appropriation Bills No.3 and No.4, which provide for reductions in the balance of prior year's departmental appropriations.
- Note disclosure is required for the first-time of 'ex-gratia' payments and payments made under section 73 of the Public Service Act 1999.

Australian Accounting Standards

1.49 The activities of the AASB have been concentrated mainly on giving effect to a decision made by the Financial Reporting Council, in July 2002, requiring the adoption in Australia of International Accounting Standards for reporting periods beginning on or after 1 January 2005. In addition, the AASB is reviewing the Accounting Standards for government reporting and considering the harmonisation of Australian Accounting Standards with reporting under the system of Government Finance Statistics. Both projects are the result of strategic directions by the Financial Reporting Council. New or changed Accounting Standards that apply for the first time for the year ended 30 June 2004 are listed below:

- *AASB 1046 Director and Executive Disclosures by Disclosing Entities; and*
- *AASB 1047 Disclosing the Impact of Adopting Australian Equivalents to International Financial Reporting Standards.*

2. Results of the Audit of the Consolidated Financial Statements of the Australian Government

Background

2.1 The Consolidated Financial Statements (CFS) of the Australian Government are an important element of open and accountable government. The CFS and the associated financial analysis are designed to allow readers to assess the performance and financial position of the Australian Government. Underpinning the utility of the CFS are the need for timeliness of reporting and the selection of appropriate accounting policies, determined against an independent framework, which accurately represent the activities of the Australian Government.

2.2 The Minister for Finance and Administration (the Minister) is required under sections 55 and 56 of the FMA Act to prepare and table audited CFS in each house of Parliament, as soon as practicable after the end of the financial year.

2.3 The Minister is responsible for the preparation and presentation of the financial statements and the information they contain. This includes responsibility for the maintenance of adequate consolidation accounting records and internal controls that are designed to prevent/detect error in the financial statements, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Report

2.4 The CFS were signed by the Minister on 17 December 2004 and tabled in Parliament on 23 December 2004. The significant delay was primarily caused by the delay in the finalisation of the Department of Defence accounts.

2.5 The audit report on the CFS for the year ended 30 June 2004 was issued on 20 December 2004.

2.6 The audit report expressed an 'except for' opinion, in accordance with the auditing standards (see paragraph 3.4 of this report for further explanation), containing nine qualifications under two broad headings, *Disagreements on Accounting Policies* and *Limitations on the Scope of the Audit*. In addition, the audit report included one 'emphasis of matter' and one 'other statutory matters' paragraph. These are explained in detail below.

Qualifications

2.7 Of the nine qualifications reported in the CFS, the two having the most significant impact were the result of disagreements over accounting policies and the associated disclosures in the CFS. The other seven qualifications covered limitations on the scope of the audit.

2.8 The disagreements with management and the scope limitations together had a material impact on the Statements of Financial Performance and Position and translate to significant uncertainty for amounts associated with the line items identified in tabular form below.

	Disagreements with Management (under-statements)	Limitations on the Scope of the Audit
Statement of Financial Performance		
Revenues		
Taxation Revenue	$35.3 billion	$1.8 billion
Total revenues from Ordinary Activities	**$35.3 billion**	**$1.8 billion**
Expenses		
Write Down of Assets Expense	$0.8 billion	$0.1 billion
Other goods and services expenses	-	$0.5 billion
Personal benefits	$0.3 billion	-
Subsidies and grants	$33.2 billion	-
Total Expenses from Ordinary Activities	**$34.3 billion**	**$0.6 billion**
Impact on Net Result	**$1.0 billion**	**See Note 1 below**

Note 1: Due to the nature of scope limitations the financial effect on the Net Result is not able to be determined

	Disagreements with Management (under-statements)	Limitations on the Scope of the Audit
Statement of Financial Position		
Assets		
Receivables	$1.9 billion	-
Accrued Revenue	$38.1 billion	-
Inventories	-	$2.8 billion
Land and buildings	-	$1.4 billion
Infrastructure, plant and equipment	-	$2.9 billion
Total Assets	**$40.0 billion**	**$7.1 billion**
Liabilities		
Personal benefits	$0.2 billion	$1.2 billion
Other payables and accrued expenses	$4.6 billion	-
Provision for taxation refunds	$19.4 billion	-
Total Liabilities	**$24.2 billion**	**$1.2 billion**
Net Assets	**$15.8 billion**	**$5.9 billion**

2.9 Two of the accounting policies reflected in the CFS materially misstate key balances within the CFS and lead to a 17 per cent misstatement on the Net Result. The seven limitations of scope flow from two of the two hundred and one economic entities consolidated into the CFS and are largely sourced from asset holdings in the Department of Defence and revenue systems in the Australian Taxation Office. The implications of these limitations of scope are that large balances within the CFS are unable to be verified and the actual figures could be substantially higher or lower than those shown. This material uncertainty compromises the integrity of significant components of the CFS and the Net Result in particular.

Taxation Revenue

2.10 As in past years, the CFS for 2003–2004 have been prepared using the taxation liability method (TLM). This method recognises taxation revenue at the time when tax payments are due and payable. It does not recognise all taxation revenue generated nor does it recognise all liabilities incurred during the year. For example, the cost of superannuation co-contribution scheme in 2003–2004 will not be recognised in the CFS until 2004–2005. In circumstances where the cost of a scheme increases over time the TLM approach will continue to understate costs. The adoption of TLM does not conform with AAS 31 *Financial Reporting by Governments*, in that it does not recognise all taxation revenue, assets and liabilities in the period in which the underlying transactions occur. The Government considers that the method is permitted under AAS 31, on the basis there is an inability to reliably measure the tax revenues when the underlying transactions or events occur.

2.11 In contrast, the Australian Taxation Office (ATO) has continued to recognise taxation revenue in its annual financial statements on an accruals basis using the economic transactions method (ETM). Under ETM, taxation revenue is recognised in the period when underlying economic activity giving rise to a taxation obligation actually takes place. As a result, the ATO reports estimates of accrual revenues in relation to taxation assessments that will be raised in the following reporting period; the amount of revenue reported takes into account estimated refunds; and/or credit amendments to which taxpayers may be entitled. This treatment is also consistent with the requirements of taxation legislation wherein a taxation liability exists prior to a formal assessment.

2.12 The ETM basis of estimating taxation revenue for accounting purposes is stronger both conceptually and on legal grounds than the TLM and, most importantly, clearly meets the requirements of AAS 31 including reliability of measurement. The TLM is aligned to modified cash accounting. This view is supported both by expert legal and accounting advice and reflects the basis on which the Commissioner for Taxation has prepared his financial statements in recent years.

2.13 The financial effects of employing TLM are material and are as follows:

- the Net Result (Surplus) for the year 2003–2004 reported in the Consolidated Statement of Financial Performance is overstated by $0.2 billion (2002–2003: understatement of $1.8 billion); and
- there is an understatement of Assets in the Consolidated Statement of Financial Position as at 30 June 2004 of $33.2 billion (2002–2003: understatement of $31.3 billion), and in Liabilities of $24.0 billion (2002–2003: $21.9 billion). Reported Net Liabilities are overstated by $9.2 billion (2002–2003: $9.4 billion).

2.14 Currently, the use of the TLM method is consistent with the treatment adopted for the 2003–2004 Budget. The Departments of Finance and Administration and Treasury take the view that the ETM method does not currently provide a reliable measure of taxation revenue recognition for both budget and actual reporting purposes. ETM, however, while more volatile, is a consistently more accurate measure of taxation revenue than TLM. The comparable reliability of the two methods will be subject to ongoing review.

The Minister for Finance and Administration has been made aware of the issues involved.

Goods and Services Tax and Related Grants Expense

2.15 As in the previous year, the CFS for 2003–2004 have been prepared without recognising the GST as a revenue of the Australian Government. Amongst other things, this resulted in a $34.7 billion (20.1 per cent) understatement of taxation revenue in 2003–2004.

2.16 The Australian Government's reason for excluding GST and associated grant payments to the States is based on the view that the GST is a State tax collected by the Australian Government in an agency capacity, in accordance with the intent of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.*

2.17 In substance, however, and from an accounting perspective, the GST is a revenue of the Australian Government. It is imposed under Australian Government legislation and the Australian Government therefore controls the revenue raised. The Government's decision to enter into an agreement to pass the GST revenue collected to the States is a separate transaction conducted to meet its particular objectives.

2.18 The Australian Government's control of the GST revenue is also illustrated by the fact that the distribution of GST revenue is based on population share adjusted by a relativity factor embodying per capita financial needs. The relativity factor is determined by the Australian Government Treasurer based on advice given by the Commonwealth Grants Commission and following consultation with the States and Territories. Thus, the actual distribution could only ever coincidentally reflect the amount of tax collected within the jurisdictions of the beneficiary governments, as there is no direct connection between the tax revenue arising in, and the tax revenue returned to, a particular State or Territory.

2.19 The financial effects of not recognising the GST as a revenue of the Australian Government are to understate the net result for the period and to overstate net liabilities as at period end. The financial effects of not recognising the GST, calculated by reference to the amounts that would have been recognised had all other tax revenue been recognised on an accrual basis, are as follows:

- in the Consolidated Statement of Financial Performance for the 2003–2004 year, an understatement of Revenues by $34.7 billion (2002–2003: $31.8 billion), Expenses by $33.5 billion (2002–2003: $30.8 billion) and hence the Net Result (Surplus) by $1.2 billion (2002–2003: $1.0 billion);

- in the Consolidated Statement of Financial Position as at 30 June 2004, an understatement of Assets by $6.8 billion (2002–2003: $5.7 billion) and Liabilities by $0.2 billion (2002–2003: $0.4 billion), and hence an overstatement of Net Liabilities by $6.6 billion (2002–2003: $5.3 billion); and
- in the Consolidated Statement of Cash Flows, for the 2003–2004 year, Total Operating Cash Inflows and Outflows are each understated by $27.7 billion (2002–2003: $25.4 billion) (a difference which takes account of GST-related cash flows within the Australian Government).

2.20 This treatment of GST in the CFS is also contrary to the treatment adopted in the financial statements of the administering agencies. The ATO reported the GST as an Australian Government tax and the associated payments to the States and Territories are recognised by the Department of the Treasury as grant expenses. In addition, the Australian Bureau of Statistics treats GST as a tax of the Australian Government for statistical purposes.

2.21 For the reasons set out above, the GST should be recognised as revenue of the Australian Government in the CFS. The CFS audit opinion includes a qualification in relation to the understatement of taxation revenue caused by the omission of GST from the CFS.

Department of Defence Qualifications

2.22 Four limitations on the scope of the audit qualifications were carried forward from the audit on the 2003–2004 financial statements of Defence. The qualification arose from material internal control breakdowns that resulted in pervasive uncertainties giving rise to an 'inability to form' an opinion on the Defence financial statements.

2.23 The four limitations on the scope of the audit qualifications were carried forward to the CFS audit opinion under the headings, *Inventories, Repairable Items—as a Component of Specialist Military Equipment, Land and Buildings and Infrastructure, Plant and Equipment and Military Leave Provision*. A limitation of scope on the auditor's work arises when sufficient appropriate audit evidence does not exist to support a reported balance.

Australian Taxation Office Qualifications

2.24 Three limitations on the scope of the audit qualifications were reported in the audit on the 2003–2004 financial statements of the ATO These has been carried forward to the CFS audit opinion under the headings; *Superannuation Surcharge, Superannuation Guarantee Charge and General Interest Charge.*

Emphasis of Matter—Inherent Uncertainty Regarding Certain Liabilities

Medical Indemnity Schemes

2.25 One emphasis of matter, which is not a qualification, under the heading, Inherent Uncertainty regarding the liability under the Australian Government's Medical Indemnity schemes was reported in the audit report of the 2003–2004 financial statements of the Department of Health and Ageing. This has been carried forward to the CFS audit report under the heading—Emphasis of Matter-Inherent Uncertainty Regarding Certain Liabilities.

Other Statutory Matters

Breaches of Section 83 of the Constitution

2.26 Audit reports on the financial statements of six agencies reported breaches of section 83 of the Constitution. These have been carried forward to the CFS audit opinion under the heading—Other Statutory Matters.

Audit and Accounting Issues

Executive Remuneration

2.27 As with the previous CFS, these financial statements do not include disclosure of the remuneration of Ministers or Executive Officers of Australian Government entities. While the accounting standards do not currently require the disclosure of this information, its inclusion within the CFS would generally be seen as a positive contribution to enhanced accountability and better practice financial reporting.

2.28 Debate continued during 2003–2004 over the proposed disclosures of remuneration and benefits at the whole of government level, including for Ministers. Events over the past two years within the private sector corporate arena, and the ensuing demands for increased disclosure, continue to highlight the importance of transparency and accountability. It would be seen as better practice for the Australian Government to provide such disclosure in the CFS in future financial years.

3. Summary Results of the Audits of Financial Statements

Summary of Audit Reports Issued

3.1 The Auditor-General is required to provide an audit report on the financial statements to the relevant Minister for each Australian Government entity. The opinion included in the audit report is either unqualified or qualified. Unqualified and qualified audit opinions may also include an emphasis of matter. Explanation of the various types of audit opinions is provided in this part of the report. In addition, audit reports may also contain 'other statutory matters'. A summary of the audit opinions and 'other statutory matters' included in audit reports issued by the ANAO for the past two years is provided below.

Summary of audit conclusions in audit reports issued

Financial Statement Audit Reports	2003–2004	2002–2003
Qualified (includes CFS audit report) *^	12	4
Containing an emphasis of matter	7	8
Unqualified and containing an other statutory matter	4	10*
Not modified	217	236
Total Issued	240	256
Signed financial statements not presented for audit at the time of report	5	1
Total reports	**245**	**257**

*: The Department of Defence and Department of Veterans' Affairs also contain an Other Statutory Matter.

^: The Aboriginal and Torres Strait Islander Commission also contains an Emphasis of Matter.

Unqualified Audit Reports

3.2 An unqualified audit report is provided when the financial statements are, in all material respects, give a true and fair view, of the matters required by applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the Finance Minister's Orders, so as to present a view which is consistent with the entity's financial position, its financial performance, and its cash flows.

Qualified Audit Reports

3.3 Qualified audit reports are issued when the financial statements do not present a fair view of the entity's financial position, nor of the results of its operations and its cashflows, as well as reducing the readers' ability to analyse, interpret and compare financial statements.

3.4 The types of qualified audit opinions and the basis for providing these opinions are as follows:

- An except for opinion—is expressed when the auditor concludes that an unqualified opinion is inappropriate because of a disagreement with management; a conflict between applicable financial reporting frameworks; or a scope limitation, the effects or possible effects of which are not of such a magnitude or so pervasive or fundamental, as to require the expression of an adverse opinion or an inability to form an opinion.
- An adverse opinion—is expressed when the effects of a disagreement with management or a conflict between applicable financial reporting frameworks is of such a magnitude or is so pervasive or fundamental that the financial report taken as a whole is, in the auditor's opinion, misleading or of little use to the addressee of the report.
- An inability to form an opinion—commonly referred to as a disclaimer, is expressed when a scope limitation exists and sufficient appropriate audit evidence to resolve the uncertainty resulting from the limitation cannot reasonably be obtained; and the possible effects of the adjustments that might have been required, had the uncertainty been resolved, are of such a magnitude, or so pervasive or fundamental, that the auditor is unable to express an opinion on the financial report taken as a whole.

Emphasis of matter

3.5 In certain limited circumstances, it will be appropriate for the auditor to draw attention to, or emphasise, a matter that is relevant to the users of the audit report but is not of such a nature that it affects the audit opinion. The circumstances in which an emphasis of matter is appropriate are:

- when an inherent uncertainty exists and the uncertainty and its potential impacts have been adequately disclosed in the financial statements;
- when information in a document containing the audited financial report is materially inconsistent with that financial report; and

- when it is highly improbable that an entity will continue as a going concern because of an event occurring after reporting date which provides new information that does not relate to conditions existing at reporting date, and there has been adequate disclosure in the financial statements.

Unqualified Audit Report containing 'Other Statutory Matters'

3.6 Section 57 of the FMA Act requires that, in reporting to Ministers on the financial statements, the Auditor-General must not only report on whether the statements have been prepared in accordance with the FMOs and give a true and fair view of matters required by the FMOs, but must also state particulars of any contravention by a Chief Executive of section 48 of the FMA Act.

3.7 Section 48 of the FMA Act and the FMOs are intended to give effect to section 83 of the *Commonwealth Constitution*, which provides that 'No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law'.

3.8 A contravention of section 48 of the FMA Act will necessarily occur whenever expenditure is:

- incurred without a supporting appropriation or beyond the limit of an appropriation contrary to section 83 of the *Constitution*; because it will be apparent that the accounts and records of the entity have not been kept in a way that 'ensures' that moneys are only expended for the purpose and within the limit of an appropriation;
- incurred in the mistaken belief or in reliance on incorrect advice, that there is an available appropriation, or an appropriation with an adequate limit, even though the formation of that belief or reliance on that advice may be reasonable; because it will be apparent that the accounts and records of the entity have not been kept in a way that 'ensures' that moneys are only expended for the purpose and within the limit of an appropriation; and
- recorded in an entity's accounts and records against an incorrect appropriation, even though there may have been another available appropriation against which that expenditure could properly have been recorded; because the entity's accounts and records will not have 'properly' recorded and explained the entity's transactions and financial position.

3.9 A summary of the qualifications, unqualified reports with an emphasis of matter, and unqualified reports with an 'other' statutory matter issued by the ANAO during the 2003–2004 financial year is contained below.

Entity Audit Reports Containing Qualifications

Aboriginal and Torres Strait Islander Land Fund

Excess Appropriations to the Aboriginal and Torres Strait Islander Land Fund

3.10 The Land Fund breached section 83 of the *Constitution* as monies in excess of appropriation have been transferred to the Aboriginal and Torres Strait Islander Land Fund, within the Consolidated Revenue Fund, and on-paid to the Indigenous Land Corporation and the Aboriginal and Torres Strait Islander Commission by sections 193A and 193B of the *Aboriginal and Torres Strait Islander Commission Act 1989*, in breach of the Land Fund's administrating legislation and section 83 of the *Constitution*.

3.11 This has also resulted in a breach of section 48 of the FMA Act. The Aboriginal and Torres Strait Islander Commission is in discussions with Finance for the return of these funds.

Investment of Monies

3.12 The Land Fund breached sections 39 and 48 of the FMA Act and, as a result, section 83 of the *Constitution*, when certain investments were made that were not authorized under the FMA Act.

Aboriginals Benefit Account

3.13 The Aboriginals Benefit Account breached sections 39 and 48 of the FMA Act 1997 and, as a result, section 83 of the *Constitution*, when certain investments were made that were not authorised under the FMA Act.

Aboriginal and Torres Strait Islander Commission

3.14 The Aboriginal and Torres Strait Islander Land Fund and the Aboriginal Benefits Account are consolidated entities within ATSIC. As such, the breaches referred previously of sections 39 and 48 of the FMA Act , and of section 83 of the *Constitution*, for both reporting entities, have been included within ATSIC's audit report.

Australia-Japan Foundation

3.15 Payments totalling $94 342 in excess of the Australia-Japan Foundation's legally available departmental appropriation, were made in breach of section 83 of the *Constitution*, which states that no money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law. A contravention of section 48 of the FMA Act 1997 has also occurred in that the Australia-Japan Foundation's accounts and records have not been kept in a way that ensures that moneys have only been expended within the limit of the appropriation.

Australian Taxation Office

3.16 The effects of inadequacies in ATO systems have resulted in the ANAO being unable to measure reliably the balances of the Superannuation Surcharge, Superannuation Guarantee Charge and the General Interest Charge on the Schedules of Revenues and Expenses Administered on behalf of Government, and associated Notes to and Forming Part of the Financial Statements, thereby limiting the scope of the audit.

3.17 In summary, because there are uncertainties with material balances relating to superannuation surcharge revenue, superannuation guarantee revenue and expenses, and general interest charge revenue, the corresponding movements with those account balances also impact the Schedules of Assets and Liabilities Administered on behalf of Government. Details of these uncertainties within specific ATO balances are provided below.

Superannuation Surcharge

3.18 Deficiencies in a number of aspects of the Superannuation Surcharge system and records resulted in the ANAO being unable to form an opinion on the reported superannuation surcharge balance. Contributing to these deficiencies were:

- a backlog in exception processing for superannuation surcharge revenue, and the corresponding provision for credit amendments and bad and doubtful debt expense;
- confirmation discrepancies in certain Unfunded Defined Benefit superannuation debts; and
- variance between subsidiary records and the control account relating to surcharge debt.

3.19 The potential effect on the reported balance of $1.69 billion for the Superannuation Surcharge at 30 June 2004 by the ATO is unknown, given the above factors.

Superannuation Guarantee Charge

3.20 The inability of a new business system relating to the superannuation guarantee charge to perform its functions has also resulted in the ANAO being unable to form an opinion on the reported values of the superannuation guarantee charge revenue (reported balance at 30 June 2004 of $381 million) and expense (reported balance at 30 June 2004 of $499 million) and corresponding bad and doubtful debts expense.

General Interest Charge

3.21 A functionality gap in some of the ATO business systems has meant that the accrued general interest has not been added to all taxpayer accounts for companies and superannuation funds in respect of outstanding income tax payments. In relation to the above, the ANAO was unable to form an opinion on the reported values of general interest charge revenue of $555 million and remission expense of $490 million.

IT Outsourcing—Non-capitalisation of finance lease of IT equipment

3.22 The audit report for the ATO for the 2003–2004 financial year was again qualified, similar to previous year's reference due to a disagreement with management on the accounting treatment for the lease of certain computer equipment under the information technology outsourcing contract. The ATO has continued to recognise and report the leasing of this equipment as an operating lease within its financial statements.

3.23 A number of substantial ownership risks, including residual value risk on early termination or expiry of the lease, passed to the Australian Taxation Office under the contract. Accordingly, the lease should be accounted for as a finance lease. The recognition of the lease as an operating lease in the financial statements represents a departure from *AAS 17 Leases*, which requires leases to be classified as finance leases where substantially all of the risks and benefits incidental to ownership pass from the lessor to the lessee. The effect of this departure is to understate assets by $66.41 million, and liabilities by $68.31 million on the Statement of Financial Position, and understate the operating result by $0.48 million in the Statement of Financial Performance.

Centrum Insurance Brokers Pty Ltd and Northern Insurance Brokers Pty Ltd

3.24 Centrum Insurance Brokers Pty Ltd (Centrum), as a result of a Share Grant Agreement, became a subsidiary of Indigenous Business Australia (IBA) in 2003–2004. Centrum also owns 51 per cent of Northern Insurance Brokers. As the previous auditor did not make working papers available, both audit opinions were qualified in respect of opening balances.

Commonwealth Superannuation Scheme

3.25 Regulation 6.17 of the Superannuation Industry (Supervision) Regulations allows a member's benefits in a scheme to be paid out only when certain conditions of release are met. The Board of the Commonwealth Superannuation Scheme identified likely instances of non-compliance with the regulation during the financial year with regard to payments to either deferred benefits or age pensions to members who may not have satisfied the conditions of release. Further work is currently being undertaken by the Trustee to confirm the extent of these suspected breaches. The inability to determine whether the regulation has been complied with during the financial year has resulted in the compliance aspect of the audit report for the Commonwealth Superannuation Scheme being qualified.

Defence Service Homes Insurance Scheme

3.26 Defence Service Homes Insurance Scheme breached sections 39 and 48 of the FMA Act and, as a result, section 83 of the *Constitution*, when certain investments were made that were not authorised under the FMA Act.

3.27 Sections 39 and 48 of the FMA Act were breached when certain investments were made that were not authorised. As a result there was also a breach of section 83 of the *Constitution*.

Department of Defence

3.28 The internal control environment of Defence, which is designed to prevent and detect errors in accounting and financial reporting, contains significant deficiencies due to weaknesses in the internal controls pertaining to financial management and systems, inadequate accounting records and poor inventory and asset recording. The control breakdowns have resulted in material uncertainties, in quantitative terms, in relation to material balances.

3.29 Given the effects on the Statement of Financial Position, the Statement of Financial Performance (including the potential volatility of the reported Net Deficit), the notes to the financial statements (including the Executive Remuneration note), together with the qualitative internal control factors, there was, in the ANAO's view, a pervasive impact on the financial statements taken as a whole. Details of these uncertainties are contained below:

Inventories

3.30 Inventories, as reported in the Defence's Statement of Financial Position, includes General Stores inventory and Explosive Ordnance inventory.

3.31 Owing to the inadequacies in the Defence's General Stores inventory management practices, the ANAO was unable to validate $2.03 billion (2002–2003, $610 million) of the Defence's reported Inventory balance totalling $4.47 billion (2002–2003, $3.83 billion) (net of obsolescence provision). This is as a result of the material weaknesses in the internal controls over the stocktaking and accurate recording of the physical inventory quantities, and a lack of evidentiary documentation and systems controls to confirm and safeguard the accuracy of pricing data.

3.32 In addition, owing to the inadequacies in the Defence's Explosive Ordnance inventory management practices, the ANAO was unable to validate a further $845 million (2002–2003, $1.2 billion) of the reported balance of Defence Inventory (net of obsolescence provision). This is as a result of a lack of evidentiary documentation to support the prices used to value that portion of the recorded balance.

Repairable Items—as a component of Specialist Military Equipment

3.33 Owing to the inadequacies in the Defence's Repairable Items asset management practices, the ANAO was unable to validate the $2.86 billion reported written-down value of Repairable Items (2002–2003, $550 million), which is reported within Specialist Military Equipment. This is as a result of the material weaknesses in the internal controls over the stocktaking, accurate recording and reporting of the physical asset quantities, and adequate system controls to safeguard the accuracy of data.

Land and Buildings and Infrastructure, Plant and Equipment

3.34 Owing to the inadequacies in the Defence's Land and Buildings and Infrastructure, Plant and Equipment management practices, the ANAO was unable to validate the written-down value of $1.39 billion of the balances totalling $15.16 billion. This is the consequence of certain assets being excluded from revaluation processes due to either management determined asset revaluation thresholds, or excluding certain assets under finance lease arrangements, as well as other deficiencies in the recording and reporting of the effect of revaluations on the written-down value of revalued assets.

Military Leave Provision

3.35 Owing to the inadequacies in the Defence's Military employee personnel recording systems and practices, primarily relating to the lack of integrity associated with the capture and recording of data within those systems and the appropriate maintenance of primary evidentiary documentation, the ANAO was unable to validate the amount of $1.23 billion (2002–2003, $732 million) for the Australian Defence Force employee leave provision.

3.36 As a consequence of the inadequacies in the Military Leave Provision referred to above, and as a result of other issues noted within the Civilian leave recording practices, the ANAO has also been unable to validate the amounts reported within the Executive Remuneration Note.

Statement of Financial Position

3.37 The scope limitations noted above, which affect five material line items on the Statement of Financial Position (i.e., Inventories; Specialist Military Equipment; Land and Buildings; Infrastructure, Plant and Equipment; and

Employees Provisions), have a material impact in quantitative terms, affecting 14 per cent of Total Assets and 22 per cent of Total Liabilities. In addition, six notes to the Statement of Financial Position are also affected by the scope limitations.

3.38 In addition, in qualitative terms, the primary causes of the uncertainties noted above originate from significant weaknesses within the internal control environment and systems and the evidentiary support for the transactions and balances of Defence.

3.39 Accordingly, the quantitative factors, individually and as a whole, together with the qualitative factors, have resulted in uncertainty that is pervasive to the Statement of Financial Position.

Statement of Financial Performance

3.40 The scope limitations noted above also have a material impact in quantitative terms which affect total Expenses from Ordinary Activities, and the Net Surplus/(Deficit) From Ordinary Activities, and translate to uncertainty for amounts within the following line items reported on the face of the Statement of Financial Performance:

- Revenue relating to Assets Now Recognised;
- Other Revenue;
- Employee Expenses;
- Suppliers Expenses;
- Depreciation and Amortisation Expense; and
- Write Down of Assets Expense.

3.41 In addition, seven notes to the Statement of Financial Performance are also affected by the uncertainties. Accordingly, the quantitative and qualitative internal controls factors noted above as a whole, and the significance of the potential effect of any financial adjustments required, had the limitations of scope not existed, including the resultant effect on the reported Net Deficit of $532 million, and the uncertainty in estimating the potential effect (volatility) of those adjustments, results in uncertainty that is pervasive to the Statement of Financial Performance.

Department of Veterans' Affairs

3.42 Defence Service Homes Insurance Scheme is a consolidated entity within the Department of Veterans' Affairs. As such, the breaches of sections 39 and 48 of the FMA Act, and the corresponding breach of section 83 of the *Constitution*, as detailed above, have been included in DVA's audit report.

Audit Reports Containing an Emphasis of Matter

Aboriginal and Torres Strait Islander Commission

3.43 As a result of the referral of the *Aboriginal and Torres Strait Islander Commission Amendment Bill 2004* to a Senate committee of inquiry, there is significant uncertainty whether the Aboriginal and Torres Strait Islander Commission will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Aboriginal and Torres Strait Islander Services

3.44 ATSIS provides support to ATSIC and enables the ongoing use of ATSIC assets by Australian Government entities pending the passing of the *Aboriginal and Torres Strait Islander Commission Amendment Bill 2004*. As a result of the referral of the *Aboriginal and Torres Strait Islander Commission Amendment Bill 2004* to a Senate committee of inquiry, there is significant uncertainty as to whether ATSIS will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Adelaide Symphony Orchestra Pty Ltd

3.45 The ANAO concluded, within its audit opinion, that there was a significant uncertainty as to whether the Adelaide Symphony Orchestra Pty Limited would be able to continue as a going concern and therefore as to whether it would be able to pay its debts as and when they became due and payable and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated within the financial statements. No adjustments were made to the accounts of the Adelaide Symphony Orchestra Pty Ltd, relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Australian River Company

3.46 The audit report for the year ended 30 November 2003 of the Australian River Company was unqualified. However, it included an emphasis of matter as to the inherent uncertainty regarding the future operations of the company. On 3 May 2002, the Parliamentary Secretary to the Minister for Finance and Administration wrote to the Australian River Co. Limited and stated that the company should manage its remaining operations with a view to winding down the company at the earliest opportunity on a commercially supportable basis, including the pursuit of any sale opportunities. At the time of the Audit Report the Board, was considering a wide variety of options and have conducted a scoping study for the future of the business.

Department of Health and Ageing

3.47 At 30 June 2004, DoHA recorded an estimate of $442.3 million in relation to the Australian Government's liability under the Medical Indemnity schemes (ie., Incurred But Not Received [IBNR] Scheme, High Cost Claim Scheme and Run-off Cover Scheme). The estimate was based upon information available to the HIC from the respective participating Medical Indemnity Insurers and on the advice of the Australian Government Actuary. The ANAO concluded that there was inherent uncertainty regarding this estimate of the Australian Government's liability and as a result, an emphasis of matter to this effect has been reported within the audit report for the DoHA.

Health Insurance Commission

3.48 As with the DoHA, the HIC recorded an estimate of $442.3 million at 30 June 2004 in relation to the Australian Government's liability under the Medical Indemnity schemes (ie., Incurred But Not Received [IBNR] Scheme, High Cost Claim Scheme and Run-off Cover Scheme). The estimate was based upon information available to the HIC from the respective participating Medical Indemnity Insurers and on the advice of the Australian Government Actuary. Consistent with the opinion issued in regard to the DoHA, the ANAO concluded that there was inherent uncertainty regarding this estimate of the Australian Government's liability and, as a result, reported an emphasis of matter to this effect within the audit report for HIC.

Hydrocool Pty Ltd

3.49 The audit opinion for Hydrocool included an emphasis of matter as there were issues concerning the ability of the company to continue as a going concern and therefore to realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The going concern of Hydrocool is dependent upon the company successfully concluding a substantial licensing agreement currently under negotiation or other revenue generating initiatives which are at various stages of being concluded. The directors considered that, at the date of signing the financial report, there were reasonable grounds to believe that matters set out above will be achieved and have therefore prepared the financial statements of the company on a going concern basis.

Queensland Orchestra Pty Ltd

3.50 In relation to the Queensland Orchestra Pty Ltd, there is significant uncertainty surrounding its ability to continue as a going concern, should the Company not be able to meet the criteria specified in the Tripartite funding agreement with State and Federal Governments, not obtain the income as budgeted from ticket sales, corporate sponsorship and orchestra hire, and not control its costs as budgeted. As a result of these factors, there is uncertainty as to whether it can realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

Audit Reports containing Additional Statutory Disclosure

Attorney-General's Department

3.51 In prior years, AGD did not maintain adequate accounts and records in respect of payments against the special appropriations made under the *National Firearms Implementation Act 1998, the Law Officers Act 1964* and the *High Court Justices (Long Leave Payments) Act 1979.* AGD has taken appropriate action to ensure that these breaches will not recur.

Australian Federal Police

3.52 AFP breached section 48 of the FMA Act as the AFP's accounts and records were not kept in such a way to ensure that two special accounts were reported for the period 2000–2001 to 2002–2003. Such documentation would have allowed AFP to effectively manage the special accounts and to report the activity on the accounts during the reporting periods.

Australian Greenhouse Office

3.53 AGO breached section 48 of the FMA Act as the AGO's accounts and records were not kept in such a way as to ensure that five special appropriations were disaggregated and reported at the required level of detail for the period 2000–2001 to 2002–2003.

Australian Taxation Office

3.54 The ATO breached section 48 of the FMA Act in relation to inadequacy of accounts and records in cases of:

- superannuation surcharge;
- superannuation guarantee charge;
- general interest charge; and

- special appropriations in relation to payments of family tax benefit, refunds under the indirect tax concession scheme and refunds of EFT payments.

Department of Agriculture, Fisheries and Forestry

3.55 DAFF breached section 48 of the FMA Act due to:

- a number of special appropriations not being disaggregated and reported in the required level of detail for the period 1998–1999 to 2002–2003; and
- levy refunds not being recorded against individual provisions of relevant levy collection Acts.

Department of Defence

3.56 In addition to the accounts and records scope limitations noted previously within this Chapter, which give rise to my inability to form an opinion on whether the financial statements were prepared in accordance with the FMOs made under the FMA Act, Defence breached section 48 of the FMA Act also with respect to the administration of its special account Services for Other Government and Non-Agency Bodies.

Department of Veterans' Affairs

3.57 In 2000–2001, DVA drew down the special appropriation provided under the *Compensation (Japanese Internment) Act 2001* for payment of compensation to eligible persons as well as departmental costs associated with the measure. During 2003–2004, DVA was advised by the ANAO that it had been provided legal advice that the scope of the appropriation contained in section 13 of the Act was not wide enough to include the use of the appropriation for departmental costs. DVA requested and was provided with legal advice from the Australian Government Solicitor that, while it is arguable that the appropriation covers such departmental expenditure, the better view is that it does not. On this basis, DVA breached section 83 of the *Constitution* and section 48 of the FMA Act and will consult with Finance as to the repayment to the Consolidated Revenue Fund of any incorrectly drawn funds.

4. Results of Final Audit Testing

Substantiating Financial Balances

4.1 Processes to assist in the timely preparation of financial statements have been documented previously within this report, notably in section 1–*Financial Reporting Framework.* Much of the work undertaken by the ANAO in the final phases of the audit is directed at substantiating financial statement balances. This is achieved through testing, which is designed to gather appropriate audit evidence to meet specific audit objectives and financial statement assertions. Australian Auditing Standards (AUS) set out the professional requirements, which must be applied to all audits. *AUS 502 Audit Evidence* describes the financial statement assertions critical to substantiating financial statement balances. The assertions applied in 2003–2004 were as follows:

In relation to Assets and Liabilities:

- *Existence* — Each reported asset and liability exist at reporting date.
- *Valuation* — Each asset and liability is recorded at the appropriate carrying value.
- *Rights and obligations* — Each reported asset and liability pertains to the entity at the reporting period.

In relation to Revenues and Expenses:

- *Occurrence* — A transaction or other event took place which pertains to the entity in the reporting period.
- *Measurement* — Each transaction or other event is recorded at the proper amount and revenue or expense is allocated to the proper period.

In relation to Assets, Liabilities, Revenues and Expenses:

- *Disclosure* — All items in the statements are disclosed, classified and described in accordance with the FMOs and AAS, mandatory professional reporting requirements in Australia, and statutory requirements
- *Completeness* — There are no unrecorded assets, liabilities, transactions or other events, or undisclosed items.

4.2 In February 2004, a revised *AUS 502 Audit Evidence* was issued to comply with the International Standard on Auditing and included amendments to the assertions identified above and the inclusion of several additional assertions. The revised assertions were reflected in the performance of the financial statement audits by ANAO and did not significantly impact on the audit approach undertaken.

4.3 The ANAO's approach, when auditing account balances, is to work closely with the entity's accounting staff and, when errors are noted, verify the financial impact with the Chief Finance Officer or senior accounting officer. Where the amount is material, adjustments are processed to correct the errors. In addition, most agencies process adjustments to correct non-material errors. Only in rare circumstances are material audit initiated adjustments not accepted by entities.

4.4 Typically these adjustments relate to areas where the accounting treatment is contentious. Audit evidence gathered across all audits suggests that, while audit initiated corrections result in both increases and decreases to financial statement balances, by far the most significant adjustments result in increases in administered and departmental expenses and liabilities and decreases to administered revenues and administered assets. During the final audit phase, some of the more significant audit initiated adjustments made to the financial statements of material entities totalled as follows:

- net increases to departmental and administered expenses of $187.90 million and $470.66 million respectively;
- net increase to departmental revenue of $81.66 million;
- net decrease to administered revenue of $2.96 billion;
- net increase to departmental assets of $69.23 million;
- net decrease to administered assets of $2.88 billion; and
- net increases to departmental and administered liabilities of $43.19 million and $540.48 million respectively.

A comparison of audit-initiated adjustments for 2002–2003 and 2003–2004 is provided below:

Financial Statement Category	Departmental		Administered	
	2004 $m	2003 $m	2004 $b	2003 $b
Revenue	81.66	-144.60	-2.96	2.66
Expenses	187.90	480.43	0.47	0.25
Assets	-69.23	-76.60	-2.89	2.80
Liabilities	43.19	373.76	0.54	0.37

4.5 The table above demonstrates there is an element of volatility within adjustments between the years.

4.6 At the end of the audit process, the ANAO was satisfied that there were no material un-adjusted audit balances.

4.7 Section 48(1) of the FMA Act requires chief executives of agencies to ensure that accounts and records of the agency are kept in accordance with the FMOs.

4.8 The FMOs require the Chief Executive to ensure that the accounts and records of the Agency properly record and explain the Agency's transactions and financial position and that, without limiting the generality of this obligation, must ensure that the accounts and records are kept in a way that:

(a) records the receipt and expenditure of public money on a daily basis;

(b) enables information to be provided to the Finance Chief Executive when required by the Finance Chief Executive:

    (i) on Commonwealth financial affairs to be included in budget and related documentation; and

    (ii) on the financial affairs of the Agency for the preparation of aggregate reporting for the Commonwealth;

(c) enables the preparation of financial statements in accordance with section 49 of the Act;

(d) allows those financial statements to be conveniently and properly audited in accordance with the Act;

(e) ensures that moneys are only expended for the purpose for which they are appropriated; and

(f) ensures the limit on any appropriation is not exceeded.

4.9 In 2003–2004 for the first time, the Chief Executive of an agency is required to attest in the certificate to the financial statements that the financial statements are based on properly maintained accounts and records.

4.10 The ANAO has tabled two performance reports audits on special accounts and special appropriations[12] that have identified a requirement for some entities to keep better records to be able to comply with the requirements in relation to accounts and records. These reports in conjunction with the 2003–2004 audits of the financial statements of Australian Government entities have resulted in a heightened understanding of the minimum requirements for adequate accounts and records. Where entities have been found not to have adequate records in relation of aspects of their operations, these have resulted in treatments in the audit reports from 'additional statutory matters' disclosures through to qualification in some cases. These are detailed in Chapter 3 of this report.

Continuing Significant Accounting Issues

Outputs and Outcomes

4.11 The FMOs require entities to report financial performance on outcomes and outputs in their financial statements including:

- net cost/contribution of outcomes delivery;
- major classes of departmental revenues and expenses by output groups and outputs; and
- major classes of administered revenues and expenses by outcomes.

4.12 To meet this requirement, Australian Government entities need to have in place direct and indirect cost allocation systems by outcome and output types. The attribution method used to apportion shared items to outcomes and outputs needed to be reliable. In 2003–2004, entities were again required to disclose the attribution method used in the notes to the financial statements. Entities used a combination of system and estimation processes, and, in some cases, manual estimation processes that can be both time consuming and unreliable. In 2002–2003 some 15 entities were identified as still reliant on manual allocations. In 2003–2004 a similar number still of entities faced this same issue and should have assessed the cost effectiveness of automating cost, and particularly overhead, allocation processes.

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[12] *Agency Management of Special Accounts*, No.24 2003–2004 and *Financial Management of Special Appropriations*, No.15 2004–2005

New Internal Control Issues

4.13 The ANAO rates audit findings according to a risk scale. Audit findings which pose a significant business, or financial, risk to the entity and which must be addressed as a matter of urgency, are rated as 'A'. Issues that pose a moderate business, or financial, risk are rated as 'B'. Issues that are procedural in nature, or reflect relatively minor administrative shortcomings, are rated as 'C'.

4.14 Overall, the results of the final audit phase indicate that some 43 per cent (other than Defence) of the control issues raised in Audit Report No.58 have been addressed, or are in the process of being addressed. A further 44 (excluding Defence) new issues have been raised with entities during the final phase of the audit. Overall, the quality of the control environment and internal controls in business and accounting processes continue to improve. This is demonstrated by:

> 14 of the 65 material entities reporting an improvement in the number of 'A' and 'B' category audit issues and 17 (excluding Defence) entities showing a deterioration of their position, with 5 entities remaining at the same position; and 29 of the 65 material entities had no category 'A' or 'B' audit issues.

4.15 A summary table of the movement in the number of audit issues from the time of the interim audit (up to March 2004) to completion of the audits in September 2004 is provided for each material entity by portfolio in Part 6. Appendix 1 provides a summary of significant issues by major entity (up to March 2004), and a table of 'A' and 'B' ratings by entity for 2004 and 2003 as reported in Audit Report No.58.

4.16 Individual portfolio results included in Part 6 of this Report summarise the progress made by entities on audit issues carried over from the interim audit as well as highlighting any new audit issues. A broad range of internal control issues were raised as part of the final audit phase, all of which were consistent with issues from the interim audit phase and those of previous years. Most were specific to the entity concerned and covered issues such as the need to:

- review systems to ensure adequacy of recording and reporting of special accounts and special appropriations;
- segregate incompatible duties to assist in preventing errors and/or fraud;
- improve business continuity and/or disaster recovery planning and testing;

- improve reconciliation processes over key accounts to reduce the possibility of errors or fraud;
- improve key information security controls, in particular user access privileges;
- change systems to ensure adequacy of audit trails in data warehouses forming part of major business systems;
- reconcile major business systems to financial records;
- develop reliable models to be used for important accounting estimates;
- establish appropriate processes to monitor ongoing liabilities and contingencies;
- review accounting for complex transactions to ensure the treatment is appropriate for the underlying substance of the transactions; and
- improve the processes for the capture and reporting of employee benefits.

4.17 In addition, it was noted that a number of agencies still need to improve their financial statement preparation processes particularly in relation to administered items, including their quality assurance and review processes.

Carryover of Interim Audit Internal Control Issues

Control over financial systems and processes

4.18 In respect of interim audit issues, Audit Report No.58 noted that that the effectiveness of control procedures over business and accounting processes was consistent with that of the prior year. Some entities continue to experience difficulty with a number of control processes specific to their operations covering, for example, segregation of duties and inappropriate delegations, procedures to ensure the completeness and accuracy of the recording of transactions, and reconciliation of asset registers. A number of entities could also improve the quality of documentation with regard to accounting estimates.

4.19 Reconciliation of the asset register to the Financial Management Information System (FMIS) is an ongoing issue. In addition, a persistent reconciliation issue, which was noted in last year's corresponding report, continues to occur in a number of entities. This relates to the need to reconcile payroll and leave costs recorded in the HRMIS with balances recorded in the general ledger of the FMIS. The ANAO continues to reinforce the importance of this reconciliation process given the significance of personnel costs to entities and the potential likelihood of errors in financial reporting.

4.20 The ANAO also notes the increasing incidence of entities undertaking significant in-house software developments and the consequential issues surrounding the proper distinction between the capitalised and operating expenditures. This will be an issue for the implementation of IFRS. As well, there are issues related to the treatment of intellectual property.

4.21 The ANAO will continue to review the above issues in order to assess improvements over the coming year.

Controls related to information systems

4.22 Audit Report No.58 provided a summary of the major issues relating to the audit of information systems, focusing on the control issues associated with planning the IT environment, developing and delivering IT solutions, operating the IT environment, and organising and monitoring IT processes.

4.23 Since that report, the ANAO has completed its final IT audit updates of the major entities for the 2003–2004 year end. Follow-up issues were also identified in the areas of IT security at some of the smaller agencies once testing was complete. Audit testing still highlights the need to continue to focus attention on appropriate security and control measures. The monitoring of security operations is also an area that requires further improvement.

4.24 The audit ratings over security and business continuity for the larger agencies remained the same at year end. These areas will require a sustained effort over time by agencies to address the shortcomings identified.

4.25 Further emphasis on IT Governance and the development of more robust IT Processes, as detailed in the Control Objectives for Information and Related Technology control framework, is important given the schedule of large IT projects either in progress, or under consideration, over the next 3 years.

4.26 The ANAO will continue to review the above issues in order to assess improvements in the coming year.

Internal Control Environment

4.27 Audit Report No.58 also noted that a sound internal control environment is an essential component of corporate governance and that improvements were required particularly in respect of risk awareness, assessment and management, and the quality and presentation of monthly financial reporting.

4.28 In addition, the Report noted that further progress had been achieved in improving the internal control environment across all entities reviewed in this report. However, ongoing refinement is necessary, particularly in respect of:

- development and reporting of key performance measures across the non-financial, as well as financial, areas of their operations;
- improving risk management and insurance frameworks by articulating, and documenting, the links between risk management and insurance, and their links with other strategic documents and process;
- reviewing risk management and insurance frameworks to enhance or develop reporting, monitoring and review requirements to assess both the performance of, and compliance with, the frameworks; and
- reviewing CEIs with respect to completing and approving control checks over operational and key accounting processes; and reconciling and validating data transferred between operational systems and financial management information systems.

The ANAO also identified a number of opportunities for significant improvement in the control structures in entities, including the need for:

- policy documents to be amended to provide an interpretation of the legislation relevant to the entity;
- the nature and monetary limits of the delegation to be detailed in the instruments of delegation; and
- the relevant risks and controls in the fraud risk assessment to be identified and assessed.

Entities must also continue to ensure that they:

- enhance their financial knowledge and analysis/modelling skills, consistent with changes in their operational issues and strategic directions; and
- manage their financial and accounting skills knowledge base to ensure there is not undue on-going reliance on contractors and consultants without appropriate longer term management and/or service agreements in place.

4.29 These are areas where most Australian Government entities would derive benefit, in terms of reviewing their existing internal control framework and other corporate governance arrangements. The ANAO will examine the issues in these areas and monitor developments over the coming year.

5. Results of the Review of Triple Bottom Line Reporting

Overview

5.1 Triple Bottom Line, or TBL, reporting is a relatively new topic in the governance debate, but one that is rapidly growing in acceptance. However, TBL reporting has been part of international private sector reporting for well over a decade, particularly in the resources segments. Over this time, there have been considerable advances in the preparation of such reports. The progress in the area of TBL reporting is evident through the creation of the Global Reporting Initiative (GRI) which, is an independent, international foundation that develops voluntary guidelines for Sustainability Reporting. The GRI has recently released a draft sectorial supplement on TBL reporting for the public sector for comment. In the public sector, considerable efforts have been made to address the environmental area, particularly by national and international auditing bodies.

5.2 While there is no agreed definition of precisely what TBL reporting comprises and covers, it is fairly widely accepted that, at its narrowest, the term TBL is used to describe the framework for measuring and reporting organisational performance against economic, social and environmental indicators. At its broadest, the term is used to capture the full set of values, issues and processes that organisations must address in order to create economic, social and environmental value and to minimise any harm resulting from their activities. This necessitates organisations being clear about their purpose and taking into consideration the needs of all their stakeholders. The emphasis is on organisational sustainability, which also provides a framework for more effective risk management as part of good corporate governance.

Triple Bottom Line Reporting by Australian Government Entities

5.3 In 2002–2003, FaCS produced its first TBL Report and the first-ever verified TBL report for an Australian Government entity. In 2003–2004, both FaCS and DEH produced a TBL report. From the outset of the TBL Report production process, both FaCS and DEH staff and management operated in a fully open and transparent manner, including a request to the ANAO to perform an independent verification of its TBL Report.

5.4 Currently, no approved standards exist in relation to preparing or verifying TBL reports. The ANAO verification exercise complied with a draft standard General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports (DR 03422). Due to the lack of approved standards, at the commencement of the TBL verification process, the ANAO agreed with both agencies on the procedures that would be performed and the 'error coefficient' which data would be assessed against. This was a pragmatic but justifiable approach in the circumstances and the results should be judged on that basis.

5.5 Following wide-ranging investigation, the ANAO was able to prepare a verification statement, for both agencies, which is included in their published TBL Report. The objective of the audit work was to provide an independent opinion on the completeness, accuracy and reliability of the selected data parameters and the representation and discussion of such data in the report. The scope of the verification involved:

- selection of a sample of data parameters, from the total of data to be reported upon;
- definition of the scope of activities within each entity to be covered by verification; and
- undertaking the necessary tasks to verify or otherwise the data parameters selected.

Department of Family and Community Services

5.6 Based on the procedures performed, nothing came to the ANAO's attention that lead to a conclusion that the TBL data reported by FaCS was materially misstated. The TBL data reported included: employee numbers by age and gender; vehicles leased; fuel consumed by the FaCS fleet; total energy use by the FaCS fleet; total greenhouse gas emissions by the FaCS fleet; total printer and photocopier paper purchased under department-wide paper supply agreements; water consumption; and results of waste audits at Juliana House.

5.7 In relation to other data parameters tested, the ANAO was unable to conclude that the data was free of material misstatement. This was due to a combination of factors including: the absence of mature data collection systems for many of the parameters reported; and access to source data on Competitive Tendering and Contracting and supplier expense splits by category could not be provided in time to allow the ANAO to complete verification activities within the reporting deadline.

5.8 FaCS should be commended on its continued commitment to transparency and accountability through the preparation and verification of its second TBL report. While some improvements have been noted in the quality of data reported since last year, the ANAO has recommended that FaCS should continue to examine opportunities to improve data collection systems in those areas where weaknesses still exist. The ANAO acknowledges that FaCS management has expressly requested ANAO recommendations on how to improve the completeness, accuracy and reliability of their reported data. In addition to focusing on the quality of reported data, the ANAO has recommended that FaCS should also consider the resource commitments made within its TBL report and develop and monitor appropriate plans to achieve those commitments.

Department of the Environment and Heritage

5.9 Based on the procedures performed, nothing came to the ANAO's attention that lead to a conclusion that the TBL data reported by DEH was materially misstated. This TBL data reported included: total material use (printing/photocopy paper); direct energy use; total water use; and greenhouse gas emissions.

5.10 Some other environmental and social data parameters tested could not be verified for completeness, accuracy and reliability in all material terms. This was due to a combination of factors including: the absence of mature systems to accurately record and report associated employee training information, including hours undertaken, cost of training courses and indirect costs; and information related to safety incidents and accidents is currently not captured in the format required to be reported under the parameter. In addition, systems and processes have not been developed and implemented at a local level to track workers' compensation performance.

5.11 DEH's TBL report covered the internal operations and performance of the Department only. The report did not cover the outcomes or policies and programs that DEH delivers on behalf of Government. The ANAO review covered only selected environmental and social data parameters. DEH have indicated that they are seeking to extend the coverage of the report in future years.

5.12 It is acknowledged that this was the inaugural TBL verification report for DEH. As a consequence, the data parameters selected had not previously been subject to external verification. The ANAO acknowledges that DEH management have expressly requested opinions on improving the completeness, accuracy and reliability of reported data, so as to overcome such qualifications in the future.

5.13 DEH should also be commended on its commitment to transparency and accountability through the preparation of its first TBL report.

6. Results of the Audits of Financial Statements—By Portfolio

Introduction

6.1 This chapter of the report summarises the results of the audits of the financial statements of individual Australian Government entities and is structured in accordance with the portfolio arrangements established in the Administrative Arrangements Order of 8 August 2002, as amended. For reporting purposes, the structure of this part reflects the Portfolio arrangements which existed at 30 June 2004 as established in the Administrative Arrangements Order of 18 December 2003, as amended by an Order in Council dated 24 June 2004, with effect from 1 July 2004, and an Order in Council dated 21 July 2004.

6.2 Any additional significant internal control matters arising from finalising these audits since Audit Report No.58 are also included.

6.3 The tabular information for each portfolio indicates for each entity:

- the outcome of the audit (nature of audit opinion);
- the date the audit report was issued; and
- whether any additional significant internal control matters were identified in the course of finalising the financial statement audit since Audit Report No.58.

6.4 Details of modified (qualified or containing an emphasis of matter) audit opinions are provided following the respective tables. Details are also provided for audit reports which contain an additional paragraph on other statutory matters.

6.5 For each material entity a brief commentary covering both departmental and administered activities is provided on:

- the financial results for the year; and
- significant audit issues, including those carried over from the interim audit phase and new issues arising from the final audit phase.

6.6 The various tables track progress on matters raised at the time of the interim audits, conducted earlier this year to their completion.

6.7 As part of the commentary on entity financial results, information has been included in the form of ratios. The financial ratios used are a broad indicator only of an entity's financial position but, while the context of these ratios will vary between entities, the general principles apply in each case. A description of the two ratios used is as follows:

The current ratio Ratio of current assets to current liabilities	Indicates whether an entity has sufficient short-term (less than twelve (12) months) assets to cover its short-term liabilities. A ratio of greater than one (1) indicates that current assets exceeds current liabilities, therefore working capital is positive. A ratio of less than one (1) therefore indicates a negative working capital position. Generally, the higher the ratio, the greater the level of financial stability and the lower the risk for owners and suppliers.
The debt ratio Ratio of total liabilities to total assets	Shows whether the entity could cover all liabilities, either short or long term, with the value of its assets. A ratio of greater than one (1) indicates that total assets exceed total liabilities and all debts of the entity would be covered. Generally, the higher the ratio, the stronger the financial position of the entity and the lower the risk for owners and suppliers.

6.8 Issues arising from the audit activity are rated in accordance with the seriousness of the particular matter identified. The rating indicates to the respective entity the priority it needs to give to remedial action. The ratings are defined as follows:

Category A: Those matters which pose significant business or financial risk to the entity and must be addressed as a matter of urgency: this assessment should take account of both the likelihood and consequences of the risk eventuating.

Category B Control weaknesses which pose moderate business or financial risk to the entity or matters referred to management in the past which have not been addressed satisfactorily: these would include matters where the consequences of the control weaknesses might be significant; however there is little likelihood of the consequences eventuating.

Category C Matters which are procedural in nature or minor administrative failings: these could include relatively isolated control breakdowns which need to be brought to the attention of management.

6.9 In addition, a brief commentary on significant issues for non-material entities is provided.

6.10 Significant category 'B' or 'C' issues unresolved at the time of the next audit may, depending on the seriousness of the issue, be given a higher subsequent rating.

6.11 Unless otherwise indicated, entities have advised of appropriate remedial action taken, or proposed, to address the matters included in this report.

6.12 There were no significant changes in accounting policies covering the respective entities financial statements and information apart from those required under the FMOs, unless otherwise stated.

Agriculture, Fisheries and Forestry Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Agriculture, Fisheries and Forestry	**Yes**	A	26-Aug-04	
-Australian Quarantine and Inspection Service	No	✓	26-Aug-04	
-National Residue Survey	No	✓	26-Aug-04	
Australian Fisheries Management Authority	No	✓	01-Sep-04	
Australian Pesticides and Veterinary Medicines Authority	No	✓	23-Aug-04	
Australian Wine and Brandy Corporation	No	✓	30-Aug-04	
Commission for the Conservation of Southern Bluefin Tuna ☞ (31-Dec-03)	No	✓	16-July-04	
Cotton Research and Development Corporation	No	✓	28-Aug-04	
Dairy Adjustment Authority	No	✓	30-July-04	
Fisheries Research and Development Corporation	No	✓	09-Aug-04	
Forest and Wood Product Research and Development Corporation	No	✓	30-Aug-04	
Grains Research and Development Corporation	**Yes**	✓	03-Aug-04	
Grape and Wine Research and Development Corporation	No	✓	30-Aug-04	
Land and Water Research and Development Corporation	No	✓	17-Aug-04	◆
Murray-Darling Basin Commission	**Yes**	✓	16-Sep-04	
Rural Industries Research and Development Corporation	No	✓	09-Sep-04	
Sugar Research and Development Corporation	No	✓	02-Sep-04	
Wheat Export Authority ☞ (30-Sep-04)	No	✓	02-Dec-04	

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◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.13 The Agriculture, Fisheries and Forestry Portfolio consists of:

- The Department of Agriculture, Fisheries and Forestry;
- 12 statutory authorities engaged in research and development, regulation and marketing and promotion;
- the Murray-Darling Basin Commission; and
- Commission for the Conservation of Southern Bluefin Tuna.

6.14 Through these bodies, the Portfolio seeks the outcome of more sustainable, competitive and profitable Australian agricultural, food, fisheries and forestry industries.

6.15 The following comments relate only to material entities in the portfolio.

Department of Agriculture, Fisheries and Forestry

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	5.62	14.97
Commonwealth's equity investment	33.41	28.48
Ratio of current assets to current liabilities	1.53:1	1.38:1
Ratio of total assets to total liabilities	1.21:1	1.17:1

6.16 The reduced net surplus is primarily attributable to:

- an increase in employee expenses due to a combination of increased staff numbers and an increase in salaries in accordance with the DAFF's Certified Agreement; and
- a payment under the Scheme for Compensation for Detriment caused by Defective Administration.

6.17 The Commonwealth's equity investment has increased as a result of the 2003–2004 surplus of $5.62 million. This increase was partially offset by a net revaluation decrement of $0.69 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	633.67	668.04
Total expenses	1,507.15	1,174.52
Total assets	545.54	608.03
Total liabilities	81.85	40.55

6.18 The decrease in administered revenues and assets is mainly attributed to the revenue and administered investments amounting to $68 million that was recognised in the prior year, related to accounting of Commonwealth's interest in Murray-Darling Basin Commission as a joint venture entity. The increase in total expenses was largely due to an increase of $162.84 million in Exceptional Circumstances program payments made to assist farmers in drought stricken parts of Australia. Other significant increases related to the National Action Plan for Salinity and Water Quality ($41.61 million) and the Sugar Industry Reform Programs ($58.18 million). A further increase in expenditure of $51.15 million was due to a revaluation of the Commonwealth's interest in the Murray-Darling Basin Commission as a joint venture entity. Following this trend, liabilities increased largely as a result of an increase in the amount of levies/Commonwealth contributions accrued.

Audit results

Summary of significant entity and administered audit findings

6.19 The unqualified audit report contained an additional statutory matter addressing the breach of section 48 of the FMA Act. The breach was in relation to:

- a number of special appropriations not being disaggregated and reported in the required level of detail for the period 1998–1999 to 2002–2003; and
- levy refunds not being recorded against individual provisions of relevant levy collection Acts.

6.20 DAFF has undertaken remedial action to address these issues and ensure compliance with the legislation in future.

6.21 Three audit issues of moderate risk were noted during the interim audit, relating to processing of personal benefits through Centrelink, unrecorded prior employment service and accounts payable processes. The Department is in the process of resolving these issues. There were no new significant audit issues arising from the final audit.

6.22 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	3	0	0	3
Legislative breach	0	0	1	1
Total	**3**	**0**	**1**	**4**

Grains Research and Development Corporation

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/deficit) for the year	(1.73)	4.22
Commonwealth's equity investment	102.49	104.19
Ratio of current assets to current liabilities	3.79:1	3.32:1
Ratio of total assets to total liabilities	3.66:1	3.19:1

6.23 The Grains Research and Development Corporation's deficit for the year is a result of a drop in investment revenue resulting from lower returns and general reduction in investments and an increase in research and development expenses.

6.24 The Commonwealth's equity investment decreased in line with the deficit for the year.

Audit results

Summary of significant entity audit findings

6.25 There were no significant audit issues carried forward from the interim audit. There were no new issues arising from the final audit.

Murray-Darling Basin Commission

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(404.27)	42.76
Commonwealth's equity investment	1,371.40[13]	1,627.14
Ratio of current assets to current liabilities	1.72:1	1.23:1
Ratio of total assets to total liabilities	47.60:1	45.73:1

6.26 The significant decrease in the Murray-Darling Basin Commission's assets and the current year deficit is due to correction of fundamental error that was made in the last year's financial statements. In accordance with the accounting standards an error made in a prior reporting period must be corrected in the reporting period in which the error is detected. An adjustment of $422.64 million was made to the assets and the expenses to account for the assets being reported at their fair value rather than their original replacement value.

Audit results

Summary of significant entity audit findings

6.27 There were no significant audit issues carried forward from the interim and final phases of the audit.

Comments on non-material entities

6.28 The significant audit issues relating to non-material entities within this portfolio are provided below.

Land and Water Research and Development Corporation

6.29 Review of the general IT environment and controls at the Land and Water Research and Development Corporation during the previous year noted that a number of security controls were not in place to protect the confidentiality, integrity and availability of the information. Whilst this issue is

[13] The Equity Investment represents the total of the Commonwealth and State and Territories investment in MDBC as a joint venture entity. The Commonwealth's equity investment represents 20 per cent of this amount, being $274.28 million at 30 June 2004.

still outstanding in the current year, the Land and Water Research and Development Corporation anticipates completing a system update over the coming year.

6.30 There were no other significant issues arising in relation to non-material entities within the portfolio.

Attorney-General's Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Attorney-General's Department	**Yes**	A	17-Aug-04	
Administrative Appeals Tribunal	No	✓	08-Sep-04	◆
AFP-ACT Community Policing	No	✓	06-Sep-04	
Australian Crime Commission	No	✓	15-Sep-04	
Australian Customs Service	**Yes**	✓	20-Aug-04	
Australian Federal Police	**Yes**	A	16-Aug-04	◆
Australian Government Solicitor	No	✓	27-Aug-04	
Australian Institute of Criminology	No	✓	30-Aug-04	
Australian Institute of Police Management	No	✓	14-Sep-04	
Australian Law Reform Commission	No	✓	01-Sep-04	
Australian Security Intelligence Organisation	No	✓	07-Sep-04	◆
Australian Transactions Report and Analysis Centre	No	✓	14-Sep-04	
Criminology Research Council	No	✓	30-Aug-04	
CrimTrac	No	✓	10-Sep-04	
Family Court of Australia	**Yes**	✓	02-Aug-04	
Federal Court of Australia	No	✓	10-Sep-04	
Federal Magistrates Court	No	✓	06-Sep-04	
High Court of Australia	**Yes**	✓	24-Aug-04	
Human Rights and Equal Opportunity Commission	No	✓	02-Sep-04	
Insolvency and Trustee Service Australia	No	✓	07-Sep-04	
National Native Title Tribunal	No	✓	13-Sep-04	
Office of Film and Literature Classification	No	✓	25-Aug-04	
Office of the Director of Public Prosecutions	No	✓	09-Sep-04	
Office of the Federal Privacy Commissioner	No	✓	08-Sep-04	
Office of the Parliamentary Counsel	No	✓	25-Aug-04	

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◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.31 The Attorney-General's portfolio comprises the Attorney-General's Department and a number of statutory and non-statutory bodies. The Department is the central policy and coordinating agency within the portfolio. The structure of agencies within the portfolio is aligned to the Government's overall commitment to a fairer and safer Australian society.

6.32 The portfolio covers a broad range of law and justice matters and services including legal policy and services to the Australian Government in areas of administrative, constitutional, civil, family, and international law, law reform, bankruptcy estate administration and regulation, Australian Government courts and tribunals, legal aid, native title, national and international human rights issues, censorship, criminal law and law enforcement, national security, emergency management, and some aspects of customs and border control.

6.33 The portfolio's agencies progress Government priorities, including direct services to the community within a legislative framework, through the purchase of services on behalf of the community, the provision of services to the Government, Ministers, Australian Government departments and agencies, and the provision of services to other clients.

6.34 The following comments relate only to material entities in the portfolio.

Attorney-General's Department

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(10.53)	(11.76)
Commonwealth's equity investment	40.08	46.15
Ratio of current assets to current liabilities	2.65:1	2.51:1
Ratio of total assets to total liabilities	2.16:1	2.20:1

6.35 The AGD's results for 2004 are consistent with those of the prior year, and are in line with budget expectation.

6.36 The Commonwealth equity investment in AGD decreased by approximately $6 million, due to the net operating deficit of $10.53 million, offset by a revaluation increment recorded to the asset revaluation reserve of $4.47 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	13.32	28.21
Total expenses	358.28	346.08
Total assets	554.70	543.08
Total liabilities	365.51	346.30

6.37 The decrease in revenue is mainly due to a reduction in competitive neutrality payments received from the Australian Government Solicitor and a return of $5 million of unspent monies that were advanced to the States and Territories in prior years in respect of the Guns Buyback Scheme. Administered expenses, assets and liabilities have increased in line with budget expectations.

Audit results

Summary of significant entity and administered audit findings

6.38 The AGD's financial statements contain a paragraph on 'Additional Statutory Disclosure' advising readers that, in prior years, the AGD did not maintain adequate accounts and records in respect of payments against the special appropriations made under the *National Firearms Implementation Act 1998, the Law Officers Act 1964* and the *High Court Justices (Long Leave Payments) Act 1979*.

6.39 The AGD has taken appropriate action to ensure that these breaches of section 48 of the FMA Act will not recur.

6.40 The AGD is in the process of satisfactorily addressing one control issue reported previously in relation to the administration and review of user access to the AGD's SAP and Aurion systems and the development of security plans for SAP and Aurion. There were no significant departmental or administered audit issues arising from the final audit phase.

6.41 The following table provides a summary of the status of previously reported audit findings as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	1	0	0	1
Legislative Breach	0	0	1	1
Total	**1**	**0**	**1**	**2**

Australian Customs Service

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	6.13	12.07
Commonwealth's equity investment	198.11	138.40
Ratio of current assets to current liabilities	0.77.1	0.56:1
Ratio of total assets to total liabilities	2.35:1	1.94:1

6.42 The reduction in Australian Customs Service's (Customs) surplus position is a result of an increase in employee and supplier expenses in 2003–2004 in comparison to 2002–2003 as a result of an increase in customs activity in the Cargo Management Re-Engineering (CMR) project and boarder control.

6.43 The increase in the Commonwealth's equity investment in Custom's is a result of an equity injection of $55.8 million, the surplus position of $6.13 million offset by a revaluation decrement of $2.29 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	6,111.78	5,946.29
Total expenses	609.98	557.68
Total assets	74.56	79.55
Total liabilities	19.92	21.13

6.44 The total revenue administered on behalf of the Australian Government for 2003–2004 is $6.11 billion (2002–2003: $5.95 billion) of which $5.66 billion (2002–2003: $5.55 billion) relates to customs duty.

6.45 An increase of $102 million in duty is attributable to an increase in the volume of imports from an appreciating Australian dollar against the trade weighted index for most of 2003–2004 year.

Audit results

Summary of significant entity and administered audit findings

6.46 The results of the interim audit reflect a consolidation of the improvements made in Customs' control environment last year. These improvements include the implementation of necessary policies and procedures, and strengthening of existing controls. Aspects of IT security policies and arrangements and the business continuity plan were again identified for further improvements. The audit also found some scope for improvement in the areas relating to the performance of compliance activities, asset management and debt management.

6.47 The following table provides a summary of the status of previously reported audit issues as well of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

Australian Federal Police

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	89.10	(0.60)
Commonwealth's equity investment	195.02	76.34
Ratio of current assets to current liabilities	2.42:1	1.40:1
Ratio of total assets to total liabilities	1.29:1	1.54:1

6.48 The surplus for the year is mainly attributable to an increase in appropriation funding for Solomon Islands and Papua New Guinea projects. Deferred expenditure on these projects has also resulted in an increase in AFP assets. In addition, an increase in sales revenue relating to additional protection services provided to commercial clients was a contributing factor. The increase in the Commonwealth's equity investment position was due to the 2003–2004 operating surplus and capital injections received from Finance.

Audit results

Special Accounts

6.49 During the course of the audit it was noted that AFP did not maintain adequate accounts and records for two special accounts–Australian Federal Law Enforcement Projects Reserve and the Australian Federal Police Sponsored Activities Reserve or report them in the financial statements as required by the FMOs. Accordingly, the audit opinion on the AFP's 2003–2004 financial report included an *Additional Statutory Disclosure* regarding a breach of section 48 of the FMA Act.

Summary of significant entity and administered audit findings

6.50 The final audit process identified two areas of moderate significance for improvement.

Operational advance accounts

The AFP has a number of operational advance accounts operating at 29 locations. Each of these accounts operates as an 'imprest float', where a fixed amount of funds is advanced for a particular use. At the time of the audit, the aggregate cash balance of the 'floats' was not reconciled to the total recorded in the general ledger. AFP is addressing this issue through a targeted internal audit.

Credit card penalty fees

During the 2003–2004 financial year, penalty fees of $50 235 were incurred due to late payment of credit card accounts. Normal practice is for agencies to pay credit card accounts by the due date, with discrepancies being resolved at a later date. This fee could have been avoided had better internal practices been adopted. The AFP advised that this issue has been resolved.

6.51 The following table provides a summary of the status of previously reported audit issues as well of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	4	2	2	4
Legislative Breach	0	0	1	1
Total	**4**	**2**	**3**	**5**

Family Court of Australia

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.21	5.05
Commonwealth's equity investment	17.87	14.98
Ratio of current assets to current liabilities	2.01:1	1.68:1
Ratio of total assets to total liabilities	1.59:1	1.57:1

6.52 The reduction in operating surplus is attributable to increased employee and supplier expenses from the previous year while revenues remained constant.

6.53 The increase in the Commonwealth's equity investment in the Family Court of Australia is a result of an increment to the asset revaluation reserve of $2.6 million and the Family Court of Australia's surplus position.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	2.87	3.49
Total expenses	0.00	0.00
Total assets	0.01	0.02
Total liabilities	0.00	0.00

6.54 The decrease in administered revenues is attributable to a reduction in the amount of fees collected from the previous year. The small decrease in administered assets is attributable to a reduction in cash.

Audit results

Summary of significant entity and administered audit findings

6.55 There were no significant agency or administered issues arising from the audit.

High Court of Australia

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.43	15.08
Commonwealth's equity investment	175.56	156.60
Ratio of current assets to current liabilities	2.00:1	3.77:1
Ratio of total assets to total liabilities	68.33:1	87.87:1

6.56 The reduction in the High Court of Australia's operating surplus reflects a decline in appropriation revenue attributable to the cessation of the capital use charge arrangements in 2002–2003, accounting for $14.65 million of this reduction.

6.57 The High Court of Australia is in a stable financial position with current assets well in excess of current liabilities. The increase in the Commonwealth's equity investment of High Court of Australia was due to a revaluation increment of $18.48 million and the 2003–2004 operating surplus.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	0.96	0.91
Total expenses	0.00	0.00
Total assets	0.00	0.00
Total liabilities	0.00	0.00

6.58 Administered revenues relate to court filing and hearing fees along with some sundry revenues. The revenue amount is largely dependent on the number of filings received and hearings held during each respective year.

Audit results

Summary of significant entity and administered audit findings

6.59 There were no significant agency or administered issues arising from the audit.

6.60 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since August 2004.

Ratings	Opening position at August 2003	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

Comments on non-material entities

6.61 The significant audit issues relating to non-material entities within this portfolio are provided below.

Administrative Appeals Tribunal

6.62 Two issues of moderate business or financial risk to the AAT were identified as follows:

- The absence of an independent review of changes to data in the payroll master file could result in unintentional and/or intentional changes to the data resulting in the incorrect payment or misappropriation of AAT monies.
- Whilst we acknowledge the limitation of resource availability in this small organisation, the current inadequate segregation of payroll functions within the AAT could result in the incorrect payment or misappropriation of AAT monies.

Australian Security Intelligence Organisation

6.63 The audit of Australian Security intelligence Organisation identified one issue of moderate risk relating to outdated CEIs. CEIs which are not aligned with current business processes increase the risk of procedural errors, fraud and non-adherence to government policy. The ANAO audit of material transactions and processes, however, did not find any significant examples of such deficiencies. The Chief Finance Officer is currently updating the CEIs for expected completion in the first half of 2004–2005.

6.64 There were no other significant issues arising in relation to non-material entities within the portfolio.

Communications, Information Technology and the Arts Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Communications, Information Technology and the Arts	**Yes**	✓	14-Sep-04	
Australia Council	No	✓	13-Sep-04	
Australian Broadcasting Authority	**Yes**	✓	14-Sep-04	
Australian Broadcasting Corporation	**Yes**	✓	29-Jul-04	
–Adelaide Symphony Orchestra Pty Ltd ☞31 December 2003	No	E	16-Aug-04	
–Melbourne Symphony Orchestra Pty Ltd ☞31 December 2003	No	✓	5-Apr-04	
–Queensland Orchestra Pty Ltd ☞31 December 2003	No	E	2-Apr-04	
–Sydney Symphony Orchestra Holdings Pty Ltd ☞31 December 2003	No	✓	5-Apr-04	
–Symphony Australia Holdings Pty Ltd ☞31 December 2003	No	✓	31-May-04	
–Tasmanian Symphony Orchestra Pty Ltd ☞31 December 2003	No	✓	2-Apr-04	
–West Australian Symphony Orchestra Pty Ltd ☞31 December 2003	No	✓	19-Apr-04	
Australian Business Arts Foundation Ltd	No	✓	5-Oct-04	
Australian Communications Authority	**Yes**	✓	12-Aug-04	
Australian Film Commission	No	✓	20-Sep-04	
Australian Film, Television and Radio School	No	✓	8-Sep-04	
Australian Government Information Management Office	No	✓	10-Sep-04	
Australian National Maritime Museum	No	✓	2-Sep-04	
Australian Postal Corporation	**Yes**	✓	26-Aug-04	
–Post Fulfilment Pty Ltd	No	✓	26-Aug-04	
Australian Sports Commission	**Yes**	✓	10-Sep-04	◆
Australian Sports Drug Agency	No	✓	29-Aug-04	

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Australian Sports Foundation	No	✓	10-Sep-04	
Bundanoon Trust	No	✓	16-Sep-04	
Film Australia Limited	No	✓	26-Aug-04	
Film Finance Corporation Australia Limited	No	✓	10-Sep-04	
National Archives of Australia	**Yes**	✓	9-Sep-04	
National Gallery of Australia	**Yes**	✓	4-Aug-04	
–National Gallery of Australia Foundation	No	✓	4-Aug-04	
National Library of Australia	**Yes**	✓	11-Aug-04	
National Museum of Australia	**Yes**	✓	30-Jul-04	
NetAlert Ltd	No	✓	16-Sep-04	
Regional Telecommunications Infrastructure Fund	No	✓	14-Sep-04	
Special Broadcasting Service Corporation	**Yes**	✓	13-Aug-04	
–Multilingual Subscriber Television Limited	No	✓	13-Aug-04	
Telstra Corporation Limited	**Yes**	✓	12-Aug-04	
–Telstra Employee Ownership Plan Trust	No	✓	4-Aug-04	
–Telstra Employee Ownership Plan Trust II	No	✓	4-Aug-04	
–Telstra Finance Ltd	No	✓	11-Oct-04	
–Telstra Growth share Trust	No	✓	30-Jul-04	

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Portfolio overview

6.65 The Communications, Information Technology and the Arts portfolio covers 39 reporting entities with responsibility for supporting and implementing related government policies. These agencies play a vital role in assisting the development of communications, information technology, the arts and sport grants and other support, ensuring an integrated approach to delivery of online policy, to overseeing regulations and developing industry codes of practice, as well as advising government.

6.66 The following comments relate only to material entities in the portfolio.

Department of Communication, Information Technology and the Arts

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	36.67	43.51
Commonwealth's equity investment	78.23	319.32
Ratio of current assets to current liabilities	3.90:1	3.15:1
Ratio of total assets to total liabilities	4.55:1	12.23:1

6.67 DoCITA's results for 2004 have in part been affected by the transfer of ScreenSound Australia and the National Science & Technology Centre (Questacon) to the Australian Film Commission, and DEST, respectively. These transfers took effect on 1 July 2003 and also affects the ratio of total assets to total liabilities.

6.68 Revenue has decreased from the previous financial year due to a combination of factors including a decrease in appropriations for outputs ($27.23 million) and reductions in Sales of goods & services ($8.61 million) as well as Other revenue ($7.32 million).

6.69 The reduction in the Commonwealth's equity investment is primarily attributable to the restructure of DoCITA's operations whereby Questacon was transferred to the Department of Education, Science and Training, Screensound Australia was transferred to the Australian Film Commission, and DoCITA assumed responsibility for the Office for the Information Economy. The net effect of this restructure was a reduction in equity of $278.34 million. This was offset by the current year net surplus of $3.18 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	2,339.49	2,129.59
Total expenses	624.19	454.12
Total assets	7,332.22	7,090.46
Total liabilities	12.62	6.77

6.70 The increase in total administered revenues is primarily due to DoCITA recognising the notional amount of levies attributable to the service provider for the Universal Service Obligation (USO), a corresponding amount is also now reflected as expense for the USO. The increase in revenue is also impacted by the transfer to the Australian Film Commission of ScreenSound Australia.

6.71 The increase in total assets is primarily due to the increase in the investment in the Australian Film Commission as a result of the transfer of ScreenSound Australia.

Audit results

Summary of significant entity and administered audit findings.

6.72 There were no significant departmental or administered audit issues arising from the final audit phase.

6.73 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	2	2	0	0
Total	**2**	**2**	**0**	**0**

Australian Broadcasting Authority

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(0.26)	(0.85)
Commonwealth's equity investment	(0.05)	0.21
Ratio of current assets to current liabilities	0.756:1	0.654:1
Ratio of total assets to total liabilities	0.993:1	1.038:1

6.74 The net deficit of ABA for the year decreased by $0.5 million from that of the prior year, largely arising from a combination of an increase in appropriations of $0.71 million and a decrease in Other Revenue of $0.19 million.

6.75 Commonwealth's equity investment decreased by $0.25 million from the prior year because of:

(a) an increase in interest-bearing liabilities of $1.22 million following an update of computer equipment under finance lease, and recognition of lease incentives obtained on the new lease of ABA's Sydney premises;

(b) employee provisions increasing by $0.20 million; and

(c) assets increasing by $1.18 million on recognition of new leasehold fit out at ABA's Sydney premises and positive cash flows for the year.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	435.00	235.00
Total expenses	-	21.00
Total assets	209.00	200.00
Total liabilities	-	-

6.76 Total administered revenues have increased as a result of approximately $210 million being received from auction of broadcasting licences.

6.77 Total administered expenses were nil (2003: $21 million). The 2002–2003 expense related to a write-down of receivables as the broadcasting licence fees received were overestimated. For the 2003–2004 year, broadcasting licence fees received exceeded the estimate by $16 million.

6.78 Total administered assets represents the estimated fees due for the year ending 30 June 2004 that are payable by 31 December 2004.

Audit results

Summary of significant entity and administered audit findings

6.79 There were no significant agency or administered audit issues arising from the audit.

Australian Broadcasting Corporation

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	25.72	57.10
Commonwealth's equity investment	692.57	531.37
Ratio of current assets to current liabilities	1.51:1	1.01:1
Ratio of total assets to total liabilities	2.83:1	2.15:1

6.80 During the reporting period the Commonwealth's net equity investment of the Australian Broadcasting Corporation increased by $161.2 million as a result of the operating surplus of $25.7 million, and reserve increases of $135.5 million.

Audit Results

Summary of significant entity and administered audit findings

6.81 There were no significant departmental or administered audit issues arising from the audit.

Australian Communications Authority

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	4.76	5.42
Commonwealth's equity investment	36.93	32.31
Ratio of current assets to current liabilities	2.46:1	2.58:1
Ratio of total assets to total liabilities	3.19:1	3.17:1

6.82 The results of the Australian Communications Authority are relatively comparable to those of 2002–2003. The surplus in 2002–2003 was primarily due to CUC funding and unspent appropriation funding awaiting passing of legislation. The CUC arrangements were discontinued at 30 June 2003. For 2003–2004, the surplus is wholly due to unspent appropriation revenue for two programs that are awaiting legislation to be passed.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	214.60	210.44
Total expenses	0.39	0.07
Total assets	53.14	31.82
Total liabilities	3.71	2.24

6.83 The increase in total revenues relates largely to an increase in Radio Communications Tax largely due to CPI adjustments on 1 July and 15 December 2003. Total assets increased as a result of an increase in the administered cash balances held by the Australian Communications Authority at the reporting date on behalf of the Government arising from a timing difference between the collection, reconciliation and transfer to Finance.

Audit results

Summary of significant entity and administered audit findings

6.84 The Australian Communications Authority is in the process of satisfactorily addressing one minor control issue reported previously, concerning the updating of the Australian Communications Authority's Business Continuity Plan. There were no significant departmental or administered audit issues arising from the final audit phase.

6.85 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Australian Postal Corporation

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	371.10	330.80
Commonwealth's equity investment	1,559.60	1,318.50
Ratio of current assets to current liabilities	1.12:1	1.06:1
Ratio of total assets to total liabilities	1.82:1	1.64:1

Audit Results

6.86 The financial statement audit of APC was completed with an unqualified audit opinion being issued and no significant issues arising from the audit.

6.87 Pursuant to the APC (Performance Standards) Regulations 1998, APC is required to meet a range of measures as part of its Community Service Obligations. In accordance with section 28D of the Australia Postal Corporation Act 1989, as amended, the Auditor-General is required to audit the APC's compliance with the performance standards. The audit has been completed with an unqualified opinion issued on 28 August 2003.

6.88 The increase in the Commonwealth's equity investment in the APC is a result of APC's surplus for 2003–2004 after dividend payments and a small revaluation increment.

Australian Sports Commission

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	2.53	15.46
Commonwealth's equity investment	157.90	131.64
Ratio of current assets to current liabilities	3.27:1	2.21:1
Ratio of total assets to total liabilities	8.99:1	8.91:1

6.89 The net surplus for the year has decreased from the prior year's by $12.92 million. This is mainly attributable to an $8.71 million decrease in revenues from Government, largely due to the discontinuation of funding for the capital usage charge in 2003–2004. The decrease is also attributable to a $3 million increase in grant expenditure, and a $3 million increase in employee expenditure. The Australian Sports Commission remains in a sound financial position with current assets in excess of current liabilities.

6.90 The increase in the Commonwealth's equity investment mainly relates to a $24 million revaluation increment posted to the Asset Revaluation Reserves, following a change in valuation methodology from deprival to fair value.

Audit results

Summary of significant entity audit findings

6.91 During the interim phase of the audit, the ANAO noted the failure of the Australian Sports Commission's cost centres to return their Payroll Expenditure Certification on a timely basis. This increased the risk of errors and undetected or unauthorised transactions, thereby compromising the completeness and accuracy of employee expense and provision balances. The Australian Sports Commission is in the process of satisfactorily addressing this control issue.

6.92 There were no other significant departmental audit issues arising from the final audit phase.

6.93 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

National Archives of Australia

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	187.55	84.84
Commonwealth's equity investment	949.75	746.44
Ratio of current assets to current liabilities	5.00:1	6.52:1
Ratio of total assets to total liabilities	94.52:1	74.13:1

6.94 The net surplus has increased as a result the net effect of several factors, including :

- a decrease in the appropriations as a result of the cessation of the CUC. In 2002–2003 the CUC received amounted to $84 million;
- a correction of fundamental errors amounting to $170.8 million in revenue to recognise the annual growth of the collection for the 2000–2001, 2001–2002 and 2002–2003 financial years and the related depreciation expense thereon and a write-down of leasehold improvements on lease transferred to another agency on 30 June 2002, reversal of depreciation expense and reversal of increase in asset revaluation incorrectly recognised;
- the recognition of revenue from the acquisition of assets at no cost amounting to $18 million for which there was no comparative in the prior year;
- a revision in the useful life of the collection from 50–75 years to 40–350 years with effect of 1 July 2003 and revaluation of the non-collection

assets to fair value, which decreased the depreciation costs by $11.5 million;

- an increase in employees and supplier costs by $6.8 million and $7.8 million respectively, which is attributable to the revision of the accounting treatment for collection assets. In prior years the costs were capitalised to the collection asset, as they were deemed to have the effect of extending the useful life of the asset. As a result of the 2002–2003 DoCITA Portfolio Agency Review, National Archives of Australia reviewed the depreciation treatment for the collection asset in 2003–2004 and these costs are now expensed in the year in which they are incurred. A reduction in the depreciation and amortisation expense of $11.5 million has also resulted from this change in accounting treatment.

Audit Results

Summary of significant entity audit findings

6.95 There were no significant audit issues arising from the audit.

National Gallery of Australia

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	3.78	193.94
Commonwealth's equity investment	3,007.22	1,721.15
Ratio of current assets to current liabilities	2.36:1	3.20:1
Ratio of total assets to total liabilities	298.13:1	148.07:1

6.96 The National Gallery of Australia's reduced 2004 surplus reflects the removal of funding for the CUC as a result of the abolition of the CUC from 1 July 2003. The National Gallery of Australia's surplus for 2003 included funding for a $188.2 million CUC.

6.97 The improved ratio of total assets to total liabilities is primarily attributed to the valuation of the National Gallery of Australia's collection, land and buildings, which resulted in an increase in the National Gallery of Australia's asset base of $128 billion.

6.98 The reduction in the current assets to current liabilities ratio reflects expected operational fluctuations which resulted in a reduced cash and receivables balance at year end and a marginal increase in current suppliers payables.

Audit results

Summary of significant entity audit issues

6.99 There were no significant audit issues arising from the audit.

National Library of Australia

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(1.99)	185.28
Commonwealth's equity investment	1733.74	1672.57
Ratio of current assets to current liabilities	2.70:1	1.99:1
Ratio of total assets to total liabilities	132.72:1	115.69:1

6.100 The decrease in the net surplus from 2002–2003 is mainly attributable to a decrease of $181.59 million in funding related to the CUC. In addition, depreciation expenses increased by $7.45 million as a result of the revised depreciation policy for the National Collection.

6.101 The increase in the Commonwealth equity investment in the National Library of Australia has occurred as a result of the upwards revaluation of the National Collection and the National Library of Australia's land and buildings.

Audit results

Summary of significant entity audit findings

6.102 Controls were found to be operating effectively and there were no significant agency audit issues arising from the audit.

Change in accounting policies

6.103 The accounting policies used by the National Library of Australia in 2003–2004 were consistent with those used in 2002–2003, except in respect of:

- changes as required under the FMOs;
- trust account balances and transactions were incorporated into the primary financial statements from 1 July 2003, in accordance with the FMOs, as the funds are controlled by the National Library of Australia; and
- the depreciation policy for the National Collection was revised from 1 July 2003 to incorporate all elements of the National Collection.

National Museum of Australia

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.76	32.17
Commonwealth's equity investment	270.52	269.70
Ratio of current assets to current liabilities	13.21:1	10.00:1
Ratio of total assets to total liabilities	66.96:1	63.44:1

6.104 The significant movement in the surplus position for 2003–2004 as compared to 2002–2003 is primarily the result of the discontinuation of the CUC arrangements, resulting in appropriation revenues decreasing from $67.57 million in 2002–2003 to $39.97 million in 2003–2004. Other impacts on the surplus included an increase in employee expenses as a result of the effect of salary increases from the certified agreement (approximately 4 per cent) and a reduction in depreciation expenses resulting from the reassessment of useful lives for the National Historical Collection.

6.105 The slight increase in the Commonwealth's equity investment of the National Museum of Australia is a result of the National Museum of Australia's surplus position for 2003–2004 and an equity injection of $0.005 million.

Audit results

Summary of significant entity audit findings

6.106 NMA is in the process of satisfactorily addressing the minor control issues reported previously. There were no significant audit issues arising from the final audit phase.

6.107 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	2	2	0	0
Total	**2**	**2**	**0**	**0**

Special Broadcasting Service Corporation

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	2.99	12.29
Commonwealth's equity investment	121.23	102.39
Ratio of current assets to current liabilities	2.480:1	2.145:1
Ratio of total assets to total liabilities	2.314:1	2.087:1

6.108 The operating surplus has decreased due to an overall increase in revenue, mainly attributable to appropriation revenue (by $8.32 million) and advertising revenue (by $5.63 million) which have been offset by increases in employee expenses (by $1.77 million) from pay increases from Certified Agreement; as well as increases in supplier expenses (by $22.76 million) from the extension of existing analogue services to rural areas and the digital conversion rollout across regional areas.

6.109 The increase in the Commonwealth's equity investment in the Special Broadcasting Service reflects a $7.49 million equity injection by the Commonwealth, an asset revaluation increment of $12.25 million and the 2003–2004 net surplus position.

Summary of significant entity audit findings

6.110 There were no significant departmental audit issues arising from the final audit phase.

Telstra Corporation Limited

Audit Results

6.111 An unqualified audit report on Telstra Corporation Limited's financial statements was issued.

Comments on non-material entities

6.112 There were no significant issues arising in relation to non-material entities within the portfolio.

Defence Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Opinion	Audit Report Issued	Audit Issues
Department of Defence	**Yes**	Q, A	17 Nov 04 Q and A	◆
Army and Air Force Canteen Service	No	✓	18 Oct 04	
Australian Military Forces Relief Trust Fund	No	✓	23 Aug 04	
Australian Strategic Policy Institute Ltd.	No	✓	6 Sep 04	
Australian War Memorial	**Yes**	✓	9 Aug 04	
Defence Housing Authority–DHA	**Yes**	✓	13 Aug 04	
Defence Service Homes Insurance Scheme	No	Q	29-Sep-04	◆
Department of Veterans' Affairs	**Yes**	Q, A	29-Sep-04	◆
DHA–Wattle Grove Development Joint Venture	No	✓	6 Dec 04	
Military Superannuation and Benefits Board of Trustees	No	✓	8 Sep 04	
Royal Australian Air Force Veteran's Residences Trust Fund	No	✓	13 Sep 04	
Royal Australian Air Force Welfare Trust Fund No.3	No	✓	6 Aug 04	
Royal Australian Navy Relief Trust Fund	No	✓	30 Sep 04	

✓: audit report not modified
E: audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure

➻: signed financial statements not presented for audit at this time
☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio Overview

6.113 The portfolio is responsible for developing, implementing and administering policies, programs and services designed to defend Australia and its national interests. The portfolio is also responsible for carrying out government policy and implementing programs to fulfil Australia's obligations to war veterans and their dependants, as well as providing a compensation claims management service to serving and former members of the Australian Defence Force (ADF).

6.114 The Government has established the following five strategic objectives for the Department of Defence:

- ensuring the defence of Australia and its direct approaches;
- fostering the security of Australia's immediate neighbourhood;
- promoting stability and cooperation in South-East Asia;
- supporting strategic stability in the wider Asia-Pacific region; and
- supporting global security.

Department of Defence

6.115 In 2003–2004, the Defence financial statements, which were signed on 16 November, 2004, were qualified. This qualification was expressed as an Inability-to-form-an-Opinion, as detailed further in this section. Notably, the Secretary of Defence in his statement accompanying the financial statements came to a similar conclusion and was unable to conclude that the financial statements were 'true-and-fair'.

6.116 The issues that gave rise to the qualified audit opinion have their genesis in an internal control environment that requires significant improvement. Deficiencies were evident in a number of the key operational and financial systems, as well as poor record keeping processes, and inadequate asset and inventory management practices. In short, Defence management practices and systems are not robust enough for both Defence and the ANAO to conclude that the Defence financial statements were 'true-and-fair' in 2003–2004. These issues go well beyond accrual accounting matters. That is, the issues at Defence are more fundamental than the introduction of accrual accounting. Moreover, the disciplines embodied in accrual accounting and independent audit processes should continue to provide the impetus to rectify the known deficiencies over time. To this end, the ANAO supports Defence's remediation programs and will closely monitor the progress over the next few years.

Audit Qualification

6.117 The inability to form an opinion on the Defence financial statements for 2003–2004 arose from a series of significant audit scope limitations.

6.118 As a result of the existence and pervasiveness of the scope limitations, the ANAO was unable to, and did not, express an opinion as to whether the Defence financial statements were true and fair. The Department of Defence also breached section 48 of the FMA Act with respect to the administration of its Special Account 'Services for Other Government and Non-Agency Bodies'.

Scope Limitations

6.119 The scope limitations resulted from an inability to validate and conclude on components of the accounts, due primarily to inadequacies in Defence's key systems and processes. It was not possible to validate $7.12 billion of Defence assets and $1.23 billion of Defence liabilities covering:

- General Stores Inventory totalling $2.03 billion. This was as a result of the material weaknesses in the internal controls over the stocktaking and accurate recording of the physical inventory quantities, and a lack of evidentiary documentation and system controls to confirm and safeguard the accuracy of pricing data;
- $845 million of Explosive Ordnance Inventory. This was as a result of the lack of evidentiary documentation to support the prices used to value that portion of the recorded balance;
- $2.86 billion reported written-down value of Repairable Items, which is reported within Specialist Military Equipment (SME). This was as a result of the material weaknesses in the internal controls over the stocktaking, accurate recording and reporting of the physical asset quantities, and adequate system controls to safeguard the accuracy of data;
- $1.39 billion of the Land and Buildings and Infrastructure, Plant and Equipment balances totalling $15.16 billion. This was the consequence of certain assets being excluded from revaluation processes due to either management determined asset revaluation thresholds, or excluding certain assets under finance lease arrangements, as well as other deficiencies in the recording and reporting of the effect of revaluations on the written-down value of these assets; and
- $1.23 billion for the Australian Defence Force (ADF) employee leave provision. This was as a result of the lack of integrity associated with the capture and recording of data within those systems and the appropriate maintenance of primary evidentiary documentation.

6.120 As a consequence of the inadequacies in the Military Leave Provision referred to above, and as a result of other issues noted with Civilian leave recording practices, it was not possible to validate the amounts reported within the Executive Remuneration note to the financial statements.

Statement of Financial Position

6.121 The scope limitations noted above, which affected five material line items on the Statement of Financial Position (i.e., Inventories; SME; Land and Buildings; Infrastructure, Plant and Equipment; and Employees Provisions), have a material impact in quantitative terms, affecting 14 per cent of Total Assets and 22 per cent of Total Liabilities. In addition, six notes to the Statement of Financial Position were also affected by the scope limitations. Those notes, which provide a more detailed breakdown of the Statement of Financial Position items are, Note 8A—Land and Buildings, Note 8B—SME, Note 8C—Infrastructure, Plant and Equipment, Note 8G—Inventories, Note 10A—Employee Provisions and Note 12—Equity.

6.122 In addition, in qualitative terms, the primary causes of the uncertainties noted above originate from significant weaknesses within the internal control environment and systems and the lack of evidentiary support for significant transactions and balances of Defence.

6.123 Accordingly, the quantitative factors, individually and as a whole, together with the qualitative factors, resulted in uncertainty that is pervasive to the Statement of Financial Position.

Statement of Financial Performance

6.124 The scope limitations noted above have a material impact in quantitative terms which affect total Expenses from Ordinary Activities, and the Net Surplus/(Deficit) from Ordinary Activities. These translate to uncertainty for amounts within the following line items reported on the face of the Statement of Financial Performance:

- Assets Now Recognised Revenue;
- Other Revenue;
- Employee Expenses;
- Suppliers Expenses;
- Depreciation and Amortisation Expense; and
- Write Down of Assets Expense.

6.125 In addition, seven notes to the Statement of Financial Performance are also affected by the uncertainties, namely, Note 4F—Assets Now Recognised, Note 4G—Other Revenue, Note 5A—Employee Expenses, Note 5B—Supplier Expenses, Note 5D—Depreciation and Amortisation and Note 5E—Write-down of assets, and Note 31—Reporting of Outcomes.

6.126 Accordingly, the quantitative and qualitative internal controls factors noted above, as a whole, plus the significance of the potential effect of any financial adjustments required had the limitations of scope not existed, including the resultant effect on the reported Net Deficit of $532 million, as well as the uncertainty in estimating the potential effect (volatility) of those adjustments, result in uncertainty that is pervasive to the Statement of Financial Performance.

Summary

6.127 Defence's internal control environment, which is designed to prevent and detect errors in accounting and financial reporting, contains significant deficiencies due to weaknesses in the internal controls pertaining to financial management and operational systems, inadequate accounting records and poor inventory and asset recording. The control breakdowns have resulted in material uncertainties, in quantitative terms, surrounding material balances.

6.128 Given the effects on the Statement of Financial Position, the Statement of Financial Performance (including the potential volatility of the reported Net Deficit), the notes to the financial statements (including the Executive Remuneration note), together with the qualitative internal control factors, resulted in a pervasive impact on the financial statements taken as a whole. As a result, the ANAO issued an Inability-to-form-an-Opinion on the Defence financial statements.

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(531.80)	4,159.86
Commonwealth's equity investment	46,597.28	46,175.37
Ratio of current assets to current liabilities	0.85:1	0.91:1
Ratio of total assets to total liabilities	9.17:1	9.82:1

6.129 In 2003–2004, Defence reported a net deficit, whereas in 2002–2003, a net surplus was recorded. The main contributing factor to this year's result was the substantial decrease in Appropriation for Outputs (a fall of $3 594.17 million). This was mainly due to the decrease in the 2003–2004 appropriation by the amount of CUC revenue included in last year's appropriation. In the prior year, the charge was distributed from accumulated results. As a result, net assets for the two years remain comparable. There was also a significant fall in revenue from sale of assets, as well as a significant increase in employee expenses primarily as a result of pay increases. In addition, expenses incurred in the write-down of assets increased by $566.34 million.

6.130 Within the Statement of Financial Position, the net asset position increased by $989.79 million, mainly as a result of the revaluation of Land, Buildings and Infrastructure.

6.131 Defence controls $52.30 billion of assets, of which $51.29 billion are non-financial assets. Defence non-financial assets contribute 69.8 per cent of the General Government sector non-financial assets. The main components are SME ($30.64 billion), Land and Buildings ($10.06 billion) and Inventories ($4.46 billion).

6.132 In 2003–2004, issues relating to asset management within Defence resulted in a number of asset-related adjustments. This included $1.15 billion in 'asset write-downs' and $579.83 million in 'assets now recognised'.

6.133 In addition, and in line with Government policy, Defence sold Land and Buildings valued at more than $101 million in 2003–2004, and returned the target of $74.7 million in property sales proceeds to Government.

6.134 During the year, Defence entered into a number of operating leases. Consistent with earlier ANAO recommendations, Defence has also reclassified two operating leases as finance leases, one involving the previous sale and leaseback arrangement of the Australian Defence College, Weston Creek, which was the subject of ANAO Audit Report No.1 2004–2005. This report reflected Defence's view that the arrangement was an operating lease. However, Defence has since reconsidered its position and amended the lease classification for its 2003–2004 financial statements.

6.135 Defence is a significant employer in the Australian Government, recording employee expenses of $6.83 billion in 2003–2004. This represents an increase of $632.85 million over the prior year's spend. To a certain extent, factors contributing to this movement include pay rises (3% in July 2003 and 2.5% in May 2004 for the Military and 2% in January 2004 for Civilians), promotion increases, a higher employer contribution rate for superannuation, and an increased provision for redundancies as a result of restructuring the Stores area.

6.136 However, due to Defence's postponement of the measurement and verification of the effect of remediation strategies on the military leave provision balances until 2004–2005, no quantification of the effects to 30 June 2004 on the accrued position was reported by Defence, nor provided to the ANAO for audit. This relates to the reported movement of $155.86 million in military leave balances for 2003–2004.

Summary of administered results

Key financial measures for the year	2004 $m	2003 $m
Total revenues	862.12	1,042.69
Total expenses	2,319.50	2,594.66
Total assets	1,367.82	1,464.07
Total liabilities	29,064.00	28,100.00

6.137 Administered revenues fell by $180.57 million, primarily due to a decrease in dividends received from Defence Housing Authority (DHA). The balance is significantly reduced in this financial year, due to a reduction of rent receipts derived by DHA.

6.138 Administered liability movements primarily relate to movements in the actuarial assessments of the unfunded liabilities in respect of the Military Benefits Superannuation Scheme and the Defence Force Retirement and Death Benefits Scheme.

Summary of Significant Audit Findings

Quantities for General Stores Inventory and Repairable Items

6.139 Material weaknesses in the internal controls over stocktaking, the failure to accurately record and report the physical asset quantities, and inadequate system controls to safeguard the accuracy of data, were again noted in 2003–2004. This resulted in a significant range of uncertainty around the General Stores Inventory balance and the Repairable Item balance (which is a component of SME).

6.140 General Stores Inventory and Repairable Items are managed on the Standard Defence Supply System (SDSS), which was upgraded to SDSS v4 on 28 July 2003. During 2003–2004, no IT controls reliance was obtained over SDSS by the ANAO. Furthermore, the year-end balances and movements cannot be obtained via SDSS reporting functionality; rather, they are derived by management intervention outside the system through a series of Structured Query Language (SQL) enquiries. Additionally, Defence had advised that a number of previously identified issues should have been resolved with the upgrade to SDSS v4. However, a number of these issues continued to apply, impacting the integrity of the underlying system and processes, including a significant volume of unreconciled items in a clearing account for Repairable Items. Defence has acknowledged key weaknesses within SDSS in the areas of:

- data quality;
- system performance;

- financial capability gaps;
- software defects; and
- business process compliance;

and has established a significant remediation project, titled the SDSS Get Well Program to address deficiencies, with progress being reported to the Defence Committee on a periodic basis. The remediation strategy includes progressive project milestones through to December 2005.

6.141 The overall quality of data residing within SDSS continues to be poor, as evidenced by the adverse results from the stocktake activity of Defence's inventory and asset holdings during 2003–2004. Stocktake policies and practices, including the reporting of such activities, are not robust. Significant failures have been identified leading to the inability to rely on quantity information for both General Stores Inventory ($2.03 billion) and Repairable Items ($2.86 billion). These failures include:

- the inability to identify owners, and subsequently the failure to manage and account for Repairable Items that are located within Supply Customer Accounts (SCAs) on SDSS. These SCAs include assets that are held by Defence Forces, external contractors and repair agents. Defence have indicated a possible need to use direct confirmations to determine the balance of stock held with third parties. The ANAO, Defence internal auditors and the Defence Quality Assurance team were unable to satisfactorily confirm the accuracy of assets recorded within these SCAs;
- material discrepancies identified through the counting of physical stock (inventory and assets) at key Defence establishments, including significant quantities which were not recorded or managed, and, conversely, significant quantities of stock which could not be located or identified; and
- poor management reporting and review of stocktake results, whereby the current deficiencies within the asset/inventory management practices were not alluded to in management reports. That is, stocktake results were reported to Defence management as being completed with negligible errors. However, independent and internal Defence checks performed during 2003–2004 showed otherwise.

6.142 Consequently, Defence management 'self-qualified' SDSS quantities relating to General Stores Inventory and Repairable Items in 2003–2004 following the adverse stocktake results. Although a number of ANAO audit reports on inventory and asset management issues, covering General Stores inventories, repairable Items (including SCAs) and explosive ordnance have been sent directly to the areas that were subject to audit in June/July 2004, along with other key defence groups, the ANAO is still waiting on formal responses to these audit reports. The ANAO will, as part of the 2004–2005 financial statement audit, review Defence's progress on various remediation projects, covering stores record accuracy and SCAs as detailed below.

6.143 Due to the uncertainty surrounding the quantities recorded for General Stores Inventory, there is also doubt surrounding the calculation of the provision for General Stores Inventory obsolescence, as the quantities used in calculating the provision could not be relied upon.

Pricing for General Stores Inventory and Explosive Ordnance

6.144 A lack of evidentiary documentation to support the valuation for General Stores Inventory and continued weaknesses within SDSS remained at 30 June 2004. Furthermore, the IT and manual controls over SDSS, were again found to be inadequate to protect the integrity of pricing data. In conjunction with the SDSS remediation strategy, Defence has established a project team to review the inventory pricing strategy and address the reported issues.

6.145 The controls over inventory prices within SDSS are inadequate. Weaknesses include:

- the existence of a number of zero priced inventory stock codes in 2003–2004, notwithstanding that some of these had a Weighted Average Cost in the prior year;
- items have been purchased exclusively within SDSS at a zero value in 2003–2004;
- defence internal audit branch noted that notional prices are extensively used in SDSS; and
- requested documentation to support recorded values could not be provided in a timely manner.

6.146 The allocation of incorrect or notional prices to transactions results in the misstatement of the General Stores Inventory balance (including the calculation of inventory consumption), requiring significant work-arounds at year-end.

6.147 A lack of evidentiary documentation to support the prices used to value $845 million of Explosive Ordnance Inventory remained at 30 June 2004. The ANAO notes that this is a reduction in the bounds of the qualification from 2002–2003 ($1.2 billion), due to the inability of Defence to locate and provide appropriate supporting documentation to support the accuracy of some prices. Moreover, control breakdowns including instances of duplicate payments to vendors, inadequate review of remediation work, and a lack of appropriate policies for key business processes were noted during the 2003–2004 audit. The price remediation and verification project undertaken by Defence in 2003–2004 resulted in a correction of previously recorded values by a net amount of $6 million (an increment of $51 million and a decrement of $45 million). Further adjustments are expected as remediation and verification work continues in 2004–2005.

Military and Civilian Leave Processes and Systems

6.148 The 2002–2003 ANAO audit report contained a Limitation-of-Scope regarding ADF leave provisions due to insufficient supporting documentation being available, and unacceptable rates of error where documentation did exist. This was mainly due to inadequate controls and processes within Defence's Military personnel systems, and the identification of source documentation. This has resulted in a wide-ranging Military leave remediation program, involving:

- analysing previous audit results;
- conducting manual and system error queries;
- providing a means for employees to review their own leave records;
- introducing system changes to remove the scope for generating new errors;
- revising existing policies and procedures; and
- complementing existing training packages with an on-line training module for leave records management.

6.149 As Defence's remediation program had not resolved this issue, nor did it expect to resolve it until 2005, Defence again 'self-qualified' its Military leave provision in 2003–2004.

6.150 Due to the limitation of scope within ANAO's 2002–2003 audit report regarding Military leave provisions, the Executive Remuneration note (containing information pertaining to Civilian and Military leave provisions) which is 'material-by-nature' as required by the FMOs, could not be reliably certified. Hence, a separate limitation of scope applied to the Executive Remuneration note in respect of any accrual effects arising from the Military leave balances. During the 2003–2004 period, Defence has actively pursued the resolution of this matter by focusing on the senior Executive/Star rank staff and by reviewing all appropriate source documentation. However, as a significant amount of supporting documentation continued to remain outstanding, the note was again qualified for the same reason as in the prior year.

6.151 PMKEYS is Defence's human resource management information system. It is used to process payroll and leave for civilian employees. In 2003–2004, the ANAO found issues with PMKEYS in relation to security administration, incorrect migration of PMKEYS operator classes, lack of segregation of duties, and necessary enhancements to PMKEYS training. In addition, problems were also noted regarding the processing of leave (for Military and Civilian), civilian payroll processing, and the inconsistency of data for Military personnel between ADFPAY (Military system used for pay) and PMKEYS (the Defence wide system to accrue entitlements for both Civilian and Military personnel).

6.152 The ANAO's evaluation of the internal controls surrounding payments and balances within the PMKEYS and ADFPAY systems is that they are not yet sufficient to ensure the accuracy of all payments and balances within the system. Moreover, Defence management are currently reviewing apparent instances of incorrect remuneration (i.e. under/overpayments) to ADF personnel and have recognised a receivable of $9.7 million at 30 June 2004.

6.153 The significant systems issues identified in concluding on the Military leave provisions also affect Civilian leave balances. In addition to a substantial amount of supporting documentation outstanding from the ANAO's testing of executive leave, there was a lack of evidence of leave audits following the cessation of service by Defence personnel. Additionally, Defence Internal Audit has noted significant error rates in its testing of civilian leave administration.

6.154 Further issues noted in 2003–2004, include the provision for redundancies, which was significantly misstated due to the lack of review criteria applied for inclusion in the provision, and a significant number of staff either not accruing leave upon commencement, or continuing to accrue leave after cessation.

Land and Buildings, Infrastructure, Plant and Equipment

6.155 During the 2003–2004 audit, significant uncertainty was raised regarding the value of Land and Buildings and Infrastructure, Plant and Equipment, managed by the Corporate Services and Infrastructure Group, culminating in a limitation of scope being attached to the written-down value of $1.39 billion of such assets. This uncertainty was due to inadequate management direction, analysis and review with certain assets being excluded from revaluation processes as a result of:

- the application of predetermined asset revaluation thresholds;
- finance lease assets not being revalued; and

- other asset valuation matters, including observed failures to correctly reflect the results of valuations performed within Defence's asset register and financial statements.

6.156 While such occurrences appeared to be unintentional, it would appear that they resulted from inadequate process control and review mechanisms. The integrity of asset revaluation information relating to components of Land and Buildings and Infrastructure, Plant and Equipment appeared compromised by an apparent misinterpretation of revaluation data. This would seem to be an outcome of inadequacies in the project management of the revaluation process, including an incomplete understanding of the independent valuers' practices, procedures and reporting. Of particular consequence has been the misapplication of remaining useful lives provided by the independent valuer. This has affected both the valuation adopted by Defence and reported depreciation expenses.

Depreciation

6.157 During 2003–2004, Defence identified errors in the depreciation calculation, which was uploaded into the current financial management information system (ROMAN). Defence has calculated the error, which relates to the Corporate Services and Infrastructure Group and affects figures in prior years, as being an overstatement in excess of $290 million.

In addition, the current procedures for the allocation and review of the useful life assigned to key military assets are not robust, resulting in inconsistencies between whether an asset has been decommissioned or is being used, vis-à-vis their recorded useful life.

ROMAN (General Ledger)

6.158 The ANAO has undertaken a review of the ROMAN (SAP R/3) system controls that impact on the reliability of the financial information provided by Defence. There continues to remain breakdowns across the 'purchase-to-pay' control framework, along with ongoing issues around the 'security administration' and 'change control' procedures. These issues have the ability to also directly impact on the integrity of the data in Defence's accounting ledger.

Commitments

6.159 Commitments are intentions to create liabilities. Significant issues and delays with the preparation and reporting of this item (despite improvements) continued in 2003–2004, including incomplete supporting documentation and definitional issues. The limited information reported by Defence is related to the lack of completeness of, and quality assurance procedures over, Defence's lease register.

Receivables

6.160 The ANAO has identified several weaknesses within the management, collection and reporting (including provisioning) of Defence receivables. In 2003–2004, a number of accounts were identified for which no collection of the debt had occurred for a number of years. Additionally, Defence's method of raising United Nation invoices has led to an overestimation of administered revenue/receivable, which led to a write down of $21 million this year. There were also several instances where cash received was inappropriately recorded as revenue, rather than receipted against the applicable receivable, resulting in an overstatement of both revenue and receivables. In 2003–2004, the ANAO concluded that, due to the decentralised nature of the accounts receivable process, there are very few controls within the process that may be relied upon.

Maintenance of appropriate accounts and records

6.161 A major contributor to the number of audit findings and the associated delay in finalising the 2003–2004 financial statements was an apparent lack of adequate management review of the administrative and accounting processes and records within Defence.

6.162 Consequently, and as detailed in the foregoing paragraphs, Defence has not maintained appropriate accounts and records for significant balances within the financial statements. Furthermore, Defence was unable to provide appropriate audit evidence for a number of other balances, including a complete listing of Heritage and Cultural Assets as at year-end, documentation to support various asset purchases, and timely provision of documentation supporting prepayments. This inability to maintain appropriate accounts and records is a significant cause of the noted audit qualification. Moreover, the quality assurance processes over the compilation and preparation of the financial statements need to be markedly improved as a significant number of audit review issues had to be raised by the ANAO, through a number of draft sets of financial statements.

Completion of Defence Accounts

6.163 Defence completed its financial statement processes and signed the accounts on 16 November 2004. This was significantly later than the Government deadline for clearance of financial information to Finance and adversely impacted on the Whole of Government reporting timetable. The delay was primarily caused by on-going management, system and information deficiencies in Defence's Financial Statement Close Process (FSCP). Simply stated, there is a critical need for significant improvement in Defence's financial reporting capability.

6.164 The production of reliable financial statements is fundamentally a by-product of good governance arrangements, reliable information systems and an effective internal control environment. In Defence, the completion of financial statements well after the reporting deadline, inter alia, indicates that the production of accurate Defence wide financial reports supported by robust evidentiary standards does not occur on a regular or timely basis. Defence remains in an on-going cycle of undertaking remediation processes and utilising additional 'work-arounds' to fulfil its 30 June reporting requirements.

6.165 Due to the scale of problems in Defence financial systems and controls, a considerable volume of resources is applied to the assessment, correction and substantiation of financial data. The over-run and non-completion of these processes inevitably causes a delay in Defence's FSCP. To the extent possible, Defence will need to bring forward remediation processes that support the completion of the financial statements to allow time for considered assessment and audit before the Government reporting deadline if the latter is to be met in future years.

Defence Remediation Programs

6.166 In 2003–2004, the Secretary and the Financial Statement Project Board (FSPB), which has oversight for improving Defence's financial management performance, generated significant activity in regard to the specific remediation of various issues, including an emphasis on addressing the Executive Remuneration qualification. Defence have since increased the number and extent of remediation plans arising from the audit results in 2003–2004. The final outcome of these activities should, when properly implemented, provide wide-ranging benefits over the long term.

6.167 To date, the following remediation programs have been established:

- Financial Reporting Framework–implementation of a comprehensive Defence Financial Control Framework to improve accountability, management, reporting and control at both the Group and Consolidated levels;
- Financial Management and Systems Training–aimed at addressing the lack of knowledge in accounting and financial management in the business environment and to improve the quality of data entered into key Defence systems;
- Stores Record Accuracy–aimed at improving the asset and inventory management practices that arose from adverse stocktake findings. While Defence management have set to reduce stocktake error rates to below 5 per cent, given the nature of its holdings, Defence needs to ensure operational and business requirements are not compromised.

6.168 This process entails remediating stocktakes and includes the promulgation of policies to improve stocktaking practices and reporting within Defence, and to address poor stocktaking performance at key Defence establishments. In addition, the project will also focus on the management of potential impacts arising from the transition of the Defence warehouse management to TenixToll Defence Logistics (TTDL) Pty Ltd under the Defence Integrated Distribution System (DIDS). The ANAO has commenced discussions with the project director and will continue to work with the project team during 2004–2005 to resolve outstanding issues consistent with audit independence.

- General Stores Inventory Pricing–aimed at addressing a combination of inadequate documentation retention on prices, and a number of process issues that underpin price data quality on SDSS;
- Supply Customer Accounts (SCAs)—aimed at identifying respective owners for asset management of each SCA, including suppliers, and to ensure that all SCA balances recorded in SDSS are correct;
- Explosive Ordnance—aimed at removing the current uncertainty surrounding Explosive Ordnance pricing and the introduction of policies and methodology for key business processes;
- Military Leave Records—to provide confidence that the financial liability arising from military leave is accurate by ensuring that ADF leave administration, systems, processes, documentation and controls are both effective and efficient;
- Civilian Leave Records—aim of ensuring that civilian leave liability is correct by ensuring that civilian leave administration, systems, processes, documentation and controls are both effective and efficient;
- Executive Remuneration—aimed to provide confidence that the financial data and processes used to compile the Executive Remuneration Note is sourced from effective leave administration, systems, processes, documentation and controls;
- Property Valuations—aimed at providing a comprehensive revaluation plan that ensures the fair value of Land, Buildings and Infrastructure assets does not differ materially from the carrying amount at each reporting date;
- preventing the Escalation of Category A & B Findings—aimed at improving the outcome, focus and management of the implementation of solutions to ANAO findings.

6.169 As a result of the difficulties with the finalisation of the 2003–2004 financial statements, Defence will be reporting to the Minister for Defence and the Minister for Finance on a quarterly basis on the remediation progress. Furthermore, the FSPB will include representatives from both Finance and a major accounting firm. The FSPB has also been asked to report to both Ministers on a quarterly basis. Defence has also indicated that it will introduce a new Financial Control Framework and revamped monthly reporting regimes with the introduction of monthly Balance Sheet Reports for each of the 16 individual Groups within Defence.

6.170 During the 2004–2005 financial year, the ANAO will review the results of these remediation programs along with the progress being reported to the various committees. However, the ANAO remains concerned that the effectiveness of the actions that have previously been adopted, and any efficiencies gained, may be eroded by the continuing limitations in key systems, the associated data quality and maintenance issues, and an apparent inability to rectify or remediate the problems within a reasonably short timeframe. It remains essential that Defence effectively implements the remediation programs at the operational level, within realistic timeframes, and that the remediation results are reported accurately to the Defence executive. The ANAO audit approach in 2004–2005 will continue to be a predominately substantive approach, with reliance placed on key controls only if they are assessed to be reliable and capable of providing the necessary level of audit assurance.

2005 Implications

6.171 The Defence Materiel Organisation (DMO) is expected to be established as an prescribed agency under the FMA Act with effect from 1 July 2005. As a prescribed agency, DMO will be required to establish its own books and records and prepare separate financial statements for audit. Consequently, the significant issues pertaining to the Defence accounts, including the scope limitations and failure to certify the Defence accounts as true and fair in 2003–2004, will impact on the transfer of balances and information to the new entity, either directly or via bureau service provision arrangement.

6.172 Record-keeping issues need to be resolved so that the relationship between DMO and Defence is accurately reflected in the financial statements; is observed to be at arms length; is credible; and supports capability and sustainability outcomes. In addition, and as previously stated, it is noteworthy that the management of the 'de-merger', and its attendant accounting and operational issues, will coincide with Defence's implementation of International Financial Reporting Standards, while Defence continues to work to resolve the numerous, and significant internal and external audit findings.

6.173 The ANAO will continue to support the remediation programs and the commitment of Defence to resolve the issues within Defence. However, due to the large scale of the issues, both in complexity and size, the time and resources that will need to be employed is significant.

Summary Table

6.174 The table below reflects the status of issues raised from the interim audit. However, as the Defence financial statements were not signed to until 16 November 2004, the table does not reflect additional findings around the inadequate asset/inventory management practices, nor the issues pertaining to Land and Buildings and Infrastructure, Plant and Equipment noted earlier, which after appropriate due process will be reported to Defence in the ANAO's Closing Report to management on the findings of the 2003–2004 audit.

Ratings	Opening Position at March 2004	Issues Resolved Prior to August 2004*	New Issues to August 2004*	Closing Position at August 2004	New Issues and Issues resolved at December 2004	Closing Position at December 2004
A	13	0	1	14	TBD**	TBD**
B	34	-4	15	45	TBD**	TBD**
Total	**47**	**-4**	**16**	**59**	**TBD****	**TBD****

* Issues in these columns also include the net number of issues that have either been reclassified or merged into another issue.

** To be determined—the final audit reporting of issues is being finalised and it is expected that the number of findings will increase. Furthermore, the position at August 2004 does not reflect the asset and inventory management issues identified during the 2003–2004 stocktake program.

Department of Veterans' Affairs

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus for the year	(9.91)	2.43
Commonwealth's equity investment	86.99	88.89
Ratio of current assets to current liabilities	1.40:1	1.60:1
Ratio of total assets to total liabilities	1.88:1	1.99:1

6.175 DVA's net surplus has decreased significantly due to an increase in employee expenses of 7.7%, due to the combination of increased staff numbers, and an increase in salaries in accordance with DVA's Enterprise Agreement; and an increase in suppliers' expenses of 8.2% associated with property operating expenses and the outsourced provision of computer services.

6.176 The Commonwealth's equity investment in DVA has decreased as a result of the 2003–2004 deficit. This decrease was partially offset by an equity injection by the Commonwealth of $8 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	1.63	3.59
Total expenses	9,568.54	9,152.96
Total assets	135.17	102.72
Total liabilities	458.91	353.12

6.177 The increase in administered expenses is mainly attributable to the ageing veteran population placing more demands on health services, the increased cost of service delivery and the payment of veteran entitlements, as well as extensions of access by certain veterans and their dependents to the *Veterans Entitlements Act, 1986* and related legislation.

6.178 The increase in administered assets is attributable to a net increase in the movement of prepaid health services in accordance with current service arrangements.

6.179 Administered liabilities increased by $106 million as a result of a net increase of estimated amounts owing for the delivery of hospital services used by veterans and veteran entitlements.

Audit results

Summary of significant administered audit findings

6.180 Defence Service Homes Insurance Scheme, a consolidated entity within the Department of Veterans' Affairs, breached section 83 of the *Constitution*. Details of the nature of the breach are described at paragraph 6.195. As the Scheme is consolidated into DVA's financial statements, the qualification of the Scheme is also included in DVA's audit report.

6.181 The audit opinion for DVA included an 'additional statutory matter' as a breach of section 48 of the FMA Act, was identified, when 2000–2001 appropriations provided under the *Compensation (Japanese Internment) Act 2001* were utilised for departmental costs. Recent legal advice indicated that the scope of the appropriation was not wide enough to allow for the use of the appropriation for departmental costs.

6.182 The final audit phase noted one new issue of moderate significance related to security issues within the Treatment Account System (TAS). The TAS application is used to record medical expenditure incurred by the war veterans and transmitted to the HIC for payments. Recommendations have been made regarding improvements in the effectiveness of the mainframe security administration regarding:

- access provided to staff individually instead of group membership; and
- restricting the number of staff who have access to update the master data and also process transactions.

6.183 One of the five moderate risk audit issues noted during the interim audit relating to management of section 93 recoveries has been subsequently resolved. DVA is currently addressing the four remaining issues involving IT application security plans, the update of DVA's Disaster Recovery Plans for key business systems, data inconsistencies and accounts payable processes/duplicate vendors and the security issues relating to the Treatment Account System.

6.184 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	5	1	1	5
Legislative breach	0	0	1	1
Total	**5**	**1**	**2**	**6**

Australian War Memorial

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus for the year	2.60	63.78
Commonwealth's equity investment	727.74	584.09
Ratio of current assets to current liabilities	8.4:1	6.1:1
Ratio of total assets to total liabilities	116.49:1	86.34:1

6.185 The AWM's surplus decreased significantly due to a decrease in appropriation revenue. This decrease occurred as a result of the abolition of the CUC in 2002–2003, which was previously funded through appropriation revenue.

6.186 The revaluation of the AWM's Collection assets to their fair value resulted in an increase in the value of the Collection and the Commonwealth's equity investment of $141 million.

Audit results

Summary of significant entity audit findings

6.187 There were no significant audit issues noted during either the interim, or final, audit phase.

Defence Housing Authority

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus for the year	70.41	83.75
Commonwealth's equity investment	1,473.07	1,477.71
Ratio of current assets to current liabilities	3.70:1	6.64:1
Ratio of total assets to total liabilities	4.74:1	6.04:1

6.188 The reduction in the net surplus of DHA for 2003–2004 in comparison to 2002–2003 is as a result of reduced rent income and increased interest expense.

6.189 The reduction in the rent bill was due to a difficulty in sourcing properties arising from the tightening property market, particularly in Sydney, the continuation of the trend towards increased home ownership by ADF members, and construction delays due to wet weather in South East Queensland and some trade shortages elsewhere. The increase in borrowing costs arose from further drawdowns on a financing facility with Finance.

6.190 The movement in the Commonwealth's equity investment in DHA reflects Dividends paid of $230.7 million, tax equivalent reimbursements from Defence of $18.5 million, an increase in the asset revaluation reserve of $137.57 million as a result of asset revaluations and the net surplus for 2003–2004.

Audit results

Summary of significant audit findings

6.191 One moderate risk issue was noted with respect to the audit of DHA's 2003–2004 financial statements. This related to possible over provision for 'make-good' costs with respect to leased properties. The ANAO recommended that DHA undertake a review in 2004–2005 of the methodology to estimate the likely make good obligation. DHA has agreed to undertake a review as part of the mid-year budget review.

6.192 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

Comments on non-material entities

6.193 The significant audit issues relating to non-material entities within this portfolio are provided below.

Defence Service Homes Insurance Scheme

6.194 The Defence Service Homes Insurance Scheme (DSHIS) is a business operation of the DVA. DSHIS prepares financial statements in its own right which are consolidated with DVA's financial statements.

6.195 DSHIS' 2003–2004 financial statements were qualified due to a breach of section 83 of the *Constitution*. DSHIS breached sections 39 and 48 of the FMA Act when certain investments were made that were not authorised. DSHIS has undertaken remedial action to address this issue and ensure compliance with the legislation in future.

6.196 There were three issues of moderate significance raised during the interim audit. They were:

- non-compliance with management's instructions to allow discounts on insurance premiums;
- lack of or untimely signing of a formal agreement by a policyholder when a cash settlement is offered. The signing of this agreement is considered to be standard industry practice; and
- incorrect accounting for GST on cash settlements by not making or claiming a GST 'decreasing adjustment'. In accordance with Division 78 of *A New Tax System (Goods and Services Tax) Act* 1999 insurers are entitled to a 'decreasing adjustment' on the net GST liability.

6.197 DSHIS has made reasonable progress in resolving these issues.

6.198 There were no other significant issues arising in relation to non-material entities within the portfolio.

Education, Science and Training Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Education, Science and Training	**Yes**	✓	20-Aug-04	
Anglo-Australian Telescope Board	No	✓	15-Nov-04	
ANUTECH Pty Ltd ☞ (31-Dec-03)	No	✓	1-Apr-04	◆
Australian Institute of Marine Science	No	✓	15-Sep-04	
Australian Marine Science and Technology	No	✓	15-Sep-04	
Australian National Training Authority	**Yes**	✓	6-Sep-04	
Australian National University ☞ (31-Dec-03)	No	✓	5-Apr-04	
Australian Nuclear Science and Technology Organisation	**Yes**	✓	19-Aug-04	◆
Australian Research Council	**Yes**	✓	3-Sep-04	
Commonwealth Scientific and Industrial Research Organisation	**Yes**	✓	19-Aug-04	

✓ : audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure

➭: signed financial statements not presented for audit at this time
☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.199 The Australian Government takes a national leadership role in education, science and training. Through its Education, Science and Training agencies, the Australian Government works with various industries, State and Territory governments, other Australian Government entities and a range of contracted service providers to provide high quality policy, advice and services for the benefit of Australia. The objectives of the portfolio are to:

- advance education and training systems;
- provide leadership in identifying national standards and priorities to achieve the agreed National goals for schooling. The Australian

Government also provides State, Territory and non-government school authorities with substantial additional funding to improve student outcomes;

- work with the States and Territories, to ensure that the vocational education and training sector promotes: high quality outcomes for students; national consistency and coherence; and a system that is responsive to industry needs;
- provide funding for, and policy-making in, the higher education sector; and
- support the science and innovation framework through government bodies and through targeted funding and international promotion of Australia's scientific and technological capabilities.

6.200 The following comments relate only to material entities in the portfolio.

Department of Education, Science and Training

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(2.69)	(2.05)
Commonwealth's equity investment	60.49	26.90
Ratio of current assets to current liabilities	1.33:1	1.67:1
Ratio of total assets to total liabilities	1.73:1	1.53:1

6.201 The current year deficit is mainly attributable to a $1.59 million budget shortfall, due to the AAO transfer of the Australian Government's Science functions into DEST without extra funding. Also contributing to the deficit was a $0.55 million write down of assets following the transition to fair value, and a $0.62 million increase in Questacon's employee provisions resulting from an accounting policy change.

6.202 DEST remains in a sound financial position with current assets in excess of current liabilities, despite an operating deficit during the 2003–2004 financial year.

6.203 The Commonwealth's equity investment increased in the current year primarily due to the transfer of the assets and liabilities of both Questacon and the Enterprise and Career Education Foundation (ECEF) for no consideration. The net book value of these transfers was $38.86 million and $0.32 million respectively. This increase was offset by a $3.12 million adjustment to reflect the initial application of *AASB 1041 Revaluation of Non-current Assets* and an asset revaluation increment of $0.21 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	232.90	292.69
Total expenses	14,927.22	13,364.84
Total assets	9,959.77	9,590.82
Total liabilities	9,405.66	8,773.69

6.204 Administered revenues are received from the indexation applied to the Higher Education Contributions Scheme (HECS) and the Student Financial Supplement Scheme. The indexation revenue is dependent upon the annual consumer price index rate applied to each scheme for the year. In 2003–2004, administered revenue decreased by $60 million. The main factor contributing to the decrease was a 0.7 per cent ($32 million) decrease in the consumer price index rate applied to the HECS scheme. Also contributing to the decrease was a change in the treatment of state grant payments in relation to unfunded superannuation.

6.205 Administered expenditure increased in line with budget expectations. Increased payments to various areas, included: States and Territories $716 million; Multi Jurisdictional Sector $160 million; Non Profit Institutions $67 million; the New Apprenticeship Scheme $79 million; and the Australian National Training Authority $45 million. There was also an increase in the HECS provision for doubtful debts of $871 million, as a result of an actuarial assessment.

6.206 The value of administered assets increased predominantly as a result of a $243 million net increase in the value of the HECS receivable as more students participated in the scheme. There were also smaller increases in the States and Territories receivable of $13 million as a result of actuarial movements in the unfunded superannuation liability (refer below), a further investment of $85 million in Australian Nuclear Science and Technology Organisation (ANSTO), and an increase of $13 million in cash at bank principally due to unspent cash of $10.94 million received as part of the ECEF restructuring arrangement.

6.207 The value of administered liabilities increased as a result of a $308 million increase in relation to grant liabilities payable to the States and Territories and an increase of $106 million in relation to grant liabilities payable to the Multi Jurisdictional sector. There was also an increase in the unfunded superannuation liability for universities of $219 million as a result of an actuarial assessment.

Changes in accounting policies

6.208 As a result of the transition provisions of *AASB 1041: Revaluation of Non-current Assets*, DEST recognised for the first time in 2003–2004:

- a decrease in accumulated results on initial application of fair value methodology of $3.12 million; and
- an increase to the asset revaluation reserve of $0.21 million.

Audit results

Summary of significant entity audit findings

6.209 In March 2004, the ANAO reported the absence of a finalised Departmental Disaster Recovery Plan. In addition, Questacon did not have a current Business Continuity Plan or Disaster Recovery Plan. DEST has a finalised Disaster Recovery Plan and a draft Business Continuity Plan for Questacon. The ANAO will examine the progress made by DEST on the Business Continuity Plan during the 2004–2005 audit.

Summary of significant administered audit findings

6.210 In March 2004, the ANAO reported the untimely clearance of administered bank reconciling items. DEST has since taken action to resolve this issue. The ANAO will examine the progress made by DEST during the 2004–2005 audit.

6.211 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	2	2	0	0
Total	**2**	**2**	**0**	**0**

Australian National Training Authority

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(2.38)	(1.09)
Commonwealth's equity investment	2.83	5.21
Ratio of current assets to current liabilities	1.72:1	3.33:1
Ratio of total assets to total liabilities	1.55:1	2.51:1

6.212 The increased operating loss for the current financial year resulted from:

- a significant decrease in the number of revenue contracts running during the year; and
- a reclassification of large amounts of contract revenues received later in the year to unearned revenues.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	1,171.59	1,125.93
Total expenses	1,173.87	1,136.77
Total assets	485.80	478.37
Total liabilities	435.47	425.76

6.213 The overall results are consistent with the prior year and budget expectations.

Audit results

Summary of significant entity and administered audit findings

6.214 There were no significant departmental or administered audit issues arising from the audit.

Australian Nuclear Science and Technology Organisation

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	13.78	69.06
Commonwealth's equity investment	710.22	651.80
Ratio of current assets to current liabilities	3.02:1	2.92:1
Ratio of total assets to total liabilities	12.49:1	11.74:1

6.215 No significant changes to ANSTO's core operations of research and nuclear medicine production occurred during the year. The operating surplus decreased due to the cessation of the capital use charge. The asset base increased as the Replacement Reactor Project (RRR) construction continues.

6.216 The Commonwealth's equity interest in ANSTO increased due to ongoing funding provided for the capital works in relation to the RRR project.

Audit results

Summary of significant entity audit findings

6.217 Issues arising during the audit were as follows:

- the entity was noted to have systemic issues with the recording of annual leave entitlements of staff. The recording of leave entitlements may be incorrect if systemic issues are not resolved, management have now advised that these issues have been rectified;
- an approved Business Continuity Plan is not in place. As such, there may be increased risk in the event of a business interruption. Management have advised that a draft is under consideration;
- IT security controls were noted to not be in accordance with best practice. Ineffective IT security controls may lead to increased risk of inappropriate access to systems. Management has indicated that a review of these issues will be completed later this year;
- inventory control procedures and valuation practices were noted to need improvement. Financial reports may be misstated if reconciliation between inventories' reports and the general ledger are not conducted. Management have indicated that a review will be completed by March 2005; and

- recommendations were made to ensure that the ANSTO uses provisions set aside for specific purpose funding by offsetting relevant expenditure against the provision. If provisions are not utilised for the stated purpose, it may be inappropriate to carry them forward to future periods. Management has advised that these procedures will be followed where practicable.

6.218 The ANAO is satisfied with management's responses and actions.

6.219 The following table provides a summary of the status of previously reported audit issues, as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	5	4	4	5
Total	**5**	**4**	**4**	**5**

Australian Research Council

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(0.05)	0.94
Commonwealth's equity investment	6.29	6.34
Ratio of current assets to current liabilities	6.52:1	9.48:1
Ratio of total assets to total liabilities	4.18:1	4.99:1

6.220 The small deficit recorded for 2003–2004 is mainly attributable to increased employee expenses and losses on assets sold.

6.221 The reduction in the Commonwealth's equity investment in the Australian Research Council is as a result of the deficit position for 2003–2004.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	4.78	0
Total expenses	385.87	371.84
Total assets	1.04	0.61
Total liabilities	181.52	194.82

6.222 Revenue for 2003–2004 represents recoveries of grants not fully utilised. An increased volume of grant applications led to growth in grant expenditure. Administered liabilities decreased due to a change in the approach to the accounting and reporting treatments of grant liabilities.

Audit results

Summary of significant entity and administered audit findings

6.223 There were no significant audit issues noted during either the interim, or final, audit phases.

Commonwealth Scientific and Industrial Research Organisation

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(5.33)	85.19
Commonwealth's equity investment	944.93	950.26
Ratio of current assets to current liabilities	1.39.1	1.36.1
Ratio of total assets to total liabilities	3.36.1	3.37.1

6.224 CSIRO reported an operating deficit of $5.33 million resulting from a number of factors, namely:

- a decline in appropriation revenue attributable to the cessation of the CUC arrangements in the previous financial year. This accounted for $107.2 million, and is offset by an increase in the base level of funding for CSIRO of $20 million for an extension of the Flagship Programs; and

- an increase in employee expenses arising from the 5 per cent increase in pay rates, and a general increase in employee entitlements.

6.225 In respect of CSIRO's overall operations during the 2003–2004 financial year, the Commonwealth's investment in CSIRO decreased by $5.33 million as a result of the net deficit for the year.

Audit results

Summary of significant entity audit findings

6.226 CSIRO is in the process of satisfactorily addressing a number of issues reported previously. These issues related to the risk management framework and IT security policy and business continuity planning.

6.227 There were no new significant issues arising from the final audit phase.

6.228 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	3	1	0	2
Total	**3**	**1**	**0**	**2**

Comments on non-material entities

6.229 The significant audit findings relating to non-material entities within this portfolio are provided below.

ANUTECH Pty Ltd

6.230 A moderate issue was raised during the audit in relation to segregation of duties in the financial area as well as about the need for ANUTECH to establish an independent internal audit function. The lack of segregation of duties in the finance area increases the risk of defalcations or incorrect transactions being processed.

6.231 In order to address this issue, ANUTECH advised that an internal auditor has recently been appointed to improve controls in the area. Accounting transactions will be subject to an ongoing internal audit program.

6.232 There were no other significant issues arising in relation to non-material entities within the portfolio.

Employment and Workplace Relations Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Employment and Workplace Relations	**Yes**	✓	20-Jul-04	◆
Australian Industrial Registry	No	✓	9-Sep-04	
Coal Mining Industry (Long Service Leave Funding) Corporation	**Yes**	✓	30-Jul-04	
Comcare Australia	**Yes**	✓	24-Aug-04	◆
Equal Opportunity for Women in the Workplace	No	✓	10-Sep-04	
National Occupational Health and Safety Commission	No	✓	7-Sep-04	
QWL Corporation Pty Limited	No	✓	24-Aug-04	

✓ : audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure
➼: signed financial statements not presented for audit at this time
☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.233 The Employment and Workplace Relations portfolio comprises DEWR and the following statutory agencies:

- Australian Industrial Relations Commission (AIRC) and the Australian Industrial Registry (AIR);
- Comcare;
- Equal Opportunity for Women in the Workplace Agency (EOWA); and
- National Occupational Health and Safety Commission (NOHSC).

6.234 The Office of the Employment Advocate (OEA), the Interim Building Taskforce, the Defence Force Remuneration Tribunal (DFRT) Secretariat and the Remuneration Tribunal (RT) Secretariat, although not statutory agencies, operate as separate entities within the DEWR.

6.235 The aims of the Portfolio are to:

- maximise the ability of unemployed Australians to find work—particularly those that face the most severe barriers to work;
- support strong employment growth and the improved productive performance of enterprises in Australia;
- give effect to the legislative framework for cooperative workplace relations;
- facilitate the operations of the Australian industrial relations system;
- reduce the human and financial costs of workplace injuries and disease;
- inspire Australian employers to take action to improve equal opportunity outcomes for women in the workplace; and
- develop awareness, policy and strategies relating to occupational health and safety measures.

6.236 The following comments relate only to material entities in the portfolio.

Department of Employment and Workplace Relations

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	8.57	15.65
Commonwealth's equity investment	58.19	48.09
Ratio of current assets to current liabilities	1.15:1	1.47:1
Ratio of total assets to total liabilities	1.73	1.62:1

6.237 An unqualified audit report for DEWR's financial statements was issued on 20 July 2004. The completion of the financial statements on this date was a product of strong organisational skills and senior management commitment by DEWR and the integration of the production and analysis of financial statements with ongoing monitoring and reporting processes.

6.238 The operating surplus decreased by $7.09 million from that of the prior year, and mainly reflects higher staffing numbers in 2003–2004, as a result of new measures and initiatives.

6.239 The increase in the Commonwealth's equity investment is due to the 2003–2004 net surplus of $8.6 million and a $1.1 million increment in the asset revaluation reserve following the change in revaluation of assets to fair value.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	251.49	73.23
Total expenses	1,409.70	1,260.89
Total assets	59.40	26.71
Total liabilities	109.38	312.72

6.240 The increase in administered revenue is primarily due to asset recoveries of $173 million in 2003–2004 from the Special Employee Entitlement Scheme for Ansett Employees (SEESA). Administered expenses increased due to significant increase in employment outcomes achieved with the Job Network Program.

6.241 Administered assets increased due to the recognition of receivables under the SEESA Scheme and an increase in GST Receivables at balance date.

6.242 The decrease in liabilities reflects the winding down of the SEESA Scheme and the application of asset recovery monies in 2003–2004.

Audit results

Summary of significant entity and administered audit findings

6.243 One moderate risk issue was identified during the audit, being the return of administered expenditure to the OPA, that was incorrectly booked to Outcome One and Two appropriation balances. As a consequence, the money available to be drawn and spent was more than was permitted under law. This meant that DEWR was at moderate risk of breaching section 83 of the *Constitution*. Notwithstanding this risk exposure, DEWR accurately reported and managed the appropriation in accordance with legislation.

6.244 The following table provides a summary of the status of previously reported audit findings as well as of any new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	2	2	1	1
Total	**2**	**2**	**1**	**1**

Coal Mining Industry (Long Service Leave Funding) Corporation

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	28.55	(1.24)
Commonwealth's equity investment	(87.83)	(116.38)
Ratio of current assets to current liabilities	0.92:1	0.72:1
Ratio of total assets to total liabilities	0.78:1	0.70:1

6.245 The movement in net surplus was mainly attributable to improved performance of CMILSLC's investments which saw an increase in investment income of $28 million.

6.246 The movement in Commonwealth's equity investment was a result of CMILSLC's surplus.

Audit results

Summary of significant entity and administered audit findings

6.247 There were no significant agency or administered audit issues arising from the audit.

Comcare and its Controlled Entity

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	5.18	0.60
Commonwealth's equity investment	10.34	5.17
Ratio of current assets to current liabilities	1.05:1	1.02:1
Ratio of total assets to total liabilities	0.99:1	1.00:1

6.248 The financial results for the year are in line with budget expectations and are consistent with those of the prior year.

6.249 The change to the *Safety, Rehabilitation and Compensation Act 1988* meant that the premiums previously collected by Comcare are no longer paid into the OPA and are now reported as revenue.

6.250 The increase in the Commonwealth's equity investment is a result of Comcare's surplus for 2003–2004.

Audit results

Summary of significant entity audit findings

6.251 The audit highlighted four issues of moderate significance for management consideration. Each of these findings has been actively considered by management and is either in the process of being resolved or plans are now in place to manage the associated risk in the short term.

6.252 The four issues related to:

- the need to carefully manage the exposure to staff performing incompatible duties related to the creation of vendor files (including bank accounts) and the approval of payments to those same vendors;
- the need for further developments of the business continuity planning including formal endorsement and testing;
- review a relatively small segment of Comcare's overall liability for outstanding workers' compensation claims in relation to asbestos related diseases. Planning for this process together with additional quality control over input data for the actuary is significantly advanced; and
- the need for improvement in the administration and timely reconciliation of suspense accounts, such as the overpayment account.

6.253 Comcare has responded positively to the ANAO recommendations.

The following table provides a summary of the status of audit findings for the 2003–2004 financial year.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	0	0	4	4
Total	**0**	**0**	**4**	**4**

Comments on non-material entities

6.254 There were no significant audit issues impacting on non-material entities.

Environment and Heritage Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Environment and Heritage	**Yes**	✓	26-Aug-04	◆
Australian Greenhouse Office	**Yes**	A	21-Oct-04	◆
Bureau of Meteorology	**Yes**	✓	3-Aug-04	
Commission for the Conservation of Antarctic Marine Living Resources	No	✓	24-May-04	
Director of National Parks	No	✓	13-Sep-04	◆
Great Barrier Reef Marine Park Authority	No	✓	5-Oct-04	◆
National Environment Protection Council Service Corporation	No	✓	3-Sep-04	
National Oceans Office	No	✓	8-Sep-04	
Natural Heritage Trust of Australia Reserve	No	✓	25-Aug-04	◆
Office of the Renewable Energy Regulator	No	✓	8-Sep-04	
Sydney Harbour Federation Trust Fund	No	✓	22-Sep-04	

✓: audit report not modified
E: audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure

➻: signed financial statements not presented for audit at this time
☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio Overview

6.255 The Environment and Heritage Portfolio's role is to achieve three major outcomes for the Australian Government. The outcomes are:

- the environment, especially those aspects that are matters of national environmental significance, is protected and conserved;
- Australia benefits from meteorological and related science and services; and
- Australia's interests in Antarctica are advanced.

6.256 The following comments relate only to material entities in the portfolio.

Department of the Environment and Heritage

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	5.64	29.03
Commonwealth's equity investment	258.02	260.55
Ratio of current assets to current liabilities	1.28:1	1.47:1
Ratio of total assets to total liabilities	4.02:1	3.85:1

6.257 The net surplus for the year was in line with reduced budget funding of $74.4 million offset by associated decreases in expenditure of $51 million. Reduced budget funding and associated expenditure resulted due to the removal of the Bureau of Meteorology (Bureau) from DEH early in 2002–2003, and the cessation of the capital use charge from 1 July 2003.

6.258 In addition to the impact of the surplus, the net movement in equity is attributed to a reclassification of assets of $8.2 million from departmental to administered and the transfer of net assets of $0.25 million, due to the inclusion of the operations of the former Australian Heritage Commission into DEH.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	11.05	11.86
Total expenses	267.54	258.52
Total assets	132.04	124.01
Total liabilities	43.43	16.32

6.259 Increases in total liabilities of $21 million and expenditure reflect increased NHT grant activities during the financial year. In addition, GST payable at year-end increased by $4 million.

Audit Results

Summary of significant entity audit findings

6.260 DEH breached the requirements of sub-sections 8(3) and 8(4) of the FMA Act as a result of the overdrawing of a number of bank accounts without prior agreement with the Minister for Finance and Administration.

6.261 DEH did not achieve a number of milestones in its financial statement preparation timetable. As a result, DEH did not meet the financial reporting deadlines required by the Australian Government.

6.262 Reconciliations between a number of special accounts and the bank accounts operating these special accounts were not being undertaken by DEH. The absence of a reconciliation between a number of special accounts and the bank account operating for these special accounts could result in the non-detection of error and/or mismanagement of special account funds.

6.263 Monthly reconciliations of leave balances in SAP HR to the general ledger were not being undertaken. The absence of regular monthly reconciliations of employee leave balances in SAP HR to the general ledger did result in DEH not detecting double counting of leave provisions and related expenditure of $1.25 million. Subsequent correction has been made.

6.264 The Australian Antarctic Division's current asset capitalisation model does not correctly capitalise certain costs. The Australian Antarctic Division is to review its asset capitalisation models to ensure that it does not incorrectly capitalise costs, which would result in the overstatement of assets and understatement of liabilities.

Summary of significant administered audit findings

6.265 There were no significant administered audit issues arising from the final audit phase.

6.266 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
Environment Australia				
A	0	0	0	**0**
B	2	2	3	**3**
Legislative Breach	0	0	1	**1**
	2	**2**	**4**	**4**
Australian Antarctic Division				
A	0	0	0	**0**
B	2	2	1	**1**
	2	**2**	**1**	**1**
Department of the Environment and Heritage (combined total)				
A	**0**	**0**	**0**	**0**
B	**4**	**4**	**4**	**4**
Legislative Breach	0	0	1	1
Total	**4**	**4**	**5**	**5**

Australian Greenhouse Office

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(2.45)	(3.00)
Commonwealth's equity investment	21.15	23.60
Ratio of current assets to current liabilities	3.80:1	5.30:1
Ratio of total assets to total liabilities	3.02:1	3.94:1

6.267 The reduction in the net deficit of $0.56 million is primarily due to additional funding from government during the year.

6.268 The change in the Commonwealth's equity investment from 2002–2003 to 2003–2004 reflects the net deficit of AGO for the year.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	0	0
Total expenses	24.28	25.56
Total assets	3.58	0
Total liabilities	0	2.01

6.269 Administered expenses reduced due to a decrease in the level of demand and fewer than anticipated milestones being achieved under respective grant programs. The increase in administered assets reflects the recognition of a loan receivable of $3.58 million under the Renewable Energy Equity Fund Program. There were no administered grant liabilities at 30 June 2004.

Audit results

Financial Statements

6.270 AGO breached section 48 of the FMA Act as the AGO's accounts and records were not kept in such a way as to ensure that five special appropriations were disaggregated and reported at the required level of detail for the period 2000–2001 to 2002–2003. This resulted in an additional statutory disclosure within the AGO audit report.

Summary of significant entity audit findings

6.271 Regular reconciliations between AGO's HR system and its general ledger were not occurring. The absence of regular reconciliations between AGO's system for leave liabilities and its general ledger may result in the non-detection of error.

6.272 AGO breached the requirements of sub-sections 8(3) and 8(4) of the FMA Act as a result of the overdrawing of its bank account on a number of occasions, without prior agreement with the Minister for Finance and Administration.

6.273 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	0	2*	1	1
Legislative Breach	0	0	0	1
Total	**0**	**2**	**1**	**2**

* An issue reported in March 2004 as a Category B finding in relation to the overdrawn bank account has been reclassified as a legislative breach at August 2004.

Bureau of Meteorology

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	3.43	8.72
Commonwealth's equity investment	193.51	164.45
Ratio of current assets to current liabilities	0.48.1	0.86.1
Ratio of total assets to total liabilities	3.64.1	3.40.1

6.274 The 2002–2003 figures reflect the operations of the Bureau from 12 September 2002, the date on which the Bureau became a prescribed agency. The reduced net surplus is mainly attributable to increases in employee expenses of $24.62 million, property operating expenses of $16.78 million, and depreciation and amortisation expense of $3.03 million, offset by increased government funding of $35.25 million and increased sales of goods and services of $4.82 million.

6.275 In addition to the surplus, an asset revaluation increment of $19.32 million and an equity injection of $6.3 million contributed to the improved equity position.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	16.46	12.79
Total expenses	0	0
Total assets	2.97	2.63
Total liabilities	0.16	0.13

6.276 The key financial measures for the Bureau's administered items are in accordance with expectations. Measures for 2004 reflect a full financial year's effect, while measures for 2003 refect transactions from 12 September 2002.

Audit results

Summary of significant entity and administered audit findings

6.277 There were no significant departmental or administered audit issues arising from the audit.

Comments on non-material entities

6.278 The significant audit issues relating to non-material entities within this portfolio are provided below.

Director of National Parks

6.279 The Director of National Parks' (DNP) bank account was physically overdrawn for a short period of time in March 2004. This contravened sub-section 514D(6) of the *Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)*, as the DNP must not borrow money in the performance of his functions.

6.280 The absence of reconciliations between DNP's HR system for employee leave liabilities and its general ledger may result in the non-detection of error.

Great Barrier Reef Marine Park Authority

6.281 In 2003–2004, the Great Barrier Reef Marine Park Authority revalued its fixed assets as at 30 June 2004. The valuation process did not utilise the asset register and excluded a number of assets. The resulting misstatement of asset values was not considered to be material.

Natural Heritage Trust of Australia Reserve

6.282 NHT breached the requirements of sub-sections 8(3) and 8(4) of the FMA Act *1997* as a result of the overdrawing of its bank account on a number of occasions, without prior agreement with the Minister for Finance and Administration.

6.283 NHT has not tabled before both Houses of the Parliament the 2002–2003 Annual Report in accordance with sub-section 43(1) of the *Natural Heritage Trust of Australia Act 1997*.

6.284 There were delays in the acquittal of a significant number of NHT grants. Delays in the acquittal process may result in the misuse of Australian Government monies.

6.285 There were no other significant issues arising in relation to non-material entities within the portfolio.

Family and Community Services Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Family and Community Services	**Yes**	✓	10-Sep-04	◆
Australian Institute of Family Studies	No	✓	13-Sep-04	
Centrelink	**Yes**	✓	29-Jul-04	

✓: audit report not modified
E: audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure

➭: signed financial statements not presented for audit at this time
☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.286 The Family and Community Services portfolio plays a lead role in shaping and contributing to a broad range of social policy issues affecting Australian society and the living standards of Australian families, communities and individuals. For 2003–2004, the portfolio was responsible for income support, housing assistance, community support, youth services, disability services, child care services and family issues, including family payments, child support and family relationships.

6.287 As at 30 June 2004, the portfolio comprised three autonomous agencies:

- the Department of Family and Community Service;
- Centrelink; and
- the Australian Institute of Family Studies (AIFS).

6.288 FaCS provided advice to government on all policy issues within the portfolio and managed the delivery of services to individuals, families and communities. As at 30 June 2004, FaCS included two administrative agencies:

- the Child Support Agency (CSA); and
- the Social Security Appeals Tribunal (SSAT).

6.289 The AAO issued in October 2004 has impacted on the structure of the FaCS Portfolio and FaCS. This includes transferring responsibility for service delivery through Centrelink and CSA to the newly established Department of Human Services.

6.290 The following comments relate only to material entities in the portfolio.

Department of Family and Community Services

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.07	(21.76)
Commonwealth's equity investment	19.20	10.68
Ratio of current assets to current liabilities	1.26.1	1.13.1
Ratio of total assets to total liabilities	1.15.1	1.07.1

6.291 The increase in the net surplus in 2003–2004 is primarily attributable to increased departmental output appropriation revenue and a decrease in the write-down of assets, due to a large asset under construction adjustment in 2002–2003, partially offset by increased service delivery expenses.

6.292 The increase in the Commonwealth's equity investment is due to an increase in the asset revaluation reserve following the revaluation of leasehold improvements in 2003–2004 and an equity injection received for the period.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	998.20	1,109.63
Total expenses	65,192.50	57,650.52
Total assets	2,468.84	2,278.76
Total liabilities	4,803.75	2,401.68

6.293 The primary reasons for the decrease in revenue relate to:

- a decrease in revenue from the reciprocal agreement with New Zealand, consistent with the written agreement between the parties;
- a decrease in Student Financial Supplement Scheme (SFSS) indexation, consistent with the Consumer Price Index (CPI) movement;
- a decrease in Child Support Penalties revenue due to the intensive CSA debt management program, where penalties were waived when Child Support liabilities are paid in full; and

- a decrease in Child Support Advance Reimbursement revenue as this program has now ceased.

6.294 The above decreases in revenue were partially offset by an increase in Child Support Trust Revenue, consistent with an increase in CSA case loads.

6.295 The increase in administered expenditure is primarily due to:

- the first time recognition of a liability for the Pension Bonus Scheme (PBS), which is included within the age pension portion of personal benefits expenses;
- the one-off Family Tax Benefit (FTB) payments as a result of a new budget measure;
- the one-off Carer Payment and Carer Allowance payments as a result of a new budget measure, which includes a payable for people entitled on budget night, but who had not received the one-off payment by 30 June 2004;
- the FTB Supplement Payable as a result of new budget measures; and
- the application of CPI to the majority of payments.

6.296 The increase in administered assets is primarily due to an increase in gross receivables, partially offset by an increase in the provision for doubtful debts. The increase is receivables is primarily due to:

- an increase in the gross SFSS receivable, due primarily to CPI indexation increases;
- an increase in direct personal benefit receivables, in line with the increase in personal benefit expenditure; and
- an increase in child support receivables, consistent with the increased CSA caseloads.

6.297 The increase in liabilities is primarily due to a payable recorded for FTB and carer lump sum payments due in September 2004 (but relating to 2003–2004), and an increase in other personal benefit amounts due at 30 June, but paid in the first two weeks of July, compared to payments in 2002–2003. In addition, the liability for the PBS, which is included as a personal benefits liability, was included for the first time in 2003–2004.

Audit results

Summary of significant entity audit findings

6.298 In 2003–2004, the FMOs required agencies to record all appropriations as per the Appropriation Acts. There are a limited number of exceptions to this requirement listed in the FMOs, including the Centrelink Funding Model (CFM). Under the CFM, FaCS is able to amend its appropriation revenue and record an appropriation payable/receivable to account for budget measures for which it was funded but did not proceed, and for movements in recipient numbers in relation to the Newstart and Youth Allowance payments, as per the Regional Funding Model (RFM). In 2003–2004, $3.9 million has been recorded as an appropriation receivable for the increase in Newstart and Youth Allowance numbers since Additional Estimates, calculated as per the RFM.

6.299 Due to the incorrect recording of some transactions in its financial management information system FMIS, FaCS had significant difficulty in determining the correct amount to be disclosed as departmental appropriation revenue in its financial statements. The ANAO has recommended that FaCS review the appropriation drawdown and accounting procedures to ensure that when monies are drawn down, they are appropriately recorded against appropriation revenue, appropriation receivable, or OPA receivable.

6.300 FaCS has advised the ANAO that it has taken steps to address the administrative process shortcomings which lead to this issue. The ANAO will review progress on this matter during the 2004–2005 audit.

Summary of significant administered audit findings

6.301 The PBS was introduced in 1998–1999 with the aim of providing an incentive for older Australians to defer claiming the Age Pension and, instead, remain in the workforce. The scheme is voluntary and pays a tax-free lump sum to members when they claim and receive the Age Pension. In order to be eligible for a bonus a person cannot have received a pension or other income support payment (other than Carer Payment) after reaching age pension age. In 2003–2004, FaCS and the ANAO agreed that FaCS should recognise a provision in its financial statements for the PBS. Due to the lack of previously agreed methodology, there were significant delays and recalculations involved in estimation of this provision. The ANAO has recommended that FaCS review the PBS provision during 2004–2005, as new data becomes available. The ANAO has encouraged FaCS to obtain actuarial advice to assist in determining the appropriate provision going forward.

Changes in accounting policies

6.302 A liability was recognised for the first time in 2003–2004 in respect of the PBS and is included within Age Pension expenditure figures. The liability includes an estimate for current ($332 million) and potential ($222 million) registrants of the Scheme and is based on a number of assumptions relating to the eligibility requirements of the Scheme. In addition to the above, there were no other changes apart from those required under the FMOs.

6.303 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	8	2	2	8
Total	**8**	**2**	**2**	**8**

6.304 The ANAO will review FaCS' progress in addressing the remaining outstanding findings during the 2004–2005 audit.

Centrelink

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	6.26	(47.71)
Commonwealth's equity investment	121.45	75.62
Ratio of current assets to current liabilities	1.11:1	0.84:1
Ratio of total assets to total liabilities	1.25:1	1.15:1

6.305 The movement from a deficit to a surplus is primarily due to an increase in service provision revenue, as a result of new measures introduced within the 2003–2004 budget, offset by increased employee expenses as a result of a 4 per cent pay rise for all staff and increased Comcare premiums.

6.306 The increase in the Commonwealth's equity investment is attributable to an equity injection of $40.7 million and the net surplus for 2003–2004, partially offset by a return of funding to the Australian Government.

Audit results

Summary of significant entity audit findings

6.307 Centrelink is in the process of satisfactorily addressing the control issues reported previously. There were no significant agency audit issues arising from the final audit stage.

6.308 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	5	0	0	5
Total	**5**	**0**	**0**	**5**

6.309 The ANAO will review Centrelink's progress in addressing the remaining outstanding findings during the 2004–2005 audit.

Comments on non-material entities

6.310 There were no significant audit issues impacting on non-material entities.

Finance and Administration Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Finance and Administration	**Yes**	✓	26-Oct-04	
Australian Electoral Commission	**Yes**	✓	6-Aug-04	
Australian Industry Development Corporation	**Yes**	✓	4-Aug-04	
Australian River Co. Ltd	No	E	17-Mar-04	◆
Australian Submarine Corporation Pty Ltd	No	✓	24-Aug-04	◆
Australian Technology Group	No	✓	9-Aug-04	
CFM Australian Equities Fund	No	✓	10-Aug-04	
Commonwealth Grants Commission	No	✓	10-Sep-04	
Commonwealth Superannuation Administration (Comsuper)	No	✓	8-Oct-04	
Commonwealth Superannuation Scheme (CSS)	No	Q	7-Sep-04	◆
CSS/PSS Pty Ltd	No	✓	10-Aug-04	
Medibank Private Ltd	**Yes**	✓	13-Aug-04	
Public Sector Superannuation Scheme (PSS)	No	✓	7-Sep-04	
Telstra Instalment Receipts Trust Account	No	✓	9-Sep-04	

✓: audit report not modified
E: audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure

➺: signed financial statements not presented for audit at this time
☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio Overview

6.311 The principal matters dealt with by the Finance and Administration Portfolio are as follows:

- Budget policy advice and process, and review of governmental programmes;
- Government financial accountability, governance and financial management frameworks;
- Shareholder advice on Government Business Enterprises;

- General policy guidelines for Australian Government statutory authorities;
- Superannuation for Australian Government employees;
- Asset sales;
- Strategic property management in Australia, including acquisition, ownership and disposal of real property;
- Procurement policy and services (including contracting out, removals and disposals);
- Electoral Matters;
- Administration of Parliamentarians' entitlements; and
- Competitive tendering and contracting.

6.312 As part of the role of the portfolio department, Finance is to assist the Government achieve its policy objectives by providing high quality advice and services. Finance addresses this by contributing to three key outcomes:

- sustainable government finances;
- improved and more efficient government operations; and
- an efficiently functioning Parliament.

6.313 Other material agencies under the portfolio include:

- the Australian Electoral Commission, which is responsible for providing the Australian people with an independent electoral service capable of meeting their needs, while enhancing their understanding of, and participation in, the electoral process; and
- the Australian Industry Development Corporation, the management of which is in the process of winding down to finality the residual and other obligations of the Corporation.

6.314 The following comments relate only to material entities in the portfolio.

Department of Finance and Administration

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	22.80	(20.89)
Commonwealth's equity investment	1,052.56	1,080.41
Ratio of current assets to current liabilities	2.57:1	2.13:1
Ratio of total assets to total liabilities	3.59:1	4.30:1

6.315 The operating surplus for the year is mainly attributable to the net effect of a surplus of $68.28 million in Comcover, Finance's self-managed fund for insurance and risk management, and the inclusion for the first time of a provision for asbestos related disease claims of $72 million. In the prior year, Comcover's operating result was a deficit of $33.34 million. The movement from the prior year's result is due to the impact of the January 2003 bushfires on insurance claims and premiums in that year.

6.316 In addition, the Property Management Branch in Finance is responsible for the Australian Government's non-Defence domestic property portfolio and achieved a surplus for the year of $24.6 million, an increase of $17.68 million on that of the prior year. This movement is due to the net effect of a reduction in rental revenue of $10.08 million and a decrease in operating expenses of $26.72 million.

6.317 Finance's equity has decreased by $27.9 million. This is due to the net effect of a return of contributed equity of $61.56 million and an equity injection of $30.75 million for the Christmas Island Permanent Immigration Centre and the Adelaide Commonwealth Law Courts project.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	1,725.09	1,137.65
Total expenses	4,156.42	10,020.42
Total assets	(128.24)	913.92
Total liabilities	59,067.94	61,237.08

6.318 The increase in administered revenue of $587.44 million is primarily due to an increase in proceeds from asset sales of $331.94 million and an increase in superannuation contributions of $266.95 million, which is attributed to the growth in membership of the Public Sector Superannuation Scheme (PSS), salary and wages increments, and higher agency contribution rates.

6.319 Total expenses have decreased by $5 864 million. The higher balance in 2002–2003 was due to the revaluation and subsequent increase in the Australian Government's unfunded public sector superannuation liability provision in that year.

6.320 The balance of cash at bank is net of the Australian Government's surplus funds, invested by the Australian Office of Financial Management, which results in the negative cash balance of $643.65 million and an overall negative asset position of $128.24 million. The balance does not include agency bank balances swept to the Official Public Account each night under devolved banking arrangements, as they are reported by the individual agencies. If these were to be taken into account, the overall balance would be a positive cash balance.

Audit results

Summary of significant entity and administered audit findings

Other statutory matter

6.321 Each entity is required to maintain sufficient accounts and records to be able to ensure that cash appropriated by Parliament is only spent for the purpose it was provided and any limit set by Parliament is not exceeded. In relation to four of the special appropriations contained in the *Superannuation Act 1976* and the *Superannuation Act 1990*, which are operationally managed by Comsuper, the ANAO found that, while records existed to explain transactions for each of the special appropriations, this information could not be readily extracted. There remains a need to improve systems of accounts and records to enable the extraction of information in a more systematic and timely manner.

Other significant entity and administered audit findings

6.322 There were no other significant departmental or administered issues arising from the audit.

Australian Electoral Commission

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(2.75)	8.70
Commonwealth's equity investment	30.16	27.99
Ratio of current assets to current liabilities	1.90:1	2.13:1
Ratio of total assets to total liabilities	1.99:1	2.10:1

6.323 The Australian Electoral Commission reported an operating deficit of $2.75 million, which is attributable to a reduction in revenues from the sale of goods and services and increased employee and supplier expenses that are partially offset by an increase in appropriation revenue from the Government.

6.324 The increase in the Commonwealth equity investment in the Australian Electoral Commission is a result of an asset revaluation increment of $3.9 million and an equity injection of $1 million, offset by the Australian Electoral Commission's deficit position for 2003–2004 of $2.75 million.

Items Administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	4.14	4.14
Total expenses	0.00	0.11
Total assets	0.45	1.10
Total liabilities	0.00	0.00

6.325 There has been no change to administered revenues and the small decrease in administered expenses is due to reduction in grants made. The decrease in total administered assets is attributable to a reduction in administered receivables.

Audit results

Summary of significant entity and administered audit findings

6.326 There were no significant departmental or administered audit issues arising from the audit.

Australian Industry Development Corporation

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	6.32	0.08
Commonwealth's equity investment	6.40	6.08
Ratio of current assets to current liabilities	1.164:1	1.096:1
Ratio of total assets to total liabilities	1.006:1	1.004:1

6.327 The significant movement in the net surplus of Australian Industry Corporation Ltd (AIDC) for 2003–2004 in comparison to that of 2002–2003 is as a result of the settlement of litigation in 2003–2004 by AIDC against the buyer of AIDC Ltd in respect of non-compliance with the requirements of the sale deed. The settlement balance of $6.6 million was recognised as revenue for the year ended 30 June 2004.

6.328 The Australian Government equity investment in AIDC marginally increased due to the net surplus of $6.32 million offset by dividends paid and provided of $6 million.

Summary of significant entity findings

6.329 There were no significant audit issues arising from the interim or final audit phases.

Medibank Private Ltd

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	44.8	10.31
Commonwealth's equity investment	437.49	392.69
Ratio of current assets to current liabilities	1.65:1	1.59:1
Ratio of total assets to total liabilities	1.71:1	1.63:1

6.330 Medibank Private Ltd's annual report notes significant improvement in performance this year and the need to ensure outlays remain at a level members are prepared to fund through premium contributions remains a priority for Medibank Private Ltd.

Audit results

Summary of significant entity audit findings

6.331 There were no significant audit issues arising from the audit.

Comments on non-material entities

6.332 The significant audit issues relating to non-material entities within this portfolio are provided below.

Australian River Co. Limited

6.333 The Australian River Company has a financial year ending 30 November. The report for the year ended 30 November 2003 was unqualified but included an emphasis of matter as to the inherent uncertainty regarding the future operations of the company. On 3 May 2002, the Parliamentary Secretary to the Minister for Finance and Administration wrote to the Australian River Co. Limited and stated that the company should manage its remaining operations with a view to winding down the company at the earliest opportunity on a commercially supportable basis including the pursuit of any sale opportunities. At the time of the Audit Report, the Board and Shareholder were considering a wide variety of options, including both sale opportunities and running the vessel leases out to finality. Deliberations on these matters have not been finalised.

Australian Submarine Corporation

6.334 An emphasis of matter within the audit opinion issued in the 2002–2003 financial year, reflecting the significant uncertainty that existed regarding the resolution of technical and commercial issues on the New Submarine Project (NSP), was removed in 2003–2004. This was due to the conclusion of two significant agreements that resolved the various commercial and technical disputes giving rise to the significant uncertainty. As a result, an unmodified audit opinion was issued for the Australian Submarine Corporation Pty Ltd for the 2003–2004 financial year.

Commonwealth Superannuation Administration

6.335 Several moderate control issues were noted in relation to Comsuper's IT Environment. These issues include user access, password controls, policies and procedures and disaster recovery plan. Comsuper has resolved most of the issues identified and is in the process of addressing those recommendations still outstanding.

Commonwealth Superannuation Scheme

6.336 Regulation 6.17 of the Superannuation Industry (Supervision) Regulations allows a member's benefit in a scheme to be paid out only when certain conditions of release are met. The Board of the Commonwealth Superannuation Scheme identified likely instances of non-compliance with the regulation during the financial year with regard to payments of either deferred benefits or age pensions to members who have not satisfied the conditions of release. Further work is currently being undertaken by the Trustee to confirm the extent of these suspected breaches. The inability to determine whether the regulation had been complied with during the financial year has resulted in the compliance comments on the accounts of the Commonwealth Superannuation Scheme being qualified.

6.337 There were no other significant issues arising in relation to non-material entities within the portfolio.

Foreign Affairs Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Foreign Affairs and Trade	**Yes**	✓	5-Aug-04	
Australia-Japan Foundation	No	Q	29-Sep-04	◆
Australian Entity for International Development	**Yes**	✓	4-Aug-04	◆
Australian Centre for International Agricultural Research	No	✓	26-Aug-04	
Australian Secret Intelligence Service	No	✓	3-Sep-04	
Australian Trade Commission	**Yes**	✓	28-Jul-04	
Export Finance and Insurance Corporation	**Yes**	✓	30-Jul-04	

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☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.338 The Foreign Affairs and Trade portfolio agencies support Ministers in the conduct of Australia's foreign and trade policy, and pursue bilateral, regional and global strategies to further these policy objectives. The agencies contribute to international security, national economic and trade performance and global cooperation; develop and promote domestic and international understanding of Australia's foreign and trade policy; support Australian business by providing market access and export advice and assistance; promote trade and investment; provide assistance to developing countries to reduce poverty and achieve sustainable development; provide consular and passports services to Australians; and manage efficiently the Australian Government overseas owned estate.

6.339 The following comments relate only to material entities in the portfolio.

Department of Foreign Affairs and Trade

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	155.66	135.01
Commonwealth's equity investment	1,579.76	1,663.84
Ratio of current assets to current liabilities	2.33:1	1.88:1
Ratio of total assets to total liabilities	11.78:1	11.71:1

6.340 The improved financial performance of DFAT is due to a decrease in expenses; in particular, employee expenses and the value of assets sold. The majority of the decrease in employee expenses is attributable to a general reduction in the number of Locally Engaged Staff (LES) overseas as a result of a review conducted by DFAT in the prior year. The value of assets sold expense has decreased as the prior year's balance included the sale of three overseas properties, whereas in the current year the majority of the balance relates to the sale of smaller value Infrastructure, Plant and Equipment assets.

6.341 The movement in the Commonwealth's equity investment is due to the revaluation of land and buildings performed as at 30 June 2004. The reduction resulted from changes in the valuation methodology from deprival to fair value and the impact of the strengthening Australian dollar on the value of the Land and Buildings held overseas.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	210.35	174.99
Total expenses	758.86	309.19
Total assets	465.15	1,064.06
Total liabilities	143.26	157.38

6.342 The increase in total revenues is mainly attributable to an increase in passport fee revenue and trust sponsorship revenue. Passport fee revenue increased due to the favourable Australian dollar exchange rate, particularly during the month of December, for Priority Passports. The increase in trust sponsorship revenue is primarily related to the upcoming 2005 World Expo in Japan. The large increase in Expenses and decrease in assets is due to the raising of a provision in relation to the Iraq related debt, following the announcement on debt forgiveness for Iraq.

Audit results

Summary of significant entity and administered audit findings

6.343 There were no significant departmental or administered audit issues arising from the interim or final audit phases.

Australian Agency for International Development

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	1.08	(2.54)
Commonwealth's equity investment	(2.12)	(3.32)
Ratio of current assets to current liabilities	1.17:1	0.88:1
Ratio of total assets to total liabilities	0.89:1	0.80:1

6.344 The movement in AusAID's 2003–2004 net surplus is primarily attributed to an increase in appropriation funding.

6.345 The increase in the Commonwealth's equity investment in AusAID is attributable to the recorded surplus of $1.08 million and an additional $0.11 million as a result of an asset revaluation increment.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	0.18	0.14
Total expenses	1,305	1,713
Total assets	789	860
Total liabilities	931	1,173

6.346 The increase in administered revenues is a result of the sale of administered assets. The decrease in administered expenses is due to reduced grant expenditure to developing countries during 2003–2004 because of timing delays with multilateral agreements. The reduction in administered assets is a result of the timing of funding for multilateral agreements. The decrease in administered liabilities primarily relates to a capital injection received in 2003–2004 which was applied to grants payable to overseas entities.

Audit results

Summary of significant entity and administered audit findings

6.347 Subsequent to an ANAO recommendation, in the 2003–2004 financial statement audit, AusAID has undertaken a recent IT Threat and Risk assessment to enable it to have an up to date IT Security Policy. Without regular review of the policy, AusAID may be exposed to risk, which may result in damage to government IT infrastructure.

6.348 Subsequent to another ANAO recommendation, in the 2003–2004 financial statement audit, AusAID IT Section has become involved in the development and implementation of Aidworks. This involvement will assist in the mitigation of risk of the project not complying with AusAID's Information Systems Strategy and Security and Security Policy, Systems development methodology and IT Architecture guidelines.

Changes in accounting policies

6.349 Although progress had been achieved in advancing resolution of the moderate risk exposure relating to business continuity planning, AusAID needs to finalise and test an agency wide business continuity plan.

6.350 AusAID changed its accounting policy regarding the revaluation of its leasehold improvements, infrastructure, plant and equipment from deprival to fair value.

6.351 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues reported and resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	0	2	1	1
Total	**0**	**2**	**1**	**1**

Australian Trade Commission

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.31	10.75
Commonwealth's equity investment	72.43	75.05
Ratio of current assets to current liabilities	2.09:1	1.80:1
Ratio of total assets to total liabilities	2.85:1	2.86:1

6.352 The net surplus for the year has decreased in comparison with the prior year primarily due a large decrease in Property Rental revenues due to the Sydney office ending their sub-lease to three sub-tenants in December 2003, and the Los Angeles office ending their sub-lease, with DFAT now controlling the head lease.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	0.56	0.81
Total expenses	150.90	151.12
Total assets	6.71	6.65
Total liabilities	1.97	1.97

6.353 The decrease in administered non-appropriation revenue was due to the continued wind back of the loans schemes. Expense, asset and liability totals have all remained stable in comparison with those of the prior year.

Audit results

Summary of significant entity and administered audit findings

6.354 There were no significant departmental or administered audit issues arising from the final audit phase.

Export Finance and Insurance Corporation

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	50.3	41.90
Commonwealth's equity investment	266.20	253.70
Ratio of current assets to current liabilities	N/A	N/A
Ratio of total assets to total liabilities	1.08:1	1.08:1

N/A: Not applicable.

6.355 No significant movement in the financial performance of EFIC occurred during 2003–2004.

6.356 The increase in the Commonwealth equity investment in EFIC is a result of the 2003–2004 operating surplus, offset by dividends paid or provided.

Audit results

Summary of significant entity audit findings

6.357 There were no significant audit issues arising from the interim or final phases of the audit.

Comments on non-material entities

6.358 There were no significant audit issues impacting on non-material entities, with the exception of the Australia-Japan Foundation.

Australia-Japan Foundation

6.359 Three significant issues were noted during the audit of the AJF. These related to cash management, depreciation of Infrastructure, Plant and Equipment and appropriations. The last of these resulted in the issue of a qualified audit report.

6.360 During 2003–2004, the AJF overspent its available departmental appropriation by $94 342. This overspend represents a breach of section 83 of the *Constitution*, which states that no money shall be drawn from the Treasury of the Commonwealth, except under appropriation by law. This breach was disclosed in the AJF's 2003–2004 financial statements.

6.361 Further, a contravention of section 48 of the FMA Act also occurred in that AJF's accounts and records have not been kept in a way that ensures that moneys were only expended within the limit of the appropriation. The above breaches were disclosed in AJF's 2003–2004 financial statements.

6.362 The Finance Minister has not delegated to the Chief Executive of the AJF the power to enter into bank overdrafts in accordance with section 8 of the FMA Act. As at 30 June 2004, the AJF's operating account was overdrawn by $0.26 million and had been overdrawn for more than 30 days. This constitutes a breach of section 8 of the FMA Act and indicates inadequate cash management processes and procedures. The AJF has since introduced measures to more effectively manage its cash flow.

6.363 The FMIS did not correctly calculate depreciation expense following the revaluation of Infrastructure Plant and Equipment. This resulted in an understatement of the AJF's expenses for the period and an overstatement of its operating surplus. This issue has the potential of being material to AJF's 2004–2005 financial statements. The AJF has indicated that the SAP depreciation settings will be adjusted to ensure depreciation expense will be correctly stated in the 2004–2005 financial statements.

6.364 There were no other significant issues arising in relation to non-material entities within the portfolio.

Health and Ageing Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Health and Ageing	**Yes**	E	23-Aug-04	◆
- Therapeutic Goods Administration	No	✓	23-Aug-04	
- CRS Australia	No	✓	23-Aug-04	
Aged Care Standards and Accreditation Agency Ltd	No	✓	28-Sep-04	
Alcohol Education and Rehabilitation Foundation Ltd	No	✓	26-Aug-04	
Australian Hearing Services	No	✓	01-Sep-04	
Australian Institute of Health and Welfare	No	✓	24-Sep-04	
Australian Radiation Protection and Nuclear Safety Authority	No	✓	06-Sep-04	
Food Standards Australia New Zealand	No	✓	06-Sep-04	
General Practice Education and Training Ltd	No	✓	03-Sep-04	
Health Insurance Commission	**Yes**	E	10-Sep-04	◆
Health Services Australia Ltd	No	✓	28-Sep-04	◆
National Blood Authority	**Yes**	✓	30-Jul-04	◆
National Institute of Clinical Studies Ltd	No	✓	30-Aug-04	
Private Health Insurance Administration Council	No	✓	10-Sep-04	
Private Health Insurance Ombudsman	No	✓	13-Sep-04	
Professional Services Review	No	✓	16-Sep-04	

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☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.365 The Health and Ageing portfolio's vision is better health, and healthier ageing, for all Australians through a world class system which:

- meets people's needs, throughout their life;

- is responsive, affordable and sustainable;
- provides accessible, high quality service including preventative, curative, rehabilitative maintenance and palliative care; and
- seeks to prevent disease and promote health.

Its mission is to make a difference by:

- looking outwards to listen and respond to consumers, and engage constructively with professionals, providers, government and industry;
- looking forwards to respond effectively to emerging challenges including an ageing population, and improve services and care by strategic planning, benefiting from emerging knowledge and technologies; and
- looking after the health and wellbeing of the community, the funds entrusted to the DoHA by the Australian people, and the priorities of the Ministerial team and the Government.

6.366 The following comments relate only to material entities in the portfolio.

Department of Health and Ageing

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	9.31	0.27
Commonwealth's equity investment	46.88	35.87
Ratio of current assets to current liabilities	1.51:1	1.45:1
Ratio of total assets to total liabilities	1.25:1	1.22:1

6.367 DoHA as a whole, recorded a net operating surplus that included the combined effects of a small operating deficit for the core department and significant operating surpluses by the Therapeutic Goods Administration (TGA) and CRS Australia (CRS). The combined equity position of DoHA has increased significantly compared with that of the prior year, with CRS being the major contributor, followed by TGA. The ratios of current assets to current liabilities and total assets to total liabilities have also shown some improvement. The above financial measures are expected to reduce during 2004–2005, due to the transfer of CRS to the new Department of Human

Services, as indicated in the Administrative Arrangements Order of October 2004.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	33,140.66	30,988.03
Total expenses	32,815.86	30,209.20
Total assets	495.40	255.29
Total liabilities	2,077.76	2,104.83

6.368 The balances are largely consistent with those of the prior year and the increase in administered revenues and expenses reflects budget increases. The change in administered assets relates to an increase in prepayments for vaccines, anti-viral medicines and the Australian Government's quarterly contribution to the National Blood Authority. The small decrease in liabilities is the result of a reassessment of the Australian Government's liability under the medical indemnity schemes during the 2003–2004 year.

Audit results

Emphasis of matter—Medical Indemnity

6.369 DoHA continues to implement the Medical Indemnity Schemes introduced by the Australian Government to ensure that the medical indemnity market was more sustainable and to give medical practitioners the certainty needed to continue to practise. The schemes in place include the Incurred But Not Reported (IBNR) scheme, High Cost Claims Scheme, and the Run-Off Cover scheme.

6.370 The medical indemnity schemes give rise to administered liabilities of $442.3 million to the Australian Government and are difficult to measure since they are subject to ongoing actuarial assessment.

6.371 The decision in previous years to include an emphasis of matter was strongly influenced by the significant uncertainty over the cost of the medical indemnity schemes in place. In 2003–2004, the Australian Government Actuary (AGA) noted that the IBNR estimate was subject to a significant level of uncertainty and, accordingly, did not allow the AGA to state that material misstatement of the liability was not possible. It was also possible that the IBNR liability may increase in future reporting periods. As a result, the emphasis of matter was retained for 2003–2004.

Summary of significant entity and administered audit findings

6.372 During the interim audit, the ANAO reported the following internal control issues:

- IT security framework had yet to be implemented; and
- business continuity planning had not been completed by DoHA.

6.373 DoHA had responded positively to the ANAO's observations and recommendations and was in the process of addressing the deficiencies identified by ANAO relating to the IT security framework and business continuity planning. The ANAO will review the progress on both of these issues as part of the 2004–2005 financial statement audit.

6.374 During the final audit phase, one new moderate risk audit issue was noted that could impact on the departmental or administered activities of DoHA. This issue relates to the apparent lack of awareness and understanding within DoHA of the authorisation process required under Regulations 10 and 13 of the FMA Act. The progress of action on this issue will be examined during the 2004–2005 financial statements audit.

6.375 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	2	0	1	3
Total	**2**	**0**	**1**	**3**

Health Insurance Commission

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	5.71	(22.50)
Commonwealth's equity investment	92.35	52.44
Ratio of current assets to current liabilities	1.05:1	0.64:1
Ratio of total assets to total liabilities	1.62:1	1.51:1

6.376 The significant positive turnaround for HIC's operating results was primarily due to additional revenue funding of $34 million provided by Finance to address the deficit in HIC's prior year operating results, and to ensure that it had appropriate resources to provide a suite of health related services. This funding was provided as an interim measure, while a costing review of HIC, that was commissioned by Finance to enable the development of a new funding model for future years, was undertaken. The operating result was further improved by the recognition of revenue for a number of new initiatives that experienced significant implementation scope adjustments which were not envisaged when the initiatives were originally costed by HIC at the time of requesting funds. This was offset by an increase in employee costs and balance sheet related provisions. Depreciation and amortisation costs also increased as a result of Business Improvement Program intangible assets experiencing amortisation charges for the full year, and the recognition of a $4 million impairment loss associated with the Mediconnect intangible asset.

6.377 The equity investment in HIC increased largely due to the equity injection of $34 million (mentioned above) designated to the Business Improvement Program project and the improved operating result for the year.

6.378 The increase in the ratio of current assets to current liabilities and the ratio of total assets to total liabilities is largely due to the substantial increase in cash following the final transfer of funds from the DoHA to HIC as a result of the change in funding model on 1 July 2004.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	17,629.67	16,648.97
Total expenses	17,569.66	16,597.21
Total assets	1,961.29	1,873.00
Total liabilities	1,921.61	1,845.72

6.379 The increases in administered revenues and expenses relate to general volume and average cost increases for the Medicare Benefits scheme, the Pharmaceutical Benefits scheme (PBS), and the 30 per cent Private Health Insurance Rebate scheme. The increase in total assets is primarily attributable to the increase in the accrued appropriation, which had arisen through an increase in the Private Health Insurance Rebate accrual, an increase in the Provision for outstanding Medicare and PBS claims, and an offset by a net decrease in the medical indemnity liabilities.

Audit results

Emphasis of matter—Medical Indemnity

6.380 HIC is responsible for the administration of the medical indemnity schemes introduced by the Australian Government to ensure that the medical indemnity market was more sustainable and to give medical practitioners the certainty needed to continue to practise. The schemes in place include the Incurred But Not Reported (IBNR) scheme, High Cost Claims Scheme, and the Run-Off Cover scheme.

6.381 The medical indemnity schemes give rise to administered liabilities of $442.3 million to the Australian Government and are difficult to measure since they are subject to ongoing actuarial assessment.

6.382 The decision in previous years to include an emphasis of matter was strongly influenced by the significant uncertainty over the cost of the medical indemnity schemes in place. In 2003–2004, the Australian Government Actuary (AGA) noted that the IBNR estimate was subject to a significant level of uncertainty and, accordingly, did not allow the AGA to state that material misstatement of the liability was not possible. It was also possible that the IBNR liability may increase in future reporting periods. As a result, the emphasis of matter was retained for 2003–2004.

Summary of significant entity audit findings

6.383 As part of the interim audit, the ANAO identified the following issues for attention by HIC:

- implement appropriate controls and procedures to mitigate the risks associated with mainframe application change management;
- undertake regular updates of the Managing Director's Instructions (MDI) to ensure the importance of compliance with the MDI is well understood;
- improve the current supervisory activities of the central Finance division over the HIC general ledger reconciliation process to improve the financial disciplines that underpin the financial statement preparation process;
- improved monitoring is required over the management of the IBM GSA contract because it is HIC's largest business support contract and is a potential source of misstatement risk in the financial statements;
- improved monitoring is also required over the management of period end accruals relating to the work-in-progress associated with the IBM

GSA contract as it is also a potential source of misstatement risk in the financial statements; and

- improve the National Office vendor management accrual process to address the heavy reliance on one individual to identify the correct value of invoiced costs processed by Sydney Accounts Payable.

6.384 HIC's responses were generally positive. However these new issues remain outstanding. They will be reviewed along with the progress of other outstanding issues as part of the 2004–2005 financial statements audit.

6.385 Issues observed during the prior year audit that remain outstanding as HIC continues to progress satisfactory resolution of other matters include:

- addressing the control practices and administration of user access over the mainframe environment;
- establishing a security monitoring and incident detection function within the organisation;
- formally implementing and testing comprehensive business continuity plan and supporting disaster recovery plans;
- addressing the limitations that exist in the ability of the organisational and resource structures of the Finance and Planning Division to respond to changes in the operational business model and financial reporting framework; for timely preparation and proper review of key year-end financial information; and maintaining an adequate internal control framework with sufficient levels of supervisory review and embedded quality assurance processes;
- developing and implementing an appropriate financial management framework within HIC's overall project management framework to ensure the financial outcomes associated with projects are aligned with corporate objectives and the activities of project management consistently contribute to these objectives;
- improving the communication channels between the central Finance and Planning division and the operating and development areas; and
- establishing asset impairment polices and procedures to facilitate a review of intangibles in preparation for the 31 December 2004 mid-year review.

6.386 The final audit phase noted one new moderate business risk audit issue. This issue relates to the number of HIC transactions, particularly in the Information Technology area that are becoming increasingly complex in nature. The risk of financial misstatement increases should HIC fail to account for the underlying substance of the transaction.

6.387 Towards the end of the 2003–2004 audit cycle, the ANAO observed a number of key positive events that occurred within HIC that are expected to substantially enhance the level of financial stewardship and performance. Key events included upgrading the Board financial reports and the commissioning of a Finance Function review, including the subsequent implementation of recommendations such as the upgrading (and appointment) of the Chief Finance Officer position. The ANAO expects that these recent events will contribute to significant HIC progress in addressing the ANAO audit concerns.

Summary of significant administered audit findings

6.388 As part of the interim audit, the ANAO identified the necessity for HIC to expand the monthly management reporting to support the annual declarations made by HIC. This would supplement the statutory reporting framework employed by HIC which does not document the same level of financial stewardship and accountability activities normally expected to underpin the administered financial information reported within a public set of annual financial statements. The progress on this issue will also be examined as part of the 2004–2005 financial statements audit.

6.389 The final audit phase noted two new moderate business risk audit issues. The issues relate to:

- arrangements which need to be made for periodic formal reviews on the medical indemnity schemes in 2004–2005 and in the future; and
- the MBS and PBS which are subject to significant change through new government initiatives and therefore increases the need for HIC to develop an estimation model that not only estimates the recurring routine elements of the schemes but importantly make appropriate allowance for the impact of new initiatives where there is no significant historical transaction history.

6.390 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	21	7**	3	17
Total	**21**	**7**	**3**	**17**

** Includes a finding that has been consolidated with another B finding

National Blood Authority

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.91	N/A
Commonwealth's equity investment	0.91	N/A
Ratio of current assets to current liabilities	1.51:1	N/A
Ratio of total assets to total liabilities	1.35:1	N/A

N/A: Not applicable

6.391 The National Blood Authority (NBA) was established on 1 July 2003 to ensure that Australia's blood supply continues to be safe, secure and affordable. The principal roles of the NBA are to manage national blood arrangements, ensuring sufficient supply; and to provide a new focus on the safety and quality of blood products and services.

6.392 NBA manages and coordinates Australia's blood supply in accordance with the National Blood Agreement agreed by the Australian Government, States and Territories. Under this agreement, the Australian Government contributes 63 per cent of overall costs in the blood sector, with States and Territories contributing 37 per cent. The funding for blood and blood products is funded from a special account created under the *National Blood Authority Act 2003*. The creation of this account also established a special appropriation under the FMA Act. As this was the first year of operation, no analysis against prior year experience can be drawn.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	199.67	N/A
Total expenses	455.68	N/A
Total assets	65.44	N/A
Total liabilities	39.28	N/A

N/A: Not applicable

Audit results

Summary of significant entity and administered audit findings

6.393 NBA is in the process of satisfactorily addressing one minor control issue reported previously, concerning the entering of an agreement with the Minister for Finance and Administration specifying the type of receipts, which are not included in the Appropriation Acts, that will be deemed to be appropriated. This would then enable NBA to retain received monies not covered by a direct appropriation. There were no significant departmental or administered audit issues arising from the final audit phase.

6.394 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Comments on non-material entities

6.395 The significant audit issues relating to non-material entities within this portfolio are provided below.

Health Services Australia Ltd

6.396 There were a number of moderate audit issues relating to non-material entities within this portfolio that referred to the Health Services Australia Limited's wholly owned subsidiary Work Solutions Group Pty Limited. These relate to:

- multiple issues relating to segregation of duties;
- monthly credit card statements were not reconciled;
- prepayments were incorrectly recognised;
- delays in reconciling bank accounts and poor review procedures; and
- delegations not up-to-date and not communicated to staff.

6.397 The ANAO has been advised that Health Services Australia is currently in the process of addressing these issues.

6.398 There were no other significant issues arising in relation to non-material entities within the portfolio.

Immigration and Multicultural and Indigenous Affairs Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Immigration and Multicultural and Indigenous Affairs	**Yes**	✓	26-Aug-04	
Aboriginal and Torres Strait Islander Commission	**Yes**	Q, E	22-Oct-04	◆
–Aboriginals Benefit Account	No	Q	6-Oct-04	◆
–Aboriginal and Torres Strait Islander Educational and Cultural Advancement Account	No	✓	22-Oct-04	
–Aboriginal and Torres Strait Islander Land Fund Account	**Yes**	Q	5-Oct-04	◆
–Bilioara Pty Ltd	No	✓	9-Aug-04	
–Bilioara Pty Ltd Unit Trust	No	✓	9-Aug-04	
–Yeperenya Pty Ltd	No	✓	9-Aug-04	
Aboriginal and Torres Strait Islander Services	**Yes**	E	2-Sep-04	◆
Aboriginal Hostels Limited	No	✓	15-Sep-04	
Anindilyakwa Land Council	No	✓	17-Sep-04	
Central Land Council	No	✓	21-Sep-04	
Indigenous Business Australia	No	✓	28-Oct-04	
–Bowen Basin Holdings Pty Ltd	No	✓	23-Dec-04	
–Bowen Basin Holdings Trust	No	✓	23-Dec-04	
–Bowen Basin Investments Pty Ltd	No	✓	23-Dec-04	
–Bowen Basin Investments Trust	No	✓	23-Dec-04	
–Centrum Insurance Brokers Pty Ltd	No	Q	30-Sep-04	◆
–Northern Insurance Brokers Pty Ltd	No	Q	30-Sep-04	◆
Indigenous Land Corporation	No	✓	26-Aug-04	
Migration Review Tribunal	No	✓	17-Sep-04	
Northern Land Council	No	✓	6-Oct-04	
Refugee Review Tribunal	No	✓	17-Sep-04	
Tiwi Land Council	No	✓	17-Sep-04	
Torres Strait Regional Authority	No	✓	26-Aug-04	
Wreck Bay Aboriginal Land Council	No	✓	9-Dec-04	

✓ : audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure

➼: signed financial statements not presented for audit at this time
☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.399 The Immigration and Multicultural and Indigenous Affairs portfolio is responsible for managing the permanent and temporary entry of people to Australia, enforcing immigration law, successfully settling migrants and refugees, promoting the benefits of citizenship and cultural diversity, and working with other portfolio agencies and departments to promote practical reconciliation. The Portfolio manages the following tasks:

- entry, stay and departure arrangements for non-citizens;
- border immigration control;
- arrangements for the settlement of migrants and humanitarian entrants, other than migrant child education;
- citizenship;
- ethnic affairs;
- multicultural affairs; and
- indigenous affairs and reconciliation.

6.400 The following comments relate only to material entities in the portfolio.

Department of Immigration and Multicultural and Indigenous Affairs

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(7.65)	26.94
Commonwealth's equity investment	217.25	185.44
Ratio of current assets to current liabilities	1.14:1	1.21:1
Ratio of total assets to total liabilities	2.08:1	1.93:1

6.401 DIMIA's result this year, as in prior years, is close to a breakeven position. The net surplus in both the current and prior years is less than 5 per cent of revenue from government.

6.402 During the reporting period the net equity of DIMIA increased by $31.8 million. This increase is due to the net effect of a revaluation increment of

$24.94 million and an equity injection of $14.52 million and the operating deficit of $7.65 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	490.45	397.16
Total expenses	268.59	238.44
Total assets	518.34	496.51
Total liabilities	37.82	32.00

6.403 The increase in administered revenue is mainly a result of an increase in visa revenue due to the introduction of a new parent visa category.

6.404 In prior years, certain expenses relating to Offshore Processing centres were classified as departmental. These expenses have been classified as administered in the current year leading to a $53.2 million increase in administered expenses. This is partially offset by reduction of $27.59 million in the write-down of detainee debts as the prior year's figures contained one-off adjusting write offs.

6.405 Administered receivables increased due to an increase in the amount receivable from the ATO for GST. This occurred due to timing issues. Additionally, administered accrued revenue increased mainly due to an accrual for new the parent visa category. These two factors are the major reasons for the moderate increase in administered assets.

Audit results

Summary of significant entity and administered audit findings

6.406 There were no significant departmental or administered audit issues arising from the final audit phase.

6.407 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	14	0	0	14
Total	**14**	**0**	**0**	**14**

6.408 DIMIA has advised that steps have been taken to address all the audit issues. The ANAO will review progress on implementation as part of the 2004–2005 audit process.

Aboriginal and Torres Strait Islander Commission

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(8.00)	28.46
Commonwealth's equity investment	493.49	552.12
Ratio of current assets to current liabilities	19.70:1	7.00:1
Ratio of total assets to total liabilities	33.69:1	1.07:1

6.409 On 17th April 2003, the then Minister for Immigration and Multicultural and Indigenous Affairs, announced a series of changes to the funding arrangements of ATSIS designed to promote good governance and improve accountability in Australia's peak indigenous body. Included in this series of changes was the creation of ATSIS, which was established from 1 July 2003, and assumed responsibility for the administration of most programs previously administered by ATSIC. This resulted in significantly reduced funding for ATSIC during the 2003–2004 financial year.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	624.80	528.83
Total expenses	640.25	525.69
Total assets	1,535.62	1,380.81
Total liabilities	9.69	7.76

6.410 The administered function of ATSIC is comprised of the Land Fund and the Aboriginal Benefits Account (ABA), which are both autonomous entities and report in their own right. The decrease in revenues and expenses is principally due to reduction in the number of investments made, or traded, by the two entities.

6.411 The increase in assets is primarily due to an equity injection provided to the Land Fund from the Australian Government, in accordance with the *Aboriginal and Torres Strait Islander Commission Act 1989 (ATSIC Act 1989).*

Audit results

Summary of significant entity audit findings

6.412 As reported within ATSIS, Projects administered under Community Housing and Infrastructure Program (CHIP) were initially funded by ATSIC, with funding transferred to ATSIS from 1 July 2003. Internal grant processes within CHIP resulted in program and regional managers transferring monies to third parties to facilitate the delivery of funds to grantee organisations. A review by the ANAO of these arrangements found:

- monies were being released to third parties in advance of need; and
- monies continued to be retained in third party bank accounts subsequent to the completion of the grant project.

6.413 As explained in paragraph 6.428, the identification of releases earlier to necessity may indicate non-compliance to established grant administration guidelines or inaccurate forecasting by the third parties. Paragraph 6.428 also explains the consequences arising from this finding.

Summary of significant administered audit findings

6.414 The Land Fund and the Aboriginal Benefits Account (ABA) are controlled entities of ATSIC. The audit opinion of the Land Fund was qualified. As well, two significant audit findings were noted in respect of excess appropriation drawn from the Consolidated Revenue Fund and investments of Land Fund monies. In addition, the audit opinion of ABA was qualified in respect of one significant audit finding in relation to the investment of ABA's money. Given the significance of the Land Fund and ABA to the financial report of ATSIC, the qualification and audit findings apply equally to the ABA, Land Fund and ATSIC. For further details refer to paragraphs 6.420–6.422.

6.415 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	2	2
B	0	0	1	1
Total	**0**	**0**	**3**	**3**

6.416 On 15 April 2004, the Prime Minister announced an intention to abolish ATSIC at the end of 2003–2004. It is the intention that ATSIS and ATSIC will be abolished pending the passing of the *Aboriginal and Torres Strait Islander Commission Amendment Bill 2004* into legislation. Until this occurs, DIMIA will provide the financial resources to ensure that ATSIC is in a position to meet its financial obligations as, and when, they fall due.

6.417 The referral of the *Aboriginal and Torres Strait Islander Commission Amendment Bill 2004* to a Senate Committee of Inquiry has resulted in a significant uncertainty as to whether ATSIC will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amount stated in the financial report. This was reported as an Emphasis of Matter within ATSIC's audit report.

Aboriginal and Torres Strait Islander Land Fund

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	67.93	89.45
Commonwealth's equity investment	1,415.80	1,290.66
Ratio of current assets to current liabilities	12.85:1	1:0
Ratio of total assets to total liabilities	90.67:1	1:0

6.418 The change in the surplus position of the Land Fund for 2003–2004 in comparison to that of 2002–2003 is attributed to a reduction in the number of investments made, or traded, by the Land Fund, due to changes in the strategies applied by the Land Fund Consultative Forum. This was partially offset by an increase in the interest accrued during the current year as a result of returns of equity injection funding, and the compounding returns in investments held.

6.419 The increase in the Commonwealth's equity investment is principally due to the yearly equity injection provided to the Land Fund to build the capital base of the Land Fund up to a certain target level. 2003–2004 was the last year for this funding.

Audit results

Summary of significant entity audit findings

6.420 A review of the calculation of the special appropriation and indexation factor applied to the Land Fund as provided by section 193D of the *ATSIC Act 1989* identified a discrepancy in the indexation rate applied. As a result, excess appropriations were drawn from the Consolidated Revenue Fund and on-paid to the Indigenous Land Corporation and the Aboriginal and Torres Strait Islander Commission, in breach of the administering legislation and section 83 of the *Constitution*.

6.421 In addition, in accordance with section 48 of the FMA Act and the *Financial Management and Accountability Orders 1997* (*FMA Orders*), there is a positive duty upon the Land Fund, and ATSIC as the administering Authority, to ensure that appropriations are effected before spending funds. As a result, the Land Fund have a responsibility to ensure that the calculation of yearly appropriations is in accordance with the *ATSIC Act 1989*, and are therefore accountable for the miscalculation. Therefore, there is an implicit breach of section 48 of the FMA Act because funds greater than those authorised by legislation, were credited to the Land Fund.

In accordance with the ATSIC Act 1989, monies held by the Land Fund that are not required for the purpose of making payments, are to be invested pursuant to section 39 of the FMA Act. An ANAO Performance Audit Investment of Public Monies by Selected Agencies to be tabled early in 2005 has identified that monies of the Land Fund have been invested in some investments that do not meet the definition of an authorized investment under the FMA Act, resulting in a breach of section 39 of the FMA Act and section 83 of the *Constitution*.

6.422 Further, it seems that when making these investments, appropriate documentation to identify the nature and conditions of the investments was not obtained. This is considered a contributing factor to the non-compliance with section 39 of the FMA Act and resulted in an implicit breach of section 48 of the FMA Act and the FMOs.

6.423 The above resulted in the issue of qualifications to the audit report of the Land Fund.

6.424 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	2	2
B	0	0	0	0
Legislative breach	0	0	1	1
Total	**0**	**0**	**3**	**3**

Aboriginal and Torres Strait Islander Services

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(6.06)	N/A
Commonwealth's equity investment	41.44	N/A
Ratio of current assets to current liabilities	1.41:1	N/A
Ratio of total assets to total liabilities	1.89:1	N/A

N/A: Not applicable

6.425 On 17th April 2003, the then Minister for Immigration and Multicultural and Indigenous Affairs, Phillip Ruddock, announced a series of changes to the funding arrangements of ATSIC designed to promote good governance and improve accountability in Australia's peak indigenous body. Included in this series of changes was the establishment of ATSIS, which was established from 1 July 2003. As this was its first year of inception, no analysis with that of the prior year can be drawn.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	19.61	N/A
Total expenses	978.02	N/A
Total assets	23.62	N/A
Total liabilities	0.21	N/A

N/A: Not applicable

6.426 As mentioned earlier, as this was the first year since the inception of ATSIS, no analysis with prior year's results can be drawn.

Audit results

Summary of significant administered audit findings

6.427 Internal grant processes within the Community Housing and Infrastructure Program (CHIP) at ATSIS have resulted in program and regional managers transferring monies to third parties to facilitate the delivery of funds to grantee organisations. A review by the ANAO of these arrangements found:

- monies were being released to third parties in advance of need; and
- monies continued to be retained in third party bank accounts subsequent to the completion of the grant project.

6.428 The identification of releases earlier to necessity may indicate non-compliance to established ATSIS grant administration guidelines or inaccurate forecasting by the third parties. An increased propensity for this has resulted in substantial balance of grant monies remaining in bank accounts with very little activity. This may result in an inefficient use of Australian Government funding, which may be better directed to other projects, to ensure a timely service delivery to Indigenous Australians. The ANAO recommended that ATSIS takes remedial action to gauge and monitor the extent of monies held with third parties. Further, the ANAO recommended that the FaCS, as the agency receiving administration of CHIP, review the management of these processes to ensure full transparency and accountability.

6.429 ATSIS has taken action to address aspects of the deficiencies identified by the ANAO. Specifically, the ANAO identified improvement in the following areas:

- grant acquittals;
- cash at agents;
- leave transfers;
- leave processing;
- human resource process monitoring; and
- management of salary overpayments.

6.430 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	10	6	1	5
Total	**10**	**6**	**1**	**5**

6.431 Under an AAO gazetted 25 June 2004, ATSIS' administered programs and functions were transferred to other Australian Government agencies effective from 1 July 2004. It is the intention that ATSIS and ATSIC will be abolished pending the passing of the *Aboriginal and Torres Strait Islander Commission Amendment Bill 2004* into legislation. Until such time, ATSIS will continue to exist in its Executive Agency role, providing support to ATSIC and enabling the ongoing use of ATSIC assets by Australian Government entities.

6.432 The referral of the *Aboriginal and Torres Strait Islander Commission Amendment Bill 2004* to a Senate Committee of Inquiry has resulted in a significant uncertainty as to whether ATSIS will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amount stated in the financial report. This was reported as an Emphasis of Matter within ATSIS' audit report.

Comments on non-material entities

6.433 The significant audit issues relating to non-material entities within this portfolio are provided below.

Aboriginals Benefit Account (ABA)

6.434 In accordance with the *ATSIC Act 1989*, monies held by the Aboriginals Benefit Account that are not required for the purpose of making payments, are to be invested pursuant to section 39 of the FMA Act. A review by ANAO identified that monies of the ABA have been invested in some investments that do not meet the definition of an authorized investment under section 39 of the FMA Act, which also constituted a breach of section 83 of the *Constitution.*

6.435 Further, it seems that, when making these investments, appropriate documentation to identify the nature and conditions of the investments was not obtained. This is considered a contributing factor to the non-compliance with section 39 of the FMA Act and has resulted in an implicit breach of section 48 of the FMA Act and the *FMA Orders*.

6.436 The above resulted in the issue of a qualification to the audit report of the ABA.

Centrum Insurance Brokers Pty Ltd and Northern Insurance Brokers Pty Ltd

6.437 Centrum Insurance Brokers Pty Ltd (Centrum) as a result of a Share Grant Agreement became a subsidiary of indigenous business Australia (IBA) this year. Centrum also owns 51 per cent of Northern Insurance Brokers. As the previous auditor did not make working papers available both audit opinions were qualified in respect of opening balances.

6.438 There were no other significant issues arising in relation to non-material entities within the portfolio.

Industry, Tourism and Resources Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Industry Tourism & Resources	**Yes**	✓	20-Aug-04	◆
Australian Government Analytical Laboratories	No	✓	20-Aug-04	
Australian Tourist Commission	**Yes**	✓	10-Sep-04	
CVC Reef Limited	No	✓	20-Oct-04	
Geoscience Australia	No	✓	25-Aug-04	◆
Hydrocool Pty Limited	No	E	10-Aug-04	◆
IIF Bioventures Pty Limited	No	➬	N/A	
IIF (CM) Investments Pty Limited	No	➬	N/A	
IIF Foundations Pty Limited	No	➬	N/A	
IIF Investments Pty Limited	No	➬	N/A	
IIF Newport Pty Limited	No	➬	N/A	
IP Australia	No	✓	23-Aug-04	
National Aeronautics and Space Administration (30 Sep 03) ☞	No	✓	17-Dec-03	
National Standards Commission	No	✓	24-Aug-04	
Wind Corporations of Australia	No	✓	20-Oct-04	

✓ : audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure

➬: signed financial statements not presented for audit at this time
☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio overview

6.439 The Industry, Tourism and Resources portfolio comprises DITR; Geoscience Australia and IP Australia (prescribed agencies under the FMA Act); and The Australian Tourist Commission and the National Standards Commission (statutory authorities which operate under specific enabling legislation and the CAC Act).

6.440 DITR develops and implements a range of industry policies and business assistance programs that build on the government's three key drivers of economic growth—innovation, investment and international competitiveness. These policies and programs are designed to increase the international competitiveness of Australian manufacturing, resources and service industries, develop Australia's innovation and technology capabilities and infrastructure, and facilitate an increased level of foreign investment in Australia. DITR works in close partnership with industry, and with a range of other stakeholders, to achieve these goals.

6.441 IP Australia and Geoscience Australia fall within the DITR organisational structure as prescribed agencies under the FMA Act , but both operate independently of DITR on financial matters and with some degree of autonomy on other matters. IP Australia examines applications and grants rights in patents, trademarks and industrial designs. It also undertakes programs to educate and promote an awareness of intellectual property (IP) rights, provides IP policy input to government and develops legislation to support the IP system, and contributes to bilateral and multilateral negotiations to improve IP protection internationally.

6.442 Geoscience Australia is Australia's national geoscience research and information agency. It provides independent scientific and technical advice on mineral resources, mining, exploration trends, land access and sustainable development, as well as advice on Australia's petroleum prospects, reserves and potential. Geoscience Australia's research and information contributes to enhanced economic, social and environmental benefits to the community—by providing input for decisions that impact upon resources use, management of the environment, and the safety and well-being of Australians.

6.443 The following comments relate only to material entities in the portfolio.

Department of Industry, Tourism & Resources

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(4.73)	4.79
Commonwealth's equity investment	25.04	29.04
Ratio of current assets to current liabilities	1.10:1	1.11:1
Ratio of total assets to total liabilities	1.44:1	1.49:1

6.444 The movement from a net surplus to a net deficit is due predominantly to increases in employees expenses, resulting from increases in staffing levels (partially attributable to the transfer of Axiss Australia to DITR, and a general movement from contract staff to employees) coupled with salary increases, and increases in suppliers expenses, which were partially offset by an increase in revenue received from Government.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	1,304.20	1,332.69
Total expenses	1,582.70	1,470.75
Total assets	546.32	529.08
Total liabilities	329.84	245.12

6.445 The decrease in revenue is primarily attributable to the lower petroleum royalties received in the current year due to decreased petroleum production in 2003–2004. The increase in expenses is a result of an increase in State and Territory Government Grants and a payment made relating to a call on the previously recorded Australian Magnesium Corporation loan guarantee.

6.446 The increase in total assets is primarily due to an increase in receivables stemming from assets to be returned to the Australian Government from the Australian Magnesium Corporation and the return of funds from Syntroleum. This increase was partially offset by a decline in investments, as DITR's investment in Australia Technology Group Ltd was transferred to the Department of Finance and Administration. The increase in total liabilities is due to a call on the loan guarantee relating to the Australian Magnesium Corporation being made.

Audit Results

Summary of significant entity audit findings

6.447 Processes for the preparation and compilation of data for executive remuneration were not sufficiently robust for reporting purposes. The quality assurance processes performed by DITR did not identify a number of issues concerning the accuracy and completeness of data reported. Increased departmental and audit resources were required to ensure the timely and accurate completion of the note.

Summary of significant administered audit findings

6.448 There were no significant administered audit findings.

6.449 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

Australian Tourist Commission

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.03	4.15
Commonwealth's equity investment	9.17	8.87
Ratio of current assets to current liabilities	1.52:1	1.46:1
Ratio of total assets to total liabilities	1.70:1	1.67:1

6.450 The operating surplus decreased due to the movement in advertising revenue, which is attributable to reduced industry co-operative marketing sponsorship. The decrease was partly offset by an increase in other revenue, associated with a one off payment from Swiss Re relating to the discontinued self-insurance arrangements at overseas post locations.

Audit results

Summary of significant entity audit findings

6.451 There were no significant agency audit issues arising from the audit.

Comments on non-material entities

6.452 The significant audit issues relating to non-material entities within this portfolio are provided below.

Hydrocool Pty Limited

6.453 The audit opinion for Hydrocool included an 'emphasis of matter' as there were issues concerning the ability of the company to continue as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The going concern of Hydrocool is dependent upon the company successfully concluding a substantial licensing agreement currently under negotiation or other revenue generating initiatives which are at various stages of being concluded. The directors considered that, at the date of signing the financial report, there were reasonable grounds to believe that matters set out above will be achieved and therefore prepared the financial statements of the company on a going concern basis.

GeoScience Australia

6.454 Some user accounts within Geoscience Australia's Oracle financial information management system and Reserve Bank Electronic Funds Transfer desktop are shared (i.e. multiple staff share the same user logins and passwords). This poses a moderate business and financial risk to the entity as it reduces the accountability of individuals accessing key financial information.

6.455 There were no other significant issues arising in relation to non-material entities within the portfolio.

Parliamentary Departments Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Parliamentary Services	**Yes**	✓	31-Aug-04	
Department of the House of Representatives	No	✓	31-Aug-04	
Department of the Senate	No	✓	31-Aug-04	

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A: audit report contains additional statutory disclosure

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☞: financial year end date other than 30 June 2004
◆: significant internal control issues noted (since Audit Report No.58 of 2003–2004) and/or other significant audit issues noted

Portfolio Overview

6.456 There are currently three parliamentary departments supporting the Australian Parliament:

- Department of Parliamentary Services;
- Department of the Senate; and
- Department of the House of Representatives.

6.457 By resolution of both Houses in August 2003 (the House of Representatives on 14 August and the Senate on 18 August), DPS was established from 1 February 2004. The new department fulfils the functions of the former Department of the Parliamentary Reporting Staff, Department of the Parliamentary Library and Joint House Department, which were abolished effective from 31 January 2004.

6.458 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. DPS's functions and activities remain the same as those of the former Joint House Department, the Department of the Parliamentary Library and the Department of the Parliamentary Reporting Staff.

6.459 The main function of the Department of the Senate is the effective and efficient provision of services to support the Senate, its committees and senators. Department of the Senate also conducts education programs and prepares publications to promote an understanding of the Senate and of parliamentary processes.

6.460 Department of the House of Representatives 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. Department of the House of Representatives 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.

6.461 The following comments relate only to material departments.

Department of Parliamentary Services

Financial results

Summary of entity results

Key financial measures for five months ended 30 June	2004 $m	2003 $m
Net surplus/(deficit) for the period	(1.77)	N/A
Commonwealth's equity investment	56.57	N/A
Ratio of current assets to current liabilities	2.24:1	N/A
Ratio of total assets to total liabilities	3.34:1	N/A

6.462 This is the first period of operation for DPS. Initially the Department budgeted for a $0.50 million loss. Factors that accounted for the higher than budgeted deficit, included redundancy costs, write down of General Distribution Products assets and unexpected repair costs.

Items administered on behalf of the Australian Government

Key financial measures for the period	2004 $m	2003 $m
Total revenues	0.02	N/A
Total expenses	16.76	N/A
Total assets	1,429.97	N/A
Total liabilities	0.34	N/A

Audit Results

Summary of Significant Entity and Administered Audit Findings

6.463 There were no significant departmental or administered audit issues arising from the audit.

Comments on non-material entities

6.464 There were no significant audit issues impacting on non-material entities.

Prime Minister and Cabinet Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Prime Minister and Cabinet	**Yes**	✓	19-Jul-04	
Australian National Audit Office	No	✓	11-Aug-04	
Australian Public Service Commission	No	✓	27-Aug-04	
Commonwealth Ombudsman	No	✓	6-Sep-04	
Inspector-General of Intelligence and Security	No	✓	7-Sep-04	
National Australia Day Council	No	✓	2-Sep-04	
Office of National Assessments	No	✓	13-Oct-04	
Office of the Official Secretary to the Governor-General	No	✓	25-Aug-04	

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Portfolio overview

6.465 The department and the seven entities comprising the Prime Minister and Cabinet portfolio produce a range of outputs directed at achieving well coordinated, efficient and accountable public administration, supported by a values-based Australian Public Service.

6.466 The following comments relate only to the Department of the Prime Minister and Cabinet.

Prime Minister and Cabinet

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus for the year	0.24	0.73
Commonwealth's equity investment	12.52	6.23
Ratio of current assets to current liabilities	0.93:1	1.96:1
Ratio of total assets to total liabilities	1.87:1	1.45:1

6.467 There were increases in both revenues ($12.6 million) and expenses ($13.2 million) in 2003-04. The increase in revenues was mainly due to a $11.4 million increase in appropriations and a $1.4 million increase in goods and services and other revenue. The increase in expenses related to higher employee costs for the addition of new employees and increases in IT costs, rent, new taskforces and increased travel.

6.468 The decrease in cash holdings is primarily due to appropriations being drawn down on an as-needed basis. This is consistent with the concept of just-in-time drawdowns.

6.469 The net equity of the Department increased by $6.3 million primarily due to the $6.1 million correction of the prior years' reporting and disclosure of Special Accounts. This followed the legal clarification of money previously viewed as returned to the OPA.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	3.43	3.21
Total expenses	34.42	40.32
Total assets	35.72	33.76
Total liabilities	10.75	11.38

6.470 Administered expenses decreased by $5.9 million in 2003–2004. This decrease is due to lower suppliers expenses ($3.4 million) resulting from a decrease in the provision of services to external entities and a decrease in personal benefits expense ($2.8 million) in relation to services provided to former Governors-General.

6.471 The administered receivables balance shows a significant increase of $1.5 million and payables show a decrease of $1.3 million due to increased payments made at year-end by the Office of the Status of Women and the related GST receivables on those payments. Overall, administered non-financial assets and liabilities remained relatively stable.

Audit results

6.472 The audit highlighted the following issue that should be addressed to support the control environment and the operations of the Department of Prime Minister and Cabinet.

Business continuity planning

6.473 Prime Minister and Cabinet has progressed business continuity planning across the department. However, as at August 2004, these next steps had not yet been undertaken:

- formulation or completion of business continuity plans for each critical business area; and
- the regular testing and updating of business continuity and disaster recovery plans for those critical business areas.

Change in accounting policies

6.474 There were no significant changes in accounting policies.

Internal control matters

6.475 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Comments on non-material entities

6.476 There was only one significant audit issue impacting on the seven non-material entities.

The Office of the Official Secretary to the Governor-General

6.477 The audit identified one area of moderate significance requiring improvement. The finding related to errors in the calculation of, and lack of support for, final monies paid to employees terminated. Our recommendation for improvements was satisfactorily addressed by management prior to the finalisation of the audit.

Transport and Regional Services Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Transport and Regional Services	**Yes**	✓	2-Sep-04	
Airservices Australia	**Yes**	✓	30-Aug-04	
Albury-Wodonga Development Corporation	No	✓	8-Sep-04	
Australian Maritime College ☞ (31 December 2003)	No	✓	31-Mar-04	
Australian Maritime College Search Limited ☞ (31 December 2003)	No	✓	31-Mar-04	
Australian Maritime Safety Authority	No	✓	21-Sep-04	
Australian Rail Track Corporation	**Yes**	✓	25-Oct-04	
Civil Aviation Safety Authority	**Yes**	✓	26-Aug-04	◆
Maritime Industry Finance Company Ltd	No	✓	1-Oct-04	
National Capital Authority	**Yes**	✓	29-Jul-04	
National Road Transport Commission	No	✓	9-Sep-04	
Stevedoring Industry Finance Committee	No	✓	9-Sep-04	

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Portfolio overview

6.478 The Transport and Regional Services Portfolio delivers transport and regional development programmes and services to assist the Minister for Transport and Regional Services and the Minister for Regional Services, Territories and Local Government to achieve the Government's desired outcomes for the benefit of the Australian community

6.479 Transportation is an important element in Australia's economic prosperity and in ensuring all Australians have access to a high standard of general services and facilities that are safer, more effective and efficient.

6.480 The Government, working in partnership with regional communities, provides services specifically for communities in regional, rural and remote Australia to foster the social and economic capacity of regional Australia and ensure that regional people share in the benefits of Australia's economic success.

6.481 The Portfolio's responsibilities also recognise that local government, as well as other levels of government in Australia's states and territories, play an important role in supporting services, amenities and lifestyles of regional, rural and remote communities.

6.482 The portfolio comprises DOTARS and a number of statutory and non-statutory bodies. Each portfolio agency administers programmes and contributes a range of other outputs on behalf of the government.

6.483 The following comments relate only to material entities in the portfolio.

Department of Transport and Regional Services

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(59.40)	20.09
Commonwealth's equity investment	299.74	312.11
Ratio of current assets to current liabilities	6.34:1	4.16:1
Ratio of total assets to total liabilities	3.75:1	7.46:1

6.484 The reduced net surplus is primarily attributable to:

- an increase in supplier expenses due to the recognition of a $3.4 million provision for the attribution of the Australian Government's asbestos related disease claims; and
- a net increase in the value of assets sold of $24 million primarily due to the transfer of $23.8 million Immigration Reception and Processing Centre (IRPC) housing to the Department of Immigration and Multicultural and Indigenous Affairs, for no consideration.

6.485 This decrease in expenses is partially offset by reductions in other expenses, due to a reclassification of $3 million in parking infringement notice costs as administered, following a review of the nature of this expense, and savings in other administration costs attributable to improved expense monitoring.

6.486 The Commonwealth's equity investment has decreased as a result of the 2003–2004 deficit of $59.4 million. This decrease was partially offset by a net revaluation increment of $20.8 million and a $26.3 million equity injection primarily for the Indian Ocean Territory Capital Program and regional office accommodation.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	289.87	427.29
Total expenses	3728.82	3153.19
Total assets	935.92	883.38
Total liabilities	82.29	114.12

6.487 The decrease in administered revenue is mainly attributable to the abolition of the Air Passenger Ticket Levy from 30 June 2003, which contributed $169 million to administered revenue in 2002–2003.

6.488 The increase in total expenses was primarily due to:

- $433 million increase in rail transport grants, including the Auslink Rail Infrastructure Investment Programme, which will provide an integrated land transport planning framework;
- $35 million increase in grants, for aviation security enhancements; and
- $100 million increase in additional funding for the Roads to Recovery Programme to improve road access, road safety and road transport efficiency for regional communities.

6.489 The increase in assets was primarily due to a net increase of $73.4 million in investments following the recognition of the Australian Government investment in Australian Rail Track Corporation Limited of $143.4 million net of $70 million capital repayment by Airservices Australia. This increase was partially offset by an $11 million decrease in loans receivable following loan maturities and a $9.3 million decrease in accrued levy fee and fine revenue following the abolition of the Air Passenger Ticket Levy.

6.490 The decrease in liabilities was primarily due to a $33.6 million decrease in the Maritime Industry Finance Corporation (MIFCO) subsidy loan in accordance with loan terms.

Audit results

Summary of significant entity and administered audit findings

6.491 An issue was raised in 2002–2003 in relation to the absence of a current and comprehensive Business Development Plan. DOTARS has made considerable progress in establishing a Business Continuity/Recovery Plan during the current year. However, it is currently in the process of implementing a new IT environment and technical architecture, which needs to be incorporated into the Business Continuity Plan. In the absence of a formalised Business Continuity Plan and Business Impact Analysis, DOTARS is exposed to an increase risk of not being able to recover effectively and provide essential services in a timely manner, should a disaster occur.

6.492 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	2	1	0	1
Total	**2**	**1**	**0**	**1**

Airservices Australia

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	46.60	32.70
Commonwealth's equity investment	191.02	226.37
Ratio of current assets to current liabilities	1.06:1	1.35:1
Ratio of total assets to total liabilities	1.54:1	1.60:1

6.493 Airservices' current year profit after tax of $46.6 million compared favourably to the 2002–2003 financial year's profit of $32.7 million. The net result is attributed primarily to a reduction in the income tax expense incurred by Airservices' as a result of the year ended 30 June 2003 including an adjustment to the provision from the prior year that was not required for the 30 June 2004 income tax expense calculation.

6.494 Airservices' revenue was consistent with that of the previous financial year with an increase in airways revenues due to increased airways activity revenue offset by a decrease in the cross border transactional guarantee fee due to the final revenues relating to this arrangement being received during the year ended 30 June 2004.

6.495 Overall expenses to Airservices were consistent with the previous year. There were increases in employee expenses due to increased staff numbers, increases in pay rates and overtime, and increases to depreciation resulting from revaluations of property, plant and equipment. These increases were offset by a decrease in superannuation expense from the payment of additional contribution of $39 million required for the year ended 30 June 2004.

6.496 The Commonwealth's equity investment in Airservices has reduced reflecting the impact of a capital repayment and dividend payments to the Australian Government, offset by a revaluation increment resulting from the asset revaluation conducted and the net surplus result for 2003–2004.

Audit results

Summary of significant entity audit findings

6.497 There were no significant entity audit issues arising from the final audit phase.

Australian Rail Track Corporation

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	19.61	20.97
Commonwealth's equity investment	843.12	237.12
Ratio of current assets to current liabilities	23.05:1	3.02:1
Ratio of total assets to total liabilities	28.30:1	10.52:1

6.498 ARTC's surplus position is consistent with the prior financial year's and demonstrates a strong financial position entering 2003–2004, underpinned by the value of its non-financial assets, specifically Plant, Equipment and Infrastructure assets. During 2003–2004, ARTC raised a further $143.38 million through a share capital issue. In addition, it received a special grant of $450 million form the Australian Government. ARTC has a strong cash generating ability through its commercial activities. Increases in sales revenue continued through 2003–2004.

Audit Results

Summary of significant entity and administered audit findings

6.499 There were no significant entity or administered audit issues arising from the audit.

Civil Aviation Safety Authority

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	3.99	(2.49)
Commonwealth's equity investment	19.55	15.44
Ratio of current assets to current liabilities	1.39:1	1.56:1
Ratio of total assets to total liabilities	1.73:1	1.59:1

6.500 The budget forecast was for a deficit of $2.75 million. However, the 12 per cent increase in the aviation fuel excise ($6.46 million) in the current year was a significant contributor to the actual surplus of $3.99 million.

6.501 The Commonwealth's equity investment has increased as a result of the 2003–2004 surplus.

Audit Results

Summary of significant entity audit findings

6.502 The interim audit phase noted one issue of moderate significance related to inaccurate recording of leave entitlements in the HR system. CASA has made reasonable progress in resolving system inaccuracies and it is anticipated that the issue will be cleared over the coming year. The final audit phase was successfully completed with no new audit findings.

6.503 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

National Capital Authority

Financial Results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(0.28)	(0.03)
Commonwealth's equity investment	7.71	7.89
Ratio of current assets to current liabilities	1.18:1	1.04:1
Ratio of total assets to total liabilities	2.16:1	2.48:1

6.504 The National Capital Authority reported an operating deficit of $0.28 million for the year, which is attributable to a reduction in revenues from the sale of goods and services and increased employee and supplier expenses that are partially offset by an increase in appropriation revenue from government.

6.505 The reduction in the Commonwealth's equity investment in the National Capital Authority is a result of the current year deficit position offset by an equity injection of $0.1 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	5.30	0.88
Total expenses	10.42	8.82
Total assets	348.74	341.05
Total liabilities	0.47	0.49

6.506 The increase in administered revenues is attributable to an increase in revenues from the sale of assets and contributions for memorial construction. The increase in administered expenses is attributable to an increase in expenses for diplomatic land sold. The increase in administered assets is primarily attributable to an increase in infrastructure, plant and equipment.

Audit results

Summary of significant entity and administered audit findings

6.507 There were no significant entity or administered audit issues arising from the audit.

Comments on non-material entities

6.508 There were no significant audit issues impacting on non-material entities.

Treasury Portfolio

Reporting Entity as at 30 June 2004	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Treasury	**Yes**	✓	3-Sep-04	
Australian Accounting Standards Board	No	✓	20-Sep-04	
Australian Bureau of Statistics	**Yes**	✓	30-July-04	
Australian Competition and Consumer Commission	No	✓	14-Sep-04	◆
Australian Office of Financial Management	**Yes**	✓	12-Aug-04	
Australian Prudential Regulation Authority	No	✓	24-Aug-04	◆
Australian Reinsurance Pool Corporation	No	✓	21 Sept 04	
Australian Securities and Investments Commission	**Yes**	✓	23-Jul-04	
Australian Taxation Office	**Yes**	Q	17-Sep-04	◆
Australian Valuation Office (commercial activities)	No	✓	17-Sep-04	
Corporations and Markets Advisory Committee	No	✓	31-Aug-04	
Inspector General of Taxation	No	✓	24-Sep-04	
National Competition Council	No	✓	26-Aug-04	
Productivity Commission	No	✓	23-Aug-04	
Reserve Bank of Australia	**Yes**	✓	13-Aug-04	
Reserve Bank of Australia Officers' Superannuation Fund	No	✓	29-Sep-04	
Royal Australian Mint (commercial activity)	No	✓	21-July-04	◆

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Portfolio overview

6.509 The Treasury 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, which seeks to promote a sound macroeconomic environment; effective government spending and taxation arrangements; and well functioning markets. It also entails the effective implementation and administration of policies that fall within the portfolio Ministers' responsibilities.

6.510 The following comments relate only to material entities in the portfolio.

The Department of the Treasury

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.31	3.73
Commonwealth's equity investment	39.56	33.55
Ratio of current assets to current liabilities	2.32:1	1.95:1
Ratio of total assets to total liabilities	1.97:1	1.91:1

6.511 The net surplus for the year has decreased from the prior year by $3.42 million. This is mainly attributable to an $8.38 million increase in employee related expenses due to a 5.3 per cent increase in staff numbers. Also contributing to the decreased net surplus is a reduction in revenue from Government and interest revenue of $1.49 million in the current year. However, offsetting the decrease in revenue is a $6.45 million fall in other expenses as a result of a reduction in domestic and overseas travel, and the costs associated with consultants and contractors. The Treasury remains in a sound financial position with current assets in excess of current liabilities.

6.512 The increase in the Australian Government's equity investment is largely attributed to a $6 million capital injection relating to the Royal Australian Mint.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	2,921.16	2,612.29
Total expenses	33,722.82	33,148.75
Total assets	17,089.64	16,489.01
Total liabilities	5,354.77	5,610.26

6.513 The increase in total administered revenues is primarily attributed to a $374.77 million increase in the dividend paid to the Treasury by the Reserve Bank of Australia.

6.514 Administered expenses increased due to a rise in grant related expenses that were offset by an increase in foreign exchange gains, as a result of favourable movements of the Australian dollar against the exchange rate used by the International Monetary Fund.

6.515 The increase in administered assets is due to the significant increase in receivables as a result of the dividend due from the Reserve bank of Australia. Total liabilities are consistent with the prior year.

Audit results

Summary of significant entity audit findings

6.516 During the interim phase of the audit, the ANAO noted that Treasury's BASIS personnel were given access to its Financial Management Information System which allowed complete access to all data and functions. This increased the risk that errors, irregularities or fraud could occur and not be detected. This issue has subsequently been resolved.

6.517 There were no other significant departmental audit issues arising from the final audit phase.

Summary of significant administered audit findings

6.518 There were no significant administered audit issues arising from the audit.

6.519 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

Australian Bureau of Statistics

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(1.65)	0.01
Commonwealth's equity investment	54.74	56.15
Ratio of current assets to current liabilities	0.60 : 1	0.63 : 1
Ratio of total assets to total liabilities	1.62 : 1	1.63 : 1

6.520 The net decrease of $1.64 million in the operating result between financial years is primarily attributable to unbudgeted staff costs resulting from restructuring and the introduction of new systems.

Audit results

Summary of significant entity audit findings

6.521 There were no significant entity audit issues arising from the final audit phase.

Australian Office of Financial Management

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	0.97	1.82
Commonwealth's equity investment	8.36	7.37
Ratio of current assets to current liabilities	1.24:1	6.22:1
Ratio of total assets to total liabilities	8:1	6.99:1

6.522 The AOFM recognised an increase in both revenues and expenses during the financial year. In response to an ANAO finding in the previous financial year, the AOFM transferred an appropriation and associated expenses from administered activities to departmental activities. The reduction in operating surplus from the prior year of $0.85 million is largely attributable to increased depreciation charges on IT systems and increased employee costs.

6.523 The increase in the Commonwealth's equity investment in AOFM is a result of the net surplus position for 2003–2004 and an equity injection of $0.02 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	2,816.92	4,572.06
Total expenses	5,614.66	6,375.45
Total assets	18,837.87	16,663.42
Total liabilities	58,598.12	61,702.62

6.524 The decrease in administered revenue of $1 755 million is due primarily to a reduction in foreign exchange gains of $1 133 million attributable to reduced foreign currency exposures and lower appreciation of the Australian dollar against the US dollar in 2004 as compared to 2003. Further, revenue in 2002–2003 was boosted with the recognition of an additional $469 million as a result of an accounting policy change. This was explained in Audit Report No.22 2003–2004.

6.525 The AOFM completed the un-wind of its foreign currency derivative exposure in February 2004. This reduction led to both a decrease in administered revenues, administered expenses and administered liabilities.

6.526 The increase in administered assets is mainly due to an increase in the balance of investments (term deposits) of surplus OPA funds from the prior year of $2.65 billion.

Changes in Accounting Policy

6.527 During the prior year audit, the ANAO identified a number of expenses in the administered Statement of Financial Performance that were of a departmental nature. As part of the 2003–2004 Additional Estimates process, the AOFM transferred an administered appropriation of $1.54 million, used to meet administrative expenses associated with the debt portfolio, to departmental activities. As a result, previously classified administered expenses (including wire services, debt management system maintenance, fiscal agent and registry services) were charged against departmental activities in the current year.

6.528 For the period 1 July 1999 to 30 June 2003, the AOFM reported the balance of its administered term deposit investments and associated interest earnings in its administered financial statements. However, based on legal advice received that the term deposit investments were held within the CRF and did not require appropriation, the AOFM did not use the Special Appropriation authority that was available under section 39(9) of the *FMA* Act and so did not disclose such use. Following receipt of revised legal advice, for the 2003–2004 financial year, administered term deposits are now accounted for on the basis that funds placed on deposit with the Reserve Bank of Australia leave the CRF and therefore require the debiting of the appropriation available under section 39(9) of the FMA Act.

6.529 There were no other significant changes in accounting policies covering both departmental and administered financial statements apart from those required under the FMOs.

Summary of significant entity and administered audit findings

6.530 There are no significant entity or administered audit issues arising from the audit for 2003–2004.

Australian Securities and Investments Commission

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(4.82)	(0.11)
Commonwealth's equity investment	(4.93)	(1.03)
Ratio of current assets to current liabilities	0.65:1	0.54:1
Ratio of total assets to total liabilities	0.92:1	0.98:1

6.531 The operating deficit has increased by $4.71 million, which was primarily due to an overall increase in appropriation revenue of $20.45 million. The increase in revenue was offset by an increase in employee expenses of $19.55 million as a result of an increase in staff numbers, pay increases from the Certified Agreement and superannuation. Supplier expenses increased by $3.51 million which is mainly due to additional regulatory activities including the HIH Royal Commission, *Financial Services Reform Act* and CLERP 9.

6.532 The reduction in the Commonwealth's equity investment reflects the current year operating deficit of $4.82 million offset by a revaluation increment of $0.93 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	493.23	431.34
Total expenses	41.4	26.86
Total assets	66.57	24.03
Total liabilities	5.71	8.17

6.533 The increase in revenues and expenses is primarily due to the implementation of CLERP 7 effective 1 July 2003, whereby revenue is automatically generated for all registered companies and schemes on ASIC's database on the anniversary of its registration date. This is a change from the prior year, whereby revenue was only generated on the lodgement of the annual returns.

6.534 The increase in total assets is a result of CLERP 7 as debtors are raised when the revenue for the annual review fee is generated, irrespective of whether the trading status was active or inactive whereas, under the previous legislation, only invoices for active trading companies (i.e. companies which have lodged annual returns in the past) were raised.

Summary of significant entity and administered audit findings

6.535 ASIC is in the process of satisfactorily addressing the control issues reported previously in relation to its change control management and segregation of duties, and IT security. There were no significant departmental or administered audit issues arising from the final audit phase.

6.536 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	0	0	0	0
B	2	2	0	0
Total	**2**	**2**	**0**	**0**

Australian Taxation Office

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	(0.78)	80.59
Commonwealth's equity investment	(16.55)	(15.67)
Ratio of current assets to current liabilities	0.99:1	0.95:1
Ratio of total assets to total liabilities	0.98:1	0.98:1

6.537 The ATO had a balanced activity this year with the original budget for 2003–2004 projecting a minor operating surplus of $0.57 million. The operating loss this year was primarily due to the revaluation of non current assets with a net adjustment of $3.27 million and an unexpected provision for compensation payment of $7.6 million.

6.538 The reduction in the Commonwealth's equity investment in the ATO is a result of a net revaluation increment of $0.96 million, the 2003–2004 operating deficit of $1.74 million and dividends paid of $0.1 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2004 $m	2003 $m
Total revenues	203,493	190,807
Total expenses	8,306	6,108
Total assets	51,088	48,436
Total liabilities	26,014	23,778

6.539 The increase in revenue collected on behalf of the Australian Government of $12,686 million is attributable to several factors, including:

- increase in other individuals and withholding tax of $6.70 billion broadly due to growth in employment and strong profitability of small unincorporated businesses, partly offset by the reductions in personal income tax from 1 July 2003;
- an increase in companies revenue of $1.37 billion is due to strong growth in company profits;

- an increase in GST revenue of $2.97 billion is due to a number of factors including, strong economic growth, particularly in dwelling investment and strength in retail trading conditions; and
- increase in excise duty of $931 million due to an increase in the consumption of petrol and diesel.

6.540 The expenses administered on behalf of the Australian Government have also increased by $2.20 billion due to increase in the provision for bad and doubtful debts, penalty remission, superannuation guarantee charge and superannuation co-contribution expenses.

Audit results

Summary of significant entity audit findings

6.541 A qualified audit report was issued on the financial statements relating to the treatment of the information technology outsourcing contract. Refer to Part 3 of this report for details.

6.542 During the interim audit, the ANAO recommended:

- a consistent application of the model for costing the internally generated software by all staff deployed on IT development projects; and
- improvement to the IT change management and documentation process relating to the Instalment Processing System and the Fringe Benefit Tax System.

6.543 A new issue was noted during the final phase of the audit relating to IT Security—Firecall Review. The compliance activity undertaken by the ATO identified that there was inadequate review and monitoring of the excessive usage of the Firecall facility, a special information technology access facility that has been developed to enable specific staff to perform the quick fixes to the systems and to gain temporary access to production data. The ANAO review of superannuation surcharge system has also revealed that review and monitoring is not performed at the business line and organisational level exposing the risk that mainframe application and data may be inappropriately accessed and/or altered without an appropriate level of authorisation or testing.

6.544 The ATO has commenced action in resolving the issues identified in both the interim and final audit stages.

Summary of significant administered audit findings

6.545 The audit report was also qualified on uncertainties relating to amounts disclosed as superannuation surcharge, superannuation guarantee charge and a portion of general interest charge. In addition, an 'other statutory matter' was raised for contravention of the section 48 of the FMA Act in relation to accounts and records. Refer to Part 3 of this report for details.

Superannuation surcharge–Exceptions

6.546 The superannuation surcharge system contained a significant backlog of exception transactions. This backlog of exceptions had built up over the last 8 years with the total number of exception reaching 10.4 million. It is acknowledged that ATO has now allocated resources to this area to clear the backlog.

6.547 The ATO developed a methodology for estimating the superannuation surcharge revenue relating to these exceptions for the 2003–2004 financial statements. The revenue relating to the backlog of assessments was estimated by the ATO to be $323 million. The ANAO review of the reasonableness of the estimate raised concerns as to:

- the completeness and accuracy of data used in calculating the revenue estimates; and
- the assessment as to the collect ability of some of these amounts.

Superannuation surcharge—Management of debt recorded by the unfunded defined benefit Scheme super funds

6.548 The second issue on superannuation surcharge related to surcharge assessments for a particular group of superannuation funds. The ATO issues surcharge assessments, and the Unfunded Defined Benefit (UDB) superannuation funds are required by legislation to collect the surcharge and pay it to the ATO. The liability to pay the surcharge can be deferred until the superannuation benefit becomes payable to the member, e.g. on retirement. The UDB superannuation funds are required to maintain a surcharge debt account for each member and the ATO needs to recognise this surcharge revenue and a corresponding receivable in its financial statements.

6.549 In 2002–2003, a comparison of the receivable as per the ATO records with the information received from UDB superannuation funds identified significant variances. In response to the ANAO's concern regarding these variances the ATO advised that action would be taken to establish processes to ensure that these debts were managed appropriately by the ATO. To date the action necessary to manage the UDB superannuation funds debts is still outstanding. During the 2003–2004 audit process, the ANAO requested that the ATO obtain letters of confirmation of the surcharge debt holdings by the UDB superannuation funds as per the ATO records. An unexplained discrepancy of $25 million between the two records had still not been resolved at the time of the preparation of this report.

Superannuation surcharge—variance between subsidiary records and control account

6.550 In addition to the above issues relating to superannuation surcharge, variances were noted in the subsidiary records and control accounts relating to superannuation surcharge debt of $122 million. These issues raised concern as to the appropriateness of the ATO accounts and records relating to superannuation surcharge.

Superannuation guarantee charge

6.551 As a result of major errors in the new superannuation guarantee system introduced in November 2003 the ATO has been unable to issue superannuation guarantee assessments since February 2004 or make superannuation guarantee payments to employees superannuation funds since November 2003. The revenue and expenses disclosed in this year's financial statements relating to superannuation guarantee charge were $381 million and $499 million respectively. The ATO developed a methodology to estimate the revenue and payments that would have been raised in 2003–2004 if there had not been system problems. The ANAO assessed the methodology, data queries and source data to determine the accuracy and completeness of information. Uncertainty relating to the completeness and accuracy of data used in calculating the revenue and payment estimates resulted in superannuation guarantee being included in the qualification.

General interest charge

6.552 General interest charge (GIC) provides a common single rate of interest for all tax types where a correct payment is not received by the due date. During the 2003–2004 audit process, the ATO advised that one of the income tax business systems was not sophisticated enough to calculate the general interest charge relating to the annual income tax payments from companies and superannuation funds. The general interest charge was not calculated unless manual intervention was made by ATO on these accounts. Hence, the ATO had to estimate the balance of this debt as at 30 June 2004 and the revenue foregone since the introduction of this charge in 1999-2000. The related GIC revenue was estimated to be $555 million. The ATO also has decided to remit $490 million of this GIC revenue under the Commissioner's power of remission of taxes. The estimate was not supported by appropriate documentation. Consequently, the ANAO was unable to form an opinion on the reasonableness of the GIC balance.

6.553 Further discussion with the ATO since completing the audit has revealed that the GIC functionality is not operating in other areas, such as:

- GIC is not accrued at the year-end for individuals who have not paid prior to the due date. In these cases GIC is calculated when the next taxpayer transaction occurs; and
- there is no calculation of GIC in the fringe benefit tax accounting system.

6.554 The ATO has not provided an estimate of the revenue relating to the above categories that should have been disclosed in the 2003–2004 financial statements. Significant work needs to be undertaken to ensure issues relating to GIC are resolved.

Contravention of the FMA Act in relation to the Accounts and Records

6.555 An 'other statutory matters' has been raised in the audit report on this year's financial statements due to contravention of the FMA Act in relation to the accounts and records for the superannuation surcharge, superannuation guarantee charge and general interest charge.

6.556 In addition, the ATO was also required to maintain accounting records to monitor the level of expenditure made against each special appropriation throughout the year for which it has the administrative responsibility. The ATO did not maintain these records in relation to the following items:

- payments of family tax benefit–*A New Tax System (Family Assistance) (Administration) Act 1999 (ANTSFAA);*
- refunds of EFT payments made in error—section 28 of the FMA Act, and
- refund under indirect tax concession scheme—section 28 of the FMA Act.

6.557 ATO was able to derive the payment figures for financial statement reporting on each special appropriation.

Preparation of the Administered Financial Statements

6.558 An effective process for the preparation of the financial statements is critical to the ability of the ATO to meet its accountability obligations as well as to meet reporting deadlines set by Finance.

6.559 The departmental financial statements were prepared in a satisfactory manner. The approach was well structured with a hard close being performed for the period ending 30 April 2004. Supporting documents provided for audit were of good quality, adequately quality assured and staff understood the supporting systems and data. However, this was not the case for administered financial statements.

6.560 The Audit Report No.58, noted the slow progress in implementing corrective action for the administered financial statement preparation and anticipated that the 2003–2004 timetable would not be achieved.

6.561 The ATO 2003–2004 statements contained adjustments totalling $2.27 billion. The level of adjustments to the draft financial statements raises serious concern in regard to the ATO completing a credible set of financial statements in a shorter timeframe in future. The level of ATO and the ANAO required adjustments highlighted the need for an improved understanding by the preparers of the financial statements of the ATO business, its systems, reports, transactions and allocation methods used to prepare the administered financial statements.

6.562 While it is recognised that some improvements have been made to the preparation process in 2003–2004 with improved transparency, which has in turn assisted in understanding the steps taken in preparing the financial statements, there is considerable scope to improve the timing, quality and level of supporting documentation. In several cases, the evidence provided to support financial statement information was insufficient or inaccurate, which caused delays in the verification of balances.

6.563 The preparation of the administered financial statements needs to be managed in a more efficient manner by developing an effective timetable and providing appropriate training and directions to all staff contributing to the process. This includes the need to build capacity in the administered financial statement reporting team with additional skilled resources, preferably with business system and business line knowledge, and management of staff continuity in the administered accounting area.

Administered Reconciliations

6.564 The reconciliations between the accounting records in the major business systems and the FMIS are crucial to the financial statement preparation process. Individual reconciliations were undertaken on a regular basis. However, a complete consolidated reconciliation that addresses and resolves discrepancies was not performed. In addition, no reconciliation has been completed on client and control accounts balances in the business systems.

6.565 The entries in the financial statements spreadsheet are obtained from the business system reports that are derived from client accounts and SAP. These results are then reconciled to the control account balance within the business systems. There was a discrepancy of $81.6 million that had not been cleared or fully investigated resulting in an unadjusted error remaining in the financial statements. Further investigation by the ATO has revealed that the main reason for the discrepancy is due to inconsistency in the reports produced from the business systems for financial statements and reconciliation process. It has been recommended that all necessary reconciliations should be performed prior to preparation of the financial statements.

Provision for Doubtful Debts and Credit Amendments

6.566 Significant resources are being invested by the ATO in establishing appropriate methodologies and procedures for determining provision for doubtful debts and credit amendments. The current process continues to require improved supporting evidence and documentation. The following issues need to be addressed:

- for debts under $1 million, a management estimation process was used for the provision for doubtful debts and credit amendments. There was no supporting documentation from management that assists in substantiating some of these estimates;
- for debts over $1 million, provision for credit amendments was estimated by the case managers on a case-by-case basis. A review by the ANAO of a sample of resolved cases and a similar review by the ATO indicated a potential for an understatement of provision for credit amendments; and
- for debts over $1 million, a complete reconciliation of debts taken up in the provision calculation to the debt in the business systems has not been performed to ensure the provision was calculated for the total debt population.

System Documentation

6.567 For a number of items in the financial statements, the information was obtained from the ATO's data warehouse and insufficient supporting documentation was maintained for an audit trail. Due to the data maintenance practices of these systems, it was not possible to reproduce the same information at a later date for audit evidence. This process deficiency occurred in cases of superannuation surcharge, superannuation guarantee charge, general interest charge, excise, deferred companies instalment receivable, tax refund due and estimation of accrued revenues.

6.568 It has been recommended that appropriate direction be given to the line officer to maintain the supporting documentation and proper quality assurance should be performed by the preparer of the financial statements in order to ensure adequacy of the supporting documentation.

Adjustment to GST Revenue

6.569 The GST revenue figure has been understated by $40 million and the gross individual revenue overstated by the same amount to ensure that the derived GST cash figure was consistent with what was reported to the Treasury in July 2004. It has been recommended that financial statement process should be kept separate from other reporting requirements.

Adjustments to Fringe Benefit Tax (FBT)

6.570 During 2003–2004 changes were made to the FBT system to enable the processing date of transactions to be stored against FBT account postings for financial statement reporting purposes and to assist in reconciling the FBT system to the SAP general ledger. As this system change was made part way through the year, it was necessary to use both the new and old reports and undertake some adjustments to derive the FBT revenue balance in the financial statements. In addition to the reporting issue, further adjustments were required to the financial statement receivable balances due to a number of posting codes that were omitted from the initial calculation process. It has been recommended that adequate training be provided to the relevant officers in order to understand the posting codes within the FBT system that link to the financial statements closing process.

Conclusion

6.571 The ATO financial statements have been qualified for uncertainty in the revenue balances for superannuation surcharge, superannuation guarantee and general interest charge. The ATO has allocated significant resources to addressing these problem areas. While it is likely that there will be some ongoing audit issues relating to these areas, the particular qualifications are not expected to occur next year as a result of remediation work.

6.572 An area of ongoing concern has been the preparation of the administered financial statements. To achieve the required improvements in quality and timing, a clear detailed understanding is required of the information extracted from the business systems used to prepare the administered financial statements. The ATO has commenced a project, supported by external consultants, in an effort to further progress this issue.

6.573 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2004.

Ratings	Opening position at March 2004	Issues resolved prior to August 2004	New issues to August 2004	Closing position at August 2004
A	1	0	9	10
B	9	5	3	7
Legislative Breach	0	0	1	1
Total	**10**	**5**	**13**	**18**

Reserve Bank of Australia

Financial results

Summary of entity results

Key financial measures for year	2004 $m	2003 $m
Net surplus/(deficit) for the year	1,955	2,173
Commonwealth's equity investment	10,856	9,414
Ratio of current assets to current liabilities	N/A	N/A
Ratio of total assets to total liabilities	1.17:1	1.16:1

6.574 Underlying earnings in 2003–2004 fell to $882 million, compared with $1 238 million in the 2002–2003 year resulting from:

- a policy driven decision to rebuild international reserves during the year, which led to a switch out of relatively high yielding domestic assets into lower yielding foreign assets; and
- interest earnings on foreign assets were also converted, on average, at an Australian dollar exchange rate higher than in 2002–2003, a factor that worked to lower income measured in Australian dollar terms.

Audit results

Summary of significant entity audit findings

6.575 There were no significant audit issues arising from the interim or final audit phase.

Comments on non-material entities

6.576 The significant audit issues relating to non-material entities within this portfolio are provided below.

Australian Competition and Consumer Commission

6.577 The ANAO identified 11 issues in total for the 2003–2004 financial year. These issues and their corresponding implications are described below.

6.578 Throughout the year the monthly reconciliations of bank accounts, GST accounts receivable and assets to the general ledger were not being performed or reviewed in a timely manner. This deficiency increases the risk that transactions will not be correctly accounted for in the general ledger and that errors or reconciling items will remain undetected.

6.579 The ACCC did not have a current business continuity plan, given this it may not be able to re-establish its key business operations in a timely manner following failure of, or damage to, vital services or facilities.

6.580 The ACCC may have inappropriate or inadequate IT security controls as it has not updated its IT security policy since March 2002.

6.581 The ACCC's Risk Management Plan was finalised in 2000. The absence of a current risk assessment may mean that new risks are not identified and the absence of appropriate risk management strategies.

6.582 Unrestricted access to the FMIS exposes the ACCC to misappropriation and or unintentional error. In addition, the absence of timely reviews of access logs increases the ACCC's exposure.

6.583 The absence of the review and approval of modifications to vendor bank accounts details in the FMIS, exposes the ACCC to misappropriation and or unintentional error.

6.584 The ACCC's control framework is not preventing the payment of inappropriately authorised payments. The processing of unauthorised transactions exposes the ACCC to misappropriation and/or unintentional error.

6.585 In addition, deficiencies noted in the ACCC's processes for asset acquisitions exposes the ACCC to misappropriation and or unintentional error.

6.586 Deficiencies in the ACCC's processes, for administered revenue recognition and debt recovery may result in incomplete or inaccurate FMIS records and may result in the non-recovery of debtors.

6.587 The absence of logging of the system administrator changes to the FMIS and limited logging of the changes to the payroll system may expose the ACCC to misappropriation and or unintentional error.

6.588 The ACCC will return $31 000 to the official public account in 2004–2005 as a result of clarifying its right to earn and credit interest to its Other Trust Monies account. As a result of not having a full understanding of the operating basis of the account, the ACCC was exposed as there was potential to spend monies which had not been appropriated.

Australian Prudential Regulation Authority

6.589 Overall, the results of the audit were satisfactory in relation to the accounting for transactions and balances in 2003–2004. However, APRA still need to further progress some matters raised in last year's report, namely, the improvement of controls over administered levy revenue and information security, and as indicated below, the recovery of an amount due to the Australian Government.

6.590 APRA was appropriated $2.1 million as an annual appropriation in 2001–2002 for superannuation supervision. This amount was in addition to APRA's Special Appropriation, which is determined on the basis of revenue arising from financial institutions' supervisory levies, and which is intended to provide the Government's funding of APRA. The Additional Estimates for 2001–2002 indicated that the increased costs of superannuation supervision would be met through increases in the levy for superannuation. However, no arrangements were put in place for the recovery of the $2.1 million.

6.591 The ANAO initially raised the issue of the recovery of the $2.1 million with APRA in 2002, and again in 2003, as reported last year, an appropriate course of action had not been determined, at that time. During 2004, APRA, in conjunction with Treasury and Finance, determined that the Minister for Finance and Administration would need to make a determination under the Annual Appropriation Acts in order for the Australian Government to recover the $2.1 million. As at 30 June 2004, the Chairman of APRA had written to the then Minister for Revenue to initiate a request for such a determination to take place. The effect of the proposed transaction would be repayment of $2.1 million to the Australian Government from APRA's accumulated results. APRA reported this proposed action in Note 12 of the 2003–2004 financial statements. However, as at the date of preparation of this report, the Minister for Finance and Administration had not issued a determination in relation to the relevant amount.

Royal Australian Mint

6.592 During the interim audit phase at the Royal Australian Mint, the ANAO reported two control issues with a moderate risk exposure. The first concerned insufficient segregation of duties in the human resources area, particularly in relation to the payroll function. The second issue concerned security arrangements in some areas of the Royal Australian Mint. The Royal Australian Mint has responded positively and implemented both recommendations.

Canberra ACT	P. J. Barrett
12 January 2005	Auditor-General

Appendices

Appendix 1: Significant Findings by Major Entity

For the interim phase of the audit cycle, as part of the 2003–2004 financial statement audit cycle, only one entity reported an 'A' rated findings (significant business or financial risks). The entity, the Australian Taxation Office (ATO), reported a finding in relation to the level of adjustments to the 2002–2003 draft financial statements which highlighted the need for an improved quality assurance process that supported financial statement preparation. In order to address this issue, ATO commenced a project for an integrated financial management information system for administered items. This project, however, had not progressed in accordance with the proposed timetable. As an intermediary step, a new spreadsheet was being developed. In early May 2004, there were unexplained variances in the spreadsheet that were not fully resolved. The ATO could not demonstrate that a robust financial statement collation mechanism would be in place to support the reporting of administered balances. This raised serious concern with regard to ATO's ability to meet the financial statement deadline for the 2003–2004 year. As it turned out, ATO did not meet that time deadline.

Further details of the aforementioned finding, and about the 'B' rating findings, in various entities are included in Part 5 of Audit Report No.58. Table 1 of this report summarises a number of 'A' and 'B' findings included in Audit Report No.58. Table 2 provides a summary of all 'A' and 'B' findings as at 31 August 2004.

Table A1

'A' and 'B' ratings by entity at 31 March 2004

Entity	2004 Rating		2003 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry Australia	0	3	0	4
Attorney-General's Department	0	1	0	1
Australian Customs Service	0	1	0	2
Department of Communications, Information Technology and the Arts	0	2	0	7
Department of Defence	note 1	note 1	10	29
Repatriation Commission and the Department of Veterans' Affairs	0	5	0	4
Department of Education, Science and Training	0	2	0	2
Department of Employment and Workplace Relations	0	2	0	5
Department of Environment and Heritage	0	4	0	2
Department of Family and Community Service	0	8	0	6
Centrelink	0	5	0	5
Department of Finance and Administration	0	0	0	0
Department of Foreign Affairs and Trade	0	0	0	1
Department of Health and Ageing	0	2	0	5
Health Insurance Commission	0	21	0	7
Department of Immigration and Multicultural and Indigenous Affairs	0	12	0	6
Department of Industry, Tourism and Resources	0	0	0	3
Department of Prime Minister and Cabinet	0	1	0	0
Department of Transport and Regional Services *	N/A	N/A	0	1
Department of the Treasury	0	1	0	1
Australian Taxation Office	1	9	1	5
Aboriginal and Torres Strait Islander Services **	0	10	0	0
Australian Federal Police **	0	4	0	0
Australian Securities and Investment Commission **	0	2	0	0
Commonwealth Scientific and Industrial Research Organisation **	0	3	0	0
Total	**1**	**98**	**11**	**96**

** Due to timing of audits DOTARS, AFP, ASIC and CSIRO were not included in the 2003–2004 Controls Report..

Note 1: At the time of publication of Audit Report 58, 2003–2004, the number and classification of Category 'A' and 'B' findings for the Department of Defence were not finalised.

Table A2

‘A’ and ‘B’ ratings by entity at 31 August 2004

Entity	2004 Rating		2003 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	3	0	4
Grains Research and Development Corporation	0	0	0	0
Murray-Darling Basin Commission	0	0	0	0
Australian Dairy Corporation *	N/A	N/A	0	0
Attorney-General's Department	0	1	0	1
Australian Customs Service	0	0	0	1
Australian Federal Police	0	4	0	4
Family Court of Australia	0	0	0	0
High Court of Australia	0	0	0	1
Department of Communications, Information Technology and the Arts	0	0	0	3
Australian Broadcasting Authority	0	0	0	0
Australian Broadcasting Corporation	0	0	0	0
Australian Communications Authority	0	1	0	1
Australian Postal Corporation	0	0	0	0
Australian Sports Commission	0	1	0	0
National Archives of Australia	0	0	0	0
National Gallery of Australia	0	0	0	0
National Library of Australia	0	0	0	0
National Museum of Australia	0	0	0	4
Special Broadcasting Service Corporation	0	0	0	0
Telstra Corporation Limited	0	0	0	0
Department of Defence	Note 1	Note 1	13	38
Defence Housing Authority–DHA	0	1	0	0
Department of Veterans' Affairs	0	5	0	2
Australian War Memorial	0	0	0	1
Department of Education, Science and Training	0	0	0	2
Australian National Training Authority	0	0	0	0
Australian Nuclear Science and Technology Organisation	0	5	0	2
Australian Research Council	0	0	0	2
Commonwealth Scientific and Industrial Research Organisation	0	2	0	3

Entity	2004 Rating		2003 Rating	
	A	B	A	B
Department of Employment and Workplace Relations	0	1	0	0
Coal Mining Industry (Long Service Leave Funding) Corporation	0	0	0	0
Comcare Australia	0	4	0	0
Department of Environment and Heritage	0	4	0	2
Australian Greenhouse Office	0	1	0	0
Bureau of Meteorology	0	0	0	0
Department of Family and Community Services	0	8	0	3
Centrelink	0	5	0	5
Department of Finance and Administration	0	0	0	0
Australian Electoral Commission	0	0	0	0
Australian Industry Development Corporation	0	0	0	0
Medibank Private Ltd	0	0	0	0
Employment National Limited *	N/A	N/A	0	0
Department of Foreign Affairs and Trade	0	0	0	0
Australian Agency for International Development	0	1	0	0
Export Finance and Insurance Corporation	0	0	0	0
Australian Trade Commission	0	0	0	0
Department of Health and Ageing	0	3	0	5
Health Insurance Commission	0	17	1	15
National Blood Authority ^	0	1	N/A	N/A
Department of Immigration and Multicultural and Indigenous Affairs	0	14	1	3
Aboriginal and Torres Strait Islander Services ^	0	5	N/A	N/A
Aboriginal and Torres Strait Islander Commission	2	1	0	3
Aboriginal and Torres Strait Islander Land Fund Account	2	0	0	0
Department of Industry Tourism and Resources	0	1	0	2
Australian Tourist Commission	0	0	0	0
Department of Parliamentary Services ^	0	0	N/A	N/A
Joint House Department *	N/A	N/A	0	0
Department of the Prime Minister and Cabinet	0	1	0	0
Department of Transport and Regional Services	0	1	0	2
Airservices Australia	0	0	0	0
Australian Rail Track Corporation	0	0	0	0
Civil Aviation Safety Authority	0	1	0	0

Entity	2004 Rating		2003 Rating	
	A	B	A	B
National Capital Authority	0	0	0	0
Department of the Treasury	0	0	0	0
Australian Bureau of Statistics	0	0	0	1
Australian Office of Financial Management	0	0	0	1
Australian Taxation Office	10	7	1	12
Australian Securities and Investments Commission	0	0	0	0
Reserve Bank of Australia	0	0	0	0
Total	**14**	**99**	**16**	**123**

N/A: Not applicable

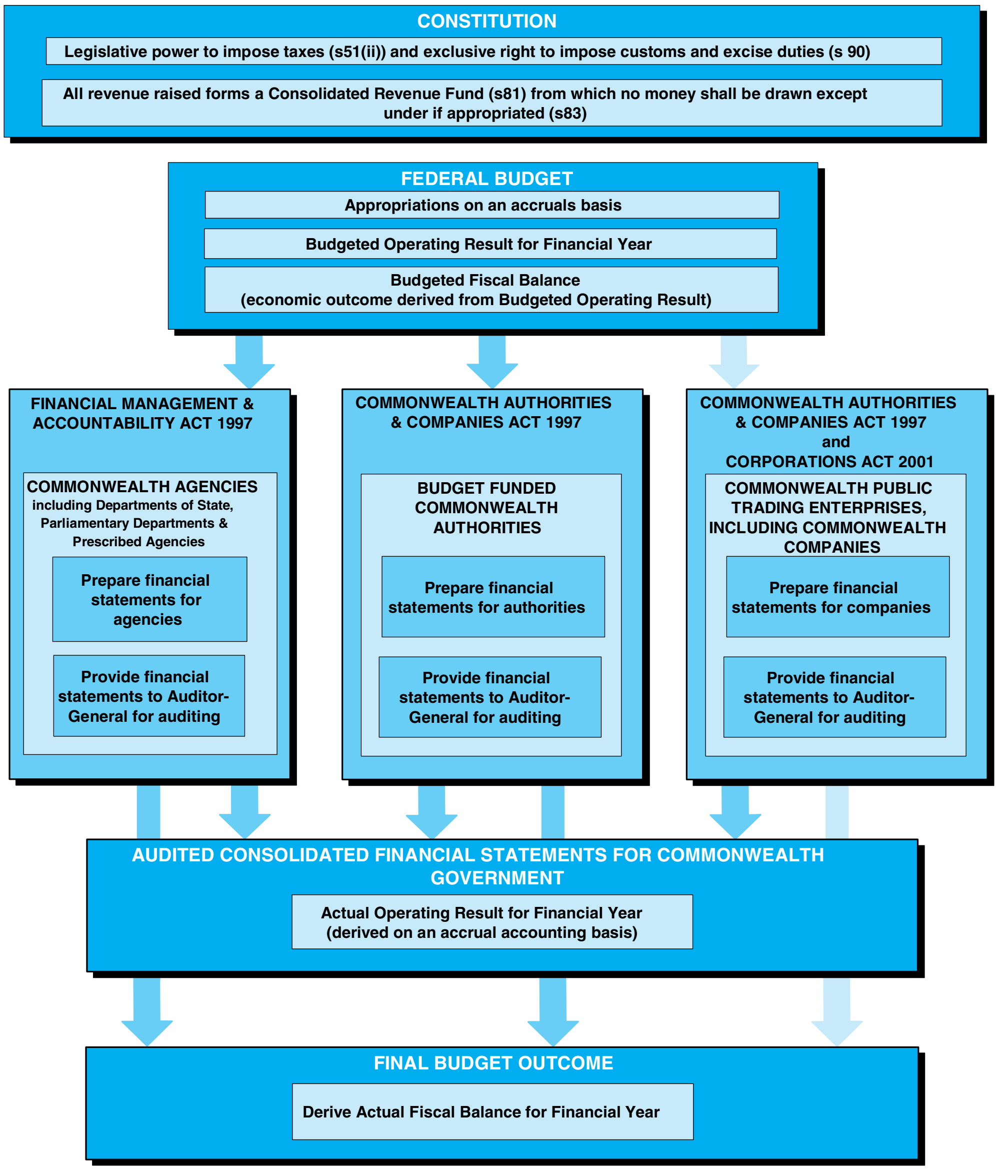
*: These entities ceased as reporting entities of the Australian Government in 2003–2004 and as such are not included in this report.

^: These entities commenced as reporting entities of the Australian Government in 2003–2004.

Note 1: At the time of publication of this report, the number and classification of Category 'A' and 'B' findings for the Department of Defence were not finalised.

Appendix 2: The Financial Reporting Framework

The financial reporting framework is outlined in the diagram below. Then follows an overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework. Finally, the audit of the financial statements of these entities is described.



Source: ANAO

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.

The financial statements for the year ended 30 June 2004 and the audit report thereon were published in December 2004. The results of the audit are reported in Part Two of this report.

Commonwealth agencies

Commonwealth agencies are legally part of the Commonwealth Government and are subject to the provisions of FMA Act. They comprise departments of State, Parliamentary departments and prescribed agencies.

The FMA Act requires agency Chief Executives to prepare financial statements for their agencies in accordance with FMOs. The FMOs include a requirement that the statements comply with accounting standards issued by the Australian Accounting Standards Board.

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. Authorities operate under their own enabling legislation and generally must comply with provisions of the CAC Act.

The CAC Act requires the governing bodies of authorities to prepare financial statements in accordance with the FMOs. Directors must also ensure that subsidiaries prepare financial statements in accordance with the Corporations Act 2001 (where applicable) and the CAC Act.

Commonwealth companies and subsidiaries

Commonwealth companies are companies in which the Commonwealth has a controlling interest. Commonwealth companies operate and prepare financial statements under the *Corporations Act 2001* and provisions of the CAC Act.

Directors of a Commonwealth company must ensure subsidiaries of the company prepare financial statements in accordance with the *Corporations Act 2001* and the CAC Act.

Other bodies

The ANAO also audits the financial statements of other bodies controlled by the Commonwealth or where the Commonwealth has significant influence. These consist primarily of trusts or joint ventures entered into by controlled Commonwealth bodies.

Audit of Commonwealth Government financial statements

Audit scope

The Chief Executives of agencies, and the directors of authorities and companies, are responsible for the truth and fairness of the financial statements and for the records, controls, procedures and organisation that support the preparation of those statements. The ANAO's independent audits of financial statements are undertaken to form an opinion whether, in all material respects, the statements are true and fair.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards (AUS), 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 control environment, 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.

While entity control structures are evaluated as an integral part of the audit process, only those systems and controls, on which it is intended to place reliance for the purpose of determining audit procedures leading to audit opinions on the financial statements, are evaluated in detail. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include a detailed evaluation 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 AUS is designed to provide reasonable assurance that the financial report, taken as a whole, is free from material misstatement, whether caused by fraud or error. The fact that an audit is carried out may act as a deterrent. However, the auditor is not responsible for the prevention of fraud and error.

The audit report on financial statements

The audit report on the financial statements includes a statement of the auditor's opinion as to whether the 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 AAS, and other mandatory professional reporting requirements, and statutory requirements.

If the auditor is not satisfied the financial statements are true and fair, the audit opinion is qualified, with the reasons being indicated. Audit reports may be qualified because of a disagreement between the auditor and management of the entity on the application of accounting standards or other reporting requirements, because the scope of the audit work needed to form an opinion has been limited in some way, or if there was a conflict between AAS and the requirements of the FMOs.

An audit report may contain an 'emphasis of matter' to draw attention to a matter that is relevant to the readers of the financial statements. An 'emphasis of matter' does not qualify the audit opinion being given. In many cases, an 'emphasis of matter' relates to inherent uncertainty about an aspect of the financial statements, where the outcome is contingent upon future events, and the effects of the matter are not capable of reasonable measurement at the date the audit report is signed.

The audit report may also contain details on 'other matters'. Section 57 of the FMA Act requires that, in reporting to Ministers on the financial statements of Agencies, the Auditor-General must not only report on whether the statements have been prepared in accordance with the FMOs and give a true and fair view of matters required by the FMOs but must also state particulars of any contravention by a Chief Executive of section 48 of the FMA Act.

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