The Auditor-General
Audit Report No.21 2005–06
Financial Statement Audit

Audit of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005

Australian National Audit Office

ISSN 1036–7632

ISBN 0 642 80880 5

Australian National
Audit Office

Canberra ACT
21 December 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 *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 2005.*

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

Yours sincerely

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. 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.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone:	**(02) 6203 7505**
Fax:	**(02) 6203 7519**
Email:	**webmaster@anao.gov.au**

ANAO audit reports and information about the ANAO are available at our internet address:

http://www.anao.gov.au

Contents

Abbreviations

AAO	Administrative Arrangement Orders
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
AEIFRS	Australian Equivalents to International Financial Reporting Standards
AFP	Australian Federal Police
AGD	Attorney-General’s Department
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
ATSIS	Aboriginal and Torres Strait Islander Services
AUASB	Auditing and Assurance Standards Board
AUS	Australian Auditing Standard
BCM	Business Continuity Management
BCP	Business Continuity Plans
BEFR	Budget Estimates and Framework Review
BPG	Better Practice Guide
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CEIs	Chief Executive’s Instructions
CE	Chief Executive
CFO	Chief Finance Officer
CobiT	Control Objectives for Information and Related Technology
CSA	Child Support Agency
CSIRO	Commonwealth Scientific and Industrial Research Organisation
Customs	Australian Customs Service
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
DoEH	Department of the Environment and Heritage
DoHA	Department of Health and Ageing
DoTARS	Department of Transport and Regional 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
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GGS	General Government Sector
HIC	Health Insurance Commission
HRMIS	Human Resources Management Information System
IFRS	International Financial Reporting Standards
IT	Information Technology
ICT	Information and Communications Technology
JCPAA	Joint Committee of Public Accounts and Audit
PM&C	Department of the Prime Minister and Cabinet
RBA	Reserve Bank of Australia
SAP	An integrated software solution providing a wide range of business functions. Used by a large number of Australian Government entities as their FMIS
Treasury	The Treasury

Foreword

This report provides a summary of the final results of the audit of the financial statements for all Australian Government reporting entities, including the Consolidated Financial Statements of the Australian Government for the financial year ended 30 June 2005. The results of the interim phase of these audits were reported in Audit Report No.56 2004–05, *Interim Phase of the Audit of General Government Sector Entities for the Year Ending 30 June 2005*.

Preparation of audited financial statements in compliance with the Finance Minister's Orders[1] is a key element of the financial management and accountability regime applicable to Australian Government entities. Commencing from the 1994–95 financial year, entities' financial statements have been prepared on a full accrual basis. In addition, in recognition of the importance to Government of timely financial information, the reporting deadline for the preparation of audit cleared financial information has been progressively brought forward.[2]

The audit report on the 2004–05 Consolidated Financial Statements of the Australian Government was issued on 12 December 2005. The audit report expressed the view that the financial statements were true and fair except for qualifications relating to six material issues. The finalisation of these financial statements and the audit report thereon was delayed largely due to the time required to finalise the financial statements for the Department of Defence and resolve some accounting issues related to the preparation of the Consolidated Financial Statements.

The interim phase of the audit of entities' 2004–05 financial statements identified that the large majority of entities had established key elements of a control environment designed to provide a sound basis for effective financial management. The ANAO did, however, note that there is still some inconsistent application in execution of better practice approaches, especially in respect of fraud and legal compliance. In addition, a significant number of entities had yet to adopt comprehensive and tested business continuity management practices, and entities needed to maintain a focus on information security and business continuity, particularly in the context of a continued move towards e-government and the adoption of new technologies. At an

---

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

2 For the 2004–05 financial statements, the government required audit cleared financial information by 30 July for material entities and 30 August for non-material entities. Financial statements are included in annual reports which were to be tabled in the normal course by 31 October 2005.

operational level, the interim phase of the 2004–05 financial statement audits indicated that entities should pay particular attention to the controls underpinning their financial management information systems, purchasing and payment of accounts, and associated policies and procedures.

Turning to the results of the final phase of the audit of entities' 2004–05 financial statements, over 70 per cent of material and non-material entities met the deadlines for the submission of audit cleared financial information. A broad range of internal control issues were identified as part of this phase of the 2004–05 audits that were consistent with the issues arising from the interim phase. Nevertheless, entities had made reasonable progress in addressing previous audit findings. Our audits have again highlighted the need for entities to have in place effective project management arrangements that underpin the financial statement preparation process. This includes recognising and resolving issues that impact on the financial statements as early as possible. It is also evident that entities that maximise the alignment of their monthly financial reporting processes with year-end financial preparation processes will have greater success in meeting the deadlines imposed. In this context, the ANAO supports the decision for the existing deadlines to be retained for the 2005–06 financial statements, particularly recognising the resource costs that a further compression of the deadlines would involve for many entities, as well as the ANAO.

The financial reporting requirements continue to expand largely due to changes to accounting standards in Australia. In particular, the adoption of Australian Equivalents to International Financial Reporting Standards (AEIFRS) for the 2005–06 financial year will add to the challenges faced by entities in completing their financial statements in a timely manner. To assist entities in streamlining their financial statement production the ANAO is preparing a Better Practice Guide on Financial Statement Preparation, which should be issued by April 2006.

In concluding, I would like to acknowledge the professionalism and commitment of my staff, Chief Finance Officers and the many entity staff involved in preparing entities' financial statements. Collectively, the contribution of these individuals to meeting the public sector financial reporting requirements is to be commended.

Ian McPhee

Auditor-General

Summary

Executive Summary

Overview

1. The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake financial statement audits of all Commonwealth entities including those of government departments, statutory authorities and government business enterprises.

2. Financial statement audits are an independent examination of the financial accounting and reporting of public sector entities. The results of the examination are presented in an audit report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein, fairly reflect the results of each entity's operation and its financial position. The disclosures and management representations made in the financial statements by the entity are assessed against relevant accounting standards, and legislative and other reporting requirements.

3. In addition to undertaking financial statement audits, the Australian National Audit Office (ANAO) delivers two reports annually to Parliament addressing the outcomes of the financial statement audit process. The first of these, Audit Report No.56 2004–05, *Interim Phase of the Audit of General Government Sector Entities for the Year Ending 30 June 2005* provided an update of the ANAO's assessment of audit findings relating to the internal control structures of major entities, including governance arrangements, information systems and control procedures through to March 2005. The findings summarised in that report arose from the interim phase of the financial statement audits of major Australian Government reporting entities. This interim phase of an audit program is designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes.

4. This report, *Audits of the Financial Statements of Australian Government Entities* complements the first report mentioned above, and 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.

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

Results of the audits of financial statements

6. The ANAO is responsible for the audit of the financial statements of 252 Australian Government entities (refer to Table 1). The total number reflects the net result of:

- the creation of a number of new entities;
- the reclassification of several entities in 2004–05; and
- the wind-up of several Australian Government authorities and companies.

Table 1

Type and number of entities audited

Reporting entity	2004–05	2003–04
Australian Government's Consolidated Financial Statements	1	1
Agencies:		
—Departments of State	17	17
—Parliamentary Departments	3	3
—Prescribed Agencies	63	58
—Business Operations	7	8
Australian Government authorities and their subsidiaries	108	107
Australian Government companies and their subsidiaries	35	36
Other	18	15
Total	**252**	**245**

Source: ANAO analysis

7. For the 2004–05 financial year, the ANAO has issued 213 unmodified audit opinions (clear opinions); 4 'qualified' audit opinions; 3 audit reports containing an 'emphasis of matter'; and 18 audit reports containing 'other statutory matters'. At the date of this report, 14 sets of financial statements were still being audited. The above includes opinions issued on 4 entities that ceased operations during 2004–05.

8. The material portion of the Australian Government's revenues, expenses, assets and liabilities in the 2004–05 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, the Australian Office of Financial Management and the Australian Taxation Office.

9. The focus of this report is on the year end results of the financial statement audits of all general purpose reporting entities for the 2004–05 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—Financial Reporting Framework—provides commentary on the structure of and issues in relation to the Australian Government's financial framework.
- 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 2004–05.
- 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—Issues Arising from the Audits of Financial Statements—provides an overview of some of the issues and challenges involved in the timely preparation and audit of the financial statements of Australian Government entities.
- Chapter Five—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.56 2004–05. It is structured in accordance with the portfolio arrangements established by the Administrative Arrangements Order of 16 December 2004. For reporting purposes, this reflects the portfolio arrangements, which existed at 30 June 2005.
- Chapter Six—Results of the Review of Triple Bottom Line Reporting—provides details of the results of audit procedures undertaken to provide an opinion on the Triple Bottom Line Reports of the Department of Family and Community Services and the Department of the Environment and Heritage.

1. Financial Reporting Framework

This chapter provides an overview of key developments in the financial reporting and auditing framework impacting the Australian Government and its reporting entities.

Developments in the Financial Reporting and Auditing Frameworks

Introduction

1.1 Consistent with legislative requirements, all Australian Government entities have been reporting on an accrual basis in accordance with Australian Accounting Standards since 1994–95, and in many cases for much longer. Accordingly, any changes to the legislative framework or accounting standards are likely to affect the financial reports of entities. In addition, changes to Australian Auditing and Assurance Standards affect the ANAO's approach to its responsibilities for auditing the financial statements of Australian Government entities.

1.2 The strategic directions being followed by the Australian Accounting Standards Board (AASB) to adopt international accounting standards from 2005–06, and to harmonise Australian Accounting Standards for governments with the requirements of Government Finance Statistics, will affect financial reporting by the Australian Government and its individual reporting entities. The AASB's work programme also addresses a number of other topics of particular interest to governments. This chapter provides a brief outline of these developments, against the background of the Australian Government's financial reporting framework.

1.3 The Auditor-General sets auditing standards to be applied in the conduct of his statutory audits, which incorporate, by reference, Australian Auditing and Assurance Standards issued by the Australian Auditing and Assurance Standards Board (AUASB). This chapter also reviews developments in setting these standards.

1.4 Recent performance audits conducted by the ANAO have addressed compliance with legislation underpinning the Australian Government's financial framework. This chapter also foreshadows steps being taken by the ANAO to increase the emphasis on legislative compliance in our financial statement audit coverage.

The Australian Government's Financial Reporting Framework

1.5 Under section 57 of the *Financial Management and Accountability Act 1997* (FMA Act) for agencies, Part 2 of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) for Commonwealth Authorities, and the *Corporations Act 2001* for companies, 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.

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

- the Consolidated Financial Statements of the Australian Government (CFS) are prepared and audited pursuant to section 55 and 56, respectively, of the FMA Act. The CFS presents the financial performance and financial position of the Australian Government; and
- the Final Budget Outcome Report (FBO Report) that is prepared pursuant to section 18 of the *Charter of Budget Honesty Act 1998* (the Charter). It presents the fiscal outcomes for a financial year for the General Government Sector (GGS) and is not currently subject to audit.

1.7 The CFS is prepared on an accrual accounting basis in accordance with applicable Australian Accounting Standards (AAS, also referred to as Generally Accepted Accounting Principles (GAAP)), including AAS 31 *Financial Reporting by Governments*, applicable legislation, and other mandatory financial reporting requirements in Australia.

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

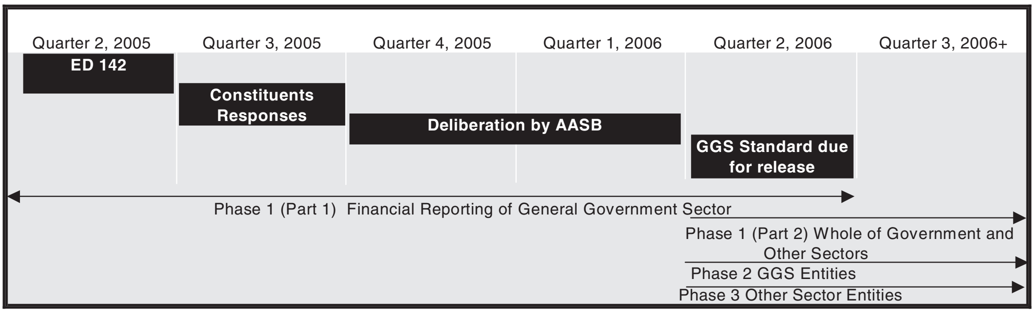
Harmonisation of Australian GAAP and GFS

1.9 Previous ANAO reports[3] have outlined progress on the current proposal to harmonise GAAP and GFS to improve the comparability of budget statements with reports on the budget outcome and allow for a better understanding of government finances. An update on progress towards harmonisation is provided below.

1.10 Audit Report No 56 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*, noted the Financial Reporting Council's (FRC) strategic direction to the AASB for the harmonisation of the GFS framework and GAAP reporting. As previously noted, GAAP is the framework utilised to prepare the CFS; separately, GFS is the primary basis for preparing the Budget and the FBO Report.

1.11 The AASB is approaching the harmonisation project through three phases as outlined in Figure 1.1. The AASB decided that, initially, phase 1 would address harmonisation at the GGS level. The outcomes of this work will set the scene for later phases of the project.

Figure 1.1



Source: ANAO

1.12 In July 2005, the AASB issued an exposure draft, ED 142 *Financial Reporting of General Government Sectors by Governments*. The AASB's intention is to harmonise the GFS and GAAP reporting frameworks. Consistent with the AASB approach, the focus of ED 142 is financial reporting of the GGS. If adopted, the proposals in ED 142 will significantly affect financial reporting by the Australian Government and each of the State and Territory governments[4].

---

[3] Audit Reports No.22 of 2003–04 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003* and No.21 of 2004–05 *Audits of the Financial Statements of Australian Government Entities or the Period Ended 30 June 2004*.

[4] AASB Media Release, Release of Exposure Draft, Convergence of Generally Accepted Accounting Principles and Government Financial Statistics, 21 July 2005.

1.13 There are a number of significant proposals in ED 142:

- the GGS financial report proposed by ED 142 would, with one important exception, be prepared using current GAAP. The exception is the partial consolidation proposal for entities controlled by the Australian Government. That is, entities controlled by the Australian Government, but classified outside the definition of the GGS[5], would be recognised as investments in the GGS balance sheet, rather than being fully consolidated. This is a departure from current reporting principles;
- differences between comparable GAAP and GFS items would be identified either on the face of the statements or in the notes and the nature of the differences explained. For example, Defence Specialist Military Equipment items will continue to be recognised as assets that are expensed (depreciated) over time, but a reconciliation will be identified because GFS treats them as single-use goods that are expensed upon acquisition; and
- incorporation of the International Monetary Fund's (IMF) reporting requirements from their published Government Finance Statistics Manual 2001 (GFSM2001). Consequently, where GAAP currently allows for optional treatments, only those treatments aligned with GFSM2001, would be applied. For example, property, plant and equipment may be measured at depreciated historical cost or (up-to-date) fair value under GAAP, whereas GFS requires (up-to-date) fair value.

1.14 Notably, the exposure draft does not achieve full convergence between the GAAP and GFS frameworks for financial reporting of the GGS. It also provides for a general purpose report for a reporting entity comprising the GGS, which may employ different accounting policies and presentation to the current CFS. However, it is an important step towards achieving the strategic goals set by the FRC. The ANAO continues to support the strategic objective to achieve harmonisation because of the importance of the goal to reduce the complexity and potential confusion which arises from the current regime of preparing financial reports on different accounting bases.

---

5 Definition of the General Government Sector–consists of all *government units* and all nonmarket *nonprofit institutions (NPI)* that are controlled and mainly financed by government units and NPIs are included in the general government sector, but it can be assumed that all government units and NPIs controlled by government are residents. Defined in GFSM 2001 (paragraph 2.28). Government Units - *Institutional units* that carry out the functions of government as their primary activity. Defined in GFSM 2001 (paragraph 2.20).

Industry Based (Public Sector) Accounting Standards

1.15 There are currently three public sector-specific accounting standards, AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*. These standards have been progressively issued since 1993 to assist governments with the form and content of their general purpose financial reports.

1.16 The AASB has indicated in a strategy paper *Australian Accounting Standards and Public Sector Entities* published on its website on 16 November 2005 `that given the improvements in the quality of financial reporting by local governments, government departments and government since AASs 27, 29 and 31 were first issued, it is now timely to propose withdrawal of these standards and require other Australian Accounting Standards to apply in their own right.' The paper outlines a strategy for the orderly withdrawal of AASs 27, 29 and 31 for the years ending on or after 30 June 2007, with early adoption of the effect of withdrawal permitted.

1.17 In withdrawing the standards, the AASB intends to:

- modify the existing topic-based standards to prescribe requirements for not-for-profit public sector entities, where appropriate;
- create stand-alone topic-specific standards where there is a substantive topic not addressed in an existing standard (e.g. budget reporting); and
- create multi-topic standards where disclosure topics are not individually substantive but warrant the authority of a standard.

The AASB had advised that proposed changes would be subject to a due consultative process via an exposure draft of a 'withdrawal' standard, which the AASB plans to issue in April 2006.

1.18 The AASB strategy paper also identifies a number of on-going public sector accounting issues and how they are to be addressed. Some issues may be addressed as part of the withdrawal of the sector-specific standards. Areas of significant Australian Government public sector interest in AASB's proposed actions are outlined in Table 1.1.

Table 1.1

Areas of Australian Government public sector interest in AASB actions

Areas of Public Sector Interest	AASB's Actions or Proposed Actions to Retain/Amend Public Sector Specific Guidance
Definition, recognition and measurement issues	
Revenue Recognition	Exposure Draft ED 144 "Proposed Australian Guidance to accompany *AASB 1004 Contributions"* was issued on 7 November 2005 for comment by 5 December 2005. This interim guidance articulates circumstances in which a contribution is initially recognised as a liability or as income. It is expected that the guidance will be withdrawn when AASB 1004 is subject to a fundamental review in the short to medium term as a result of various revenue recognition projects being undertaken internationally.
Control of an Entity	Existing guidance for government will be subjected to an exposure draft prior to incorporation in AASB 127 *Consolidated and Separate Financial Statements*.
Disclosure Issues	
Service Concessions (Public-private partnerships)	There is currently no accounting standard that deals explicitly with this subject. The International Financial Reporting Interpretations Committee (IFRIC) has issued three exposure drafts on aspects of these arrangements. The AASB is monitoring this work.
Heritage assets	AAS 29 and 31 provide guidance in relation to heritage assets that notes that these assets should be recognised where they meet the necessary criteria, and be subsequently accounted for as with other assets. These standards also note there may be measurement issues. There is currently an International Public Sector Accounting Standards Board (IPSASB) project on heritage assets. The AASB is monitoring the project and plans to release an issues paper in the second quarter of 2006.
Segment reporting	Existing segment reporting standards do not apply to not-for-profit entities. Under AAS 31, information is reported by sector. The AASB's ED 142 *Financial Reporting of General Government Sectors by Governments* proposes disclosure of GGS information disaggregated by function. In addition, the AASB will review the IPSAS standard on *Segment Reporting,* and release a separate exposure draft on this issue.
Administered items	AAS 29 distinguishes items controlled by departments from items administered by departments on behalf of their governments and requires certain minimum disclosures to be made. The AASB may issue an exposure draft addressing disclosure principles for the preparation of administered information based on those applying in the whole of government financial statements.

Areas of Public Sector Interest	AASB's Actions or Proposed Actions to Retain/Amend Public Sector Specific Guidance
Budget Reporting	There is no current standard on Budget reporting. The AASB is to issue a separate exposure draft on this issue, for at least, all not-for-profit public sector entities, which would reflect the AASB's consideration of work on Budget reporting contained in ED 142, and also work being done by the IPSASB.
Related Parties	Existing standards on related party disclosures do not apply to not-for-profit entities that do not report under the *Corporations Act 2001*. The AASB is to consider whether AASB 124 *Related Party Disclosures*, including matters relating to director and executive remuneration, should apply to not-for-profit public sector reporting entities.

Source: ANAO

1.19 The proposed withdrawal of AAS 31, which deals specifically with the general purpose reporting by government as a whole, comes at a time when a new standard is being proposed in ED 142 (under the AASB's GFS GAAP Harmonisation project) for reporting of the General Government Sector, which was discussed earlier in this Chapter. There will be a need for the relationship between the two reports to be made clear by governments so users of the information fully understand the differences between the reports. The proposal to integrate government-specific requirements and guidance into topic-based standards will help promote consistency in accounting treatment between the public and private sectors where comparable transactions and events occur.

Implementation of Australian Equivalents to International Financial Reporting Standards (AEIFRS) in Australian Government Entities

1.20 The introduction of international accounting standards in Australia is the result of a strategic direction by the FRC to the AASB in 2002. The objective of the introduction of AEIFRS is to increase the transparency and comparability of financial statements on a global basis through the full adoption of the International Financial Reporting Standards (IFRS). In the creation of the AEIFRS, the AUASB has adopted the IFRS and in addition to IFRS, the AASB has maintained aspects of current Australian standards, for not-for profit entities, where they improved the equivalent IFRS. This may mean that not-for-profit entities will be able to state compliance with AEIFRS but may not be able to state compliance with IFRS.

1.21 AEIFRS became law and were subsequently released in July 2004 by the AASB. AEIFRS apply to all reporting entities for reporting periods beginning on or after 1 January 2005. Consequently, the Australian Government sector, which has a balance date of 30 June 2006[6], must report both their 2004–05 and

6 For entities with a 31 December balance date, date references are 6 months earlier.

2005–06 financial information in accordance with AEIFRS. Therefore, an opening AEIFRS balance sheet must be prepared at the date of transition, 1 July 2004.

1.22 The Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* is the standard dealing with the transition to AEIFRS. The standard applies to first-time adopters. To be a first-time adopter, a reporting entity must adopt AEIFRS by an explicit and unreserved statement of compliance with AEIFRS in its first AEIFRS financial report. That is, an entity must not only comply with AEIFRS in all material respects, but also make a statement to that effect. Subject to specific exemptions permitted by AASB 1, AEIFRS must be applied retrospectively.

1.23 Financial information for 2004–05 is therefore reported under current Australian standards in the 2004–05 financial statements, and again as comparative information under AEIFRS in the 2005–06 statements. Further, financial statements for 2004–05 are required to explain how the transition to AEIFRS is being managed, the key differences in accounting policies arising from the transition, and any known or reliably estimable information about the impacts on the financial report had it been prepared using AEIFRS[7]. A similar reconciliation is required under AASB 1 in the 2005–06 statements.

1.24 The Department of Finance and Administration (Finance) has issued a series of Finance Briefs (17 to 26) dealing with the adoption of AEIFRS. The aim was to provide guidance on major areas of change resulting from the introduction of AEIFRS that may require early action by entities. The Finance Briefs asked all entities to prepare opening balance sheets as the starting point for reporting under AEIFRS.

1.25 A number of entities have already completed these requirements. Information on the implementation of AEIFRS to date can be found in Chapter Four of this report.

1.26 All Australian Government reporting entities will be affected by the introduction of AEIFRS, however, the extent of impact will vary depending on the nature of operations and the obligations entered into by each entity. The central issue for entities is the interpretation and implementation of the standards. The ANAO's experience is that there is a need for attention to the detail contained in the new standards. They require a careful technical analysis, which may not always be available in-house to entities. The ANAO

---

[7] The requirements are contained in Australian Accounting Standard AASB 1047 *Disclosing the Impact of Adopting Australian Equivalents to International Financial Reporting Standards*.

will continue to work through a series of implementation issues with entities and Finance to resolve matters of interpretation as early as practicable.

1.27 It remains too early to gauge the full impact of AEIFRS on Australian Government entities' financial statements, as complete information is not yet available. Nevertheless, it is generally accepted that, from a financial reporting perspective, the new AEIFRS will introduce more volatility into the results reported on an accrual basis, particularly by recognising more rights and obligations in financial statements and by requiring the measurement of the present value of long-term liabilities.

1.28 Of significance in terms of AEIFRS compliance is the Department of Defence, which has been the subject of a series of qualifications over several years. The critical issue going forward will be whether the Department will be able to make an unreserved statement of compliance with AEIFRS in its 2006 financial statements. Discussions are taking place with the AASB, Defence, Finance and the ANAO on these matters.

Developments in Australian Auditing and Assurance Standards

1.29 Audit Report No.56 2004–05[8] noted, inter alia, the establishment of the AUASB and outlined its role and the strategic direction for Australian Auditing and Assurance Standards (AUSs). During 2004–05 the AUASB has continued the:

- development and harmonisation of AUSs with the International Standards on Auditing (ISAs); and
- implementation of the Australian Government's decision to create legally enforceable Auditing and Assurance Standards for the purpose of the *Corporations Act 2001* with effect on or after 1 July 2006.

1.30 Ongoing changes in the auditing and assurance standards are expected to result in more rigorous and transparent processes in order to increase public confidence. That said, in performing assurance activities, including the audit of all financial statements, the ANAO is required to comply with the Auditor-General's Standards issued under section 24 of the *Auditor-General Act 1997*. These standards incorporate, by reference, the AUSs issued by the AUASB.

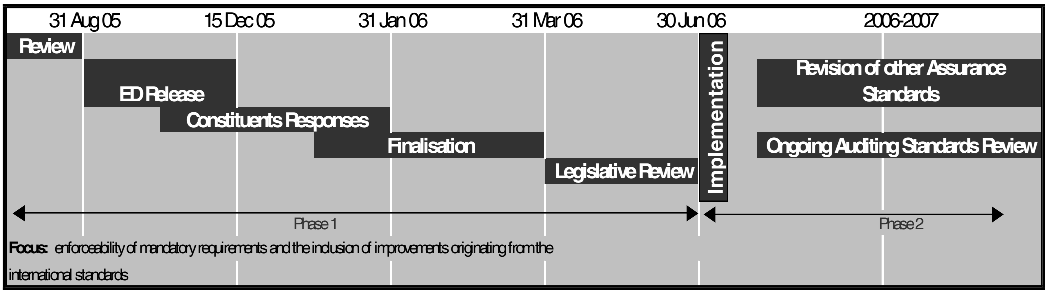
1.31 In line with the AUASB's public interest mandate, the AUASB is currently in phase one of a two-phase approach to the review and reissue of the AUSs as legal instruments by 31 March 2006, as outlined in the following figure.

---

[8] ANAO Audit Report No.56, 2004–05, *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*.

Figure 1.2

AUASB's two-phase approach to review and reissue AUSs



Source: Auditing and Assurance Standards Board, setting the standard – Information about Australia's proposed new legally enforceable Auditing Standards

1.32 In October 2005, the AUASB issued 22 exposure drafts for public comment. These drafts emphasise the proposed legal requirement, for the purpose of the *Corporations Act 2001*, for auditors to behave ethically. Auditors will not be permitted to depart from the mandatory requirements unless rare and exceptional circumstances outside their control prevent them from complying. The AUASB chairman has indicated, inter alia, that it is the AUASB's intention that, in the public interest, compliance with the new legally enforceable auditing standards will be required for audits. The exceptional circumstances in which there could be an inability to comply with mandatory requirements are envisaged to be rare.

1.33 Phase two will be an on-going project involving further review and revision of the Auditing and Assurance Standards and may incorporate future clarity enhancements resulting from the International Auditing and Assurance Standards Board's clarity project. The objective of the clarity project is to ensure that the ISAs are understandable and capable of being translated, thus facilitating international convergence.

Coverage of legislative compliance as part of financial statement audits

1.34 The FMA Act and the CAC Act both provide for the Auditor-General to examine the annual financial statements and to report whether the financial statements have been prepared in accordance with the Finance Minister's Orders, and give a true and fair view of the matters required by those Orders.

1.35 ANAO audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing and Assurance Standards. This requires the ANAO to obtain an understanding of the entity and its environment, including applicable legislation, sufficient to identify and assess the risks of material misstatement of the financial statements, and sufficient to design and perform audit procedures to inform the audit opinion required to be given pursuant to the abovementioned legislation. The primary audit focus has been on the appropriateness of the reporting and presentation of the financial statements. However, where legislative breaches have been identified that are material to the reporting and presentation of the financial statements, they have been brought to attention in the audit opinion.

1.36 The ANAO is also required to report, on an exception basis, if the Auditor-General is of the opinion that the Chief Executive has not kept the accounts and records required by section 48 of the FMA Act. A contravention of section 48 is included as additional statutory disclosure in the audit report and is not a qualification to the audit opinion on the financial statements. Additional statutory disclosures have been included in the audit reports of 18 entities for the 2004–05 financial year, relating to expenditure of receipts generated by entities that had not been properly authorised for spending due to either the ineffectiveness or absence of the necessary instrument (an agreement made under Section 31 of the FMA Act). Further, a breach of section 48 was reported as a result of the deficiencies in the accounts and records of the Department of Defence. Additional statutory disclosures included in the audit reports of entities for the 2004–05 financial year are detailed in Chapter Three of this report.

1.37 Recent performance audits have highlighted that legislative compliance by public sector entities with legislation that establishes the financial framework continues to be an issue. For example, Audit Report No.24 2003–04, *Agency Management of Special Accounts*, reported findings in relation to the crediting to and financial reporting of special accounts. Audit Report No.22 2004–05, *Investment in Public Funds*, referred to certain investment activities without appropriate legal authority and issues with financial reporting. In addition, Audit Report No.15 2004–05, *Financial Management of Special Appropriations*, reported findings in relation to expenditure of monies not approved by the Parliament, drawings in reliance on an incorrect appropriation and issues with the reporting and disclosure of Special Appropriations. Through its inquiries on these reports, the Joint Committee of Public Accounts and Audit has emphasised the importance it places on compliance with legislation that establishes the financial framework.

1.38 Accordingly, the ANAO has increased the focus on legislative compliance as part of our financial statement audit coverage. The ANAO has trialled, as part of selected financial statements audits for the year ended 30 June 2005, a supplementary audit work programme which assesses key aspects of legislative compliance in relation to annual appropriations, special appropriations, annotated appropriations and special accounts. These supplementary audit work programmes and an additional work programme on the investment of public monies, will be implemented for all audits in 2005–06.

1.39 Coverage of legislative compliance is necessarily limited by resources. It will involve confirming the presence of key documents or authorities, and sample testing of relevant transactions directed at obtaining assurance about entities' compliance with the financial management framework related to the abovementioned matters. It will not, however, provide a guarantee that all legislative breaches will be highlighted, but will give reasonable assurance as to the state of legislative compliance in these key areas.

1.40 These measures, and steps public sector entities are taking to enhance their own compliance processes, should lead to a greater emphasis on legislative compliance by public sector entities and, over time, improve performance in this important area of public sector financial management.

1.41 The ANAO will continue to undertake cyclical coverage of aspects of legislative compliance as an element of its performance audit program. The ANAO's performance audits allow more in-depth consideration of legislative compliance than the financial statements audits, which are necessarily more constrained in terms of their focus.

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

This chapter details the results of the recent 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 transparent and accountable government. The CFS and the associated financial analysis are designed to allow readers to assess the financial performance and 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 fairly 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 and 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 8 December 2005 and the audit report was issued on 12 December 2005.

2.5 The audit opinion indicates that the financial statements are true and fair except for qualifications relating to six material issues. Of these six qualifications, two concerned departures from accounting standards relating to understatements of taxation revenue and there were four limitations of scope on Defence financial information. In addition, the audit report included reference to an 'other statutory matters' paragraph. These matters are described in further detail below.

Qualifications

2.6 In forming the audit opinion the ANAO assessed, amongst other things, if the accounting policies adopted in the preparation of the CFS were consistent with the Australian Accounting Standards. In relation to the financial reporting of taxation revenue, there are two departures from the accounting standards that collectively understate 2004–05 taxation revenue by $36.6 billion, related expenses by $35.5 billion, and understate the Net Result (Surplus) by $1.1 billion.

2.7 The ANAO also assessed if the financial information consolidated within the CFS could be relied upon to represent faithfully the transactions and events that have occurred. In this context, four limitations of scope concerned with uncertainty surrounding a number of material account balances in Defence's financial statements were carried forward as qualifications to the audit opinion on the CFS.

2.8 The departures from the accounting standards and the scope limitations over Defence financial information together had a material impact on the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows and translate to significant uncertainty for amounts associated with the line items identified in the table below.

Table 2.1

Statement of Financial Performance [(1)]	**Departures from Accounting Standards (understatements)**
Revenues	
Taxation revenue	$36.6 billion
Total revenues from Ordinary Activities	**$36.6 billion**
Expenses	
Write down of assets expense	$0.4 billion
Other goods and services expenses	-
Personal benefits	-
Subsidies and grants	$35.1 billion
Total Expenses from Ordinary Activities	**$35.5 billion**
Impact on Net Result	**$1.1 billion**

[(1)] Due to the nature of scope limitations, the financial effect, if any, on the Statement of Financial Performance and therefore the Net Result is not able to be determined.

Table 2.2

Statement of Financial Position	Departures from Accounting Standards (understatements)	Limitations on the Scope of the Audit
Assets		
Receivables	$2.3 billion	-
Accrued revenue	$11.5 billion	-
Inventories	-	$1.6 billion
Infrastructure, plant and equipment	-	$2.8 billion
Total Assets	**$13.8 billion**	**$4.4 billion**
Liabilities		
Employee benefits	-	$0.9 billion
Other payables and accrued expenses	-	-
Provision for taxation refunds	$0.5 billion	-
Total Liabilities	**$0.5 billion**	**$0.9 billion**
Net Assets	**$13.3 billion**	**$3.5 billion**

2.9 The two departures from the accounting standards cause an understatement of 19 per cent of taxation revenue and an understatement of 22 per cent on the Net Result. In addition, the four limitations of scope associated with Defence financial information have, in particular, generated uncertainty over the reported Net Result, Net Liabilities and Statement of Cash Flows.

Goods and Services Tax and Related Grants Expense

2.10 As in the previous year, the CFS for 2004–05 have been prepared without recognising the GST as a revenue of the Australian Government. Amongst other things, this resulted in a $35.8 billion (19 per cent) understatement of taxation revenue in 2004–05.

2.11 The Australian Government's reason for not recognising GST and the associated grant payments to the States and Territories 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*.

2.12 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 and Territories is a separate transaction conducted to meet its particular objectives.

2.13 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 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 taxation revenue arising in, and the taxation revenue returned to, a particular State or Territory.

2.14 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 in accordance with Australian Accounting Standards, are as follows:

- in the Consolidated Statement of Financial Performance for the 2004–05 year, an understatement of Revenues by $35.8 billion (2003–04: $34.7 billion), Expenses by $35.5 billion (2003–04: $33.5 billion) and hence the Net Result (Surplus) by $0.3 billion (2003–04: $1.2 billion);
- in the Consolidated Statement of Financial Position as at 30 June 2005, an understatement of Assets by $7.3 billion (2003–04: $6.8 billion) and Liabilities by $0.4 billion (2003–04: $0.2 billion), and hence an overstatement of Net Liabilities by $6.9 billion (2003–04: $6.6 billion); and
- in the Consolidated Statement of Cash Flows, for the 2004–05 year, Total Operating Cash Inflows and Outflows are each understated by $29.1 billion (2003–04: $27.7 billion) (a difference which takes account of GST-related cash flows within the Australian Government).

2.15 This treatment of GST in the CFS is also contrary to the treatment adopted in the financial statements of the administering agencies. The ATO has 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.

2.16 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 and the associated grants expense caused by the omission of GST from the CFS.

Taxation Revenue

2.17 Since 1998–99, taxation revenue has been recognised in the CFS on a tax liability method (TLM) basis due to concerns about the reliability of measurement of the conceptually more accurate economic transaction method (ETM). The TLM recognises taxation revenue the earlier of when an assessment of a tax liability is made or payment is received by the Australian Taxation Office or the Australian Customs Service; on the other hand, the ETM recognises taxation revenue when the Government, through the application of legislation to taxable and other relevant activities, gains control of the future economic benefits that flow from taxes and other statutory charges.

2.18 The audit opinion on the CFS has been qualified since 1998–99 on the basis that the taxation revenue recognised in the financial statements has not been measured on an ETM basis. Given the long standing nature of this qualification, the ANAO in consultation with the Department of Finance and Administration, decided to review the methods of recognising taxation revenue by considering the reliability of measurement of the various types of taxation revenue. By adopting this approach, the review would highlight those types of taxation revenues that could be reliably measured on an ETM basis and hence accounted for and reported in this way, and those that showed volatility could be accounted for and reported on a TLM basis.[9]

2.19 From the ANAO's perspective, the review demonstrated that gross other individuals income tax, individuals refunds, company tax and superannuation fund tax (including superannuation and surcharge tax) could be recognised according to the TLM method in view of the volatility in relation to their measurement. There is not a common view, however, on the reliability of the measurement of gross individual income tax withholding, petroleum resource rent tax, and excise duty, and the accounting and reporting of these taxation revenues in the CFS, resulting in a qualification of the audit opinion in relation to this issue. In the ANAO's view, on the basis of the information presented, these latter tax revenues are able to be measured reliably on an ETM basis, and should be accounted for and reported in this way rather than the TLM basis used in the CFS. The measurement volatility of the associated ETM

---

[9] The TLM basis is permitted under Australian Accounting Standards where there is an 'inability to reliably measure tax revenues when the underlying transactions or events occur' (Australian Accounting Standard AAS31 *Financial Reporting by Governments*, paragraph 15.2.1)

estimates have been consistently low, and within acceptable tolerances for reporting purposes in accordance with the Australian Accounting Standards. The net financial effect of this departure from the accounting standards is that the surplus for 2004–05 is understated by $0.8 billion (2003–04: $0.7 billion) and there is an understatement of assets of $6.5 billion (2003–04: $5.8 billion).

2.20 The Government did not support any changes in approach in 2004–05 due to the misalignment this would have caused between the budget, the FBO and the CFS. Nevertheless, with the aim of seeking resolution of this matter, the Government has asked there be another review, with the ANAO, in the lead up to preparing the 2006–07 Budget, allowing any changes to be incorporated into the 2006–07 Budget year and the forward years. This would also flow onto future budget outcomes and the CFS. The ANAO has agreed to participate in this further review.

Department of Defence Qualifications

2.21 The Secretary and the Chief Finance Officer of Defence were not able to meet the financial reporting requirements of the Finance Minister's Orders in 2004–05. This was also the case in 2003–04. Notwithstanding there is more certainty over some Defence balances in 2004–05, such as Land and Buildings, there is still pervasive uncertainty in relation to the Defence financial statements taken as a whole. In turn, this uncertainty affects the accuracy of the reported Net Result and Net Assets of the Australian Government and a range of other balances in the CFS. Unlike the Defence position, however, the ANAO takes the view the uncertainty is not pervasive to the CFS in 2004–05.

2.22 The impact of Defence on the CFS is reported under one broad heading –*Uncertainty in Defence Financial Information*. There are four 'except for' qualifications under this broad heading detailing reporting issues relating to Inventories; Repairable Items (as a component of Specialist Military Equipment); Infrastructure, Plant and Equipment and Intangibles; and Employee Leave Provision, as was the case last year. These Defence related qualifications are explained in further detail in the Defence portfolio section of Chapter Five of this report.

Other Statutory Matters

2.23 The ANAO reported 18 breaches of the Constitution in the financial statements of Australian Government agencies, six of which relate to 2004–05 and the remainder to prior financial periods. These legal breaches largely concern reliance on ineffective section 31 Agreements for the authority to retain and spend revenue from independent sources. Given the extent of these matters, they were included in an 'Other Statutory Matters' heading in the CFS audit report.

Accounting and Audit Issue

Executive Remuneration

2.24 The CFS do not include disclosure of the remuneration of Ministers or Executive Officers of Australian Government entities. The ANAO takes the view that, whilst the accounting standards do not currently mandate the inclusion of this information, its inclusion within the CFS would generally be seen as a positive contribution to enhanced accountability and consistent with practice in the corporate sector. The ANAO has suggested there would be benefit in exploring whether some level of disclosure is feasible in 2005–06 that could be expanded over time.

3. Summary Results of the Audits of Financial Statements

This chapter provides a summary of the qualifications, audit reports with an emphasis of matter, and audit reports with 'other statutory matters' issued by the ANAO during the 2004–05 financial year.

Summary of Audit Reports Issued

3.1 The Auditor-General is required by law to provide to the relevant Minister an audit report on the financial statements of each Australian Government reporting entity. The audit opinion included in the audit report may be qualified. Audit reports may also emphasise a matter without qualifying the audit opinion. The various types of opinion and emphasis of matter, which may appear in an audit report, are explained below. In addition, audit reports may also contain 'other statutory matters'. A summary of the qualifications, emphases of matter and other statutory matters included in audit reports issued by the ANAO for the past two years is provided below.

Table 3.1

Summary of audit conclusions in audit reports issued

Financial Statement Audit Reports	2004–05	2003–04
Qualified (includes CFS audit report) *^~	4	12
Emphasis of matter	3	7
Other statutory matters	18	4
Unqualified audit reports	213	217
Total Issued	**238**	**240**
Signed financial statements not presented for audit at the time of report	14	5
Total reports	**252**	**245**

* In 2003–04 the audit reports of the Department of Defence and Department of Veterans' Affairs also contained 'other statutory matters'.
^ In 2003–04 the audit report of the Aboriginal and Torres Strait Islander Commission also contained an Emphasis of Matter.
~ In 2004–05 the audit report of the Department of Defence also contained reference to an 'other statutory matter'

Unqualified Audit Reports

3.2 An unqualified audit report is provided when the financial statements, 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 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.
- 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.

Emphasis of matter

3.5 In certain limited circumstances, it will be appropriate for an 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 may be appropriate include:

- 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.

Audit Reports 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. The Auditor-General may also refer to contraventions of other statutory requirements that he considers significant.

3.7 Section 48 of the FMA Act, together with Order 2.3 of the FMOs, require that the accounts and records of each entity properly record and explain the entity's transactions and financial position. Without limiting the generality of this obligation, entity Chief Executives are required to ensure that moneys are only expended for the purposes for which they are appropriated and that the limit on any appropriation is not exceeded.[10] Section 48 of the FMA Act and the FMOs complement 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

---

[10] ANAO Audit Report No.22, 2004–05, *Investment of Public Funds*.

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 The 'other statutory matters' section of the audit report allows the Auditor-General to draw to the attention of Parliament significant departures from the financial management framework that affect an entity's financial report.

Entity Audit Reports containing a Qualification

Centrum Insurance Brokers Pty Ltd and Northern Insurance Brokers Pty Ltd

3.10 Centrum Insurance Brokers Pty Ltd (Centrum), as a result of a Share Grant Agreement, became a subsidiary of Indigenous Business Australia (IBA) in 2003–04. At 30 June 2005, Centrum also owned 51 per cent of Northern Insurance Brokers. As the previous auditor did not make working papers available, both audit opinions were qualified in 2003–04 with respect of opening balances. The 2004–05 audit opinions were also qualified with respect to the comparative 2003–04 financial information.

Department of Defence

3.11 The internal controls of the Department of Defence (Defence), designed to provide reasonable assurance regarding the reliability of financial reporting, contains significant deficiencies due to weaknesses pertaining to financial management and systems, inadequacies surrounding accounting records, inventory, asset and employee entitlement recording. The deficiencies have resulted in significant uncertainties, which have been expressed as audit scope limitations, in relation to several material balances, including Inventories, Repairable Items (a component of Specialist Military Equipment), Infrastructure, Plant and Equipment, Intangibles, and Employee Leave Provisions.

3.12 In quantitative terms, the effects of the audit scope limitations are material to the Statement of Financial Position and Statement of Financial Performance. In qualitative terms, the primary causes of the uncertainties originate from significant weaknesses within the internal controls and systems and the lack of evidentiary support for the transactions and balances of Defence. Further, the uncertainties in relation to the 2003–04 Statement of Financial Position, which resulted in a disclaimer of opinion, also had a significant impact on the ANAO's ability to assess the 2004–05 Statement of Financial Performance. Finally due to the ANAO's disclaimer of opinion in relation to the 2003–04 financial statements, the ANAO was unable to form an opinion on the comparative information in the 2004–05 financial statements.

3.13 Given these effects on the Statement of Financial Position, Statement of Financial Performance (including the potential effect on the reported Net Deficit), Statement of Cash Flows, and the notes to the financial statements, there was, in the ANAO's view, a pervasive impact on the financial statements taken as a whole. This has resulted in the ANAO being unable to express an opinion on whether the 2004–05 financial statements of Defence were prepared in accordance with the Finance Minister's Orders made under the FMA Act, and give a true and fair view, in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia. Further information in relation to these uncertainties is contained below.

Inventories

3.14 Inventories, as reported in the Statement of Financial Position, include General Stores Inventory and Explosive Ordnance Inventory. Due to inadequacies in Defence's General Stores Inventory management practices, the ANAO was unable to validate the General Stores Inventory component of $1.29 billion (2003–04: $2.03 billion) of the reported Inventory balance totalling $3.39 billion (2003–04: $4.47 billion). This is as a result of material weaknesses in the internal controls over the accurate recording and stocktaking of the inventory quantities, and a lack of documentation and systems controls to confirm and safeguard the accuracy of pricing data. Further, there are inventories, referred to as `not-in-catalogue', which are not reported and thus affect the completeness of the inventory records. This qualification in relation to uncertainties over quantities and prices, also affects the General Stores Inventory obsolescence provision of $1.19 billion (2003–04: $526 million).

3.15 In addition, due to inadequacies in Defence's Explosive Ordnance Inventory management practices, the ANAO was unable to validate a further $309 million (2003–04: $845 million) of the reported balance. This is as a result of a lack of appropriate documentation to support the prices used to value that portion of the recorded balance. This qualification in relation to uncertainties over prices also affects $366 million (2003–04: nil) of the Explosive Ordnance Inventory obsolescence provision of $465 million (2003–04: $80 million).

Repairable Items – as a component of Specialist Military Equipment

3.16 Due to inadequacies in Defence's Repairable Items asset management practices, the ANAO was unable to validate the $2.72 billion reported written-down value of Repairable Items (2003–04: $2.86 billion), which is reported within Specialist Military Equipment. This is as a result of material weaknesses in the internal controls over the accurate recording, reporting and stocktaking of the asset quantities, and adequate system controls to safeguard the accuracy of data.

3.17 Additional uncertainty exists in relation to the completeness of the recorded asset balance for Repairable Items due to the cumulative effect of the methods used for setting asset recognition thresholds over a number of years. The methods adopted have resulted in some asset purchases being treated as an expense in the Statement of Financial Performance. Further, there are Repairable Items, referred to as 'not-in-catalogue', which are not reported and thus affect the completeness of the Repairable Items record.

Infrastructure, Plant and Equipment and Intangibles

3.18 Infrastructure, Plant and Equipment, and Intangibles, are reported in the Statement of Financial Position at $5.42 billion and $415 million respectively. Within the Infrastructure, Plant and Equipment balance, uncertainty exists in relation to the measurement of certain assets with a reported book value of $103 million. Additional uncertainty exists in relation to the completeness of the recorded asset balance of Infrastructure, Plant and Equipment, and Intangibles, due to the cumulative effect of the methods used for setting asset recognition thresholds over a number of years, and inadequate asset recording processes. The methods adopted have resulted in some asset purchases being treated as an expense in the Statement of Financial Performance.

Employee Leave Provisions

3.19 Due to inadequacies in Defence's Australian Public Service and Australian Defence Force employee personnel systems and practices, primarily relating to the capture and recording of data within those systems relating to employee leave records, and the appropriate maintenance of documentation, the ANAO was unable to validate $453 million (2003–04: $1.23 billion) of the reported balance of $1.14 billion of the Australian Defence Force employee leave provision. Additionally, the ANAO was unable to validate the $443 million reported balance of the Australian Public Service employee leave provision.

3.20 As a consequence of this limitation, the ANAO was unable to validate the amounts reported within the Executive Remuneration Note.

Entity Audit Reports containing an Emphasis of Matter

Adelaide Symphony Orchestra Pty Ltd

3.21 The financial report of the Adelaide Symphony Orchestra Pty Ltd for the year ended 31 December 2004 disclosed a significant uncertainty surrounding its ability to continue as a going concern in the event that the company was not able to:

- meet criteria specified in the Tripartite funding agreement with State and Federal Governments;
- obtain the income as budgeted from ticket sales, corporate sponsorship and orchestra hire; or
- control costs as budgeted; and
- receive a favourable funding outcome through the Federal Government Review.

3.22 The ANAO concluded within its audit report that there was significant uncertainty whether the company would be able to continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. No adjustments were made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

The Queensland Orchestra Pty Ltd

3.23 The financial report of The Queensland Orchestra Pty Ltd for the year ended 31 December 2004 disclosed a significant uncertainty surrounding its ability to continue as a going concern in the event that the company was not able to:

- meet criteria specified in the Tripartite funding agreement with State and Federal Governments;
- meet the income forecasts for ticket sales, sponsorship and hire of the orchestra to third parties; or
- control costs as budgeted.

3.24 The ANAO concluded within its audit report that there was significant uncertainty whether the company would 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. No adjustments were made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

Symphony Australia Holdings Pty Ltd

3.25 The financial report of Symphony Australia Holdings Pty Ltd for the year ended 31 December 2004 disclosed a significant uncertainty as to whether the company would continue in operation as a going concern. The uncertainty related to the continuation of operations beyond the expiration of current contracts for the supply of services to its customers after 31 December 2005, and therefore whether it would be able to realise its assets and liabilities in the normal course of business at the amounts stated in the financial report.

3.26 The ANAO concluded within its audit report that there was significant uncertainty whether the company would be able to continue as a going concern beyond the expiration of current contracts for the supply of services to its customers after 31 December 2005, and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. No adjustments were made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

Entity Audit Reports containing Additional Statutory Disclosure

Bureau of Meteorology

3.27 Section 32 of the FMA Act applies if a function of a FMA entity[11] becomes a function of another FMA entity. The FMA Act enables the Finance Minister to, among other things, issue one or more directions to transfer some or all of an amount that has been appropriated for the performance of that function. In order for the appropriation to be lawfully transferred by operation of section 32 of the FMA Act, a determination must be made between the Finance Minister and the entity's Minister (or their delegates).

3.28 On 11 September 2002, the Department of the Environment and Heritage (DoEH) relinquished the responsibility for undertaking

[11] FMA entities are reporting entities governed by the Financial Management and Accountability Act 1997 such as Departments of State, Departments of the Parliament and agencies prescribed by the FMA Regulations.

meteorological and related monitoring and research, and the provision of weather and climate services for the Australian community to the Bureau of Meteorology (BOM).

3.29 Cash of $25.46 million was transferred from DoEH to BOM, without a direction made under section 32 of the FMA Act, needed to enable BOM to legally spend that money. As a result, the subsequent spending of the $25.46 million by BOM was made without the authority of the Parliament in contravention of section 83 of the *Constitution*. A breach of section 48 of the FMA Act also occurred by virtue of not having an effective section 32 determination in place.

Department of Defence

3.30 As a consequence of the existence and pervasiveness of the limitations of scope detailed within the qualified audit opinion issued on the financial statements of Defence, a breach of section 48 of the FMA Act was reported as Defence's accounts and records did not properly explain its transactions and financial position.

Various Agencies–Net Appropriation Agreements

3.31 Recent audit coverage by the ANAO has highlighted that compliance by public sector entities with legislation that establishes the financial framework continues to be an issue. For example, performance audits on the management of special accounts, special appropriations and the investment of public funds disclosed a range of departures from the applicable legislative requirements. These performance audits have provided more in-depth consideration of legislative compliance than the annual financial statement audits, which are necessarily constrained in terms of their focus and timing.

3.32 A cross agency performance audit on *the Management of Net Appropriation (Section 31) Agreements* commenced in 2004–05 and is due to be tabled in Parliament in the new year. The audit focus is on entity's financial management of, and accountability for, the use of net appropriation agreements to increase available appropriations. The audit findings to date have drawn attention to a range of departures from the requirements of the legislative framework of which have impacted the financial reports of a number of entities.

3.33 Section 31 of the FMA Act provides a mechanism by which an entity may obtain an appropriation authorising it to retain and spend amounts received from independent sources. Under section 31, the Finance Minister may enter into net appropriation agreements, commonly referred to as 'section 31 Agreements' which enables an entity to increase the available balance of specific annual appropriations by the amount of certain eligible receipts. These agreements can only operate in respect of items marked in annual Appropriation Acts as 'net appropriation.'

3.34 In order for the annual appropriation item to be lawfully increased by operation of section 31 of the FMA Act, an agreement made between the Finance Minister and the Minister responsible for the relevant appropriation item must be in place. It has been a common practice for officials within the Department of Finance and Administration (Finance) and the relevant entity to sign Section 31 agreements, rather than the relevant Ministers. Officials within Finance should only sign agreements where delegated in writing by the Finance Minister. Officials in the relevant entity below the level of Chief Executive should only sign agreements where they have been expressly authorised (or, where available, delegated) by the responsible Minister.

3.35 As part of the performance audit, ANAO sought to assess whether increases in entities annual appropriations made under authority of Section 31 of the FMA Act were supported by effectively executed agreements. Several issues arose from this review that resulted in financial statement implications, including entities being assessed as having either ineffective or no agreements.

Ineffective Agreements

3.36 As mentioned above, in order for the annual appropriation item to be lawfully increased by operation of section 31 of the FMA Act, the agreement must be made between the Finance Minister and the entity's Minister (or their delegates). As part of the 2004–05 financial statement audit process, some section 31 agreements signed by officials were assessed as being ineffective due to either the Finance or entity official that signed the agreements not having an express authorisation or where relevant, delegation from their respective Minister.

3.37 One or more agreements in 23 entities were assessed as ineffective. Where amounts retained under the authority of an ineffective agreement had been spent, a contravention of section 83 of the *Constitution* occurred as the monies were drawn from the Consolidated Revenue Fund and spent without a valid appropriation under an Appropriation Act. In addition, section 48 of the FMA Act was also contravened, as a result of the contravention(s) of section 83 of the *Constitution,* except in certain circumstances, e.g. the section 31 Agreement was assessed as ineffective due to Finance's official not having a delegation from the Finance Minister. In accordance with the *Auditor-General Act 1997* and Australian Auditing and Assurance Standards, these contraventions were reported within the audit reports as 'Other Statutory Matters.'

3.38 The audit reports of the following entities contain Other Statutory Matters in relation to ineffective Agreements[12]:

Entity	Period of 'Ineffective Agreement'
Australian Bureau of Statistics[13]	1 July 1997 to 30 June 1998 1 July 1999 to 6 March 2005
Australian Competition and Consumer Commission	1 July 1998 to 14 March 2005
Australian Electoral Commission	1 January 1998 to 31 January 2005
Australian Federal Police	1 July 1998 to 6 December 2004
Australian Security Intelligence Organisation	1 July 1999 to 30 June 2004
Australian Security Intelligence Service	1 July 1999 to 30 June 2004
Department of Family and Community Services*	1 July 1998 to 30 September 2004
Department of Finance and Administration	1 July 1999 to 27 April 2005
Department of Health and Ageing	1 July 1998 to 28 June 2005
Department of Transport and Regional Services*	1 July 1998 to 2 March 2005
Human Rights and Equal Opportunity Commission*	1 July 1999 to 1 December 2004
Office of Film and Literature Classification	1 July 1998 to 28 June 2005
Office of National Assessments	1 July 1998 to 30 June 1999
Office of the Inspector-General of Intelligence and Security*	1 July 1999 to 20 February 2005

* These entities did not contravene section 48 of the FMA Act

---

12 Entities that had an agreement or agreements assessed as ineffective that did not spend any of the receipts are not identified in this table as their contravention of Section 31 of the FMA Act was not reported as an 'Other Statutory Matters'.

13 At the time the Australian Bureau of Statistics signed the certification of their 2004-05 financial statements, and the ANAO signed the associated audit report on those statements, the ANAO was of the view that, on balance, the Australian Bureau of Statistics' 1998-99 section 31 Agreement was ineffective. Since that date, further legal advice has been obtained on which the ANAO is basing all assessments of section 31 agreements. Under this assessment basis, which has been agreed between the ANAO, the Department of Finance and Administration and the Australian Government Solicitor, the ABS is now considered to fall within the "no agreement" category for the period 1 July 1998 to 30 June 1999.

No Agreements

3.39 Instances were noted where entities had operated and recorded receipts as though a section 31 Agreement was in place, but in fact no agreement, either effective or ineffective, was in place. In these situations, receipts collected in the effected periods were not captured by a section 31 Agreement. In circumstances whereby the collected receipts were spent without the authority of Parliament, a contravention of section 83 of the *Constitution* occurred. In addition, section 48 of the FMA Act was also contravened, as a result of the contravention(s) of section 83 of the *Constitution*. These contraventions were reported to the respective Minister within the audit report issued.

3.40 The audit reports of the following entities contained additional statutory disclosure regarding contraventions of section 83 of the *Constitution* and section 48 of the FMA Act resulting from not having a section 31 Agreement[14]:

Entity	Period of 'No Agreement'
Australian Bureau of Statistics[15]	1 July 1998 to 30 June 1999
Australian Transaction Reports and Analysis Centre	1 July 1999 to 1 December 2004
Bureau of Meteorology	12 September 2002 to 7 June 2004
Centrelink	1 July 1998 to 20 April 1999
Department of Foreign Affairs and Trade	1 July 1997 to 17 May 1998

[14] Entities that did not have an agreement for a period but that did not spend any of the receipts are not identified in this table as their contravention of Section 31 of the FMA Act was not reported as an 'Other Statutory Matters'.

[15] ibid.

4. Issues Arising from the Audits of Financial Statements

This chapter provides an overview of some of the issues and challenges involved in the timely preparation and audit of the financial statements of Australian Government entities.

Introduction

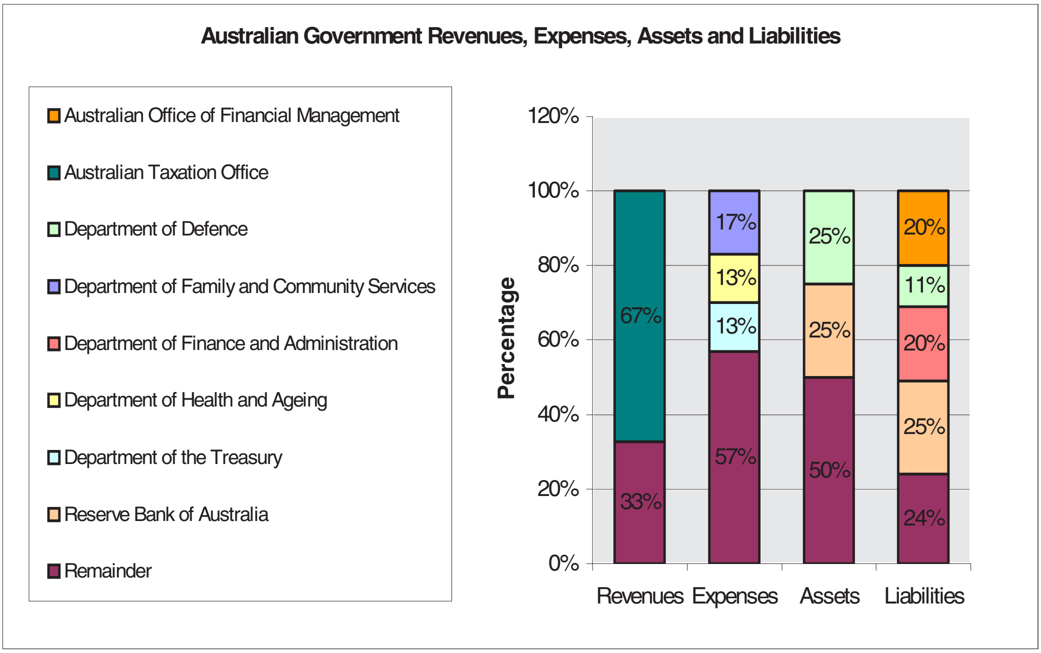
4.1 The Australian Government comprises three sectors, namely the general government sector, public non-financial corporations and public financial corporations. The general government sector consists of entities that provide public services that are mainly non-market in nature (e.g. Departments of State). The public non-financial corporation sector consists of entities that provide goods and services that are mainly market, non-regulatory and non-financial in nature (e.g. Telstra Corporation Limited) and the public financial corporation sector consists of entities that perform central banking functions (e.g. Reserve Bank of Australia). In total, there are 201 entities that are consolidated into the Australian Government's Consolidated Financial Statements.

4.2 Of those, 66 entities are classified as material entities by the Department of Finance and Administration for reporting in the Consolidated Financial Statements, as they comprise the majority of the key financial statement balances of revenues, expenses, assets and liabilities of the Australian Government, with the remainder being non-material reporting entities. These 66 entities are selected so that at least 99 per cent of key financial statement balances are consolidated and subject to rigorous quality assurance processes.

4.3 A significant proportion of the material entity balances are sourced from eight entities. These entities are the Australian Office of Financial Management, Australian Taxation Office, Department of Defence, Department of Family and Community Services, Department of Finance and Administration, Department of Health and Ageing, Department of the Treasury, and the Reserve Bank of Australia.

4.4 The relationship between these entities and the Australian Government's revenues, expenses, assets and liabilities (prior to elimination of inter-entity transactions) can be seen in Figure 4.1.

Figure 4.1



4.5 The financial statement audit focuses on the major financial reporting risks facing entities and the manner in which the entities seek to manage those risks. The risks may vary according to the size and nature of the organisation, and include the nature of its operating environment, complexity of information technology systems and geographical spread of operations.

4.6 In the financial statement preparation process, an entity's management represents that the financial statements give a true and fair view (or is presented fairly, in all material[16] respects) in accordance with the applicable financial reporting framework. In doing so, management implicitly or explicitly makes assertions regarding the recognition, measurement,

---

16 Materiality is defined in Accounting Standard AASB 1031 *Materiality* as information which if omitted, misstated or not disclosed has the potential to adversely affect the decision about the allocation of scarce resources made by users of the financial report or the discharge of accountability by management of governing body of the entity.

presentation and disclosure of the various elements of a financial report and related disclosures[17].

4.7 When auditing the financial statements, the ANAO test these assertions for classes of transactions, account balances, and presentation and disclosures to assess the risk of material misstatement and to assist in the design and performance of further audit procedures. These assertions are established in Australian Auditing Standard AUS 502 *Audit Evidence*, and are as follows:

In relation to account balances at period end:

Assertion	Description
Existence	Assets, liabilities, and equity interests exist.
Valuation and allocation	Assets, liabilities, and equity interests are included in the financial report at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
Completeness	All assets, liabilities and equity interests that should have been recorded have been recorded.
Rights and obligations	The entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

In relation to classes of transactions and events for the period under audit:

Assertion	Description
Occurrence	Transactions and events that have been recorded have occurred and pertain to the entity.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other data relating to recorded transactions and events have been recorded appropriately.
Cut-off	Transactions and events have been recorded in the correct accounting period.
Classification	Transactions and events have been recorded in the proper accounts.

---

17 Australian Auditing Standard AUS 502 *Audit Evidence, para 15.*

In relation to presentation and disclosure:

Assertion	Description
Occurrence and rights and obligations	Disclosed events, transactions, and other matters have occurred and pertain to the entity.
Completeness	All disclosures that should have been included in the financial report have been included.
Classification and understandibility	Financial information is appropriately presented and described, and disclosures are clearly expressed.
Accuracy and valuation	Financial and other information are disclosed fairly and at appropriate amounts.

4.8 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 expected to be processed by the entity to correct the errors. In addition, most entities process adjustments to correct non-material errors. Only in rare circumstances are material audit initiated adjustments not accepted by entities.

4.9 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 $17.47 million and $966.23 million respectively;
- net increase to departmental revenue of $2.09 million;
- net decrease to administered revenue of $3.72 billion;
- net increases to departmental and administered assets of $370.87 million and $1.56 billion; and
- net increases to departmental and administered liabilities of $4.71 million and $1.44 billion respectively.

4.10 A comparison of audit-initiated adjustments for 2002–03, 2003–04 and 2004–05 is provided below:

Table 4.1

Summary of audit initiated adjustments

Financial Statement Category	Departmental			Administered		
	2005	2004	2003	2005	2004	2003
	$m	$m	$m	$b	$b	$b
Revenues	2.09	81.66	-144.60	-3.72	-2.96	2.66
Expenses	17.47	187.90	480.43	0.96	0.47	0.25
Assets	370.87	-69.23	-76.60	1.56	-2.89	2.80
Liabilities	4.71	43.19	373.76	1.44	0.37	0.37

4.11 The table above demonstrates the volatility within adjustments between the years. At the end of the audit process, the ANAO was satisfied that, there were no material unadjusted audit balances for financial statements with an unqualified audit report.

4.12 Insofar as Australian Government entities are concerned, there were two key challenges within the changing financial reporting environment, including:

- financial statement preparation including tight reporting deadlines; and
- introduction of Australian Equivalents to International Financial Reporting Standards (AEIFRS).

4.13 These are discussed further below.

Financial Statement Preparation

4.14 The Australian Government produces two major reports on financial results each year, namely the Statement of Final Budget Outcome (FBO) and the Consolidated Financial Statements (CFS).

4.15 The FBO, which is required by the *Charter of Budget Honesty Act 1998*, has as its primary focus reporting of the Budget outcome in terms of the Australian Government general government sector. The requirement under law is to publish the FBO within three months of the end of the financial year, but the Government has established a target of producing the report within 45 days of the end of the financial year.

4.16 The CFS, which are required under the *Financial Management and Accountability Act 1997*, are presented as a full consolidation of all controlled entities within the general government sector as well as public (financial and non-financial) corporation sectors. The CFS are required to be passed to the Auditor-General, as soon as practicable after they are prepared, for examination and the preparation of an audit report.

4.17 All Australian Government entities provide audit-cleared[18] financial information to the Department of Finance and Administration (Finance) to allow the preparation of the FBO and the CFS. Because the FBO is produced ahead of the CFS, Finance has established a timetable for entities to provide information to allow for its timely preparation.

4.18 The Budget Estimates and Framework Review (BEFR), endorsed by Government in September 2002, initially planned for the compression of audit clearance date requirements for material entities from 15 August in 2002–03 to 20 July in 2004–05. For the financial year ending 30 June 2005, the delivery target for clearance of material entity financial statements was revised to 30 July. This position was strongly supported by the ANAO in light of the move to adoption of AEIFRS, the administrative changes related to new Administrative Arrangement Orders, other Government policy initiatives and other resource pressure on entities at this time. However, it should be acknowledged that a number of entities that had previously planned to obtain clearance by 20 July, did meet this deadline. These entities were:

- Australian Nuclear Science and Technology Organisation;
- Australian Securities and Investments Commission;
- Australian Trade Commission;
- Bureau of Meteorology;
- Department of Employment and Workplace Relations;
- Department of Foreign Affairs and Trade;
- Department of Health and Ageing;
- National Gallery of Australia;
- National Museum of Australia; and
- National Water Commission.

---

18 Audit cleared means that although the ANAO has not issued an audit report, the audit of material balances has not disclosed any issues that would prevent the Department of Finance and Administration from consolidating financial information for the purpose of preparing the Statement of Final Budget Outcome and the Consolidated Financial Statements.

4.19 The ANAO review identified that, for the 2004–05 financial year, 76 per cent of material general government sector entities (73 per cent of non material entities) were able to provide audit clearance to Finance, in accordance with the requirements established under the BEFR. This represents a deterioration from that achieved last year. In 2003–04, 88 per cent of material general government sector entities were able to provide clearance by 30 July. Analysis of the general government sector also identified that only 74 per cent of entities provided complete financial statements of an acceptable quality that did not require significant change to the ANAO prior to 30 July 2005 (2003–04: 80 per cent).

4.20 An effective process for the preparation of financial statements is critical to the ability of entities to meet accountability and legislative obligations as well as to meeting reporting deadlines. The tight reporting deadlines require the preparation of financial statements to be managed in an efficient and effective manner, and as such, further improvements in the financial statement preparation process of Australian Government entities are needed. A key driver in an effective financial statement preparation process is project management. Key aspects of better practice in financial statement preparation that entities need to focus on to increase the likelihood of meeting the deadlines established by the Government, include the following:

- understanding the key components of the financial statements including reporting requirements, information required, data sources and how information will be collected;
- maximising the alignment of monthly financial reporting processes and the year-end financial preparation process;
- having clear accountability for, and ownership of, the financial information, re-enforced by senior management sponsorship and review; and
- establishing appropriate on-going review over the financial statement information that not only assists in maintaining appropriate quality but ensures opportunities for improvement are identified and actioned.

4.21 To assist entities in improving their performance in this area, the ANAO plans to issue a comprehensive better practice guide on the preparation of financial statements in April 2006. It will provide a mechanism for the better practices employed in some organisations to be distributed to all Australian Government entities.

Implementation of Australian Equivalents to International Financial Reporting Standards (AEIFRS)

4.22 A major development in the financial reporting framework, as outlined in Chapter One of this report, is the implementation of international accounting standards to increase the transparency and comparability of financial statements on a global basis. The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply to reporting periods beginning on or after 1 January 2005 based on International Financial Reporting Standards issued by the International Accounting Standards Board. For most Australian Government entities, 2005–06 will be the first year of reporting under these new standards.

4.23 Accounting Standard AASB 1047 *Disclosing the Impact of Adopting Australian Equivalent to International Financial Reporting Standards* required that the financial statements for 2004–05 explain how the transition to AEIFRS was being managed, the key differences in accounting policies arising from the transition and any known or reliable estimated information about the impacts on the financial report under AEIFRS. In addition, to provide assurance to the government that the implementation of AEIFRS was progressing and that any potential issues requiring resolution were identified, the Department of Finance and Administration, under *FinanceBrief 24,* required entities to produce AEIFRS compliant data in accordance with established timeframes. Specifically, entities were/are required to produce:

- an opening departmental Balance Sheet and administered assets and liabilities as at the date of transition to AEIFRS (commonly referred to as an 'opening balance sheet' and will be prepared at 1 July 2004 for 30 June reporting entities);
- a departmental Income Statement and administered revenues and expenses for the transitional year;
- a departmental Balance Sheet and administered assets and liabilities at the end of the transitional year;
- a departmental Statement of Changes in Equity and Administered Reconciliation Table for the transitional year;
- the accounting policies used to prepare these documents; and
- a copy of the statement of the independent review of the financial statements and notes required above.

4.24 The AEIFRS compliant 2004–05 financial information will become the comparative data for the 30 June 2006 financial year. The ANAO is continuing to conduct separate audit engagements encompassing the audit of opening balances at 1 July 2004 and the AEIFRS compliant accounting policies, as prepared by management using its best knowledge of the expected standards and interpretations, and accounting policies that will be applied when the respective entities prepare their first full financial statements prepared using AEIFRS as at 1 July 2005.

Key Challenges

4.25 The first stage of the process to adopt AEIFRS was for entities to produce and have audited the restated Balance Sheet, Schedule of Administered Assets and Liabilities and Accounting Policy Notes at 1 July 2004. This review was conducted prior to 30 June 2005 for material Australian Government entities. Key challenges encountered during this phase included:

- the allocation of resources to manage the transition to AEIFRS;
- the identification by entities of key changes; and
- management's oversight and involvement in this process.

4.26 Resourcing was of particular issue with regard to non-material entities. Limited resources within the finance sections of smaller organisations resulted in a less robust implementation process. Material entities were able to devote significant time and resources to conduct a comprehensive review of the impact of AEIFRS on their operations. These deficiencies placed additional pressure on the ANAO in reviewing and assessing the implementation process.

4.27 Resourcing constraints identified above also contributed to deficiencies in identifying the potential impacts of the transition from AGAAP to AEIFRS. To facilitate the transition an analysis was required between the current and new standards. ANAO noted that this process was less structured in some entities.

4.28 Senior management involvement regarding the transition to AEIFRS also differed across entities. Some entities met regularly to discuss the process of implementing AEIFRS and actively reported to the Audit Committee. Whereas in other instances implementation was left to a single individual with little to no active management involvement or feedback.

4.29 Facilitation of the transition from the existing accounting standards to AEIFRS necessitated entities to perform an assessment of the changes in the accounting standards and their potential impact on the respective entity. This is commonly referred to as a 'gap analysis.'

4.30 The results of work done to date by entities have highlighted a number of common areas of impact and areas of significant financial impact. Common issues, which entities are focussing on include:

- the new asset recognition criteria for intangible assets will result in the de-recognition of some internally developed software. This will occur where the software is currently carried at a valuation in the financial statements and that valuation is not based on an active market (i.e. the software is built specifically for government use and not for sale);
- make-good provisions for fit out will need to be recognised with a corresponding capitalised asset;
- property plant and equipment valuations will be required to be kept up to date from 1 July 2004 (previously progressive valuations were permitted);
- property, plant and equipment and intangibles will be required to be annually assessed for indications of impairment;
- inventory held for distribution rather than for sale by not for profit entities must be carried at the lower of cost or current replacement cost; and
- non-current annual leave balances will be required to be discounted.

4.31 As identified previously, Australian Accounting Standards require disclosure in the 2004–05 financial statements of the effects of the adoption of AEIFRS for the reporting period starting 1 July 2005. Ninety six per cent of material general government sector entities complied with this disclosure requirement.

4.32 Note disclosures on AEIFRS transitional effects in 2004–05 financial statements across material entities have revealed some significant adjustments being estimated and reported by entities, including[19]:

- the Department of Finance and Administration has estimated that the superannuation liability for the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme will increase by up to $8.4 billion. This is due to the combined effect of a change in the discount rate that might need to be applied to employee benefits and a change in the application of the method of allocating future benefits to each period of service;

---

19 See Note 2 to the agencies' financial statements, published in Annual Reports for 2004–05.

- the Australian Office of Financial Management has estimated the impact of the adoption of the fair value methodology on their administered financial assets as an increase of $650 million as at 1 July 2005. The estimated impact on their administered financial liabilities was an increase of $3.2 billion as at 1 July 2005; and
- Centrelink estimated the impact of the prohibition on measuring intangible assets at a value not determined in an active market as a de-recognition of $42 million of internally developed software, with a resulting decrease in the associated annual amortisation expense.

4.33 The Department of Defence has been unable to quantify the impact of transitioning to AEIFRS due to the scale and complexity of the matters involved.

Significant Accounting Issues

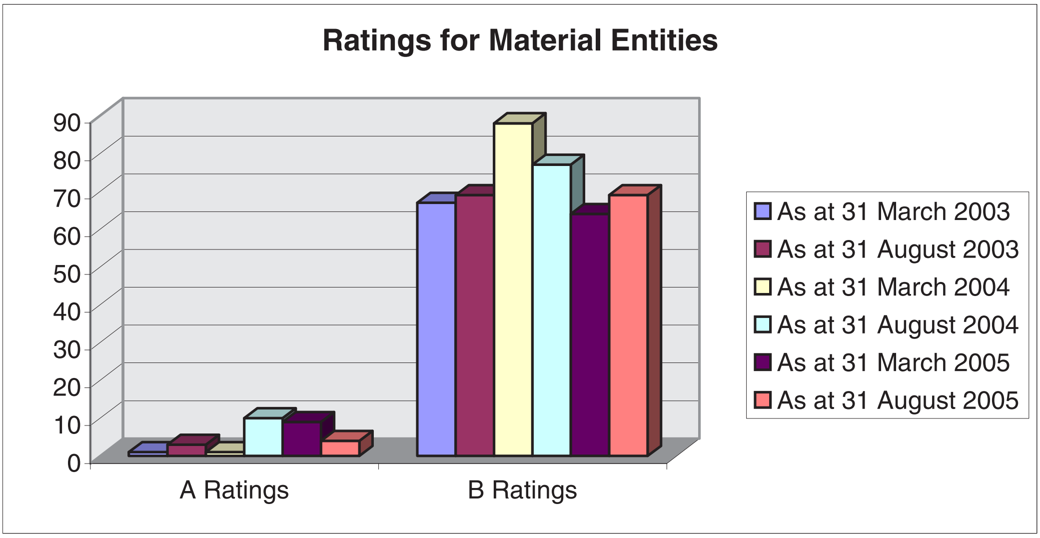
New Internal Control Issues

4.34 The ANAO rate audit findings according to the potential risk posed to the entity. The rating structure is as follows:

Category	Description
A	Those matters which pose significant business or financial risk to the entity and must be addressed as a matter of urgency. This assessment takes into account both the likelihood and consequences of the risk eventuating.
B	Control weaknesses that 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 weakness might be significant; however there is little likelihood of the consequences eventuating.
C	Matters which are procedural in nature or minor administrative shortcomings. These could include relatively isolated control breakdowns, which need to be brought to the attention to management.

4.35 The movements in the number of 'A' and 'B' ratings for those material entities reported in Audit Report No.56 2004–05, *Interim Phase of the Audit of General Government Sector Entities for the Year Ending 30 June 2005* (excluding the Department of Defence) over the past number of financial years is summarised in Figure 4.2:

Figure 4.2



4.36 A summary table of the movement in the number of audit issues from March 2004 to March 2005 as provided in Audit Report No.56 2004–05 is contained in Appendix 1. Appendix 1 also provides a summary of issues by material entity for 2005 and 2004.

4.37 Overall, the results of the final audit phase indicate that some 51 per cent (other than Defence) of the control issues raised in Audit Report No.56 2004–05 have been addressed, or are in the process of being addressed. A further 34 new issues (excluding Defence) have been raised with entities during the final phase of the audit. In general, the results demonstrated that internal controls in business and accounting processes require regular monitoring.

4.38 Twenty nine per cent of the material entities reported an improvement in the number of 'A' and 'B' category audit issues and twenty one per cent (excluding Defence) of entities showed a deterioration of their position, with twenty one per cent of entities remaining at the same position; and the remaining twenty nine per cent of the material entities had no category 'A' or 'B' audit issues.

4.39 Individual portfolio results included in Chapter Five 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 such issues as detailed below.

- Opportunities for improvement within the financial statement preparation process.
- Business continuity—An important aspect of an entity's governance and risk management strategies is an assessment of the risk to the continued availability of service delivery and information. A number of entities still have work to perform to ensure they have developed, implemented, tested and documented comprehensive business continuity plans.
- Performance of key reconciliations—Deficiencies continue to be identified in relation to the performance and subsequent review of reconciliations in a number of entities.
- Access security within the HRMIS and the FMIS—A number of issues were identified and reported for management consideration with regard to the access controls.
- The IT control environment—The robustness of controls within entities' FMIS is critical to provide assurance as to the reliability, accuracy and completeness of the financial information derived from these systems. Issues in relation to the control environments of a number of entities were identified for management attention.

5. Results of the Audits of Financial Statements – By Portfolio

This chapter summarises the results of the audits of the financial statements of individual Australian Government entities.

Introduction

5.1 For reporting purposes, the structure of this chapter reflects the Portfolio arrangements, which existed at 30 June 2005 as established in the Administrative Arrangements Order dated 16 December 2004.

5.2 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;
- moderate or significant internal control matters reported previously in prior reports not yet resolved; and
- new moderate or significant issues noted in the conduct of the financial statement audit since the publication of prior reports.[20]

5.3 The tabular information for each portfolio also identifies any entities that received modified (qualified or containing an emphasis of matter) audit reports or audit reports which contain an additional paragraph on other statutory matters. Further detail of these entities and the opinions issued are contained in Chapter Three.

5.4 For each material entity[21] a brief commentary covering both departmental and administered activities is provided on the financial results for the year. Issues arising from the audit activity are rated in accordance with the seriousness of the particular matter identified. The three tier rating scale of 'A', 'B' and 'C' detailed in Chapter Four, indicates to the respective entity the priority it needs to give to remedial action. 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.

[20] 31 March 2005 for selected material entities included in Audit Report No.56 2004–05. 31 August 2004 for all other entities, as reported in Audit Report No.21 2004–05.

[21] 66 entities are classified as material entities for Whole of Government reporting purposes with the remainder classified as non-material. These entities are considered material, as they constitute the majority of revenues, expenses, assets and/or liabilities of the Commonwealth.

5.5 Moderate or significant audit issues (Category 'A' and 'B' issues), including those carried over from prior reports, and new issues arising since the publication of any reports, are also detailed. In addition, a brief commentary of moderate or significant issues for non-material entities is also provided.

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

5.7 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	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Agriculture, Fisheries and Forestry	**Yes**	✓	31 Aug 05	
– Australian Quarantine and Inspection Service	No	✓	31 Aug 05	
– National Residue Survey	No	✓	31 Aug 05	
Australian Fisheries Management Authority	No	✓	25 Aug 05	◆
Australian Pesticides and Veterinary Medicines Authority	No	✓	11 Aug 05	
Australian Wine and Brandy Corporation	No	✓	23 Aug 05	
Biosecurity Australia	No	✓	16 Sep 05	
Cotton Research and Development Corporation	No	✓	26 Aug 05	
Dairy Adjustment Authority	No	✓	27 Jul 05	
Fisheries Research and Development Corporation	No	✓	09 Aug 05	
Forest and Wood Products Research and Development Corporation	No	✓	12 Aug 05	
Grains Research and Development Corporation	**Yes**	✓	29 Jul 05	
Grape and Wine Research and Development Corporation	No	✓	23 Aug 05	
Land and Water Resources Research and Development Corporation	No	✓	25 Aug 05	
Rural Industries Research and Development Corporation	No	✓	06 Sep 05	
Sugar Research and Development Corporation	No	✓	01 Sep 05	
Wheat Export Authority ☞ 30 September 2005	No	✓	25 Nov 05	

✓: 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
☞: financial year end date other than 30 June 2005

✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.8 The Agriculture, Fisheries and Forestry portfolio consists of a number of entities working together to achieve the portfolio outcome of more sustainable, competitive and profitable Australian agricultural, food, fisheries and forestry industries.

5.9 The Department of Agriculture, Fisheries and Forestry (DAFF) develops and implements a range of policies, programmes and services to help deal with the challenges faced by agricultural, food, fisheries and forestry industries. These also build on the Government's objectives of:

- helping Australian agricultural, food, fisheries and forestry industries become more competitive, profitable and sustainable through the entire food supply chain;
- enhancing the natural resource base on which these industries rely;
- delivering scientific advice and economic research;
- maintaining Australia's highly favourable animal and plant health status through quarantine, export inspection and certification and food safety standards activities; and
- improving trading opportunities for Australian agriculture and food industries.

5.10 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	2005 $m	2004 $m
Total revenues	525.35	496.17
Total expenses	519.47	490.13
Total assets	199.71	189.67
Total liabilities	157.28	156.26

5.11 The increase in revenues for 2004–05 was a result of greater funding from Government for various measures. These measures include the safeguarding of Australia's quarantine system and the Agriculture-Advancing Australia package to assist eligible primary producers. The measures also included the extension of the Sugar Industry Reform Programme to assist reform and restructure the Australian sugar industry, and funding to enhance border controls to prevent the entry of Avian Influenza into Australia.

5.12 The increase in expenses was in line with the new measures outlined above, as well as higher employee expenses caused by a rise in salary rates in accordance with the certified agreement.

5.13 The increase in assets was due to a higher appropriation receivable as a result of timing differences at year-end, and a revaluation upwards of property, plant and equipment. There was no significant movement in liabilities.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	597.64	633.67
Total expenses	1 355.75	1 507.15
Total assets	536.28	545.54
Total liabilities	70.33	81.85

5.14 The decrease in revenues was mainly attributable to a reduction in primary industry levies, fees and charges due to the impact of Australia's national drought on primary production.

5.15 The reduction in expenses was principally due to a shortfall in applications in a number of grant programs compared to budget expectations. In addition, the 2004 balance included an amount of $51.15 million representing the write-down of the Commonwealth's investment in the Murray-Darling Basin Commission. In 2005, the write-down amounted to $1.67 million. These write-downs were based upon reductions in the net asset position of the Murray-Darling Basin Commission.

5.16 The decrease in assets was largely due to a reduction in receivables associated with the settlement of loans and advances, and a reduction in receivables from levies, fees and charges in line with the reduction in associated revenue.

5.17 The reduction in liabilities was due to a decline in grants and personal benefits payable, as detailed previously.

Audit results

Summary of audit findings

5.18 There were no moderate or significant audit issues noted during the 2004–05 audit.

Grains Research and Development Corporation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	110.00	122.29
Total expenses	119.53	124.02
Total assets	135.67	141.04
Total liabilities	41.67	38.55

5.19 The decrease in revenues was attributable to a reduction in crop production due to the drought, resulting in a fall in both government and industrial contributions. The movement in expenses is mainly attributable to a reduction in the number of research and development contracts approved during the year, reflecting lower quality of proposals received.

5.20 The reduction in assets was attributable to the disposal of investments to fund operating cash requirements and a $2 million reduction in joint venture investments resulting from movements in the net assets of joint venture companies.

5.21 The movement in liabilities was due to an increase in accrued research and development expenditure at year-end, principally as a result of timing differences.

Audit results

Summary of audit findings

5.22 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.23 There were no moderate or significant audit issues impacting on non-material entities, with the exception of the Australian Fisheries Management Authority (AFMA).

Australian Fisheries Management Authority

5.24 Two moderate issues noted during the audit were referred to management for consideration. These related to the inappropriate use of interest earned on AFMA's trust account to pay the account's bank fees and an incomplete Business Continuity Plan which has not yet been tested.

5.25 AFMA has responded positively and has advised that the bank fees are now being correctly met via annual appropriations, and the Business Continuity Plan will be finalised in 2005–06.

Attorney-General's Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Attorney-General's Department	**Yes**	✓	17 Aug 05	◆
Administrative Appeals Tribunal	No	✓	13 Oct 05	
AFP-ACT Community Policing	No	✓	19 Sep 05	
Australian Crime Commission	No	✓	05 Sep 05	
Australian Customs Service	**Yes**	✓	23 Aug 05	▲
Australian Federal Police	**Yes**	A	11 Aug 05	▲◆
Australian Government Solicitor	No	✓	21 Sep 05	◆
Australian Institute of Criminology	No	✓	01 Sep 05	
Australian Institute of Police Management	No	✓	25 Aug 05	
Australian Law Reform Commission	No	✓	31 Aug 05	
Australian Security Intelligence Organisation	No	A	07 Sep 05	
Australian Transaction Reports and Analysis Centre	No	A	26 Oct 05	
Criminology Research Council	No	✓	01 Sep 05	
CrimTrac	No	✓	05 Sep 05	
Family Court of Australia	**Yes**	✓	29 Jul 05	
Federal Court of Australia	No	✓	13 Oct 05	
Federal Magistrates Court	No	✓	09 Sep 05	
High Court of Australia	**Yes**	✓	27 Aug 05	
Human Rights and Equal Opportunity Commission	No	A	28 Sep 05	
Insolvency and Trustee Service Australia	No	✓	07 Sep 05	

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
National Native Title Tribunal	No	✓	14 Nov 05	
Office of Film and Literature Classification	No	A	17 Oct 05	
Office of the Director of Public Prosecutions	No	✓	11 Oct 05	
Office of the Privacy Commissioner	No	✓	22 Sep 05	
Office of the Parliamentary Council	No	✓	30 Aug 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.26 The Attorney-General's portfolio comprises the Attorney-General's Department (AGD) and a number of statutory and non-statutory bodies. AGD is the central policy and coordinating entity within the portfolio. The structure of the entities within the portfolio is aligned to the Government's overall commitment to a fairer and safer Australian society.

5.27 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, international law, law reform, bankruptcy estate administration and regulation. In addition, the portfolio also covers 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.

5.28 The portfolio's entities 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 entities, and the provision of services to other clients.

5.29 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	2005 $m	2004 $m
Total revenues	188.78	159.99
Total expenses	183.17	170.52
Total assets	108.65	74.72
Total liabilities	39.21	34.64

5.30 The movement in revenues was largely attributed to additional funding from Government for increased security and emergency management requirements. In addition, other revenues increased due to the funding of law enforcement projects provided from the Confiscated Assets Account under the Proceeds from Crime Act.

5.31 AGD's increased expenditure in 2004–05 largely related to higher employee expenses. Employee expenses were higher due to a rise in salary rates in accordance with the certified agreement, an overall increase in staff numbers associated with the assumption of former Aboriginal and Torres Strait Islander Services (ATSIS) staff, and the management of security and emergency management issues.

5.32 The increase in assets was primarily attributed to a one-off adjustment for a receivable not previously brought to account and an increase in capital appropriation receivable since 2003–04. These increases were partially offset by a decrease in the departmental cash balance.

5.33 The increase in AGD's liabilities was primarily due to the timing of payments to the Australian Protective Service for the purchase of diplomatic and consular guarding services during 2004–05.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	16.36	13.32
Total expenses	723.54	358.28
Total assets	198.29	554.70
Total liabilities	402.97	365.51

5.34 The increase in administered revenues was due to greater dividends received from the Australian Government Solicitor and the return of grants made by the former ATSIS.

5.35 A number of significant increases in AGD's administered expenses occurred during 2004–05. This included an increase in grants expenses related to the ATSIS Law and Justice Programme, Legal Aid Programme, Family Relationship Support Organisations, Tsunami Grants and National Community Crime Prevention Programme. An increase in the judges pension expense also occurred due to rises in judges' salaries and a new actuarial assessment conducted in June 2005.

5.36 The above increases were partially offset by a $76 million decrease in expenses related to the Handgun Buy Back Program.

5.37 A $359.2 million receivable in relation to funding from Government was written off in 2004–05, as its inclusion was inconsistent with current financial reporting requirements. This impacted both the movements in expenses and receivables in 2004–05.

5.38 AGD's administered liabilities increased as a result of an actuarial assessment for judges' pensions performed in June 2005, which updated the liability figure from the last assessment in June 2002.

Audit results

Summary of audit findings

5.39 ANAO reported one significant and three moderate control weaknesses in the interim phase of the audit. During the final phase of the audit the ANAO observed that AGD had resolved these weaknesses. Three new issues were identified in the final phase of the audit.

5.40 During the audit it was noted that one staff member could complete all journal processes without prior approval. Furthermore, no supporting documentation could be obtained for any of the journals selected. This increased the risk of unauthorised or inaccurate transactions being processed.

5.41 The AGD processes vendor and payroll payments through the Reserve Bank of Australia's (RBA) Reservelink Software. Weaknesses were identified in the configuration of payment thresholds within the software that increased the risk of processing unauthorised payments.

5.42 A number of issues were identified in relation to the segregation of duties, duplicate vendors, duplicate payments and duplicate assets within the FMIS, which could result in the processing of inappropriate transactions.

5.43 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	1	1	0	0
B	3	3	3	3
Total	**4**	**4**	**3**	**3**

Australian Customs Service

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	962.22	806.74
Total expenses	924.89	800.05
Total assets	434.31	344.83
Total liabilities	157.70	146.72

5.44 The increase in revenues was primarily a result of funding from Government for new initiatives including the Southern Ocean Surveillance programme, increased shifts at the Container Examination Facilities, the outcome from Finance's review of Australian Customs Services' (ACS) financial health and increased funding for Coastwatch surveillance activities. In addition, ACS received additional funding associated with the administration of the goods and services tax.

5.45 ACS operated within its approved funding base for the year, however the increase in expenses in 2004–05 compared to 2003–04 was largely due to expenses associated with the initiatives mentioned. In addition, there was an increase in expenses due to a rise in salary rates in accordance with the certified agreement. Also contributing was higher running costs for ACS patrol vessels, container examination facilities being operational for the full year compared to only part of the 2003–04 year, and costs associated with the implementation of the Customs Management Re-engineering (CMR) project.

5.46 The increase in assets was primarily the result of the increase in undrawn appropriations due to delays in the implementation of some initiatives and timing differences between cash and accrual requirements. Also contributing to this was the capitalisation of $34.66 million associated with the CMR project. This was offset by lower infrastructure, plant and equipment balances held at year-end due to the impact of depreciation.

5.47 Liabilities increased principally due to higher accruals relating to the CMR project and the return of appropriation funding due to the reduced costs to deliver the Southern Oceans surveillance activities.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	6 064.47	6 111.78
Total expenses	535.70	609.98
Total assets	80.45	74.56
Total liabilities	15.33	19.92

5.48 Administered revenues decreased during the year due to a reduction in customs duty collected, relating to the impacts of the U.S. and Thai free trade agreements and other general tariff reductions. This was partially offset by an increase in other taxation revenue from the collection of the Passenger Movement Charge, due to a higher volume of passenger travel, plus increased import processing charges.

5.49 In 2004–05, ACS administered expenses decreased primarily due to a reduction of the value of imports qualifying for Automotive Competitiveness and Investments Scheme credits.

5.50 The increase in administered assets reflected an increase in receivables in relation to higher Passenger Movement Charge revenues.

5.51 The small reduction in administered liabilities related to reduced balances for customs duty refunds and seized and abandoned goods.

Audit results

Summary of audit findings

5.52 The ANAO reported six moderate control weaknesses in the interim phase of the audit in relation to the Fraud Control Plan, IT Disaster Recovery Plan testing, the IT Strategic Plan, the IT Security Policy, access management of IT systems, and employee delegations set up in the FMIS. During the final phase of the audit, the ANAO observed that ACS had finalised the Fraud Control Plan and resolved the employee delegation issue. Substantial progress in addressing the remaining weaknesses had occurred, however, full implementation to address all outstanding risks was not yet complete, hence findings remained open and will be re-assessed during the 2005–06 audit.

5.53 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	6	2	0	4
Total	**6**	**2**	**0**	**4**

Australian Federal Police

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	832.85	772.05
Total expenses	808.51	682.95
Total assets	424.42	346.74
Total liabilities	176.04	151.72

5.54 The increase in revenues was attributable to greater funding from Government for activities in the Solomon Islands and fighting domestic and international terrorism.

5.55 The increase in expenses was related to higher operational activities such as peace keeping and additional spending on international deployment related activities.

5.56 The overall increase in assets was attributed to lower than anticipated capital expenditure resulting in a build up of undrawn funding from the Government.

5.57 The increase in liabilities was due to a realignment of salary rates as a result of the merging of the Protective Services operations into the AFP.

Audit results

Summary of audit findings

5.58 The ANAO reported three moderate control weaknesses in the interim phase of the audit in relation to a lack of an updated Fraud Control Plan (FCP), FMIS user access management and Business Continuity Planning. During the final phase of the audit the ANAO observed that AFP had completed the FCP for 2005–07 and is progressing the development of the Business Continuity Plan (BCP) and FMIS user access issues. Testing of a full Disaster Recovery Plan is expected to be completed shortly and will be reviewed during the 2005–06 audit. To address the access management issues, AFP has reduced the number of highly privileged access users to the FMIS. AFP has also indicated an independent review of the FMIS privileged access will be performed shortly and reviewed by the ANAO during the 2005–06 audit.

5.59 During the final phase of the audit, the ANAO identified a weakness in the financial management and reporting of assets, primarily related to accounting for assets held outside of Australia. AFP indicated that a review of its overseas asset management practices has already been instigated to ensure consistency with the wider AFP policy. Other areas of asset review are also underway including the enhancement of asset reporting in the FMIS.

5.60 AFP had an ineffective Section 31 Agreement concerning the retention and expenditure of specified receipts for the period 1 July 1998 to 6 December 2004, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.61 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	3	1	1	3
Legislative Breach	0	0	1	1
Total	**3**	**1**	**2**	**4**

Family Court of Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	131.57	121.13
Total expenses	131.56	120.92
Total assets	50.80	48.23
Total liabilities	31.19	30.35

5.62 The increase in revenues was a result of additional funding from Government for Commonwealth Law Courts rent supplementation, judicial pay rises and for the new Adelaide Law Courts. These factors also led to an increase in expenses.

5.63 There were no significant movements in assets and liabilities in 2004–05.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	2.50	3.29
Total expenses	0.45	0.08
Total assets	0.60	0.01
Total liabilities	0.00	0.00

5.64 There were no significant movements in administered balances in 2004–05.

Audit results

Summary of audit findings

5.65 There were no moderate or significant audit issues noted during the 2004–05 audit.

High Court of Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	12.30	12.75
Total expenses	12.28	12.31
Total assets	179.13	178.17
Total liabilities	1.99	2.61

5.66 The High Court of Australia's (HCA) revenue was lower due to one-off funding received in 2003–04 for the HCA's Centenary celebrations.

5.67 The decrease in expenses was due to several factors, including a reduction in expenditure related to the HCA's Centenary celebrations and a reduction in fringe benefits tax and overseas travel. This was partly offset by a rise in salary rates in accordance with the certified agreement.

5.68 Assets of the HCA increased due to the purchase of additional library resources, the completion of the Courtroom Technology Project and the renovation of the lifts. This was partially offset by depreciation charged on assets held.

5.69 The decrease in liabilities was a result of a reduction in accruals associated with the Courtroom technology project and the payout of an employee provision balance following the retirement of a senior Court executive officer.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	0.98	0.96
Total expenses	0.00	0.00
Total assets	0.00	0.00
Total liabilities	0.00	0.00

5.70 The increase in revenues was attributable to the collection of additional fees and charges in 2004–05.

Summary of audit findings

5.71 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.72 Section 31 Agreements allow entities to retain and spend specified receipts. The Australian Security Intelligence Organisation had an ineffective Section 31 Agreement for the period 1 July 1999 to 30 June 2004. The Australian Transaction Reports and Analysis Centre had no Section 31 agreement for the period 1 July 1999 to 1 December 2004. The Human Rights and Equal Opportunity Commission (HREOC) had an ineffective Section 31 Agreement for the period 1 July 1999 to 1 December 2004. The Office of Film and Literature Classification had an ineffective Section 31 Agreement for the period 1 July 1999 to 28 June 2005. These resulted in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act (with the exception of HREOC). The background to these issues is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.73 There were no moderate or significant issues impacting on non-material entities, with the exception of the Australian Government Solicitor (AGS).

Australian Government Solicitor

5.74 Under long standing custom and practice, interest earned on AGS trust accounts is recorded as revenue and accrued as receivables in the books of AGS. A general principle in law is that it is the strict duty of a trustee to hold any income in trust for the settlor in the same way as the principal is held, and that it can only be used for the purposes of the trust or payment to the settlor on distribution. The amount involved is immaterial in the context of the financial statements, but this raises uncertainty as to the continued inclusion of these amounts as revenue by AGS.

5.75 In addition, written agreements should be established between AGS and their clients in relation to the distribution of interest where the funds involved are significant or may be expected to be held for a period generally in excess of one month. AGS has written agreements in place with only some clients. AGS is currently reviewing these matters.

Communications, Information Technology and the Arts Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Communications, Information Technology and the Arts	**Yes**	✓	01 Sep 05	
Australia Council	No	✓	30 Aug 05	
Australian Broadcasting Authority	**Yes**	✓	24 Aug 05	
Australian Broadcasting Corporation	**Yes**	✓	29 Aug 05	
– Adelaide Symphony Orchestra Pty Ltd ☞ 31 December 2004	No	E	13 Apr 05	
– Melbourne Symphony Orchestra Pty Ltd ☞ 31 December 2004	No	✓	31 Mar 05	
– The Queensland Orchestra Pty Ltd ☞ 31 December 2004	No	E	22 Mar 05	
– Sydney Symphony Orchestra Pty Ltd ☞ 31 December 2004	No	✓	24 Mar 05	
– Symphony Australia Holdings Pty Ltd ☞ 31 December 2004	No	E	03 Jun 05	
– Tasmanian Symphony Orchestra Pty Ltd ☞ 31 December 2004	No	✓	06 May 05	
– West Australian Symphony Orchestra Holdings Pty Ltd ☞ 31 December 2004	No	✓	30 Mar 05	
Australian Business Arts Foundation Ltd	No	✓	31 Aug 05	
Australian Communications Authority	**Yes**	✓	17 Aug 05	◆
Australian Film Commission	No	✓	19 Sep 05	
Australian Film, Television and Radio School	No	✓	06 Sep 05	
Australian National Maritime Foundation	No	✓	01 Nov 05	
Australian National Maritime Museum	No	✓	07 Sep 05	
Australian Postal Commission	**Yes**	✓	25 Aug 05	

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Australian Sports Commission	**Yes**	✓	25 Aug 05	
Australian Sports Drug Agency	No	✓	07 Sep 05	
Australian Sports Foundation	No	✓	15 Sep 05	
Bundanon Trust	No	✓	25 Aug 05	
Film Australia Ltd	No	✓	14 Sep 05	
Film Finance Corporation Australia Ltd	No	✓	26 Sep 05	
National Archives of Australia	**Yes**	✓	15 Aug 05	◆
National Gallery of Australia	**Yes**	✓	22 Jul 05	
– National Gallery of Australia Foundation	No	✓	27 Jul 05	
National Library of Australia	**Yes**	✓	06 Aug 05	
National Museum of Australia	**Yes**	✓	19 Jul 05	
NetAlert Ltd	No	✓	01 Sep 05	
Regional Telecommunications Infrastructure Fund	No	✓	01 Sep 05	
Special Broadcasting Service Corporation	**Yes**	✓	10 Aug 05	◆
– Multilingual Subscriber Television Ltd	No	✓	10 Aug 05	
Telstra Corporation Ltd	**Yes**	✓	11 Aug 05	
– Telstra Employee Ownership Plan Trust	No	✓	28 Jul 05	
– Telstra Employee Ownership Plan Trust II	No	✓	28 Jul 05	
– Telstra Finance Ltd	No	✓	31 Oct 05	
– Telstra Growth Share Trust	No	✓	29 Jul 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.76 The Communications, Information Technology and the Arts portfolio covers thirty seven reporting entities with responsibility for supporting and implementing related Government policies. These entities play a vital role in assisting in the development of communications, information technology, the arts and sports. The portfolio is also responsible for ensuring an integrated approach to delivery of online policy, overseeing regulations and the development of industry codes of practice, as well as advising Government.

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

Department of Communications, Information Technology and the Arts

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	122.31	130.33
Total expenses	114.76	98.55
Total assets	113.38	100.30
Total liabilities	28.66	22.06

5.78 Revenue decreased primarily as a result of the transfer of ScreenSound Australia to the Australian Film Commission. This was partially offset by an increase associated with the transfers of indigenous functions from the Aboriginal and Torres Strait Islander Commission (ATSIC) and ATSIS to the Department of Communications, Information Technology and the Arts and the full year effect of the transfer of the Information Economy function in April 2004 from the then Australian Government Information Management Office (AGIMO).

5.79 The increase in expenses for 2004–05 was due to several factors, including the transfer of former ATSIC/ATSIS staff, a rise in salary rates in accordance with the certified agreement, the full year's effect of the transfer of Information Economy staff from the former AGIMO, and an increase in employer superannuation contribution rates. There was also an increase in depreciation and amortisation, primarily due to the increase in the fair value of assets as a result of revaluations undertaken as at 30 June 2004.

5.80 The movement in assets related to an increase in appropriation receivables due to delays and deferrals in projects.

5.81 The increase in total liabilities was a result of the transfer of employee provisions of ATSIC/ATSIS staff, and a rise in salary rates in accordance with the certified agreement. In addition, a provision for makegood on leased properties was recognised for the first time and there was an increase in supplier payables due to a management decision in 2003–04 to clear all supplier payables in June 2004 prior to an FMIS systems upgrade in July 2004.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	2 645.11	2 339.49
Total expenses	600.17	624.19
Total assets	7 342.54	7 332.22
Total liabilities	15.47	12.62

5.82 The increase in revenues was mainly attributable to a 29 per cent increase in dividends received from Telstra Corporation Limited and Australia Post.

5.83 The decrease in administered expenses was a result of the completion of the Untimed Local Call Access programme in February 2005 and a $39.65 million decrease in administered grants programmes in 2004–05 due to completion and winding down of programmes. This was offset by an increase in subsidies paid in 2004–05 of $51.38 million relating to the new Higher Bandwidth Incentive Scheme.

5.84 There were no significant movements in administered assets.

5.85 The increase in administered liabilities was attributed to an accrual for grants and subsidies payable as at 30 June 2005.

Audit results

Summary of audit findings

5.86 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian Broadcasting Authority

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	17.66	16.84
Total expenses	16.36	17.10
Total assets	4.31	6.78
Total liabilities	6.04	6.83

5.87 There were no significant movements in revenues and expenses from the prior year.

5.88 Assets of the Australian Broadcasting Authority (ABA) decreased primarily due to the transfer of all cash to the Official Public Account as at 30 June 2005. This occurred as ABA ceased to exist on 30 June 2005. ABA's operations were merged with the Australian Communications Authority (ACA) to become the Australian Communications and Media Authority.

5.89 Liabilities decreased due to management's decision to reduce its staff numbers as part of the merger process with ACA.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	339.00	435.00
Total expenses	0.00	0.00
Total assets	253.00	209.00
Total liabilities	0.00	0.00

5.90 Revenue decreased as there was less revenue from the auction of broadcasting spectrum this year.

5.91 Total assets increased from the prior year due to a significant increase in the level of licence fees receivable from broadcasting licence holders. Licence fees are based on the broadcasting licence holders' earnings.

Audit results

Summary of audit findings

5.92 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian Broadcasting Corporation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	1 050.30	966.55
Total expenses	1 002.60	931.19
Total assets	1 070.63	1 070.93
Total liabilities	345.28	378.36

5.93 No significant movement in the financial performance of the Australian Broadcasting Corporation occurred during 2004–05.

Audit results

Summary of audit findings

5.94 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian Communications Authority

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	61.47	64.13
Total expenses	60.32	59.36
Total assets	23.32	53.77
Total liabilities	13.21	16.84

5.95 The Australian Communications Authority's (ACA) revenues decreased due to a reduction in funding from Government for measures such as the regulation of postal services, Auction Freephone, Local Rates, Regional Telecommunication Inquiry and Spam.

5.96 There were no significant movements in expenses noted during the year.

5.97 The significant decrease in assets was largely due to the return of surplus cash to the Official Public Account preceding the merger of ACA and ABA to form the Australia Communications and Media Authority from 1 July 2005.

5.98 The decrease in liabilities was a result of a management decision to reduce outstanding liabilities prior to the transfer of ACA to the Australian Communications and Media Authority.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	241.58	214.60
Total expenses	0.03	0.39
Total assets	36.07	53.14
Total liabilities	19.54	3.71

5.99 Revenues increased due to the indexation of the Radio Communications Tax and the collection of Smartnumbers (such as 1300 and 1800 numbers) auction revenue of $18 million. Expenses decreased due to a reduction in the level of asset write-downs.

5.100 Assets decreased primarily due to a return of cash to the Official Public Account preceding the merger of ACA and ABA to form the Australia Communications and Media Authority. Liabilities increased due to prepayments received for license fees.

Audit results

Summary of audit findings

5.101 The ANAO reported one moderate control weakness relating to the updating of ACA's Business Continuity Plan, in the 2003–04 audit. During the 2004–05 audit the ANAO observed that ACA had resolved this weakness. Three moderate issues were identified during the 2004–05 audit.

5.102 The ANAO identified that there was no regular review or reporting of system access and audit logs for the FMIS. ACA took immediate action and put systems in place to ensure both access and audit logs were reviewed regularly.

5.103 Secondly, although cash receipts were usually identified and applied to departmental and administered debtors, the unallocated cash balance increased significantly as at 30 April 2005. The ANAO raised awareness of the delay in clearing the unallocated cash during the interim audit. The issue did not recur at year-end.

5.104 The ANAO also drew for attention that the calculation of finance lease liabilities at 30 April 2005 was incorrect and not in accordance with accounting standard AASB 1008: *Leases*. The matter was raised and the issue resolved at year-end.

5.105 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 2004	New issues to August 2005	Issues resolved to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	3	4	0
Total	**1**	**3**	**4**	**0**

Australian Postal Commission

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	4 323.50	4 161.10
Total expenses	3 948.60	3 790.00
Total assets	3 762.40	3 471.80
Total liabilities	1 948.00	1 912.20

5.106 Revenue growth was experienced across all business activities. This was primarily due to strong growth from existing customers and new business in traditional markets.

5.107 The increase in expenses was predominantly due to a rise in salary rates in accordance with the certified agreement.

5.108 Assets increased as a result of property revaluations, with the entire property portfolio revalued to fair value at 30 June 2005.

5.109 The increase in liabilities was due to an increase in employee provisions relating to long service leave and workers compensation expenses as a consequence of an actuarial review, together with ten-year bond rate movements and additional accrued leave entitlements.

Audit results

Summary of audit findings

5.110 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian Sports Commission

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	170.61	147.95
Total expenses	165.40	145.42
Total assets	196.83	177.65
Total liabilities	22.80	19.75

5.111 The increase in revenues of the Australian Sports Commission related primarily to additional funding from Government for the Active After School Communities programme and sales of land and buildings.

5.112 The increase in expenses was due to several factors including the establishment of the Active After School Communities programme, an expanding workforce that is directly linked to this programme and a rise in salary rates in accordance with the certified agreement.

5.113 An increase of assets reflected the receipt of funding from Government for new facilities at the Australian Institute of Sport that remained unspent at year-end and the prepayment of grant monies.

5.114 Increases in liabilities occurred due to greater employee provisions for the higher employee numbers associated with the Active After School Communities programme, accrued expenses relating to capital works projects and additional revenue received in advance for programmes and sponsorship.

Audit results

Summary of audit findings

5.115 The ANAO reported one moderate control weakness in the 2003–04 audit relating to the return of Payroll Expenditure Certifications on a timely basis. During the 2004–05 audit the ANAO observed that the Australian Sports Commission had resolved this weakness. There were no moderate or significant audit issues noted during the 2004–05 audit.

5.116 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

National Archives of Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	71.81	255.73
Total expenses	68.82	68.19
Total assets	1 200.68	959.91
Total liabilities	11.11	10.16

5.117 National Archives of Australia's (NAA) revenue decreased as the prior year included a one-off adjustment relating to additions to the Collection. The increase in assets at 30 June 2005 primarily represents the revaluation of the Collection. Expenses and liabilities have remained relatively stable in comparison to prior years.

Audit results

Summary of audit findings

5.118 An effective process for the preparation of the financial statements is important to the ability of NAA to meet its accountability obligations as well as to the reporting deadlines established by the Department of Finance and Administration. The finalisation of the 2004–05 audit was delayed as not all information was complete, accurate and/or provided in accordance with timeframes established between NAA and the ANAO. NAA has agreed to enhance the financial statement preparation process.

5.119 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

National Gallery of Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	52.51	42.77
Total expenses	46.87	38.99
Total assets	3 322.08	3 017.34
Total liabilities	8.35	10.12

5.120 The increase in revenues of the National Gallery of Australia is due to greater funding from Government, principally as a result of additional depreciation funding. The increase in expenses is due to an increase in depreciation and amortisation expenses, following the revaluation of assets.

5.121 Assets increased largely due to the revaluation of the National Gallery of Australia's collection.

5.122 The decrease in liabilities is a result of a reduction in creditors at year-end.

Audit results

Summary of audit findings

5.123 There were no moderate or significant audit issues noted during the 2004–05 audit.

National Library of Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	70.20	62.51
Total expenses	66.51	64.46
Total assets	1 754.71	1 746.70
Total liabilities	14.00	13.16

5.124 Revenues increased as a result of greater funding from Government for depreciation following a review of the National Collection depreciation policy.

5.125 Expenses have increased primarily due to a rise in salary rates in accordance with the certified agreement. In addition, depreciation and amortisation expenses increased due to additions to the National Collection and redevelopment of the library search system. The value of assets sold also increased reflecting the programme to replace all laser printers and the micrographic equipment within the newspaper reading rooms.

5.126 The increase in assets of the National Library of Australia is primarily due to additions to the National Collection and an increase in intangibles relating to the redevelopment of the library's search system. There was also an increase in cash as a result of additional depreciation funding and an equity injection associated with funding for additional warehouse storage.

5.127 The increase in liabilities is due to the higher employee provisions from rises in salary rates and an increase in the average staffing level.

Audit results

Summary of audit findings

5.128 There were no moderate or significant audit issues noted during the 2004–05 audit.

National Museum of Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	45.18	45.82
Total expenses	41.13	45.03
Total assets	298.03	274.62
Total liabilities	3.66	4.10

5.129 There has been no significant movement in revenues of the National Museum of Australia (NMA).

5.130 The decrease in expenses for 2004–05 was due to reduced costs associated with exhibition related expenditure.

5.131 The increase in assets represented the revaluation of property, plant and equipment assets at 30 June 2005, and increases in cash and investments held due to an underspend against budget for capital purchases and general supplier related expenses.

5.132 The decrease in liabilities was a result of NMA fully repaying a loan.

Audit results

Summary of audit findings

5.133 There were no moderate or significant audit issues noted during the 2004–05 audit.

Special Broadcasting Service Corporation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	208.66	188.08
Total expenses	208.08	185.37
Total assets	215.33	213.53
Total liabilities	92.10	92.29

5.134 The increase in revenues was a result of additional funding from Government for general increases in expenditure and continued funding for the rollout of digital distribution and transmission for regional areas.

5.135 The increase in expenditure was due to several factors. The most significant related to the rollout of digital transmission and distribution for regional areas. There were also increased depreciation costs following the revaluation of assets in July 2004 and greater amortisation of both purchased and commissioned programs, reflecting the increased cost of obtaining rights.

5.136 The increase in assets was attributed to the amount of investments held due to additional funding provided for the extension of the analogue transmission across regional Australia. The amount of inventories increased as a result of purchases of program stock and capitalisation of commissioned programs.

5.137 The reduction in liabilities was a result of a full year effect of the principal reduction of a loan. This was offset by an increase in other payables relating to an unspent portion of appropriations received in 2005 to fund SBS's conversion to digital transmission.

Audit results

Summary of audit findings

5.138 Two audit issues were raised in the final phase of the audit.

5.139 SBS does not have a Business Continuity Plan (BCP). There are currently Disaster Recovery arrangements, which include business continuity, in place for specific areas and SBS has recognised the need to integrate recovery contingencies previously developed by individual business areas. To this extent, SBS has engaged specialist consultants to assist in developing an integrated BCP for the whole organisation.

5.140 SBS does not have a formal Disaster Recovery Plan for key application systems within the organisation. Following the ANAO's recommendation, SBS has commenced development of Disaster Recovery Plans for key application systems.

5.141 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	0	0	2	2
Total	**0**	**0**	**2**	**2**

Telstra Corporation Ltd

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

Comments on non-material entities

5.143 There were no moderate or significant audit issues impacting on non-material entities, with the exception of the Adelaide Symphony Orchestra Pty Ltd, The Queensland Orchestra Pty Ltd and Symphony Australia Holdings Pty Ltd.

Adelaide Symphony Orchestra Pty Ltd

5.144 The Adelaide Symphony Orchestra Pty Ltd identified that there was significant uncertainty as to whether the company would be able to continue as a going concern and whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. An unqualified audit report with an emphasis of matter on inherent uncertainty regarding continuation as a going concern was issued.

The Queensland Orchestra Pty Ltd

5.145 The Queensland Orchestra Pty Ltd identified that there was significant uncertainty as to whether the company would be able to continue as a going concern and whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. An unqualified audit report with an emphasis of matter on inherent uncertainty regarding continuation as a going concern was issued.

Symphony Australia Holdings Pty Ltd

5.146 The Symphony Australia Holdings Pty Ltd identified that there was significant uncertainty as to whether the company would be able to continue as a going concern after 31 December 2005 and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. An unqualified audit report with an emphasis of matter on inherent uncertainty regarding continuation as a going concern was issued.

Defence Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Defence	**Yes**	Q, A	04 Nov 05	▲◆
Army and Air Force Canteen Service	No	✓	09 Dec 05	
Australian Military Forces Relief Trust Fund	No	✓	04 Sep 05	
Australian Strategic Policy Institute Ltd	No	✓	01 Sep 05	
Australian War Memorial	**Yes**	✓	09 Aug 05	
Defence Housing Authority	**Yes**	✓	17 Aug 05	
Defence Service Homes Insurance Scheme	No	✓	26 Aug 05	
Department of Veterans' Affairs	**Yes**	✓	26 Aug 05	
Military Superannuation and Benefits Board of Trustees No. 1	No	✓	30 Sep 05	
Military Superannuation and Benefits Scheme	No	A	29 Sep 05	◆
Royal Australian Air Force Veteran's Residences Trust Fund	No	✓	26 Aug 05	
Royal Australian Air Force Welfare Trust Fund No. 3	No	✓	04 Sep 05	
Royal Australian Navy Relief Trust Fund	No	✓	23 Sep 05	

✓: 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
☞: financial year end date other than 30 June 2005

✑: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio Overview

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

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

Department of Defence

5.149 The Government has established the following five strategic objectives for the Department of Defence (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.

Financial Statements

Statement by the Chief Executive Officer and Chief Finance Officer

5.150 In submitting the 2004–05 Defence financial statements to the Auditor-General on 3 November 2005, the Secretary of Defence and the Acting Chief Finance Officer certified that due to uncertainty regarding a number of material account balances, they could not conclude that the financial statements of Defence presented a true and fair view.

Audit Qualification

5.151 The Auditor-General's opinion on the financial statements, issued on 4 November 2005, was qualified. The audit qualification arose from a series of significant audit issues that were expressed as limitations on the scope of the audit, covering material aspects of Defence assets and personnel entitlements.[22] This qualification was expressed as an inability to form an opinion, as discussed further in this section.[23]

5.152 The qualified audit opinion is attributable to an internal control environment that requires significant and sustained improvement. Shortcomings are evident in a number of key operational and business support systems and processes, in particular logistics and asset management, finance and personnel. In addition, record keeping practices need considerable

---

22 Limitations on the scope of an audit arise when sufficient appropriate audit evidence does not exist to support a reported balance.

23 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.

improvement. As a consequence of these matters and their pervasive effect, the audit report did not express an opinion as to whether the financial statements presented a true and fair view.

5.153 The audit report also stated that section 48 of the FMA Act had been contravened as Defence's accounts and records did not properly record and explain Defence's transactions and financial position.

Audit Scope Limitations

5.154 The audit scope limitations resulted from an inability to validate and conclude on components of the accounts, due primarily to inadequacies in Defence's key corporate systems and processes. It was not possible to validate $4.43 billion (net) of Defence's assets and $0.90 billion of Defence's liabilities covering:

- General Stores Inventory reported balance of $1.29 billion. This was as a result of material weaknesses in the internal controls over the accurate recording and stocktaking of the inventory quantities, and a lack of documentation and systems controls to confirm and safeguard the accuracy of pricing data. This qualification, in relation to uncertainties over quantities and prices, also affected the General Stores Inventory obsolescence provision of $1.19 billion.

  There are also inventories, referred to as 'not-in-catalogue', which were not reported and thus affected the completeness of the inventory record.[24] The significance of the 'not-in-catalogue' matter had not been quantified by Defence;

- Explosive Ordnance Inventory of $309 million. This was as a result of a lack of appropriate documentation to support the prices used to value that portion of the recorded balance. The amount of the balance subject to uncertainty was less than the prior year due to the acceptance of secondary evidentiary documentation in instances where primary documentation was not available. This qualification, in relation to uncertainties over prices, also affected $366 million of the Explosive Ordnance Inventory obsolescence provision;

- Repairable Items (a component of Specialist Military Equipment) totalling $2.72 billion. This was as a result of material weaknesses in the internal controls over the accurate recording, reporting and stocktaking of the asset quantities, and system controls to safeguard the accuracy of data.

---

[24] 'Not-in-catalogue' refers to asset and inventory purchases, required by Defence to support operational outcomes, which have not been recorded on Defence's inventory and asset logistics management information system, otherwise known as the Standard Defence Supply System (SDSS).

Additional uncertainty existed in relation to the completeness of the reported balance of $2.72 billion due to the cumulative effect of the methods used for setting asset recognition thresholds over a number of years. The methods adopted have resulted in some asset purchases being treated as an expense in the Statement of Financial Performance. Defence had not quantified the cumulative effect on the Statement of Financial Position. Further, there are Repairable Items, referred to as 'not-in-catalogue', which are not reported and thus affected the completeness of the Repairable Item record. The significance of the 'not-in-catalogue' matter had not been quantified by Defence;

- Aspects of Infrastructure, Plant and Equipment, and Intangibles, which are reported in the Statement of Financial Position at $5.42 billion and $415 million respectively. Within the Infrastructure, Plant and Equipment balance, uncertainty exists in relation to the measurement of certain assets with a reported book value of $103 million, as these assets have not been revalued.

  Additional uncertainty existed in relation to the completeness of the recorded balance of Infrastructure, Plant and Equipment, and Intangibles, due to the cumulative effect of the methods used for setting asset recognition thresholds over a number of years, and inadequate asset recording processes. The methods adopted have resulted in some asset purchases being treated as an expense in the Statement of Financial Performance. Defence had not quantified the cumulative effect on the Statement of Financial Position; and

- Employee Leave Provisions totalling $896 million ($443 million reported balance of the Australian Public Service employee leave provision and $453 million of the reported Australian Defence Force employee leave provision). This was as a result of inadequacies in Defence's Australian Public Service and Australian Defence Force employee personnel systems and practices, primarily relating to the capture and recording of data within those systems relating to employee leave records, and the appropriate maintenance of documentation.

5.155 As a consequence of the inadequacies in the Australian Defence Force and Australian Public Service leave provision referred to above, it was not possible to validate the amounts reported within the Executive Remuneration note to the financial statements.

Statement of Financial Position

5.156 The scope limitations noted above affected five line items on the Statement of Financial Position: Specialist Military Equipment; Infrastructure, Plant and Equipment; Intangibles; Inventories; and Employee Provisions. The impact in quantitative terms, affected 8 per cent of Total Assets and 24 per cent of Total Liabilities. The assessed impact on Total Assets, however, did not take into account the impact of the qualification associated with the inventory obsolescence provision, nor the effect of Defence's application of asset recognition thresholds, nor the issue of 'not-in-catalogue' assets, which could materially affect the assessed impact on total assets. The latter two impact on the completeness of the General Stores Inventory records, an aspect of Specialist Military Equipment records (Repairable Items), Infrastructure, Plant and Equipment records, and Intangibles. In addition, several notes to the Statement of Financial Position, which provide a more detailed breakdown of the Statement of Financial Position items, were also affected by the scope limitations.

5.157 Moreover, 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 the transactions and balances of Defence. Accordingly, the quantitative factors, as a whole, together with the qualitative factors, have resulted in uncertainty that was pervasive to the Statement of Financial Position.

Statement of Financial Performance

5.158 The scope limitations noted above had a material impact in quantitative terms which affected the 2004–05 Statement of Financial Performance, including total Expenses from Ordinary Activities, and the Net 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. In addition, several notes to the Statement of Financial Performance were also affected by the uncertainties.

5.159 Further, the uncertainties in relation to the 2003–04 Statement of Financial Position, which resulted in a disclaimer type of opinion, also have a significant impact on the ANAO's ability to assess the 2004–05 Statement of Financial Performance. Defence had not quantified the impact.

5.160 Accordingly, the quantitative and qualitative internal controls factors noted above, together with the significance of the potential effect of any financial adjustments required had the limitations of scope in relation to 2004–05 not existed, including the resultant effect on the reported Net Deficit of $870 million, and the uncertainty in estimating the potential effects of those adjustments, resulted in uncertainty that was pervasive to the Statement of Financial Performance.

Statement of Cash Flows

5.161 Due to the scope limitations noted above, which resulted in uncertainty that was pervasive to the Statement of Financial Performance and Statement of Financial Position, together with the pervasive uncertainty on the comparative Statement of Financial Position as at 30 June 2004, there is uncertainty in the presentation of Net Cash From Operating Activities and Net Cash Used By Investing Activities, including the following line items reported on the face of the Statement of Cash Flows: Cash Used From Operating Activities–Suppliers; and Cash used From Investing Activities – Purchase of Specialist Military Equipment, Purchase of Plant and Equipment, Purchase of Software and Intangibles, and Purchase of Inventory.

Comparative Information

5.162 Due to the disclaimer type of opinion in relation to the 2003–04 Defence financial statements, the ANAO was unable to form an opinion as to whether comparative information in the 2004–05 Defence financial statements was prepared in accordance with the Finance Minister's Orders made under the FMA Act, and gives a true and fair view, in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Audit Qualification Summary

5.163 In quantitative terms, the effects of the audit scope limitations were material to the Statements of Financial Position and Statement of Financial Performance. In qualitative terms, the primary causes of the uncertainties originate from significant weaknesses within the internal control environment and systems and the lack of evidentiary support for certain transactions and balances of Defence. Further, the uncertainties in relation to the 2003–04 Statement of Financial Position, which resulted in a disclaimer of opinion, also had a significant impact on the ANAO's ability to assess the 2004–05 Statement of Financial Performance. Finally, due to the ANAO's disclaimer of opinion in relation to the 2003–04 financial statements, the ANAO was unable to form an opinion on the comparative information in the 2004–05 financial statements.

Financial Results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	17 448.19	15 829.99
Total expenses	18 318.03	16 361.80
Total assets	53 799.84	52 297.57
Total liabilities	3 681.19	5 700.30

5.164 Defence controls assets with a reported value of $53.80 billion, of which $52.65 billion are non-financial assets. Defence's non-financial assets contribute 70 per cent of the General Government Sector non-financial assets. The main components are Specialist Military Equipment ($30.80 billion), Land and Buildings ($11.02 billion), Infrastructure, Plant and Equipment ($5.42 billion) and Inventories ($3.39 billion).

5.165 In 2004–05, Defence reported a net deficit of $870 million. Similarly, a deficit was reported in 2003–04. Whilst the appropriation for outputs increased significantly ($1.11 billion) during this period, this was overshadowed by movements in the write down of assets (increase of $1.65 billion) and supplier expenses (increase of $777 million). The large movement in the write down of assets was due to increases relating to: the provision for obsolescence; detailed impairment assessments for Specialist Military Equipment; stocktakes of General Stores Inventory and Repairable Items; pricing adjustments for General Stores and Explosive Ordnance Inventory and asset revaluations.

5.166 In response to issues identified during the 2003–04 financial statement audit, Defence undertook an extensive revaluation programme of Land and Buildings, Infrastructure, Plant and Equipment assets in 2004–05 that significantly contributed to the substantial movement in assets first found revenue (increase of $428 million). The revaluation programme, which resulted in a net increment to the valuation of assets of $2.40 billion, along with additions to Specialist Military Equipment, contributed to a $270 million increase in the depreciation expense. Similarly, activities under Defence's remediation programme have resulted in a significant increase in the reported balance of Heritage and Cultural assets, from $26 million in 2003–04, to $800 million in 2004–05. Such increases were offset to a degree by the $1.08 billion reduction in the reported inventory holdings which was largely due to substantial increases in the provisions for obsolescence resulting from audit remediation activities.

5.167 Despite a reduction in employee expenses of $624 million in 2004–05, Defence continues to be a significant employer within the Australian Government with reported employee expenses of $6.17 billion. Factors relating to this decrease include a reduction in the average staffing levels from 90 825 in 2003–04 to 88 842 in 2004–05 and the factors mentioned in the paragraph below on employee provisions.

5.168 Significant reductions were reported in employee provisions (decrease of $2.16 billion) and lease liabilities (decrease of $110 million). A significant component of the reduction in employee provisions is explained by the transfer of responsibility for the military compensation scheme (reported at $1.91 billion in 2003–04) to the Department of Veterans' Affairs on 1 July 2004. In addition, there was a decrease in the provision for redundancies due to outsourcing activities in 2003–04, as well as decreases in leave provisions due to actuarial reviews, and more leave being taken than accrued.

5.169 The reduction in lease liabilities is attributable to the residual terms of finance leases reducing by a further year without the commencement of any new finance leases, in addition to a number of leases being paid out.

5.170 The scope limitations noted above and issues with the quality of some of the underlying financial data have a material impact on the Statement of Financial Position and Performance. Consequently, any analysis performed using information sourced from Defence's financial statements should have regard to these factors.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	745.94	862.12
Total expenses	2 793.45	2 319.50
Total assets	1 341.74	1 367.82
Total liabilities	30 443.88	29 064.00

5.171 Administered revenue decreased by $116 million, primarily due to a reduced dividend (decrease of $160 million) from the Defence Housing Authority (DHA), which has been offset to a degree by an increase in Military superannuation contributions received (increase of $53 million). The variation in dividends received from DHA is due to Defence receiving a $150 million special dividend from DHA in 2003–04, which did not occur in 2004–05.

5.172 Administered expenses increased by $474 million due mainly to an increase in employee related superannuation expenses (increase of $467 million). This increase is attributable to the results of actuarial reviews, which take into account factors such as projected personnel numbers, general wage growth and interest costs.

Summary of Significant Audit Findings and Remediation Activity

Summary of Audit Findings

5.173 The following table reflects the status of Category A and B issues raised in the interim stage of the 2004–05 audit. As the Defence financial statements were not finalised and signed until 4 November 2005, the table does not reflect new issues that arose in the final stage of the audit. While the qualitative factors of any new significant issues are discussed below, the quantum of these issues will be formally reported to Defence in the ANAO's closing report on the findings of the 2004–05 audit and to Parliament in our report on the interim phase of the audit of financial statements for 2005–06.

Ratings	Issues Outstanding at November 2004	Issues Resolved Prior to June 2005	Issue Reclassified or Merged*	New Issues to June 2005	Closing Position at June 2005
A	27	0	1	14	40
B	48	10	3	14	49
Total	**75**	**10**	**4**	**28**	**89**

* This column represents the net number of issues that have either been reclassified or merged into another issue.

5.174 Significantly, there has been a substantial increase in Category A findings, reflecting the finalisation of the 2004–05 interim audit. Separately, Defence has made progress in resolving a number of the issues previously outstanding, including preparing 'audit closure packs' for nine Category A findings and 33 Category B findings (of which 10 Category B findings have been satisfactorily resolved).[25] In addition, a further 11 audit closure packs relating to Category C findings have been provided to the ANAO, of which 10 Category C findings have been closed by the ANAO. As a number of the audit closure packs were provided towards the end of the final audit cycle, these will be assessed by the ANAO prior to issuing the closing report. However, there are also a number of closure packs which relate to balances that are subject to qualifications and therefore may not be resolved in the short-term.

5.175 The above findings are further categorised in the following table in which the outcomes of the 2004–05 audit, in terms of the balances subject to qualifications and other key issues, are summarised.

---

25 Audit closure packs refer to formal advice received from Defence when Defence considers an audit finding has been satisfactorily addressed.

Table 5.1
Audit Findings

Items subject to Audit Qualification	No. of Category A Findings*	No. of Category B Findings*	Significant audit findings noted in the 2004–05 financial statement audit
General Stores Inventory & Repairable Items – *Quantities* (covered by Defence Remediation Plans S1, S3, S10 & S11 – see Table 5.2) General Stores Inventory – *Pricing* (covered by Defence Remediation Plan S2 – see Table 5.2) Refer to paragraphs 5.180 to 5.198	16	4	• Significant weaknesses identified within the SDSS IT control environment and across a series of significant Business Process Controls, plus, a system limitation (date-boundary) issue within SDSS referred to as the 'Julian Date' was noted. • Material discrepancies identified through stocktakes. • Uncertainty over the completeness of Inventory and Repairable Item records due to certain assets not being recorded within SDSS, and also as a result of the application of certain asset recognition thresholds. • Both legacy and in-year pricing records could not be validated. • Uncertainty over the balance of the Inventory Provision for Obsolescence due to pricing and quantity issues.
Explosive Ordnance – *Pricing* (covered by Defence Remediation Plan S4 – see Table 5.2) Refer to paragraphs 5.187 and 5.192 to 5.198	4	7	• Reduction in uncertainty due to the sourcing of secondary evidentiary documentation. • Uncertainty over the balance of the Provision for Obsolescence due to pricing issues and the inconsistent application of such policy. • However, there were discrepancies in Explosive Ordnance quantities, weaknesses around the disposal process with external contractors, and warehouse management issues noted.
Military & Civilian Leave Provisions & Executive Remuneration Note (covered by Defence Remediation Plans S5, S6 & S7 – see Table 5.2) Refer to paragraphs 5.199 to 5.205	4	4	• Reduction in uncertainty over Military long service leave. • Increase in uncertainty over Civilian leave balances. • High levels of missing documentation and high gross error rates within leave balances tested. • An overpayment of certain ADF personnel arising from the Trade Pay Review remained outstanding.

Items subject to Audit Qualification	No. of Category A Findings*	No. of Category B Findings*	Significant audit findings noted in the 2004–05 financial statement audit
Land & Buildings (covered by Defence Remediation Plans S8 & S12 – see Table 5.2) Refer to paragraphs 5.209 to 5.211	1	4	• Completion of valuation activity has removed the valuation uncertainty that was qualified in 2003–04.
Infrastructure, Plant & Equipment & Intangibles (covered by Defence Remediation Plans S8 & S12 – see Table 5.2) Refer to paragraphs 5.209 to 5.214	-	2	• Completion of valuation activity has removed much of the uncertainty; residual uncertainty of $103 million reported in the financial statements. • Uncertainty over the completeness of the recorded balance due to the application of certain asset recognition thresholds, and inadequate asset recording processes.
Financial Framework & Legislative Compliance (covered by Defence Remediation Plans G1 & S9 – see Table 5.2) Refer to paragraphs 5.220 to 5.221	6	6	• Section 48 breach of the FMA Act regarding the maintenance of proper accounts and records. • Financial statement close process was not sufficiently robust to meet Whole of Government reporting timetable. • Material adjustments required to financial statements provided for audit on the 17 August 2005.
Sub Total	31	27	

Areas with other Audit Findings	No. of Category A Findings*	No. of Category B Findings*	Audit findings noted in the 2004–05 financial statement audit
Suppliers	-	2	• An audit finding closure pack forwarded to the ANAO for audit review and clearance.
Leases and Commitments (covered by Defence Remediation Plan S13 - see table 5.2) Refer to paragraphs 5.218 to 5.219	1	-	• Some duplication of commitments and reconciliation weaknesses noted. • Uncertainty over the classification of a material lease.

Areas with other Audit Findings	No. of Category A Findings*	No. of Category B Findings*	Audit findings noted in the 2004–05 financial statement audit
Specialist Military Equipment Refer to paragraphs 5.206 to 5.208	4	7	• Tool-kits developed by Defence to assist project managers in their reconciliation of Assets Under Construction balances. • Management reviews to identify potential impairment indicators continue to be refined.
IT Systems Refer to paragraphs 5.215 to 5.217	3	12	• Issues surrounding user access, dual access, change management and configuration identified. • A number of previous audit findings resolved; progress made on remediation and some closure packs forwarded to ANAO for clearance.
Revenue	1	1	• No new significant issues.
Sub Total	9	22	
Total per Interim Management Letter 2004–05	**40**	**49**	

* The reported number of findings includes IT system related issues and audit issues relating to the relevant financial statement balances

Summary of Defence Remediation Activity

5.176 Many of the issues raised during the current year audit and carried over from the prior year can be categorised as management oversight and internal control matters. Defence continues to apply a significant quantum of resources to the assessment, correction and substantiation of records in a positive response to the range of deficiencies noted in key Defence operational and financial systems. The remediation plans require significant corporate support and an ongoing assessment of both the timeliness and prioritisation of these remediation activities. Defence, having completed the first audit cycle of remediation activity, has remediated the previously reported issue surrounding the valuation of Land and Buildings and the accuracy of the Military Employee Long Service Leave Provision.

5.177 A key aspect of the remediation process is the establishment of an overarching framework of financial controls across Defence. To that end, a project plan has been developed and officially launched by the Secretary of Defence in late June 2005. Defence expects it will take five years to reach the desired end-state. The ANAO strongly supports this initiative, recognising that it will take time and commitment of staff in Defence for the framework to achieve the intended outcomes of enhanced financial management and financial reporting in Defence and the Defence Materiel Organisation (DMO).

5.178 Defence has also acknowledged that appropriate training is also required in order to achieve the successful execution of the remediation plans. In that regard, Defence has embarked on a significant skilling programme in 2004–05, including the participation of a significant number of APS and ADF staff in a range of financial management and systems training activities. The strategic objective of the training is to facilitate absorption of accrual information into the management framework. This is a very important strategy being pursued by Defence, which the ANAO fully supports.

5.179 The steps taken by Defence in 2004–05 to remediate outstanding issues and such actions are summarised in table 5.2: Defence Remediation Activities, which follows. Each of the significant audit findings is then discussed in the paragraphs following, with a detailed description of the issue, the remediation activity observed during 2004–05, the outcomes of the audit, and recommendations in order to resolve any outstanding matters.

Table 5.2

Defence Remediation Activities

Defence Remediation Plans [26]		Defence Activity in 2004–05 [27]
G1	Financial Controls Framework Refer to paragraphs 5.177 to 5.178	• Overall plan developed and endorsed. • Improvements within the internal control framework associated with output and outcome reporting.
G2	Improving the ANAO Annual Audit Process[28]	• Financial Remediation Program Office established with regular engagement with the ANAO.
G3	Financial Management and Systems Training Refer to paragraph 5.178	• Financial management training introduced for members of the Defence Senior Leadership Group and senior management staff.

[26] Details of each remediation plan are outlined in the ANAO's Audit Report No.56, 2004–05 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005.*

[27] Outlines the main activity identified in the context of the 2004–05 financial statement audit programme.

[28] Defence's timeliness and utilisation of appropriate methods in dealing with various financial reporting matters is a significant factor that Defence management need to address. To that end, the external financial reporting standards required under the FMA Act, which are well defined and based on generally accepted accounting principles, coupled with the financial management training envisioned under 'G3' in the table above, should provide the impetus in this regard.

Defence Remediation Plans [26]		Defence Activity in 2004–05 [27]
S1	Stores Record Accuracy Refer to paragraphs 5.180 to 5.190	• 100% stocktake of Defence National Storage Distribution Centre (Moorebank) completed. • 100% stocktakes of other major ADF locations continuing. • Revised stocktake instructions promulgated and additional resources allocated to compliance and assurance logistics teams. • Plans to address SDSS IT security controls, the 'Julian Date' issue, and associated Business Process Controls commenced.
S2	General Stores Inventory Pricing and Accounting Refer to paragraphs 5.192 to 5.198	• Established a quality assurance programme for ongoing price verification and engaged an external contractor to analyse and stratify pricing data.
S3	Supply Customer Accounts (Repairable Items – a component of Specialist Military Equipment) Refer to paragraphs 5.180 to 5.190	• Identification and allocation of responsibility for certain military equipment asset accounts, know as Supply Customer Accounts, completed. • Defence stocktakes in progress.
S4	Explosive Ordnance Refer to paragraphs 5.192 to 5.198	• Improved reconciliation procedures implemented. • Achieved some reduction in pricing uncertainty.
S5	Military Leave Records Refer to paragraphs 5.199 to 5.205	• Remediated issues with Military personnel long service leave. • Commenced an analysis of over/under payments on cessation. • A review addressing an overpayment of certain ADF personnel in progress.
S6	Civilian Leave Records Refer to paragraphs 5.199 to 5.205	• Progressed a pilot review of the stratification of leave balances. • Performed a review of the processes over the maintenance of leave records.
S7	Executive Remuneration Refer to paragraph 5.204	• Implemented a revised Executive Remuneration Note management system. • Commenced an analysis of the effect of missing documentation on senior executive leave balances.

	Defence Remediation Plans [26]	Defence Activity in 2004–05 [27]
S8	Property Valuations Refer to paragraphs 5.209 to 5.211	• Documented the property valuation process. • Provided greater clarity of requirements to the independent valuer and obtained a greater understanding of the valuers reports. • Remediated issues by conducting a full revaluation, by the AVO, of the Defence Land, Buildings, Infrastructure, Plant and Equipment portfolio, with the exception of $103 million of information, communication and technology equipment. • Commenced the tender process for valuations for the next 3 years.
S9	Preventing the Escalation of Category A and B Findings Refer to paragraph 5.220	• Progressed remediation on a large number of findings and engaged with the ANAO on their resolution.
S10	Stockholding Controls Refer to paragraphs 5.188 to 5.190	• SDSS diagnostic reports developed to assist in identification and validation of stock movements.
S11	Standard Defence Supply System Items (SDSS) 'not-in-catalogue' Refer to paragraph 5.186	• Review of relevant procurement and stockholding policy conducted. • Framework established, including surveys, data from site visits and interrogation of the general ledger data to quantify the extent of the issue.
S12	Provision for Contaminated or Potentially Contaminated Land, Buildings and Infrastructure Refer to paragraph 5.211	• Remediation plan developed and Defence has advised a review of extant policies has been performed; a priority sites investigation programme implemented; and a pilot review to be undertaken.
S13	Commitments and Accounting for Leases Refer to paragraphs 5.218 to 5.219	• Progressed the identification, recording and classification of leases. • Implemented improvements to report functionality.

Significant Audit Findings and Remediation Activity

Quantities - General Stores Inventory, Repairable Items and Explosive Ordnance

5.180 General Stores Inventory and Repairable Items are managed on the Standard Defence Supply System (SDSS). In the prior year, the ANAO reported a significant degree of uncertainty around the General Stores Inventory balance and the Repairable Item balance (which is a component of Specialist Military Equipment), due primarily to:

- significant weaknesses in the internal controls over stocktaking;
- a failure to accurately record and report physical asset quantities; and
- inadequate system controls to safeguard the accuracy of data.

5.181 In response to an internal Defence review, and issues raised by the ANAO in relation to the overall integrity of the underlying asset and inventory data within SDSS, Defence developed a series of remediation plans. As reported previously, the risks associated with these plans included whether[29]:

- the plans would fully remediate the underlying stock quantity inaccuracies by 30 June 2005;
- the SDSS control environment (both IT system and business processes) would be sufficiently robust to maintain the accuracy of the stock data, post the 100 per cent stocktakes;
- those assets not reported at balance date are able to be quantified; and
- ongoing compliance requirements are maintained beyond the remediation plan.

5.182 The ANAO's assessment of the reliability of stock balances reported within SDSS, and in Defence's financial statements, is based on both the assessed reliability of the control environment as well as year-end substantive procedures, including stocktakes.

5.183 The ANAO's assessment of SDSS controls, and the related business and accounting processes, resulted in the ANAO placing limited reliance on these controls to produce reliable quantity records for General Stores Inventory and Repairable Items for financial reporting purposes. Significant anomalies across all elements of the controls framework were identified, including:[30]

- weaknesses across the application access environment impacting security within SDSS. Issues identified included the existence of an excessive number of SDSS users who had full administrative access to the system, users who could perform incompatible duties within SDSS, and no process to assess whether users had been granted appropriate access to SDSS. The weaknesses identified in the security structure reduced the reliance that could be placed on many of the business process controls;
- concerns regarding the future performance of SDSS in relation to a date boundary issue (referred to as the 'Julian Date'); and
- business process compliance issues, identified by Defence, which were not fully remediated by 30 June 2005.

---

29 These matters were previously outlined in the ANAO's Audit Report No.56, 2004–05 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005.*

30 ibid.

5.184 In view of the limited reliance the ANAO placed on the internal controls, an extensive stocktake programme covering major Defence establishments was completed. The stocktake results identified significant discrepancies for General Stores Inventory and Repairable Items, including quantities of stock that were not recorded or managed on core asset systems, and, conversely, quantities of stock which could not be located, or identified in a timely manner. Defence's own stocktakes conducted throughout the financial year had resulted in large volumes of inventory and asset adjustments being processed as part of the preparation of the financial statements.

5.185 Defence has recognised that it will take several more years, due to the size and complexity of their stock holdings, to fully remediate the underlying causes of stock record inaccuracies. Stock quantity records within SDSS are used for both financial reporting and logistics management, therefore impacting not only the reported financial balance (and associated transactions), but also the quantity of stock held and its location (key requirements for defence logistics decisions). Notwithstanding the performance of an extensive stocktake programme, the underlying controls within SDSS have not been sufficient to maintain the integrity of data subsequent to its input into SDSS. Major causes that have contributed to the inaccuracies include:

- failure to comply with defence promulgated policy and procedures;
- inaccurate stock location information within SDSS;
- unreconciled stock accounts for significant periods of time, including those which record sensitive assets; and
- weaknesses within general warehouse management practices, including inaccuracies from defence stocktakes and a lack of review of stocktake adjustments processed into SDSS.

5.186 In addition, Defence has identified, but not quantified, a category of assets, referred to as 'not-in-catalogue', which are not recorded on SDSS and has created uncertainty regarding the completeness of the recorded General Stores Inventory and Repairable Item balances. The uncertainty arising from the non-recording of these assets has impacted the integrity of the recorded balance for financial reporting purposes. In addition, there may exist a logistics management issue as the actual types and quantities of stock held have not been captured within the primary logistics system.

5.187 Records of Defence's Explosive Ordnance Inventory are maintained on the COMSARM system. The ANAO testing generally established the accuracy and reliability of the system for financial reporting purposes. However, the following issues, which represent a business risk for Defence, were noted:

- instances of explosive ordnance stock was removed for disposal through the use of specialised contractors, without documentation supporting the quantities removed and disposed; and
- inaccurate recording of stock locations within COMSARM. Stock location accuracy is required to ensure efficiency for logistics purposes and to ensure compliance with explosive licensing requirements. A number of stock quantity anomalies were also identified during the stocktake process.

5.188 Notwithstanding the continuing weaknesses surrounding the accuracy of quantities reported for General Stores Inventory and Repairable Items, the ANAO observed an overall commitment by Defence to improve warehouse and stock management practices in 2004–05. However, for stock records to be accurate in the longer term, a strong internal control framework will need to be implemented. To this end, to achieve sustainable stock record accuracy, Defence has acknowledged that a change management strategy, centred on the following elements, is required:

- establishment of a compliance and assurance framework, including the allocation of additional resources for all Defence groups to ensure conformity against revised policies, processes and procedures;
- ongoing performance management;
- enhanced accountability, including the quarterly reporting of stocktake results to the Defence Audit Committee;
- improved financial awareness; and
- the establishment of the SDSS and IT Security Control Framework project.

5.189 Regarding the establishment of the SDSS and IT Security Control Framework project, Defence has undertaken significant remediation work to address the security and control issues reported for the SDSS application. Both frameworks have now been published and training on the implementation is due to be completed by the end of December 2005. In addition, plans have been promulgated to address the Julian Date issue.

5.190 The ANAO considers the development of the SDSS and IT Security Controls Framework to be a comprehensive and robust model. The information provided to the ANAO, while un-tested, should provide Defence with the means to ensure compliance against measurable control mechanisms and confidence over the financial and operational information reported in SDSS.

Provision for Obsolescence

5.191 Significant increases in the Provision for Obsolescence for both General Stores Inventory and Explosive Ordnance were reported in 2004–05. Approximately 48 per cent of General Stores Inventory and 19 per cent of Explosive Ordnance Inventory are provided for through the obsolescence provision at 30 June 2005. Such provisions are normally made by an entity for those assets it has previously acquired that are no longer considered likely to provide a benefit to the organisation. The respective provisions at the end of 2004–05 were $1.19 billion and $465 million. In respect of both General Stores Inventory and Explosive Ordnance, there was insufficient evidence to support significant components of the provisions and other components appeared contrary to Defence's stated policy for provisioning.

Pricing - General Stores Inventory and Explosive Ordnance

5.192 Pricing information to support the reported value of General Stores Inventory and Explosive Ordnance Inventory are recorded in the SDSS and COMSARM systems, respectively. In 2003–04, the ANAO reported that there was a lack of documentary evidence to support the value reported for General Stores Inventory ($2.03 billion) and a portion of the value reported for Explosive Ordnance ($845 million). In addition, the controls to protect and maintain the ongoing pricing data recorded in SDSS for General Stores Inventory were found to be inadequate. The ANAO also identified instances of inventory being recorded at zero-value and at notional prices, including such items purchased in the 2003–04 financial year.

5.193 Defence developed specific remediation plans to address issues surrounding the overall integrity of pricing data within SDSS and COMSARM. As reported previously, certain risk factors associated with these remediation plans included whether the:

- plans would fully remediate the underlying valuation uncertainties across legacy records by 30 June 2005;
- SDSS control environment would be sufficiently robust to safeguard the accuracy of prices to comply with Defence's own accounting policies;
- application of a statistical model would correlate to Defence's experience, where Defence acknowledges that pricing records may not exist; and
- recording and reporting of changes to valuation requirements as a result of AEIFRS would be achieved (that is the comparison of 'cost' and 'replacement cost').

5.194 The ANAO's assessment of SDSS controls, and the related business and accounting processes, resulted in the ANAO placing limited reliance on these controls to produce reliable pricing records for General Stores Inventory; that is, SDSS has inadequate system controls to assure price information is correctly entered into SDSS and subsequently safeguarded. The ANAO also identified a large number of stock items recorded at zero-value, a number of which were created in the current year. In addition, other stock items are recorded at a very low notional value and some items had negative balances.

5.195 During 2004–05, results of price remediation activities completed by Defence (including internal Defence quality assurance procedures) for General Stores Inventory was that the value of a relatively small component of the inventory could be substantiated. The balance, however, could not. Defence advised that it was not possible to recalculate the Weighted Average Cost at 30 June 2005 with an acceptable level of assurance using the available data. That said, the progress noted previously regarding the SDSS and IT Security Control Framework, should contribute to providing adequate controls to protect records within SDSS once they have been verified.

5.196 More progress is being made in remediating Explosive Ordnance pricing information within the COMSARM system. The value of items subject to pricing uncertainty has reduced from $845 million in 2003–04 to $675 million (being the net balance of $309 million plus $366 million relating to the provision for obsolescence) in 2004–05. The reduction is largely due to the remediation activity undertaken by Defence that is directed at locating supporting documentation for legacy prices.

5.197 Regarding General Stores Inventory and Explosive Ordnance Inventory, Defence has indicated that in 2005–06, emphasis will be given to:

- ensuring financial specifications for a replacement logistics system are adequately defined;
- furthering remediation of pricing information, including use of surrogate price sources (however, Defence has noted that cost and effort may curtail this work); and
- directing efforts to eliminate gross errors in pricing, such as zero prices, suspect and notional prices.

5.198 The ANAO acknowledges Defence's efforts to remediate these issues. Nevertheless, due to time and resource constraints associated with the various remediation plans in place (including tightening system controls and underlying business processes), implementation of AEIFRS reporting requirements (including quantifying the AEIFRS impact on the Defence financial statements), Defence will face significant challenges to fully remediate the pricing issues by 2005–06 year-end.

Military and Civilian Leave Processes

5.199 For the last two years, the ANAO has observed and reported inadequate controls and processes within Defence's personnel systems due to insufficient supporting documentation being available, and unacceptable rates of errors where documentation did exist. As a result, there was uncertainty about the accuracy and completeness of the entire balance for Military leave provisions, together with issues noted within Civilian leave recording practices. These issues also impacted on the accuracy of the disclosures made in respect of Executive Remuneration. The ANAO has previously noted that Defence had developed a range of remediation plans to resolve the internal control issues in relation to leave records and provisions, including for executive officers.[31]

5.200 PMKeyS is Defence's human resource management information system. It is used to process payroll and leave for Civilian employees and leave only for Military personnel. During 2004–05, the ANAO reported significant control weaknesses to Defence on:

- processing of Civilian payroll transactions being subject to insufficient checking, authentication, segregation of responsibilities and review; and
- system users being granted unapproved access resulting in the risk that appropriate segregation of duties is compromised, for processing of both Military and Civilian personnel transactions.

5.201 Remediation activity in 2004–05 substantiated Defence's liability for long service leave for Military personnel. However, shortcomings in supporting documentation remain in respect of the liability for annual leave of Military and Civilian personnel.

5.202 In respect of the Military annual leave, work undertaken by Defence noted in various draft reports that Military members cannot rely on the PMKeyS balances and identified the number of members with errors in their reported balances as between 41 per cent and 64 per cent across the three Services. Final Defence reports issued for two of the three services confirmed that individuals cannot have confidence that PMKeyS leave balances are correct, due to the high level of gross errors in the sample results. Moreover, there were high levels of missing documentation (being an average of 17 per cent of the transactions tested). Such high levels of missing documentation cast

---

[31] ibid.

significant uncertainty over the movements in leave balances recorded on PMKeyS, as leave transactions cannot be validated, particularly as the impact of missing documentation had not been robustly quantified by Defence.

5.203 The ANAO has previously reported Category A findings in relation to Defence's internal control environment regarding leave application processing. In respect of Civilian leave balances, Defence's analysis identified average missing documentation in the order of 16 per cent for Civilian annual leave. As mentioned above, missing documentation is a significant concern, as it prevents the validation of transactions in the system. Further, the Civilian long service leave balances of the individuals tested, that had taken leave, were not without some anomalies that require further validation to substantiate the balance. Notably, inadequacies were also found in the project management of the preparation of this component of the financial statements, with agreed methodologies not being applied. As a consequence, the planned validation exercise being conducted by Defence was not completed for Civilian annual leave and long service leave balances in the 2004–05 financial statements. Defence has advised that in 2005–06 further sampling of leave records may be undertaken, supplemented by the verification of balances. This will involve pursuing missing documentation and reviewing processing controls, including the conduct of audits on records of Military personnel who cease service.

5.204 Due to the limitation of scope associated with the Military and Civilian leave provisions, the Executive Remuneration Note (containing information pertaining to Military and Civilian leave provisions), for which disclosures are required regardless of their materiality, as required by the FMOs, could not be reliably certified. During 2003–04, Defence actively pursued the resolution of this matter by focussing on the Star Rank/Senior Executive staff and by reviewing all appropriate documentation. However, given the continuing lack of supporting documentation noted above, Defence's analysis in 2004–05 suggests the possibility that approximately 16 per cent of executive staff may be recorded in an incorrect remuneration band.

5.205 In the 2003–04 financial statements, Defence recognised $9.7 million in Other Receivables related to the overpayment of ADF personnel, referred to as the Trade Pay Review. This issue arose due to administrative errors associated with members either not being trained to the level corresponding to their remuneration, or incorrect payments being processed. Further to comments made previously regarding inadequate management oversight with respect to personnel transactions, this issue was not detected in a timely manner by Defence's review processes. Defence has been working since March 2004 to scope and rectify the issue. No revision was made in 2004–05 concerning the recoverability of this receivable and the issue is still to be resolved.

Assets Under Construction (AUC)

5.206 Defence's commitment to the acquisition of Defence platforms and major items of equipment is significant, and will necessarily span a number of years. As a result, accounting for these acquisitions is complex and requires specialist skills. A robust AUC management framework is therefore critical to ensure the completeness and accuracy of the reported AUC balance.

5.207 Significant efforts were made by Defence in 2004–05 to develop tool kits to assist project managers in managing projects effectively and efficiently. Whilst ANAO acknowledges that this was a major improvement compared to prior years, the following issues were identified during project reviews:

- inconsistencies in project management across various divisions and concerns about the adequacy of quality assurance processes;
- staff with non-financial background being involved in project accounting;
- the retention and management of relevant documentation varied across the various divisions; and
- management reviews to identify potential impairment indicators within AUC, where applicable, required further improvement.

5.208 These issues were the main factors that resulted in a number of significant audit adjustments during the audit of the AUC balance, particularly relating to impairment assessments. As a consequence, adjustments were processed during the preparation of the Defence financial statements.

Land and Buildings; Infrastructure, Plant and Equipment

5.209 During the 2003–04 audit, significant weaknesses were identified in the control environment surrounding the valuation of Land and Buildings and Infrastructure, Plant and Equipment that gave rise to uncertainties over aspects of the reported values. The uncertainties were the consequence of items not being revalued due to the application of predetermined thresholds, certain finance lease assets not being revalued, and other asset valuation matters due to insufficient management oversight, analysis and review. These matters were reported in Audit Report No.21 2004–05, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*.

5.210 In response, Defence developed a remediation plan to address the issues raised and these were reported in ANAO Audit Report No.56 2004–05 of 2004–05. The 2004–05 audit found that the plan was largely executed, with the exception of the revaluation of information, communication and technology equipment, which will now be completed in 2005–06.

5.211 Notwithstanding the progress made regarding asset valuations, there remains scope to further strengthen associated management oversight, analysis and review functions. Regarding the move to AEIFRS this should include:

- determining and monitoring the frequency of independent valuations noting that AEIFRS requires that each year the reported value is not materially different from its fair value;
- identification and valuation of decontamination provisions and contingencies. With the application of AEIFRS from 2005–06, Defence will face greater reporting requirements in respect of these; and
- the application and monitoring of asset capitalisation thresholds (as detailed below).

Asset Purchases Not Capitalised

5.212 Consistent with accepted management practices Defence has adopted threshold amounts for the capitalisation of asset purchases. That is, assets acquired at less than a predetermined threshold were expensed. In adopting such an approach, Defence should monitor the impact of these policies and ensure compliance with relevant accounting standards and other mandatory requirements, including the application of materiality. In finalising its financial statements, such analysis by Defence to support the adopted capitalisation thresholds was limited.

5.213 As such, uncertainty continues to exist over the completeness of the recorded asset balances for Repairable Items, Infrastructure, Plant and Equipment, and Intangibles. Further, it was noted that insufficient descriptions were being entered into the financial management information system (FMIS) for a significant number of transactions (for example, in 2004–05 Defence noted that some 90 000 transactions had insufficient descriptions entered into the FMIS). Such practices limit the visibility management has over the nature of transactions and the ability to appropriately manage, recognise and report transactions and assets held.

5.214 The ANAO has held preliminary discussions with Defence over measures that will assist the remediation of this issue. Steps that need to be considered include:

- reconfiguring the current general ledger structure to facilitate future analysis of capitalisation thresholds;
- ensuring transactions are processed with appropriate descriptions; and
- regularly analyse related information and monitor and review the capitalisation thresholds that are being applied.

ROMAN (General Ledger)

5.215 ROMAN, which is Defence's FMIS is generally stable, and is critical to the financial reporting and management of the Department. Nevertherless, weaknesses were reported in ANAO Audit Report No.56 2004–05 and the 2004–05 Interim Report to Defence. Many of the issues reported by the ANAO concern the administration of user access, reliance on process controls managed by a large number of Defence groups, Accounts Payable data integrity, dual access to both DMO and Defence company codes, management of interfaces to ROMAN, and reliance on control environments external to the FMIS where significant issues related to reliability have been identified.

5.216 In response, Defence has undertaken remediation activities and provided closure packages to the ANAO for a number of prior year findings. The closure packages have been evaluated, and included for testing in the ANAO's work program for the 2005–06 audit cycle.

5.217 Notwithstanding the progress that has been made in relation to access management, there continue to be issues surrounding the high number of users with access to systems, including dual access between the Defence and the DMO general ledgers. The ANAO has been involved in discussions over measures that will assist the remediation of these issues.

Leases and Commitments

5.218 In 2003–04, the ANAO reported one Category A finding on the identification and recording of leases and commitments. Issues included the completeness, accuracy and classification of recorded leases. As a result, Defence has implemented a remediation plan, which includes a review of lease classifications. To that end, discussions between the ANAO and Defence are ongoing regarding certain lease transactions.

5.219 Regarding commitments, issues included the recognition criteria Defence applied and an inadequate audit trail. As a result, Defence has implemented a remediation plan and has made significant progress from the prior year in the preparation of the Schedule of Commitments. This was particularly notable in the areas of planning, report functionality, and the purging of invalid items. However, the ANAO identified a number of significant errors, including duplicate reporting of Commitments and inaccurate disclosure of future year payments. The errors remained unidentified by Defence due to the lack of effective quality assurance processes and weaknesses within the reconciliation process. Further, issues continue to exist regarding the completeness and accuracy of lease information incorporated into the Schedule of Commitments. Adjustments were made for errors identified during the 2004–05 audit. Remediation activities in 2005–06 should focus on strengthening the reconciliation and quality assurance processes.

Remediation of Audit Findings

5.220 In ANAO Audit Report No.56 2004–05, it was reported that increased management focus was required on clearing ANAO and Defence Management Audit Branch audit findings. During the completion of the audit, it was noted that progress has been made in terms of removing the possibility for management to extend completion dates in reporting progress against audit recommendations. However, subsequent advice to the Defence Audit Committee, by Defence Management Audit Branch, stated that there has been some deterioration with respect to the unsatisfactory implementation of recommendations. Specifically, 33 per cent of Level 1 (high risk) and 40 per cent of Level 2 (medium risk) recommendations were not satisfactorily implemented during the April to June 2005 quarter, despite being reported by management as having been completed. Further management attention of this issue is required to ensure the adequate and timely resolution of audit findings. Importantly, this is being actively monitored by both Defence's Management Audit Branch and the Defence Audit Committee.

Financial Statement Close Process

5.221 Defence completed its financial statements process and signed the financial statements on 3 November 2005. As in prior years, this was significantly later than the Government deadline of 30 July 2005 for clearance of financial information to Finance and adversely impacted on the Whole of Government reporting timetable. The delays were primarily caused by:

- weaknesses surrounding the Defence management quality assurance framework;
- a significant number of revisions to the financial statements from the initial draft set of accounts of 17 August through to signing. Material movements in both the balances reported and changes to the presentation and disclosure within the accounts occurred during this period; and
- weaknesses in Defence's project management of Defence resources and deliverables.

Defence Material Organisation (DMO) as a Prescribed Agency

5.222 Consistent with a Government decision following the Defence Procurement Review (Kinnard) in 2003 the DMO became a prescribed agency, effective from 1 July 2005. Efforts to achieve this objective have been ongoing for over a year. The ANAO understands that many of the key decisions around the separation of DMO from Defence have been made and are now being implemented. Defence and the DMO will transact at arms-length with a significant number of service agreements underpinning their relationship and defining expectations and responsibilities. Nevertheless, some of the accounting implications associated with the business model have recently been revisited regarding Inventory and Assets Under Construction. As a result, both Defence and DMO may need to reverse/re-transact a number of months of transactions associated with inventory in the respective financial systems. As noted in ANAO Audit Report No.56 2004–05, the accounting for various Defence assets, between Defence and DMO, should reflect the actual management and control structures that Defence and DMO will have in place.

5.223 Defence advised in September 2005, that the Defence Committee had substantially revised the planned Defence/DMO allocation of Balance Sheet responsibilities, such that DMO had responsibility for managing Assets Under Construction while Defence takes responsibility for the management and control of General Stores Inventory, Fuel and Explosive Ordnance.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

5.224 Defence has disclosed in their financial statements that it has not been able to quantify the financial impact of adopting AEIFRS. Further, Defence disclosed that this will not be completed until 30 June 2006. Defence has advised that, in view of the uncertainties surrounding the financial statements, there is uncertainty whether Defence can be a so called 'first-time adopter' pursuant to AASB 1.[32] This may have particular implications for the preparation of AEIFRS compliant financial statements, including the valuation of inventory and specialist military equipment. An interpretation of the relevant standards has been sought from the AASB by Defence.

Conclusion

5.225 The ANAO continues to place limited reliance on aspects of Defence's internal control environment, due primarily to the lack of robust detective and preventative controls surrounding both core systems and processes used to derive the reported financial statement balances. The system and process concerns reported during the 2004–05 financial statements audit are pervasive in their breadth and depth, and span a broad cross-section of the financial statements. However, Defence has put in place significant remediation

---

[32] AASB 1, *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, June 2005.

programmes to address, *inter alia*, the various matters raised in this and previous ANAO reports.

5.226 The remediation activities being undertaken cover a number of Defence's core information systems and business processes and are thus critical to improving the integrity of Defence's financial information. Just as important are those aspects of the programmes that will enhance the training and supervision of personnel undertaking financial and related transactions. The remediation activities will continue to require significant management and corporate support, and ongoing assessments of both the timeliness and prioritisation of these activities.

5.227 The remediation plans have been designed to remediate control and institutional processes over time. Defence, having completed the first audit cycle of remediation activity, has successfully remediated the previously reported issues surrounding Land and Buildings revaluations and the accuracy of the Military Employee Long Service Leave Provision. This is a significant milestone in light of the number of issues Defence is addressing, including the introduction of AEIFRS.

Australian War Memorial

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	41.69	40.93
Total expenses	38.89	38.33
Total assets	742.08	734.04
Total liabilities	6.73	6.30

5.228 The increase in assets of the Australian War Memorial (AWM) resulted from an equity injection provided for gallery redevelopments. There were no significant movements in other key financial measures of AWM.

Audit results

Summary of audit findings

5.229 There were no moderate or significant audit issues noted during the 2004–05 audit.

Defence Housing Authority

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	777.85	842.14
Total expenses	690.39	759.13
Total assets	2 001.37	1 867.00
Total liabilities	507.43	393.93

5.230 The decrease in revenues of the Defence Housing Authority (DHA) was a result of a reduction in property sales due to the downturn in the Australian property market.

5.231 The rates, repairs and maintenance expenses have decreased due to maintenance projects being completed in the prior year. This was offset by an increase in lease rental expenses due to an increased number of properties on the sale and leaseback program.

5.232 The increase in assets and liabilities was due to increased borrowings for future operational needs.

Summary of audit findings

5.233 The ANAO reported one moderate control weakness in the 2003–04 audit relating to the possible over provision for makegood costs with respect of leased properties. During the 2004–05 audit the ANAO observed that DHA had resolved this weakness. There were no moderate or significant audit issues noted during the 2004–05 audit.

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

Ratings	Opening position at August 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

Department of Veterans' Affairs

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	326.35	307.10
Total expenses	317.29	317.01
Total assets	190.89	185.32
Total liabilities	93.16	98.32

5.235 The Department of Veterans' Affairs (DVA) revenues increased primarily due to additional funding from Government for new budget initiatives such as Managing Health Care Information and funding for rises in medical specialists fees.

5.236 DVA's expenses were stable with increased staffing and salary rates in accordance with the certified agreement offset by decreased supplier expenses following the completion of a major IT transition project.

5.237 The movement in DVA's assets were a result of an increase in the investment value of the Defence Service Homes Insurance Scheme at 30 June 2005.

5.238 The decrease in liabilities was attributed to a reduction in supplier payables following the completion of a major IT project. Employee liabilities have remained stable with movements in employee provisions due to an increase in salary rates, offset by a reduction in salary and wages payable to staff at year-end.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	9.23	1.63
Total expenses	10 160.15	9 568.54
Total assets	133.23	135.17
Total liabilities	2 428.44	458.91

5.239 The increase in revenues of DVA was due to a capital injection of $6.7 million for the Australian War Memorial.

5.240 The increase in expenses was due to the transfer of the Military Compensation and Rehabilitation Scheme from the Department of Defence, recognition of the movement of the Military Compensation Schemes' liability provisions, indexation of pension benefits and higher fees for health care.

5.241 Assets have remained steady with a reduction in prepayments made for hospital services offset by an increase in administered investments relating to the Australian War Memorial.

5.242 The increase in liabilities was primarily due to the Military Compensation provision of $1.85 billion being transferred from the Department of Defence.

Audit results

Summary of audit findings

5.243 The ANAO reported two moderate control weaknesses, relating to the Disaster Recovery Plan and the reconciliation of payroll clearing accounts, in the interim phase of the audit. During the final phase of the audit the ANAO observed that DVA had addressed these weaknesses. There were no moderate or significant audit issues noted during the 2004–05 audit.

5.244 The following table provides a summary of the status of previously reported audit issues as well as new issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	2	2	0	0
Total	**2**	**2**	**0**	**0**

Comments on non-material entities

5.245 There were no moderate or significant audit issues impacting on non-material entities within the portfolio except for the Military Superannuation and Benefits Scheme.

Military Superannuation and Benefits Scheme

5.246 Section 1017D(5) of the *Corporations Act 2001* requires a periodic statement to include certain details relevant to the financial product. The Trustee of the Military Superannuation and Benefits Scheme breached this requirement in that the periodic statement, issued by the Scheme Administrator on the Trustee's behalf to exiting members for the period 1 July 2004 to March 2005, omitted disclosure of members' opening balances and a summary of transactions in relation to the product. The Trustee has addressed this matter by including this information in all members' periodic statements from 29 March 2005. To reflect this breach, the ANAO issued a qualified opinion with regard to compliance with section 1017D(5) of the *Corporations Act 2001*. This is not a qualification on the financial statements of the Military Superannuation and Benefits Scheme.

Education, Science and Training Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Education, Science and Training	**Yes**	✓	22 Sep 05	
Anglo-Australian Telescope Board	No	✓	21 Oct 05	
ANU Enterprise Pty Ltd ☞31 December 2004	No	✓	23 Mar 05	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	28 Sep 05	
Australian Institute of Marine Science	No	✓	26 Aug 05	
Australian National Training Authority	**Yes**	✓	15 Aug 05	
Australian National University ☞31 December 2004	No	✓	01 Apr 05	◆
Australian Nuclear Science and Technology Organisation	**Yes**	✓	18 Aug 05	
Australian Research Council	**Yes**	✓	08 Aug 05	
Australian Scientific Instruments Pty Ltd	No	✓	23 Mar 05	
Commonwealth Scientific and Industrial Research Organisation	**Yes**	✓	25 Aug 05	
Food Science Australia	No	✓	15 Sep 05	
Science and Industry Endowment Fund	No	✓	22 Aug 05	
The Carrick Institute for Learning and Teaching in Higher Education	No	✓	18 Aug 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.247 The Australian Government takes a national leadership role in education, science and training. Through its portfolio entities, the Australian Government works with various industries, State and Territory governments, other Australian Government agencies and a range of contracted service providers to provide policy advice, programs and services for the benefit of Australia.

5.248 To advance education and training systems, the Australian Government works with the States and Territories through the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA), the Australian National Training Authority (ANTA) Ministerial Council (from 1 July 2005, replaced by the Ministerial Council for Vocational and Technical Education) and with education and training providers, industry and other entities.

5.249 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	2005 $m	2004 $m
Total revenues	371.12	272.24
Total expenses	372.11	274.92
Total assets	132.15	142.85
Total liabilities	73.32	82.35

5.250 Revenues increased as a result of the Department of Education, Science and Training (DEST) assuming responsibility from the Department of Family and Community Services (FACS) for the administration of income support policies and programs for students and apprentices, including Youth Allowance, Austudy and Fares Allowance. DEST also received additional funding as a result of new measures in the 2004–05 budget and announced at the last federal election, including Australian Technical Colleges, school infrastructure, absorbing the functions of the Australian National Training Authority (ANTA) and extending payments to new apprentices under Youth Allowance, Austudy and ABSTUDY.

5.251 The increase in expenses was largely the result of an increase in staff numbers and administration costs associated with the transfer of functions from FACS and ANTA, and the delivery of the new measures.

5.252 The decrease in DEST's assets and liabilities was mainly attributable to an unusual transaction that occurred in the prior year. In 2003–04, an amount was incorrectly deposited into the departmental bank account instead of the administered bank account. As such, a large payable was recognised to return the funds to the Commonwealth, which accounts for the large movement in liabilities. All other assets and liabilities remained relatively stable in the current year.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	954.15	232.90
Total expenses	16 383.42	14 927.22
Total assets	12 981.15	9 959.78
Total liabilities	10 537.41	9 405.67

5.253 The increase in revenues, expenses, assets and liabilities is primarily attributable to the transfer of the administration of income support policies and programs for students and apprentices from FACS. This includes payments made for Youth Allowance, Austudy and Fares Allowance. Also, contributing to the increase in administered revenues and assets is a large reversal of previous asset write-downs related to the Higher Education Contribution Scheme (HECS), Student Financial Support Scheme (SFSS) and student allowances provision for doubtful debts. Actuarial assessments determine the amount of allowance for doubtful debts. The maturity of these schemes, more information and the refinement in the models used by the Australian Government Actuary resulted in a reduction in the provisions.

5.254 Administered expenses have also been impacted by a marginal increase in grants payable to schools and other institutions consistent with supplementation arrangements and an increase in student enrolments.

Audit results

Summary of audit findings

5.255 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian National Training Authority

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	15.07	14.62
Total expenses	21.53	17.00
Total assets	5.39	8.01
Total liabilities	9.02	5.18

5.256 Revenues increased as a result of ANTA receiving additional funding from DEST to cover some of the costs of the abolition of ANTA.

5.257 Expenses increased due to large separation and redundancy payments arising as a result of ANTA being abolished and its functions transferring to DEST at 30 June 2005.

5.258 Assets decreased mainly due to the disposal of fixed assets resulting from the abolition of ANTA and a reduction in receivables due to a concerted effort to reclaim all debts prior to the planned abolition of ANTA.

5.259 Liabilities increased largely as a result of the higher provision for employee entitlements and severance pay arising from the abolition of ANTA.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	734.75	1 171.59
Total expenses	750.39	1 173.87
Total assets	39.74	485.80
Total liabilities	5.04	435.47

5.260 Due to the planned abolishment, ANTA did not receive a full year of funding from Government for Vocational Education Training (VET). The reduction in expenses was related to this lower funding level.

5.261 The reduction in assets and liabilities was also principally related to ANTA's lower funding level for the year which resulted in a decrease in VET funding receivable at year end and a corresponding decrease in grants payable.

Audit results

Summary of audit findings

5.262 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian Nuclear Science and Technology Organisation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	165.88	161.69
Total expenses	155.83	147.78
Total assets	800.38	772.05
Total liabilities	37.07	61.82

5.263 No significant change occurred in the operations of the Australian Nuclear Science and Technology Organisation in the 2004–05 financial year. Revenues were consistent with the prior year and no significant individual increases occurred in operating expenses.

5.264 Construction is continuing on the Replacement Research Reactor and funding for this project is treated as equity injections. The increase in assets predominantly relates to this project. The movement in liabilities is due to timing differences at year-end.

Audit results

Summary of audit findings

5.265 The ANAO reported five moderate control weaknesses in the 2003–04 audit in relation to:

- systematic issues with the recording of annual leave entitlements of staff;
- no formal Business Continuity Plan in place;
- IT security control issues;
- improvements required for inventory control procedures and valuation practices; and
- utilisation of provisions for specific purpose funding.

5.266 During the 2004–05 audit the ANAO observed that ANTSO had resolved these weaknesses. There were no moderate or significant audit issues noted during the 2004–05 audit.

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

Ratings	Opening position at August 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	5	5	0	0
Total	**5**	**5**	**0**	**0**

Australian Research Council

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	13.60	12.59
Total expenses	12.78	12.64
Total assets	9.38	8.26
Total liabilities	2.27	1.98

5.268 The increase in revenue was largely attributed to increased funding from Government to administer an expanded National Competitive Grants Programme and from refunds from suppliers. Expenses of the Australian Research Council remained comparatively stable.

5.269 Assets increased largely because of unspent funding due to timing differences at year-end. Liabilities increased due to purchase of furniture and fittings and lease incentives for new accommodation.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	5.19	4.78
Total expenses	500.39	385.87
Total assets	22.66	1.04
Total liabilities	221.92	181.52

5.270 Revenues remained relatively stable in comparison to 2003–04. The significant increase in expenses was a result of an increase in funding for the National Competitive Grants Programme. The significant increase in assets related to increased cash holdings at year-end to cover a large grant payment due to be made shortly after year-end. The increase in liabilities was associated with increased grant expenses.

Audit results

Summary of audit findings

5.271 There were no moderate or significant audit issues noted during the 2004–05 audit.

Commonwealth Scientific and Industrial Research Organisation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	925.36	903.93
Total expenses	931.11	906.71
Total assets	1 550.43	1 344.89
Total liabilities	385.36	399.96

5.272 The Commonwealth Scientific and Industrial Research Organisation's (CSIRO) revenues increased as a result of funding from Government to support CSIRO's flagship programs, including Water for a Healthy Country, Wealth from Oceans, Light Metals, Food Futures, Preventative Health and Energy Transformed. This was offset by the transfer of the National Measurement Laboratory, under an Administrative Arrangements Order, to the Department of Industry, Tourism and Resources (DITR). Other increases in revenues included revenue from the sale of land and the recoupment of costs from DITR related to the maintenance of the National Measurement Laboratory that is located at a CSIRO facility.

5.273 The increase in expenses was due to several factors, including a rise in salary rates in accordance with the certified agreement, an increase in CSIRO's equity interest in the Food Science Australia joint venture and the value of assets sold, related to the sale of land.

5.274 The increase in the value of assets was a result of the revaluation performed at 30 June 2005. This was partially offset by the sale during the year of residential land and the transfer of the National Measurement Laboratory to DITR.

5.275 There was no significant movement in liabilities during 2004–05.

Audit results

Summary of audit findings

5.276 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.277 There were no moderate or significant audit issues impacting on non-material entities, with the exception of the Australian National University (ANU).

Australian National University

5.278 Three moderate issues were noted during the audit of ANU. These related to the Fraud Control Plan (FCP), IT security policies and the NT Domain Upgrade.

5.279 ANU did not have a current approved FCP in place. A draft FCP had been prepared in 2003, and action was in process to finalise the plan.

5.280 ANU had made key changes in IT systems over the last few years. Although some associated policies had been updated, the IT security policy had not been updated since 1999. ANU was in the process of reviewing the IT Security Policy and had implemented a high level framework, covering the detailed security policies for individual systems.

5.281 ANU had moved from a Windows NT platform to a Windows 2003 platform. However, the migration program had not been completely implemented, and there were residual risks associated with access controls and system support. The migration to the new operating platform is expected to be completed early in 2006.

Employment and Workplace Relations Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Employment and Workplace Relations	**Yes**	✓	19 Jul 05	▲
Australian Industrial Registry	No	✓	30 Aug 05	
Coal Mining Industry (Long Service Leave Funding) Corporation	**Yes**	✓	29 Jul 05	
Comcare Australia	**Yes**	✓	16 Aug 05	◆
- QWL Corporation Pty Ltd	No	✓	01 Sep 05	
Equal Opportunity for Women in the Workplace	No	✓	15 Sep 05	
Indigenous Business Australia	**Yes**	✓	25 Oct 05	
- Bilioara Pty Ltd	**No**	✑	N/a	
- Bilioara Pty Ltd Unit Trust	**No**	✑	N/a	
- Bowen Basin Holdings Pty Ltd	No	✑	N/a	
- Bowen Basin Holdings Trust	No	✑	N/a	
- Bowen Basin Investment Pty Ltd	No	✑	N/a	
- Bowen Basin Investment Trust	No	✑	N/a	
- Centrum Insurance Brokers Pty Ltd	No	Q	29 Sep 05	
- Northern Insurance Brokers Pty Ltd	No	Q	29 Sep 05	
- Yeperenya Pty Ltd	No	✓	06 Oct 05	
National Occupational Health and Safety Commission	No	✓	12 Sep 05	
Seafarers' Safety, Rehabilitation and Compensation Authority	No	✓	15 Sep 05	

✓: 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

☞: financial year end date other than 30 June 2005

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

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

Portfolio overview

5.282 The aims of the Employment and Workplace Relations portfolio are to:

- maximise the ability of working age Australians to participate actively in the workforce; and improve the 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;
- foster continuous improvement in occupational health and safety;
- inspire Australian employers to take action to improve equal opportunity outcomes for women in the workplace;
- assist and enhance Aboriginal and Torres Strait Islanders' economic advancement; and
- develop awareness, policy and strategies relating to occupational health and safety measures.

5.283 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	2005 $m	2004 $m
Total revenues	1 073.41	449.49
Total expenses	1 043.27	440.93
Total assets	193.62	138.01
Total liabilities	113.31	79.82

5.284 The Department of Employment and Workplace Relations (DEWR) was affected by four Administrative Arrangement Orders (AAOs) during the year. This included transfers from the Department of Family and Community Services (FaCS), the ATSIS, the National Occupational Health and Safety Commission (NOHSC) and a transfer to Indigenous Business Australia (IBA).

5.285 The increase in revenues was a result of resources received free of charge and the transfer of government funding for staffing and administrative expenses associated with the AAOs.

5.286 The increase in expenses resulted primarily from fee for service charges by Centrelink for personal benefits processing and employee costs associated with the transfer of former staff as a result of the AAOs.

5.287 The AAOs resulted in an increase in receivables and assets. This was offset by a provision for funds to be returned to Government, as agreed during the 2005–06 budget process.

5.288 The increase in liabilities reflected additional employee entitlements, payables to suppliers and the recognition of lease incentives and make-good provisions as a result of the AAO changes.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	275.64	251.65
Total expenses	16 477.87	1 409.86
Total assets	723.80	59.40
Total liabilities	434.66	109.38

5.289 The increase in revenues was the net effect of allowing for a write back of the doubtful debt provision following an actuarial review of the income support welfare program overpayments/debtors provision and a reduction in recoveries to the Commonwealth by the Ansett Administrators under the Special Employees Entitlement Scheme for Ansett group employees (SEESA).

5.290 Expenses increased significantly due to the AAO transfers of income support payments from FaCS and grant payments under the Community Development Employment Projects (CDEP) program from ATSIS.

5.291 Assets increased due to the transfer of recoveries of overpayments for income support from FaCS and a prepayment to Centrelink for the 1 July drawdown for income support payments.

5.292 The increase in liabilities primarily represented accrued expenses for income support payments at balance date transferred from FaCS as a result of AAOs.

Audit results

Summary of audit findings

5.293 The ANAO reported one moderate control weakness in relation to business continuity planning in the interim phase of the audit. During the final phase of the audit the ANAO observed that DEWR had made progress in addressing the issue, with some further testing of plans remaining to be completed. The status of business continuity planning will be re-assessed during the 2005–06 audit.

5.294 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Coal Mining Industry (Long Service Leave Funding) Corporation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	129.60	101.07
Total expenses	77.87	72.53
Total assets	419.00	333.03
Total liabilities	455.09	420.86

5.295 Employers in the black coal industry are levied to fund long service leave payments to persons employed in the black coal industry. The Coal Mining Industry (Long Service Leave Funding) Corporation (Corporation) collects these levies on behalf of the Commonwealth and transfers the levies to the Official Public Account. Amounts equivalent to the levies collected were then funded by the Department of Employment and Workplace Relations to the Corporation. These amounts are recognised as revenue by the Corporation when received. Higher wage rates of eligible employees in the black coal industry led to an increase in revenues, expenses, assets and liabilities.

5.296 In addition, growth in the market value of investments held also contributed to an increase in assets.

Audit results

Summary of audit findings

5.297 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comcare

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	405.61	267.82
Total expenses	379.87	262.64
Total assets	1 633.46	1 466.51
Total liabilities	1 597.38	1 456.16

5.298 Revenues increased reflecting a growth in insurance premium rates for the Commonwealth of 17 per cent, based on a revised actuarial assessment performed in 2003–04. In addition, the (non-cash) movement in outstanding claims liabilities valuations of $98.82 million is reported as Revenue from Government, with this to be met from funds held on Comcare's behalf in the Official Public Account.

5.299 Expenses and liabilities rose mainly as a result of an increase in the provision for workers' compensation liabilities, reflecting the impact of economic assumptions, claims experience, and claims administration costs.

5.300 Assets increased as a result of rises in premiums collected and funding from Government available to be drawn for estimated future compensation payments.

Audit results

Summary of audit findings

5.301 The ANAO reported four moderate control weaknesses in the 2003–04 audit relating to:

- managing the exposure of staff performing incompatible duties;
- the need for endorsement and testing of the Business Continuity Plan;

- review of a small segment of the workers' compensation claims in relation to asbestos related diseases; and
- the need for improvement in the administration and timely reconciliation of suspense accounts.

5.302 During the 2004–05 audit, the ANAO observed that Comcare had resolved these weaknesses, however one new issue was identified relating to segregation of duties. The ANAO identified that certain employees had incompatible functions as they had responsibility for the preparation of bank reconciliations, receipting and recording of cash, receipting of cheques, entering and approving cash adjustments, and processing and approving payments to individual vendors. Although evidence of this was not apparent, these incompatible functions increase the risk of errors and fraudulent transactions arising as the work of one officer is not always cross-checked by another. Comcare has responded positively by enhancing controls and instigating an internal audit review.

5.303 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	4	4	1	1
Total	**4**	**4**	**1**	**1**

Indigenous Business Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	44.62	46.21
Total expenses	39.09	28.42
Total assets	626.75	108.24
Total liabilities	26.64	8.63

5.304 As a result of the *Aboriginal and Torres Strait Islander Act 2005*, passed on 23 March 2005, Indigenous Business Australia (IBA) assumed responsibility for the Home Loan and Business Development Loan Programmes, as well as the assets and liabilities associated with these, which were formerly under the control of ATSIC, ATSIS and DEWR. This had a significant impact on revenues, expenses, and assets of IBA.

5.305 A joint venture in coal mining moved from an exploration phase to an extraction phase. This contributed to an increase in revenues and expenses. This was due to significant growth in mining activity resulting from capital expenditure to improve capacity and a change in the mine operator. The increase in revenues was offset by a one-off grant in the prior year from ATSIC.

Audit results

Summary of audit findings

5.306 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.307 There were no moderate or significant audit issues impacting on non-material entities, with the exception of Centrum Insurance Brokers Pty Ltd (Centrum) and Northern Insurance Brokers Pty Ltd.

Centrum Insurance Brokers Pty Ltd & Northern Insurance Brokers Pty Ltd

5.308 Centrum, as a result of a Share Grant Agreement, became a subsidiary of Indigenous Business Australia. At 30 June 2005, Centrum owned 51 per cent of Northern Insurance Brokers Pty Ltd. As a previous auditor did not make working papers available both audit opinions were qualified in respect of comparative opening balances.

Environment and Heritage Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Environment and Heritage	**Yes**	✓	11 Oct 05	▲◆
Australian Greenhouse Office ☞ 3 November 2004	**Yes**	✓	11 Oct 05	
Bureau of Meteorology	**Yes**	A	25 Nov 05	◆
Director of National Parks	No	✓	12 Sep 05	◆
Great Barrier Reef Marine Park Authority	No	✓	09 Sep 05	◆
National Environment Protection Council Service Corporation ☞ 31 December 2005	No	✓	15 Apr 05	
National Oceans Office ☞ 3 November 2004	No	✓	11 Oct 05	
Natural Heritage Trust of Australia Reserve	No	✓	11 Oct 05	◆
Office of the Renewable Energy Regulator	No	✓	13 Oct 05	
Sydney Harbour Federation Trust Fund	No	✓	21 Sep 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.309 The Environment and Heritage portfolio's role is to provide leadership to the nation in achieving an environmentally sustainable continent. The portfolio works towards achieving the following outcomes:

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

5.310 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	2005 $m	2004 $m
Total revenues	342.49	262.19
Total expenses	338.54	256.56
Total assets	419.74	342.84
Total liabilities	105.30	84.93

5.311 Since 1 July 2004, there have been two significant changes to the role and structure of the Department of the Environment and Heritage (DoEH), the first being the transfer of the Indigenous programme functions from the Department of Immigration and Multicultural and Indigenous Affairs, following the Government decision in June 2004 to abolish ATSIC. The second significant change related to the abolition of the Australian Greenhouse Office (AGO) and the National Oceans Office (NOO) as executive agencies under the *Public Service Act 1999* on 26 October 2004, and as prescribed agencies under the FMA Act on 3 November 2004. Both these entities were incorporated into DoEH following the Administrative Arrangements Order (AAO) changes. DoEH's revenues for 2004–05 increased as a result of the above restructures and the transfer of the functions involved.

5.312 The increase in DoEH's expenses for 2004–05 was due to several factors, including an increase in employee, grant and supplier expenses from the transfer in of functions under the AAO, a rise in salary rates in accordance with the certified agreement and a rise in the employer superannuation contribution rates.

5.313 The increase in the value of assets related to the transfer of functions into DoEH and the recognition of a receivable from the Bureau of Meteorology (BOM) for the transfer of functions between DoEH and BOM. These increases were partially offset by a decrease in the value of land and buildings and infrastructure, plant and equipment held as a result of the revaluation performed during the year.

5.314 The increase in liabilities consisted of an increase in supplier payables due to timing issues. There was also an increase in employee provisions due to higher staff numbers from the restructure described above, and a rise in salary rates.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	14.88	11.05
Total expenses	424.99	267.54
Total assets	153.00	132.04
Total liabilities	63.70	43.43

5.315 The increase in revenues was attributable to the recognition of assets for the first time in relation to new loans made by DoEH under the Renewable Energy Equity Fund (REEF) Programme. Also contributing was the transfer from departmental to administered of monies collected under the *Ozone Protection and Synthetic Greenhouse Management Act 1989* in 2004–05. The recognition of these monies as administered was a result of a change in the legislation.

5.316 Expenses increased significantly due to an increase in Natural Heritage Trust grant activities during the financial year and the transfer of grants formerly administered by AGO. In addition, DoEH incurred expenditure due to the purchase of a large number of fishing licences held by the public for zones within the Great Barrier Reef Marine Park under the Government's Great Barrier Reef Structural Adjustment Package.

5.317 The increase in assets was due to several factors, including an increase in the investments held by DoEH of the Sydney Harbour Federation Trust and new loans issued by DoEH under the Renewable Energy Equity Fund (REEF) Programme.

5.318 The movement in liabilities was due to an increase in grants and supplier activity in line with those increases noted for grants and supplier expenditure detailed above.

Audit results

Summary of audit findings

5.319 The ANAO identified eight moderate issues and one legislative breach in the interim phase of the audit. Of these moderate issues, seven are still to be resolved, relating to:

- deficiencies in the financial statement preparation process—recommendations were made in 2003–04 to assist DoEH to meet financial statement preparation and reporting deadlines. These recommendations were not fully implemented and as a result, DoEH failed to meet these deadlines again in 2004–05. DoEH has committed to ensuring that the reporting deadlines for the 2005–06 are achieved, with a project plan developed to assist in the monitoring the implementation of the initial recommendations;
- the reconciliation of leave balances—DoEH was not able to reconcile recreation and long service leave balances between the HRMIS and the FMIS. The complexity of the interface between the two systems resulted in difficulties in DoEH addressing this issue. Enhancements to the systems to facilitate this reconciliation process were being scoped and scheduled for implementation during the 2005–06 financial year;
- the reconciliation of financial records—issues were reported in relation to the reconciliation of DoEH's financial records to associated bank accounts, and to those held by the Department of Finance and Administration (Finance). The non-performance of reconciliations delayed the identification and resolution of potential discrepancies causing delays in the preparation of the year-end financial statements. DoEH was reviewing and updating all reconciliation procedures to ensure that appropriate controls were put in place as soon as possible;
- the reconciliation of special accounts—in 2003–04 it was noted that DoEH had not been reconciling special account ledgers to the bank account and Finance records. This was still the case at the end of June 2005. DoEH was in the process of reviewing and updating procedures to ensure that reconciliations would be regularly performed;
- access management—the ANAO's review of DoEH's HRMIS and FMIS identified weaknesses in key configurable[33] and security controls. DoEH was still in the process of addressing identified weaknesses and implementing ANAO's recommendations;

[33] Configurable controls are system based 'switches' that can be set by turning them on or off to secure the application against inappropriate processing, based on the organisation's business rules.

- the Fraud Control Plan—at March 2005 DoEH did not have a current and endorsed Fraud Control Plan (FCP) in place. As at the end of August 2005, DoEH was in the process of finalising the FCP and getting executive endorsement prior to distribution to all staff; and
- the Business Continuity Plan—DoEH did not have a formally established, department-wide business continuity management framework and continuity plan. Although significant work had been completed to implement an appropriate framework and complete the Business Continuity Plan, testing and final endorsement were yet to occur.

5.320 A legislative breach was identified and reported in March 2005 in which the ANAO had identified that DoEH had overdrawn on a number of its bank accounts. During the period of April to July 2005, a similar breach was noted. DoEH is currently modifying its cash management processes to ensure that this does not reoccur in the future.

5.321 Four moderate control issues were identified during the final phase of the 2004–05 audit.

Management of grants and suppliers

5.322 Several instances were noted whereby grants and suppliers were expensed and a liability recorded prior to an obligation arising. The recording of expenses and/or liabilities prior to the obligation actually existing may lead to overstatement and increases the risk of fraud. The high volume of grant transactions being processed close to the end of the financial year also raised concerns regarding the robustness of budget and grants management.

Use of accounts

5.323 Accounts used for grants, suppliers, payroll and bank transactions were not being reviewed in a timely or correct manner. Significant transactions move through these accounts and require close attention to ensure that the correct classification of transactions reported in the financial statements has occurred.

Recognition of restitution costs under international treaties

5.324 Australia, amongst other nations, is bound by the requirements of the Antarctic Treaty. In addition, there are international protocols and common law that support this treaty. The treaty and associated protocols require restitution of the Antarctic base if certain events occur. Dependent upon the events occurring, restitution may involve the destruction, removal and disposal of the buildings and plant and equipment held at the bases. The current accounting standards require the recognition of the cost of the 'make good' as a provision within the accounts. DoEH was unable to provide a reliable estimate for a component of the Antarctic base make good provision calculations, and as such, this part of the provision was not recognised in the 2004–05 statements. DoEH has committed to obtaining a reasonable estimate to enable recognition of the provision in 2005–06.

Non-financial assets management

5.325 A significant balance of DoEH's non-financial assets is managed by the Australian Antarctic Division using a separate asset register from that of the remainder of DoEH. DoEH did not provide the independent valuer with a complete list of assets and subsequently experienced problems in obtaining a complete and reliable re-valuation of the asset base. Approximately $29 million of assets were omitted from the original listing presented for valuation. DoEH also disagreed with components of the independent valuation and did not discuss this issue with the valuer prior to commencement of year-end reporting. DoEH's basis for the amendments were subsequently agreed with the independent valuer and reflected in the audited financial statements. Given the material impact of this issue on the financial statements, the ANAO recommended that DoEH management actively review information being provided to the valuers.

5.326 In July 2005, asset records maintained in a separate system were in the process of being moved onto DoEH's corporate FMIS. The old system included known erroneous data such as depreciation charged against re-valued assets. The ANAO recommended that DoEH use this project as an opportunity to correct erroneous information maintained within the old system prior to uploading the information onto the corporate FMIS.

5.327 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	8	1	4	11
Legislative Breach	1	0	0	1
Total	**9**	**1**	**4**	**12**

Australian Greenhouse Office

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	7.39	82.07
Total expenses	11.89	84.52
Total assets	26.62	31.64
Total liabilities	9.97	10.49

5.328 The Australian Greenhouse Office was dissolved effective 4 November 2005 and its functions were incorporated into DoEH. The revenues, expenses, assets and liabilities reflect the operations to this date.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	0.00	0.00
Total expenses	14.89	24.28
Total assets	3.52	3.58
Total liabilities	11.07	0.00

5.329 The reduction in expenses and assets is in line with the change in administrative arrangements and the dissolving of the Australian Greenhouse Office.

5.330 The movement in liabilities is the result of a reclassification of grants expenditure from departmental to an administered programme.

Audit results

Summary of audit findings

5.331 The ANAO reported one moderate control weakness and one legislative breach in the 2003–04 audit relating to:

- the absence of regular reconciliations between AGO's HR system and its general ledger; and

- overdrawing of its bank account on a number of occasions, without prior agreement with the Minister for Finance and Administration, in contravention of sub-sections 8(3) and 8(4) of the FMA Act.

5.332 During the 2004–05 audit the ANAO observed that AGO had resolved these weaknesses. There were no moderate or significant audit issues noted during the 2004–05 audit.

5.333 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	1	0	0
Legislative Breach	1	1	0	0
Total	**2**	**2**	**0**	**0**

Bureau of Meteorology

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	209.51	213.56
Total expenses	218.21	210.13
Total assets	307.84	266.73
Total liabilities	104.06	73.23

5.334 Revenues and expenses of the Bureau of Meteorology (BOM) remained stable in comparison with the prior year.

5.335 BOM's asset position improved compared to the prior year due to a revaluation upwards of property, plant and equipment and an equity injection for the construction of new radar equipment.

5.336 Liabilities increased largely due to the recognition of a payable to DoEH relating to an ineffective transfer of appropriation funding to BOM upon the creation of BOM as a prescribed agency[34] on 12 September 2002.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	18.92	16.46
Total expenses	0.00	0.00
Total assets	3.20	2.97
Total liabilities	0.14	0.16

5.337 The rise in revenue was due to an increase in the provision of specialised services to the aviation and maritime industries for weather services. In addition, there was an increase in service fees during 2004–05. There were no significant movements in expenses, assets or liabilities during the year.

Audit results

Summary of audit findings

5.338 The ANAO reported two legislative breaches in the final phase of the audit as detailed below. BOM had an ineffective Section 32 determination concerning the transfer of appropriations upon its prescription on 12 September 2002. This resulted in a contravention of section 83 of the *Constitution* and a breach of section 48 of the FMA Act.

5.339 BOM also had an ineffective Section 31 Agreement, concerning the retention and expenditure of specified receipts, for the period 12 September 2002 to 7 June 2004, resulting in a contravention of section 83 of the *Constitution* and a breach of section 48 of the FMA Act.

5.340 The background to these issues is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

[34] Prescribed agency means a body, organisation or group of persons prescribed by regulations.

5.341 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	0	0	0	0
Legislative Breach	0	0	2	2
Total	**0**	**0**	**2**	**2**

Comments on non-material entities

5.342 There were no moderate or significant audit issues impacting on non-material entities, with the exception of Director of National Parks (DNP), the Sydney Harbour Federation Trust Fund, and the Great Barrier Reef Marine Park Authority.

Director of National Parks

5.343 DNP revalued its assets as at 30 June 2005. A number of accounting and systems issues associated with asset management and the revaluation were referred to management for attention.

5.344 Material variances were identified in the reconciliation of the HRMIS to the FMIS leave balances. Reports reviewed from both systems had material inconsistent understatements of employee leave provisions. As a result DNP manually calculated the leave provision. The issue relating to inconsistencies in the reports was referred to the service provider, DoEH, for investigation and rectification.

Natural Heritage Trust of Australia Reserve

5.345 Financial statements are prepared and reported for the Natural Heritage Trust of Australia Reserve, which forms part of the administered statements reported by DoEH. Moderate rated issues identified as part of the audit of the Natural Heritage Trust of Australia have been included in the findings for DoEH.

Great Barrier Reef Marine Park Authority

5.346 In order to comply with the requirements of *AASB 1041 'Revaluation of Non Current Assets'*, all assets in a particular class must be subject to appropriate valuations. During the audit, it was noted that only two island properties were valued during the year and that certain other islands were not subject to a valuation because of the uncertainty surrounding the future use of these properties. The ANAO recommended that management ensure the island properties are subject to appropriate independent valuation. In addition, due to complexities in applying AASB 1041 and the imminent introduction of Australian equivalents to International Financial Reporting Standards, it was recommended that management confirm their valuation approach.

Family and Community Services Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Family and Community Services	**Yes**	A	26 Sep 05	▲◆
Aboriginal Hostels Ltd	No	✓	16 Sep 05	
Australian Institute of Family Studies	No	✓	01 Sep 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.347 The Family and Community Services portfolio plays a lead role in providing policy advice, income support and assistance to families and their children, senior citizens and community groups. The portfolio is also responsible for gender issues through the Office for Women, which moved to Family and Community Services (FaCS) from the Department of the Prime Minister and Cabinet during 2004–05.

5.348 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	2005 $m	2004 $m
Total revenues	2 382.51	2 483.32
Total expenses	2 315.02	2 482.94
Total assets	208.95	145.48
Total liabilities	124.18	126.27

5.349 Revenues and expenses reduced as a result of the transfer of the Child Support Agency (CSA) to the Department of Human Services (DHS). CSA revenues and expenses were consolidated into the FaCS' accounts until February 2005.

5.350 The increase in assets was primarily due to a receivable from Centrelink for under delivery of outputs resulting from an over estimation of customer numbers. No significant movements were noted with respect to liabilities.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	499.34	998.20
Total expenses	48 901.62	65 192.50
Total assets	1 385.67	2 468.84
Total liabilities	3 181.65	4 803.75

5.351 There was a significant reduction in balances across all key financial measures as a result of the Administrative Arrangements Orders (AAO) issued on 1 July 2004, 26 October 2004 and 16 December 2004.

5.352 Revenues reduced as a result of the transfer of CSA to DHS and the Student Financial Supplement Scheme (SFSS) to the Department of Education, Science and Training (DEST). Expenses reduced significantly due to the transfer of employment and youth related personal benefits to the Department of Employment and Workplace Relations and DEST on 16 December 2004. These transfers also explain the reduction in liabilities.

5.353 The decrease in assets was largely due to the transfer of SFSS to DEST, and CSA to DHS. This was partially offset by an increase in administered investments reflecting the transfer of the Aboriginal Hostels Ltd to the FaCS portfolio.

Audit results

Summary of audit findings

5.354 The ANAO reported twelve moderate control weaknesses in the interim phase of the audit of which FaCS had fully addressed six. The ANAO was satisfied that reasonable progress was being made to resolve the six outstanding issues relating to:

- review of audit trail logs and privileged accounts;
- shortcomings in accounts payable process;
- adequate monitoring of expenditure per outcome;
- correct classification of departmental/administered payments;
- currency of financial policies and procedures; and
- unrecorded prior employment service.

5.355 There were eight new issues noted during the final phase of the audit.

Management of the Financial Management and Information System

5.356 In order to gain assurance over the reliability, accuracy and completeness of financial information, the ANAO examined the robustness of the controls within FaCS' FMIS. As a result of the significant weaknesses identified in the way the FMIS had been configured, FaCS had promptly undertaken follow up action and addressed key shortcomings related to configurable controls.[35] With these changes, the risk of significant exposure to processing unauthorised, inaccurate and/or fraudulent transactions has been reduced to medium. FaCS was in the process of resolving the outstanding issues.

Reporting of commitments

5.357 Commitments are undertakings or future payments under a contract that will result in liabilities in future periods. Departmental and administered commitments are significant items within FaCS' financial statements. The current financial statement close process was not able to fully meet requirements for identifying and reporting commitments, exposing FaCS to the risk of incomplete and inaccurate year-end figures. FaCS agreed to enhance and automate the system and to improve the process for next year by providing more detailed instructions to its divisions.

---

[35] ibid.

IT governance

5.358 Appropriate senior management visibility over the IT general control environment is important to provide assurance to management that the controls in place are operating effectively. The audit identified that:

- there was a lack of a formal definition of roles internally within FaCS which increases the risk that critical IT security activities may not be performed, or will be duplicated. Key roles should be defined to allow officers to understand and perform their duties and to provide management with assurance that all key control activities are being performed appropriately; and
- ownership of different business and application systems needed to be formally allocated to business managers so that accountability and responsibility for those systems is maintained.

Reliance on IT general controls managed by an outsourcer

5.359 Controls surrounding an organisation's IT environment must be in place to ensure the integrity, availability and continuity of data processing. As FaCS has outsourced part of its IT environment needs, it needs to ensure that external parties maintain the IT environment to an appropriate standard. FaCS did not regularly review the effectiveness of controls in place in the outsourcers' environment, i.e. review of failed network logons, security violations, periodic re-assessment of outsourcer users, etc. In addition, no formal audits had been conducted during the year to independently assess the IT general control environment of the outsourcer. FaCS was in the process of developing and documenting a compliance and audit program to review both its own IT operations and that of the outsourcer.

Business Continuity Plan and Disaster Recovery Plan

5.360 The objective of business continuity and disaster recovery planning is to ensure the uninterrupted availability of all key business resources required to support critical business activities. FaCS' current Business Continuity Plan (BCP) required improvements in the area of linking the BCP framework with FaCS' risk assessment/management strategy. In addition, FaCS had not developed a Disaster Recovery Plan (DRP) and was reliant on operational documentation and the IT outsource provider. There was no backup and recovery policy, to ensure that the current backup regime met business requirements. FaCS had initiated a project to update the BCP by end of December 2005. FaCS advised it was developing the DRP together with its operational documentation.

FMIS system account passwords

5.361 The FMIS has four default privileged user accounts that are secured with commonly known passwords. These user accounts are equipped with powerful user access rights and may allow unauthorised access to the system. It was noted during the audit that in some cases the default system account password had not been changed or disabled. FaCS advised that it had changed passwords for three of the four default accounts, and was testing changes to the fourth account.

FMIS - Monitoring of privileged system access

5.362 There was a lack of monitoring of privileged system access to the FMIS increasing the risk of unauthorised and/or inappropriate access not being detected. Access should be strictly controlled to ensure data integrity of the FMIS. FaCS advised that it planned to implement quarterly monitoring.

FMIS – Security access

5.363 A review of access granted to users indicated that some users had inappropriate access, excessive access or access not required to perform their duties. If monitoring of user profiles is not performed, the risk of unauthorised access is increased, resulting in changes to the system that cannot be detected. FaCS agreed to undertake an internal review of all user profiles to ensure staff had correct access and that appropriate segregation of duties is maintained.

Legislative breaches of FMA Act

5.364 Section 8 of the FMA Act requires an entity to enter into an agreement for an overdraft on its official accounts, if the overdraft is for more than 30 days. One bank account went into overdraft for the period 1 July 2004 to 31 January 2005. The overdraft amount ranged between $910,779 to $8,235,372 and was for more than 30 consecutive days. Consequently, FaCS breached section 8 of the FMA Act.

5.365 FaCS had an ineffective Section 31 Agreement concerning the retention and expenditure of specified receipts for the period 1 July 1998 to 30 September 2004, resulting in a contravention of Section 83 of the *Constitution*. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.366 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	12	6	8	14
Legislative Breach	0	0	2	2
Total	**12**	**6**	**10**	**16**

Comments on non-material entities

5.367 There were no moderate or significant audit issues impacting on non-material entities within the portfolio.

Finance and Administration Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Finance and Administration	**Yes**	A	05 Aug 05	
Albury-Wodonga Development Corporation	No	✓	08 Sep 05	
Australian Electoral Commission	**Yes**	A	12 Aug 05	
Australian Hearing Services	No	✓	08 Sep 05	
Australian Government Information Management Office ✦ 3 November 2004	No	✓	11 Jul 05	
Australian Industry Development Corporation	**Yes**	✓	17 Aug 05	
Australian River Co. Ltd	No	✓	10 Mar 05	◆
ASC Pty Ltd	No	✓	15 Sep 05	◆
Australian Technology Group	No	✏	N/a	
Business Services Trust Account	No	✓	05 Aug 05	
Centrelink	**Yes**	A	10 Aug 05	▲
CFM Australian Equities Fund	No	✓	29 Aug 05	
Commonwealth Grants Commission	No	✓	31 Aug 05	
Commonwealth Superannuation Administration (Comsuper)	No	✓	07 Oct 05	◆
Commonwealth Superannuation Scheme (CSS)	No	✓	23 Sep 05	◆
Commonwealth Superannuation Scheme Board	No	✓	23 Sep 05	
CSS/PSS Pty Ltd	No	✓	29 Aug 05	
Department of Human Services	**Yes**	✓	17 Aug 05	◆
- CRS Australia	No	✓	31 Aug 05	
Health Insurance Commission	**Yes**	✓	09 Aug 05	▲◆
Health Services Australia	No	✓	22 Sep 05	
Medibank Private Ltd	**Yes**	✓	12 Aug 05	
Public Sector Superannuation Scheme	No	✓	23 Sep 05	

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Public Sector Superannuation Scheme Board	No	✓	23 Sep 05	
Telstra Instalment Receipts Trustee Limited	No	✓	21 Jul 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.368 The Finance and Administration portfolio's principal responsibilities include:

- Budget policy advice and processes, and review of governmental programmes;
- Government financial accountability, governance and financial management frameworks including procurement policy and services;
- Shareholder advice on Government Business Enterprises and commercial entities treated as Government Business Enterprises;
- General policy guidelines for Australian Government statutory authorities;
- Superannuation related to former and current members of Parliament and Australian Government employees;
- Asset sales;
- Strategic property management in Australia, including construction, acquisition, ownership and disposal of real property;
- Electoral matters;
- Administration of Parliamentarians' entitlements;
- Administration of the Australian Government's self-managed general insurance fund (Comcover);
- Government on-line delivery and information technology and communications management; and
- Evaluation and audit of indigenous programmes and operations.

5.369 The portfolio also includes the Department of Human Services (DHS), which was established on 26 October 2004 to improve the development, delivery and coordination of selected Government services.

5.370 DHS consists of the core department, the Child Support Agency (CSA) and CRS Australia (CRS) with Australian Hearing Services, Centrelink, the Health Insurance Commission (HIC) and Health Services Australia (HSA) reporting through the Secretary of DHS to the Minister. The role of the core department is to direct, coordinate and broker improvements to service delivery. CRS assists people with an injury or a disability to get a job or return to work by providing individualised vocational rehabilitation, and helping employers to keep their workplaces safe. CSA ensures that children of separated parents receive financial support from both parents.

5.371 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	2005 $m	2004 $m
Total revenues	491.03	390.97
Total expenses	326.47	338.27
Total assets	1 735.61	1 529.99
Total liabilities	494.54	477.44

5.372 Revenues increased primarily as a result of additional government funding following the transfer to the Department of Finance Administration (Finance) of the Australian Government Information Management Office (AGIMO) and the Office of Evaluation and Audit (OEA). A reversal of prior year expenses was recognised in 2004–05 to reflect a reduction in the Asbestos Related Disease provision. Revenues also increased as a result of a rent review of the Commonwealth Law Courts portfolio and the sale of land. The increase in revenues was partially offset by a reduction in insurance premium revenue charged by Finance to other entities, in line with an improved claims history.

5.373 Finance's operating expenses decreased due to a significant fall in expenses as a result of the first time recognition in the prior year of a liability for Asbestos Related Diseases and a reduction in insurance claims expense in line with an improved claims history. These decreases were partially offset by increased staffing numbers largely due to the transfer into Finance of OEA and

AGIMO and an increase in salary rates. The value of the land sale also resulted in an increase in expenses of $40.27 million.

5.374 The continuing work on the Adelaide Law Courts and the revaluation performed as at 30 June 2005 resulted in a significant increase in Finance's assets. In addition, receivables were considerably higher due to undrawn appropriation as a result of deferrals in the finalisation of contracts for the Christmas Island Immigration Reception Processing Centre and the Central Budget Management System, and Comcover insurance renewals for 2005–06 were issued prior to 30 June 2005.

5.375 Liabilities increased as a result of unearned revenue due to the earlier invoicing of entities for 2005–06 Comcover premiums, and higher property divestment proceeds to be transferred to the Consolidated Revenue Fund as a result of the sale of land. These increases were slightly offset by a fall in other provisions following the actuarial assessment of the Asbestos Related Diseases provision, outstanding insurance claims decreasing due to an improved claims history emerging, and lower suppliers payables due to the timing of payments.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	1 450.36	1 725.09
Total expenses	5 884.19	4 156.42
Total assets	160.84	(128.24)
Total liabilities	60 567.63	59 067.94

5.376 The decrease in revenues was attributable to a fall in significant sales of investments in 2004–05.

5.377 Expenses and liabilities rose following an upward adjustment by the actuary of the superannuation provision in 2004–05.

5.378 The growth in assets was a result of an increase in administered investments due to a capital injection to Medibank Private Ltd in July 2004, and the Albury-Wodonga Development Corporation transferring to Finance in December 2004.

Audit results

Summary of audit findings

5.379 The ANAO reported one moderate control weakness in the interim phase of the audit relating to the need to test its Business Continuity Plan. During the final phase of the audit the ANAO observed that Finance had resolved this weakness. There were no new moderate or significant audit issues noted during the 2004–05 audit.

5.380 Finance had an ineffective Section 31 Agreement concerning the retention and expenditure of specified receipts for the period 1 July 1999 to 27 April 2005, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.381 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	1	0	0
Legislative Breach	0	0	1	1
Total	**1**	**1**	**1**	**1**

Australian Electoral Commission

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	184.34	108.21
Total expenses	178.27	110.96
Total assets	54.57	60.69
Total liabilities	29.49	30.54

5.382 The increase in revenues and expenses was attributable to the November 2004 Federal Election. The decline in assets is attributable to a cyclical decline in the value of non-financial assets such as land and buildings (due to the timing of the capital replacement program) and consumption of inventory required for the Federal Election.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	1.54	4.14
Total expenses	42.05	0.00
Total assets	0.00	0.45
Total liabilities	0.00	0.00

5.383 The decrease in assets and revenues was attributed to the reclassification of revenue for the electoral roll to departmental revenue. The increase in administered expenses was due to grant payments to political parties associated with the Federal Election.

Audit results

Summary of audit findings

5.384 There were no moderate or significant audit issues noted during the 2004–05 audit.

5.385 The Australian Electoral Commission had ineffective Section 31 Agreements concerning the retention and expenditure of specified receipts for the period 1 January 1998 to 31 January 2005, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.386 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	0	0	0	0
Legislative Breach	0	0	1	1
Total	**0**	**0**	**1**	**1**

Australian Industry Development Corporation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	35.36	89.30
Total expenses	34.67	82.98
Total assets	551.42	1 004.79
Total liabilities	544.33	998.39

5.387 The reduction in the revenues, expenses, assets and liabilities of the Australian Industry Development Corporation (AIDC) was a result of the wind down of AIDC's residual operations in accordance with the *AIDC Sale Act 1997* and the maturity of treasury borrowings during the financial year.

Audit results

Summary of audit findings

5.388 There were no moderate or significant audit issues noted during the 2004–05 audit.

Centrelink

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	2 252.33	2 156.70
Total expenses	2 230.39	2 150.44
Total assets	745.72	601.42
Total liabilities	553.83	479.97

5.389 Revenues and expenses increased reflecting new budget measures, such as More Help for Families and the Child Care Rebate.

5.390 Assets have increased due to an undrawn appropriation and an increase in the cash balance relating to cash payable to other entities for projects that were either not undertaken or partially completed.

5.391 The increase in liabilities was due to an increase in other payables and unearned revenue, arising from projects not completed and lower customer numbers than previously estimated during the 2004–05 financial year.

Audit results

Summary of audit findings

5.392 The ANAO reported four moderate control weaknesses in the interim phase of the audit. During the final phase of the audit the ANAO observed Centrelink had made good progress toward resolving the four outstanding issues identified, which were as follows:

- an excessive number of users was identified as having ‘superuser’ privileges which increases the risk of erroneous changes being made to the mainframe environment;
- an excessive number of users who could access a database of a major benefit payment system that increases the risk of users making unauthorised and/or erroneous changes to data stored;
- inappropriate ‘write access’ to personal benefit payment files that increases the risk of data integrity issues and fraud through unauthorised changes to benefit payment data; and
- inappropriate use of manual request to pay forms. The use of these forms bypasses the automated FMIS purchasing controls and makes it difficult for Centrelink to ensure appropriate delegates approve all purchases, increasing the risk that unapproved purchases may be processed.

5.393 Centrelink had no Section 31 Agreement, concerning the retention and expenditure of specified receipts, for the period 1 July 1998 to 20 April 1999, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading ‘Audit Reports containing Additional Statutory Disclosure’.

5.394 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	4	0	0	4
Legislative Breach	0	0	1	1
Total	**4**	**0**	**1**	**5**

Department of Human Services

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	271.49	N/a
Total expenses	268.32	N/a
Total assets	144.33	N/a
Total liabilities	95.44	N/a

5.395 This was the first year of operation for DHS. Revenues consisted primarily of appropriations transferred from other departments on the formation of DHS and revenue from rehabilitation services provided by CRS.

5.396 Employee expenses represented 64 per cent of DHS expenses and largely related to CSA and CRS. Both of these entities experienced growth in employee expenses due to a rise in pay rates under their respective certified agreements and staff growth of 5 per cent in CSA due to an increase in the number of child support cases. The majority of the remaining expenses was related to suppliers, which showed no significant change from the prior year.

5.397 Assets of CRS were $75.60 million and CSA were $64.99 million. None of these asset balances experienced significant changes from the prior year.

5.398 Liabilities at 30 June 2005 were comprised of employee provisions and supplier payables, which were in line with budget expectations.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	533.32	N/a
Total expenses	519.90	N/a
Total assets	466.49	N/a
Total liabilities	372.21	N/a

5.399 Administered revenues consisted mainly of child support revenue and penalties. Analysis of the child support revenue on an annual basis indicated an increase of 14 per cent, which represents growth in the number of eligible parents entering the system.

5.400 Expenses included $474.58 million in child support payments, which was consistent with the revenue amount, and $44.62 million in relation to bad debt expenses for child support debts.

5.401 Administered assets comprised $355.57 million for child support receivables and $110.92 million for investments held in the Health Insurance Commission, Australian Hearing and Health Services Australia. The child support receivables increased as there was a reduction in the provision for doubtful debts due to changes in the methodology for estimating the provision.

5.402 Accrued child support payable was the major component of administered liabilities and was an offset to child support receivables. The liability increased due to a corresponding increase in child support receivables.

Audit results

Summary of audit findings

5.403 There was one moderate audit issue arising from the final audit phase.

5.404 The CSA provision for doubtful debts associated with child support receivables, by nature is more uncertain than most other items in the financial statements. The amount recorded as a provision should be a best estimate at the reporting date. To achieve this, CSA should regularly review the methodology for estimating the provision. The ANAO review identified a concern with the methodology that resulted in a significant downwards adjustment to the provision. CSA agreed to conduct regular reviews of the methodology used for estimating the provision.

5.405 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

Health Insurance Commission

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	596.17	537.53
Total expenses	593.02	531.81
Total assets	229.26	240.15
Total liabilities	111.99	147.80

5.406 Health Insurance Commission (HIC) revenues increased as a result of additional government funding to cover higher Medicare and Pharmaceutical Benefits Scheme transaction volumes and a review of funding for the administration of these and other schemes.

5.407 Expenses principally increased as a result of costs associated with HIC's telecommunication and information technology contracts along with employee costs arising from new Medicare initiatives. HIC also recognised a one-off adjustment to software amortisation of $13 million after reassessing the life of its internally developed software applications.

5.408 HIC's asset base remained relatively stable. Increases from the purchase of leasehold improvements and capitalisation of software development costs were more than offset by amortisation charges.

5.409 Liabilities decreased considerably as a result of HIC paying its accounts more promptly and of a reduction in unearned revenue. This was achieved through improvements in the financial management of HIC's major contracts and changes to its funding arrangements.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	19 712.51	17 629.67
Total expenses	19 620.20	17 569.66
Total assets	2 290.72	1 961.29
Total liabilities	2 239.95	1 921.61

5.410 The increase in administered revenues and expenses related to general volume and average cost increases for the Medicare Benefits Scheme, Pharmaceutical Benefits Scheme (PBS), and the 30 per cent Private Health Insurance Incentive Scheme. This also had an impact on assets and liabilities at year-end.

Audit results

Summary of audit findings

5.411 The ANAO reported two moderate control weaknesses in the interim phase of the audit. During the final phase of the audit the ANAO observed that HIC had resolved one of these weaknesses. An issue from the 2003–04 audit remains outstanding relating to control deficiencies within project financial management. Deficiencies included inconsistent and intermittent status reporting, inconsistent financial management practices, project estimates not being subject to internal pricing controls and limited monitoring of movements away from original budget estimates. HIC had addressed aspects of this finding to the extent needed to support its statutory financial reporting responsibilities. The establishment of a comprehensive framework was yet to be undertaken.

5.412 As part of the 2004–05 final audit, the ANAO identified an issue relating to security and configurable[36] controls within the FMIS. Enhancements to these controls should reduce the risk of unauthorised, inaccurate and/or fraudulent transactions being processed.

5.413 Overall, HIC had made significant improvement in the area of financial stewardship and control during 2004–05. The ANAO expects that these improvements will be carried forward into the new entity Medicare Australia and that they will reduce the risks associated with the transition. Medicare Australia will operate under the FMA Act as opposed to the CAC Act, under which HIC operated.

---

[36] ibid.

5.414 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	2	1	1	2
Total	**2**	**1**	**1**	**2**

Medibank Private Pty Ltd

5.415 An unqualified audit report on Medibank Private Pty Ltd's financial statements was issued.

Comments on non-material entities

5.416 There were no moderate or significant audit issues impacting on non-material entities, with the exception of the Australian River Co. Limited (ARCo), ASC Pty Ltd, and the Commonwealth Superannuation Administration (ComSuper).

Australian River Co. Ltd

5.417 ARCo has a financial year ending 30 November. On 3 May 2002, the Parliamentary Secretary to the Minister for Finance and Administration wrote to ARCo 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.

5.418 At 30 June 2005, ARCo had a provision in the 2004–05 financial statements of $0.647 million for the excess component of insurance for crew claims for workers' compensation. The ANAO noted that the provision was based on management's past experience and judgment with reference to relevant risk and probability factors, including discussions with third party ship management agents, lawyers and insurers. In view of the rising asbestos claims in the past few years, the ANAO recommended ARCo engage an actuary to conduct a detailed review of all know claims and estimate incurred but not reported claims. This would assist in determining the adequacy of insurance coverage and the sufficiency of the provision.

5.419 ARCo accepted the recommendation and engaged an independent consultant to manage all aspects of their workers' compensation claims. The issue will be reviewed during the 2005–06 audit.

ASC Pty Ltd

5.420 Two moderate issues were noted during the audit and were referred to management for consideration. These related to:

- deficiencies detected in the control of payroll master file changes, and in the independent review of changes to the payroll master file, termination payments and pay adjustment reports. Improvements were required to ensure that errors were detected and inappropriate payments are not processed; and
- the ANAO recommended improvements in the documentation of business processes for billings to include evidence of independent review of changes in the model used to calculate and issue billings. Although no billing errors were detected during the audit, control deficiencies in the business process increase the risk of inaccurate billings.

5.421 ASC Pty Ltd responded positively and advised that the recommendations made by the ANAO had been implemented.

Commonwealth Superannuation Administration

5.422 Each year ComSuper pays pension recipients from special and annual appropriations. In excess of $6.2 billion was paid from these appropriations in 2004–05.

5.423 ComSuper was required to report on amounts drawn from other entities' special appropriations for the first time in 2004–05. During the process of preparing this disclosure, it became apparent that $7 million in cash had built up over a number of years in an administered bank account maintained by ComSuper. Government procedures require administered receipts to be returned to the Official Public Account on a daily basis. ComSuper believed that these funds related to superannuation payments sent to recipients, which were then rejected and returned to ComSuper. However, ComSuper had not been able to fully determine the exact source of the funds that had been retained in its administered bank account.

5.424 A portion of the funds in this account at 30 June 2004 were spent in 2004–05. As appropriate controls and processes had not been in place to determine what these funds had been spent on and whether an appropriation was available for this purpose, it took ComSuper a considerable period of time to resolve this. Whilst ComSuper was able to demonstrate that these funds were utilised for a purpose for which an appropriation was available, the ANAO recommended to ComSuper that controls around the management of these processes be improved. ComSuper agreed with the ANAO's recommendations and had already commenced work to address the issues identified.

5.425 ComSuper operationally manages special appropriations contained in the *Superannuation Act 1976* and *Superannuation Act 1990*. Audit Report No.21 2004–05[37] noted that while records existed to explain transactions for each of the special appropriations, this information could not be readily extracted. This is a related issue in the management of administered appropriations.

5.426 Further, a number of issues were identified relating to IT access controls, the management of business processes and financial statement preparation. ComSuper had already addressed, or was in the process of addressing, these issues.

Commonwealth Superannuation Scheme

5.427 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 have been met. The superannuation entity's trustees have identified likely instances of non-compliance with the regulation regarding payments of deferred benefits and age pensions to members who have not satisfied the conditions of release under the *Superannuation Industry (Supervision) Regulations*. This matter was identified and reported in the 2003–04 audit report to the members of the Scheme. Amendments to the *Superannuation Act 1976* have been introduced into Parliament. If successfully enacted, these amendments will validate any affected payments (pensions and lump sum payments) retrospectively up to 30 June 2005. To reflect this breach, the ANAO issued a qualified opinion with regard to compliance with Regulation 6.17 of the *Superannuation Industry (Supervision) Regulations*. This is not a qualification on the financial statements of the Commonwealth Superannuation Scheme.

---

[37] Audit Report No.21, 2004–05, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004.*

Foreign Affairs Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Foreign Affairs and Trade	**Yes**	A	12 Oct 05	
Australia-Japan Foundation	No	✓	21 Sep 05	
Australian Agency for International Development	**Yes**	✓	02 Sep 05	
Australian Centre for International Agricultural Research	No	✓	01 Aug 05	
Australian Secret Intelligence Service	No	A	06 Oct 05	
Australian Trade Commission	**Yes**	✓	18 Aug 05	
Export Finance and Insurance Corporation	**Yes**	✓	12 Aug 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.428 The Foreign Affairs and Trade portfolio entities 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 entities contribute to:

- international security;
- national economic and trade performance and global cooperation;
- development and promotion of domestic and international understanding of Australia's foreign and trade policy;
- supporting Australian business by providing market access and export advice and assistance;
- promoting trade and investment;
- providing assistance to developing countries to reduce poverty and achieve sustainable development;
- providing consular and passports services to Australians; and
- managing efficiently the Australian Government overseas owned estate.

5.429 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	2005 $m	2004 $m
Total revenues	822.13	808.84
Total expenses	698.41	653.18
Total assets	1 912.75	1 726.27
Total liabilities	173.09	146.51

5.430 The Department of Foreign Affairs and Trade's (DFAT) revenue for 2004–05 increased as a result of the sale of apartments in Bangkok and greater funding from Government to cover costs associated with processing a higher demand, than in the prior year, for passports, as well as for addressing heightened security risks. The increase in revenues has been partially offset by a reduction in other elements of government funding. The appreciation of the Australian Dollar in comparison to several key foreign currencies meant DFAT required less funds to cover costs incurred overseas. The transfer of a function to the Office of National Assessments, in accordance with a Government decision resulting from the Flood Inquiry into Australian Intelligence agencies, also led to a reduction in government funding.

5.431 The increase in DFAT expenses for 2004–05 was due to several factors, including a rise in salary rates for Australian-based staff in accordance with the certified agreement, an increase in the employer superannuation contribution rates and a marginal increase in staff numbers associated primarily with the upgrading of security. The value of the aforementioned Bangkok apartments sold during the financial year also resulted in an increase in expenses.

5.432 DFAT is currently upgrading security at overseas posts. This is the reason for the majority of the increase in the value of assets.

5.433 The increase in liabilities primarily represented the prepayment by several Commonwealth entities to DFAT for overseas rent and services to be provided in 2005–06. There has also been an increase in the provision for makegood on leased properties resulting from a revaluation conducted in 2004–05, a rise in employee provisions due to an increase in salary rates in accordance with the certified agreement and an increase in supplier payables due to the upgrading of security at overseas posts.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	231.32	210.35
Total expenses	266.14	758.86
Total assets	464.68	465.15
Total liabilities	126.59	143.26

5.434 The increase in revenues was attributable to higher passport revenue. There was a greater demand for passports in 2004–05 compared to the prior year as a favourable Australian Dollar exchange rate made international travel more attractive.

5.435 In 2003–04, DFAT expensed $572 million relating to a provision for doubtful Iraq debt following the second Iraqi invasion. No new large debt provisions were raised during 2004–05. This reduction in expenses was partially offset by an increase in grants due to higher contributions to UN peacekeeping activities, costs associated with the Asian tsunami disaster and the cost of Australia's participation in the Aichi World Expo.

5.436 The marginal reduction in assets reflected a diminution in the value of National Interest Account receivables due to a strengthening of the Australian Dollar, offset by an increase in the value of the investment in the Australian Trade Commission (Austrade). The Australian Government has made contributions of equity to Austrade to enable Austrade to increase security at overseas missions and for the development of eight new trade and industry hubs in regional Australia.

5.437 The reduction in administered liabilities was primarily attributable to the Commonwealth's payment of the Egypt and Ethiopia liabilities to the Export Finance and Investment Corporation (EFIC). A diminution in the value of National Interest Account payables due to the strengthening of the Australian Dollar and a reduction in unearned premium income associated with EFIC are also causes for the decrease. These reductions in liabilities were partially offset by an increase in supplier payables attributable to costs incurred for the Aichi World Expo.

Audit results

Summary of audit findings

5.438 There were no moderate or significant audit issues noted during the 2004–05 audit.

5.439 DFAT did not have a Section 31 Agreement, concerning the retention and expenditure of specified receipts, for the period 1 July 1997 to 17 May 1998, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.440 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	0	0	0	0
Legislative Breach	0	0	1	1
Total	**0**	**0**	**1**	**1**

Australian Agency for International Development

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	75.47	72.29
Total expenses	70.49	71.21
Total assets	21.33	17.38
Total liabilities	13.67	19.50

5.441 The increase in revenues of the Australian Agency for International Development (AusAid) was mainly attributable to additional funding from Government associated with the Asian Tsunami disaster.

5.442 The decrease in expenses was due to a reduction of rental expenses for residential properties rented through DFAT and a favourable lease negotiation for the AusAid Office Chancery. This reduction was largely offset by a rise in salary rates in accordance with the certified agreement.

5.443 The asset position improved slightly due to a timing difference in the use of equity injections provided for the implementation of a new activity management information system (AidsWork), due to be operational by December 2005.

5.444 The reduction in liabilities reflected the settlement of supplier payables and a reduction in employee provisions due to better management of staff leave.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	2.62	0.18
Total expenses	2 136.18	1 305.26
Total assets	2 381.72	789.06
Total liabilities	1 440.49	931.03

5.445 No significant movement in revenues was noted.

5.446 The increase in expenses and liabilities was due to the signing of three new multilateral contracts during the year.

5.447 The increase in assets was due to additional receivables associated with the Asian Tsunami for the Australia-Indonesia Partnership for Reconstruction and Development.

Audit results

Summary of audit findings

5.448 The ANAO reported one moderate control weakness in the 2003–04 audit in relation to business continuity planning. During the 2004–05 audit, the ANAO observed that AusAid had resolved this weakness. There were no moderate or significant audit issues noted during the 2004–05 audit.

5.449 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

Australian Trade Commission

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	187.75	188.31
Total expenses	193.20	188.00
Total assets	113.82	111.63
Total liabilities	38.67	39.20

5.450 Revenues of the Australian Trade Commission (Austrade) remained relatively stable in comparison to the 2003–04 financial year. The increase in expenses was attributable to several factors including a rise in salary rates in accordance with the certified agreement and a general increase in supplier expenses associated with greater trade promotion and facilitation of trade activities. Offsetting these increases was a reduction in separation benefit expenses for overseas engaged staff due to a stronger Australian Dollar and reduced amortisation expense for intangible assets as some assets had reached the end of their useful lives.

5.451 The small increase in assets was largely due to greater cash holdings partially offset by a reduction in receivables. Cash holdings have increased as a result of the equity injection received for the relocation of, and improvement to, security at several overseas offices for which the work is yet to be completed. The reduction in the balance of receivables is due to the return of security deposits for two leased properties.

5.452 The decrease in liabilities was due to several factors including a reduction in employee liabilities associated with the settlement of significant voluntary separation benefits for overseas employees, the diminution in value of overseas liabilities due to a stronger Australian Dollar, and the settlement of a long standing superannuation provision in 2004–05. These decreases were mitigated by additional payments outstanding at year-end for IT contracting and other suppliers.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	0.67	0.56
Total expenses	131.27	150.90
Total assets	7.36	6.71
Total liabilities	2.13	1.97

5.453 The decrease in administered expenses was associated with Export Market Development Grants. Legislation changes to the *Export Market Development Grants Act 1997* saw a decline in the number of grant applications and a reduction in the aggregate amount claimed in 2004–05. Revenues, assets and liabilities all remained stable in comparison with those of the prior year.

Audit results

Summary of audit findings

5.454 There were no moderate or significant audit issues noted during the 2004–05 audit.

Export Finance and Insurance Corporation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	198.20	194.00
Total expenses	156.80	143.70
Total assets	3 073.60	3 523.10
Total liabilities	2 786.10	3 256.90

5.455 No significant movement in the financial performance of the Export Finance and Insurance Corporation occurred during 2004–05.

5.456 The level of assets and liabilities fell as a result of the maturing of loans held and the settlement of two cross currency swaps.

Audit results

Summary of audit findings

5.457 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.458 There were no moderate or significant audit issues impacting on non-material entities within the portfolio except for the Australian Secret Intelligence Service (ASIS).

5.459 Section 31 Agreements allow entities to retain and spend specified receipts. ASIS had an ineffective Section 31 Agreement concerning the retention of specified receipts for the period 1 July 1999 to 30 June 2004, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

Health and Ageing Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Health and Ageing	**Yes**	A	12 Aug 05	▲
– Therapeutic Goods Administration	No	✓	12 Aug 05	
Aged Care Standards and Accreditation Agency Ltd	No	✓	21 Sep 05	
Alcohol Education and Rehabilitation Foundation Ltd	No	✓	29 Aug 05	
Australian Institute of Health and Welfare	No	✓	12 Sep 05	
Australian Radiation Protection and Nuclear Safety Authority	No	✓	27 Sep 05	
Food Standards Australia New Zealand	No	✓	22 Sep 05	
General Practice Education and Training Ltd	No	✓	12 Sep 05	
National Blood Authority	**Yes**	✓	01 Aug 05	◆
National Institute of Clinical Studies Ltd	No	✓	26 Aug 05	
Private Health Insurance Administration Council	No	✓	09 Sep 05	
Private Health Insurance Ombudsman	No	✓	15 Sep 05	
Professional Services Review	No	✓	19 Sep 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.460 The Health and Ageing portfolio works towards achieving a health care system that meets the health care and ageing needs of all Australians. The portfolio's services are delivered through the nine outcomes set by the Australian Government. Each portfolio entity has developed performance information to determine effectiveness in achieving entity-specific outcomes.

5.461 In addition, the entities work towards the following whole-of-portfolio targets in relation to the health status of Australians:

- Continued improvement in life expectancy for both males and females over time;
- Further reductions in infant mortality rates over time;
- Additional improvements in disability adjusted life expectancy over time;
- Improved life expectancy, health expectancy and infant mortality rates for Aboriginal and Torres Strait Islanders, so that they are comparable with the general population; and
- Improved life expectancy, health expectancy and infant mortality rates for low income Australians, so that they are comparable with the general population.

5.462 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	2005 $m	2004 $m
Total revenues	575.49	1 168.67
Total expenses	562.87	1 159.36
Total assets	164.65	234.39
Total liabilities	145.58	187.51

5.463 The Department of Health and Ageing's (DoHA) revenues decreased primarily as a result of a change in the way the Health Insurance Commission (HIC) was funded for its operational activities under the purchaser/provider arrangements with DoHA. HIC was previously funded through DoHA but, from 1 July 2004 HIC moved to a direct appropriation funding model for its operational requirements. In addition, fee collections from business operations decreased during 2004–05 due largely to the transfer of CRS Australia (CRS) from DoHA to the Department of Human Services (DHS).

5.464 The reduction in DoHA's expenses for 2004–05 occurred for the same reason explained above in relation to HIC. Furthermore, a significant portion of the expenses for CRS were not included in 2004–05 as CRS was transferred to DHS following the Administrative Arrangements Order (AAO) of 26 October 2004.

5.465 The decrease in DoHA's assets and liabilities at 30 June 2005 was due to the transfer of CRS to DHS by the AAO.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	350.33	220.51
Total expenses	36 156.21	32 815.86
Total assets	424.65	495.40
Total liabilities	2 459.99	2 077.76

5.466 The increase in revenues principally related to the receipt of funds collected by a portfolio entity for return to the Official Public Account, and a revaluation increment on portfolio investments.

5.467 The increase in expenses reflected the Government's continued spending priorities for improving Australia's health and ageing systems, including initiatives in the areas of Medicare, PBS, aged care, the health of Aboriginal and Torres Strait Islander peoples, and the provision of health services to rural, regional and remote Australia.

5.468 The decrease in administered assets related to a significant reduction in the amount of prepayments and a reduction in the value of the DoHA's investments in Commonwealth authorities and companies following the transfer of these entities to the Finance and Administration portfolio by the AAO of 26 October 2004. The increased cash balance reflects the level of funds held by DoHA to meet the medical and pharmaceutical benefits scheme payments.

5.469 Liabilities have increased largely due to an increase in the payables balances representing the outstanding claims due under the medical, pharmaceutical and health insurance rebate programs, and also the recognition of increased grant payables to private sector organisations.

Audit results

Summary of audit findings

5.470 ANAO reported one moderate control weakness in the interim phase of the audit in relation to DoHA's business continuity planning. DoHA had responded positively to the ANAO's observations and recommendations and is in the process of addressing the matters raised by the ANAO. Whilst considerable work had been undertaken by DoHA it remains as an issue. The ANAO will continue to monitor progress until the required plans and processes have been put in place.

5.471 DoHA had an ineffective Section 31 Agreement concerning the retention and expenditure of specified receipts for the period 1 July 1998 to 28 June 2005, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.472 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	0	0	1
Legislative Breach	0	0	1	1
Total	**1**	**0**	**1**	**2**

National Blood Authority

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	8.04	7.41
Total expenses	6.25	6.50
Total assets	5.60	3.53
Total liabilities	2.86	2.62

5.473 The National Blood Authority (NBA) was established on 1 July 2003 to ensure that Australia's blood supply is secure and well managed. The principal roles of the NBA are to manage national blood arrangements in accordance with the National Blood Agreement between the Australian Government, States and Territories, to ensure sufficient supply and to provide a coordinated approach to policy setting, governance and management of the Australian blood banking and plasma product sector.

5.474 The increase in revenues for 2004–05 was a combination of an increase in funding from Government to negotiate a new agreement for the fractionation of blood plasma, as well as increased revenue from services following finalisation of an agreement during 2004–05 that enabled NBA to spend certain monies received from third parties.

5.475 Expenses increased due to a rise in salary rates in accordance with the certified agreement, a minor increase in staff numbers, and an increase in depreciation and amortisation. This was offset by a significant reduction in suppliers expenses relating to consultants and IT support charges associated with the start-up of NBA in 2003–04.

5.476 Assets increased largely due to greater contributions from the participating governments and territories, and an increase in leasehold improvements in relation to the move to new premises during the year. Liabilities increased marginally due to a movement in employee provisions due to a rise in salary rates and the number of employees.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	220.19	199.67
Total expenses	512.89	455.68
Total assets	65.04	65.44
Total liabilities	35.58	26.16

5.477 The increase in revenues related to greater contributions from the States and Territories under the National Blood Agreement. The significant increase in expenses was due to additional funding to the Australian Red Cross Blood Service in accordance with the Deed of Agreement, plus an increase in payments to suppliers of blood related products.

5.478 Assets remained stable, as an increase in inventory of blood related products was offset by a reduction in deferred start-up costs relating to the first year of operations in 2003–04. The increase in liabilities relates to greater supplier payables consistent with the higher expenses for the year, plus an increase in unearned revenue for payments received in advance from the States and Territories.

Audit results

Summary of audit findings

5.479 The ANAO reported one moderate control weakness in the 2003–04 audit relating to the finalisation of an agreement with the Minister for Finance and Administration specifying the type of receipts, which can be retained and spent by NBA. During the 2004–05 audit, the ANAO observed that NBA had resolved this. One moderate audit issue was noted during the 2004–05 audit.

5.480 Under the FMA Act (regulation 10) NBA is required to obtain authorisation prior to signing contracts that commit monies not funded by an existing appropriation. Two breaches of Regulation 10 of the FMA Act were noted during the audit. These related to failure to obtain Regulation 10 authorisation for a property lease and for a contract for services in relation to the management of the national reserve of plasma products. The second breach occurred contrary to the new procedures put in place by the NBA following the first breach for obtaining appropriate Regulation 10 sign-offs.

5.481 NBA is taking action to ensure Regulation 10 authorisation is obtained prior to the signing of contracts that commit monies not funded by an existing appropriation.

5.482 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	1	1	1
Total	**1**	**1**	**1**	**1**

Comments on non-material entities

5.483 There were no moderate or significant audit issues impacting on non-material entities within the portfolio.

Immigration and Multicultural and Indigenous Affairs Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Immigration and Multicultural and Indigenous Affairs	**Yes**	✓	07 Sep 05	▲
– Aboriginals Benefit Account	No	✓	01 Sep 05	
– Aboriginal and Torres Strait Islander Educational and Cultural Advancement Account	No	✏	N/a	
– Aboriginal and Torres Strait Islander Land Fund Account	**Yes**	✓	09 Sep 05	
Aboriginal and Torres Strait Islander Commission ☞ 23 March 2005	No	✓	12 Oct 05	
Aboriginal and Torres Strait Islander Services	No	✏	N/a	
Anindilyakwa Land Council	No	✓	20 Sep 05	
Central Land Council	No	✓	02 Sep 05	
Indigenous Land Corporation	No	✓	01 Sep 05	
Migration Review Tribunal	No	✓	28 Sep 05	
Northern Land Council	No	✓	16 Sep 05	◆
Refugee Review Tribunal	No	✓	28 Sep 05	
Tiwi Land Council	No	✓	14 Sep 05	
Torres Strait Regional Authority	No	✓	30 Sep 05	
Wreck Bay Aboriginal Community Council	No	✓	15 Nov 05	

✓: 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
☞: financial year end date other than 30 June 2005

✏ signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.484 The 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 entities to promote practical reconciliation. The portfolio has been assigned 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 policy coordination and reconciliation.

5.485 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	2005 $m	2004 $m
Total revenues	1 000.04	811.82
Total expenses	987.63	818.07
Total assets	545.81	418.64
Total liabilities	234.44	201.39

5.486 The significant increase in the Department of Immigration and Multicultural and Indigenous Affairs' (DIMIA) revenues and expenses can be attributed to the transfer of functions from ATSIC and ATSIS. In addition, funding from Government increased to enable development of a global visa processing system, the development of disaster recovery facilities, provision of greater humanitarian programmes, the development and trial of biometric technology for border control, and additional officers to address issues arising from the detection of fraudulent travel documents. This has been offset by a reduction in appropriation revenue as numbers of people in detention have declined.

5.487 In addition to the increase in expenses as a result of the transfer of ATSIC and ATSIS functions, DIMIA's expenses for 2004–05 were higher due to a rise in salary rates in accordance with the certified agreement, increases in IT costs including electronic visa processing and Electronic Travel Authority processing and higher costs associated with additional legal activity.

5.488 The increase in assets was primarily due to the transfer of land and buildings from ATSIC on its abolition on 23 March 2005, the purchase of land in Brisbane and Broadmeadows from the Department of Defence and an increase in appropriation receivable. Appropriation receivable increased due to the timing of expenditure on capital acquisitions and a reduction in expenses due to no unauthorised boat arrivals occurring during 2004–05.

5.489 In addition to the assets acquired on the abolition of ATSIC, DIMIA has taken on ATSIC and ATSIS employees from 1 July 2004 and the ATSIC regional councillors from 24 March 2005. This combined with the rise in salary rates has lead to an increase in liabilities.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	773.91	490.45
Total expenses	940.81	268.59
Total assets	1 763.76	518.34
Total liabilities	55.01	37.82

5.490 The majority of the movement in administered revenues, expenses, assets and liabilities is associated with the transfer of functions from ATSIC and ATSIS. Specifically, the transfer to DIMIA upon the abolition of ATSIC on 23 March 2005 of the Aboriginal and Torres Strait Islander Land Fund Account (Land Fund) and the Aboriginal Benefits Account (ABA) has significantly increased assets and revenue. The increase in assets has been partially offset by a decrease in investments in Commonwealth entities from the transfer of a number of investments, such as Indigenous Business Australia, Aboriginal Hostels Ltd and the Australian Institute of Aboriginal and Torres Strait Islander Studies to other entities under an Administrative Arrangement Order effective from 1 July 2004.

5.491 DIMIA's administered expenses and liabilities have increased significantly due to the transfer of grants previously administered by ATSIS.

The grants expense incorporates grants that were administered by DIMIA for a part of the year prior to being transferred to a number of other Commonwealth entities.

Audit results

Summary of audit findings

5.492 The ANAO reported one significant and four moderate control weaknesses in the interim phase of the audit. During the interim phase of the audit, the ANAO highlighted significant weaknesses in the management of the FMIS and associated key accounting processes that posed a significant risk to the integrity of financial information. DIMIA has commenced remedial action to address the risks identified, and processes are being developed to align the FMIS with DIMIA's business needs and polices. The ANAO's assessment is that this matter still represents a moderate financial risk as the alignment of the FMIS to business is an important issue in ensuring integrity and meaningfulness of financial reports. A review of the progress of the remedial action and alignment of the FMIS and DIMIA's business needs and policies will be undertaken as a part of the 2005–06 financial statement audit.

5.493 DIMIA had four moderate issues outstanding at March 2005. Of these, three are still to be resolved relating to:

- delays in the removal of local area access for employees who have left DIMIA;
- a similar observation regarding the management of access to DIMIA's onshore visa processing application; and
- Information Technology change management and documentation processes related to DIMIA's onshore visa processing application had not been undertaken in accordance with established processes.

5.494 The progress of action on these issues will be examined by the ANAO during the 2005–06 financial statement audit.

5.495 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	1	1*	0	0
B	4	1	1	4
Total	**5**	**2**	**1**	**4**

* Issue reclassified from A to B.

Aboriginal and Torres Strait Islander Land Fund Account

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	607.22	625.89
Total expenses	509.19	557.97
Total assets	1 518.14	1 431.59
Total liabilities	0.00	15.79

5.496 The *Aboriginal and Torres Strait Islander Act 2005* (*ATSI Act*), previously the *Aboriginal and Torres Strait Islander Commission Act 1989*, provided for a special appropriation to the Land Fund for the period 1 July 1994 to 30 June 2004. The intention of the *ATSI Act* was that the amounts appropriated would be invested under Section 39 of the FMA Act, to build a capital base, after which the annual earnings from the investments would replace the annual appropriation funding from Government. Accordingly, no appropriations were received in 2004–05, impacting on the total revenue received.

5.497 The increase in assets held reflected the accrual and realisation of interest earned on the investments held, and the reinvestment of gains realised on previous investments. The decrease in liabilities was due to a one off payable recorded as at 30 June 2004 related to the repayment of excess appropriations.

Audit results

Summary of audit findings

5.498 The ANAO reported two significant control weaknesses and one legislative breach in the 2003–04 audit relating to:

- discrepancies in the calculation of appropriations that resulted in overpayments, in contravention of section 83 of the *Constitution* and section 48 of the FMA Act; and
- the investment of public monies in unauthorised investments, in contravention of section 83 of the *Constitution* and section 48 of the FMA Act.

5.499 During the 2004–05 audit, the ANAO observed that the Land Fund had resolved these weaknesses. There were no moderate or significant audit issues noted during the 2004–05 audit.

5.500 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	2	2	0	0
B	0	0	0	0
Legislative breach	1	1	0	0
Total	**3**	**3**	**0**	**0**

Comments on non-material entities

5.501 There were no moderate or significant audit issues impacting on non-material entities, with the exception of the Northern Land Council (NLC).

Northern Land Council

5.502 Two issues were noted during the audit of NLC, relating to the composition and practices of the Audit Committee and signatories on bank accounts. NLC is required to have an Audit Committee under section 32 of the CAC Act. The ANAO raised concerns that the Audit Committee consisted primarily of employees of NLC, only meets on a yearly basis and has not been used to develop acceptable corporate governance procedures. This does not reflect best practice and limits its ability to identify control weaknesses and assess risks.

5.503 Secondly, the ANAO identified that a terminated employee was still included as an authorised signatory on a NLC bank account. The ANAO recommended that all signatories be reviewed and updated on a regular basis.

Industry, Tourism and Resources Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Industry Tourism & Resources	**Yes**	✓	29 Aug 05	
CVC Reef Limited	No	✓	16 Nov 05	
Geoscience Australia	No	✓	15 Aug 05	◆
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	✓	29 Aug 05	
National Aeronautics and Space Administration ☞ 30 September 2004	No	✓	30 Nov 04	
National Offshore Petroleum Safety Authority	No	✓	31 Aug 05	
Tourism Australia	**Yes**	✓	12 Aug 05	
Wind Corporation Australia Limited	No	✓	16 Nov 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.504 Through developing, implementing and administering policies and programs and providing business services, the portfolio aims to improve the well-being of Australians by developing Australia's innovation and technology capabilities and infrastructure, and attracting foreign investment in Australia. The portfolio also aims to increase the international competitiveness of Australian manufacturing, resources and services industries.

5.505 The Department of Industry, Tourism and Resources (DITR) is the central policy and coordination entity of the portfolio. DITR develops and implements a range of industry policies and programs and delivers business services that build on the three key drivers of economic growth of innovation, investment, and international competitiveness.

5.506 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	2005 $m	2004 $m
Total revenues	310.73	245.48
Total expenses	310.17	249.65
Total assets	106.69	82.02
Total liabilities	69.96	56.99

5.507 The movement in key financial measures of DITR was mainly attributable to the inclusion of the newly formed business operation, the National Measurement Institute (NMI). In addition to NMI, expenses and liabilities increased due to a rise in salary rates under the certified agreement.

5.508 An increase in appropriation receivables also contributed to the movement in assets. Appropriation receivable was higher than in comparison to the prior year due to timing differences.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	1 438.11	1 304.20
Total expenses	1 495.99	1 582.70
Total assets	578.06	546.32
Total liabilities	283.81	329.84

5.509 DITR's increase in revenues was mainly attributed to an increase in petroleum royalties. Petroleum royalties collected are dependent on production levels and global oil prices, both of which increased in 2004–05. The increase has been partially offset by a decrease of $58.45 million, in revenue collections under the Automotive Competitiveness Incentive Scheme (ACIS), which is due to the 5-year cyclic nature of the program. In addition, in 2003–04, assets relating to the Australian Magnesium Corporation (AMC) project were sold for $21.10 million. In 2004–05 the sale of the remaining AMC assets only generated revenues of $4.78 million.

5.510 The decrease in administered expenses related to a bank loan guaranteed by DITR supporting the AMC project, which was recognised in 2003–04, resulting in an expense of $84.56 million. No similar expenses were reported in 2004–05.

5.511 The increase in the value of assets was due to accrued petroleum royalties revenue increasing by $35.66 million. The increase was consistent with the increase in petroleum royalties revenue.

5.512 The decrease in liabilities was due to the settlement in 2004–05 of a payable relating to the AMC project. This decrease has been partially offset by an increase in subsidies payable relating to ACIS, which is a result of the cyclic nature of the program and in line with the reported net increases in ACIS expenses.

Audit results

Summary of audit findings

5.513 The ANAO reported two moderate control weaknesses in the interim phase of the audit in relation to the non-performance of bank reconciliations and the approval of Business Activity Statements. During the final phase of the audit the ANAO observed that DITR had resolved these weaknesses. Two legislative breaches were also identified during the interim phase of the audit. The ANAO identified breaches of Section 110 of the *Safety Rehabilitation and Compensation Act 1998*, which requires employee consent prior to salary advance compensation payments being recovered. In addition, the ANAO identified one breach of Section 21 of the *Industry Research & Development Board Act 1986* whereby a variation to a grant deed was not approved by an appropriate financial delegate.

5.514 There were no other moderate or significant audit issues noted during the audit.

5.515 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	2	2	0	0
Legislative Breach	2	2	0	0
Total	**4**	**4**	**0**	**0**

Tourism Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	169.80	N/A
Total expenses	165.48	N/A
Total assets	33.10	N/A
Total liabilities	19.01	N/A

5.516 As Tourism Australia was established on 1 July 2004 under the *Tourism Australia Act 2004*, there are no comparative figures available. Total revenues for the year were budgeted at $167 million. The additional revenue of $2.80 million was derived from higher than expected receipts from marketing activities such as trade events, and interest income. Total expenses for the year were $1.52 million less than budgeted.

5.517 Total assets are primarily made up of cash holdings of $16.77 million, receivables of $8.35 million and plant, equipment and intangibles of $5.58 million. The main items making up the total liabilities balance are supplier payables of $13.39 million, and employee provisions of $4.57 million.

Audit results

Summary of audit findings

5.518 Tourism Australia relies on its key business processes to execute its business plan and thus maintain the viability of its operations. In the event that these key processes are compromised by unforseen circumstances, the absence of a comprehensive and tested business continuity plan may expose Tourism Australia to significant risks, through key business processes not being restored and/or recovered in the required business timeframe. It was found that the Disaster Recovery Plan (DRP) (along with the corporate business continuity plan) was incomplete. Tourism Australia intends to formalise its DRP in 2005–06.

5.519 Tourism Australia does not maintain a dedicated Development/Test environment for its IT network. Changes and software upgrades are introduced directly to the IT operational environment. Changes or upgrades made to a live and operational network environment, without adequate testing or business impact assessment, may significantly impact on key business processes due to data being lost or corrupted or the system being unavailable for a period of time due to corruption or incompatible software. Tourism Australia is working on establishing an independent environment for development, as well as the introduction of generic IT tests to address the identified risks.

5.520 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 2004	New issues to August 2005	Issues resolved prior to August 2005	Closing position at August 2005
A	0	0	0	0
B	0	2	2	0
Total	**0**	**2**	**2**	**0**

Comments on non-material entities

5.521 There were no moderate or significant audit issues impacting on non-material entities, with the exception of Geoscience Australia (GA).

Geoscience Australia

5.522 Three moderate issues were identified concerning GA's IT control environment. Firstly, GA does not have an up to date IT Security Policy. The lack of a communicated IT Security policy increases the risk that the confidentiality, integrity or availability of official information will be compromised. Secondly, a DRP is not in place. This exposes GA to increased business risks associated with disasters and security failures. Finally, there are no documented policies or procedures for making changes to GA's IT systems. This increases the risk that changes to the IT systems are made without the appropriate levels of approval or testing. GA has agreed to the findings and is in the process of implementing the recommendations.

Parliamentary Departments

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Parliamentary Services	**Yes**	✓	07 Oct 05	
Department of the House of Representatives	No	✓	06 Sep 05	◆
Department of the Senate	No	✓	27 Sep 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Parliamentary Departments overview

5.523 There are three parliamentary departments supporting the Australian Parliament:

- Department of Parliamentary Services (DPS);
- Department of the House of Representatives (HoR); and
- Department of the Senate (DoS).

5.524 By resolution of both Houses in August 2003, DPS was established from 1 February 2004. DPS 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.

5.525 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.

5.526 The main function of DoS is the effective and efficient provision of services to support the Senate, its committees and Senators. DoS also conducts education programs and prepares publications to promote an understanding of the Senate and of parliamentary processes.

5.527 HoR 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. HoR also undertakes activities to promote the work of the House in the community and is responsible for the conduct of the Parliament's international and regional relations.

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

Department of Parliamentary Services

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	120.16	45.87
Total expenses	119.35	47.62
Total assets	106.47	80.69
Total liabilities	21.41	24.12

5.529 As DPS commenced operation on 1 February 2004, the comparative amounts reported for revenues and expenses only include transactions for a five-month period. Significant changes that have impacted on DPS's revenues and expenses in 2004–05 relate to the transfer of the security function. Following approval by the Presiding Officers, the funding and assets relating to the security of Parliament House were transferred from HoR and DoS to DPS on 1 July 2004.

5.530 The increase in DPS's assets was attributed to the transfer of the security assets formerly held by DoS and HoR. This increase was offset slightly by a reduction in the value of intangibles due to the write down of the human resources (HR) payroll system, following plans to consolidate all HR data onto one payroll system.

5.531 The decrease in liabilities in 2004–05 was predominantly due to a reduction in salary and wages payable to staff at year end due to timing differences and employee liabilities in 2003–04 including a provision for redundancies resulting from the amalgamation of the three departments into DPS. There were no similar amounts included in liabilities for 2004–05.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	0.37	0.02
Total expenses	62.66	16.76
Total assets	1 385.56	1 429.97
Total liabilities	0.52	0.34

5.532 The increase in revenues was largely attributed to the identification of artwork during the stocktake process that had not previously been recognised. Results from the asset revaluation undertaken during 2004–05 indicated that one significant piece of artwork was overvalued. The subsequent write down in the value, based on advice from the Australian Valuation Office, represents a significant portion of the expenses for 2004–05.

5.533 The reduction in assets was due to a decrement in asset values resulting from the asset revaluation process undertaken during 2004–05, with significant movements attributed to the artwork.

5.534 There has been no significant movement in liabilities during 2004–05.

Audit results

Summary of audit findings

5.535 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.536 There were no moderate or significant audit issues impacting on non-material entities, with the exception of HoR.

Department of the House of Representatives

5.537 There were two issues of moderate significance raised during the audit of HoR relating to the financial statement preparation process, and asset management.

5.538 An effective process for the preparation of the financial statements is important to the ability of HoR to meet its accountability obligations as well as the reporting deadlines established by the Department of Finance and Administration. The finalisation of the 2004–05 audit was delayed as not all information was complete, accurate and/or provided in accordance with timeframes established between HoR and the ANAO. HoR acknowledged limitations in the financial statement preparation process and commenced appropriate action to address this issue. However, HoR did not consider that this matter represented a moderate financial risk and believed it to be procedural in nature.

5.539 During the year HoR conducted a stocktake of its assets. The ANAO's review of the stocktake results highlighted several weaknesses in relation to the asset management and stocktake procedures, which may impact on the completeness of the asset register. HoR was in the process of addressing identified weaknesses and implementing the ANAO's recommendations. HoR considered the matter procedural in nature rather than a moderate financial risk.

Prime Minister and Cabinet Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Prime Minister and Cabinet	**Yes**	✓	22 Jul 05	
Australian National Audit Office	No	✓	30 Aug 05	
Australian Public Service Commission	No	✓	02 Sep 05	
Commonwealth Ombudsman	No	✓	09 Sep 05	
National Australia Day Council	No	✓	22 Sep 05	
National Water Commission	No	✓	25 Jul 05	
Office of National Assessments	No	A	12 Oct 05	
Office of the Inspector-General of Intelligence and Security	No	A	29 Sep 05	
Office of the Official Secretary to the Governor-General	No	✓	09 Sep 05	

✓: 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
☞: financial year end date other than 30 June 2005

✎: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.540 The Department of the Prime Minister and Cabinet (PM&C) and the other eight 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.

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

Department of the Prime Minister and Cabinet

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	64.04	59.99
Total expenses	63.16	59.72
Total assets	25.67	26.83
Total liabilities	16.93	14.31

5.542 Revenues and expenses of PM&C increased due to the establishment of the Asia Pacific Economic Cooperation 2007 taskforce, research into counter-terrorism technology, some preparatory planning for new office accommodation, and certain indigenous affairs matters assumed from the Department of Immigration and Multicultural and Indigenous Affairs in March 2005. However, these increases were partly offset by the reduction in revenues and expenses following the transfer of the Office of the Status of Women (OSW) to the Department of Family and Community Services (FaCS) in October 2004.

5.543 The decrease in assets was the result of the reassessment of the useful lives of leasehold improvements and the deferral of other asset purchases due to the proposed relocation to new office accommodation in early 2007. The increase in liabilities comprised increases in employee provisions due to a rise in salary rates in accordance with the certified agreement and increases in supplier payables due to operating costs associated with the new accommodation.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	5.01	3.43
Total expenses	25.35	34.42
Total assets	34.86	35.72
Total liabilities	11.60	10.75

5.544 Revenues primarily represent media commissions received. The amount of commission varies according to the amount of Australian Government advertising in a year.

5.545 Expenses decreased significantly in 2004–05 due to the transfer of OSW and associated programmes to FaCS from 26 October 2004. This transfer resulted in a reduction of $21.10 million in expenses administered by PM&C. However, the quantum of the reduction was offset by a single one-off grant of $10 million to the Australia and New Zealand School of Government.

5.546 Assets and liabilities have remained relatively stable in comparison with those of the prior year.

Audit results

Summary of audit findings

5.547 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.548 Section 31 Agreements allow entities to retain and spend specified receipts. The Office of the Inspector-General of Intelligence and Security had an ineffective Section 31 Agreement for the period 1 July 1999 to 20 February 2005. The Office of National Assessments (ONA) had an ineffective Section 31 Agreement for the period 1 July 1998 to 30 June 1999. This resulted in a contravention of Section 83 of the *Constitution* (both entities) and Section 48 of the FMA Act (ONA). The background to these issues is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.549 There were no moderate or significant audit issues impacting on non-material entities within the portfolio.

Transport and Regional Services Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Transport and Regional Services	**Yes**	A	06 Sep 05	▲◆
Airservices Australia	**Yes**	✓	31 Aug 05	
Australian Maritime College ☞ 31 December 2004	No	✓	05 Apr 05	
Australian Maritime College Search Ltd ☞ 31 December 2004	No	✓	05 Apr 05	
Australian Maritime Safety Authority	No	✓	20 Sep 05	
Australian Rail Track Corporation	**Yes**	✓	05 Oct 05	
Civil Aviation Safety Authority	**Yes**	✓	30 Aug 05	
Maritime Industry Finance Company Ltd	No	✓	28 Sep 05	
National Capital Authority	**Yes**	✓	12 Aug 05	
National Road Transport Commission	No	✓	30 Aug 05	
Stevedoring Industry Finance Committee	No	✓	20 Sep 05	

✓: 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
☞: financial year end date other than 30 June 2005
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.550 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.

5.551 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.

5.552 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.

5.553 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.

5.554 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	2005 $m	2004 $m
Total revenues	237.20	241.72
Total expenses	191.97	301.13
Total assets	139.79	408.66
Total liabilities	74.13	108.92

5.555 Following a decision by the Australian Government on 31 March 2004, the provision of services to the Indian Ocean Territories (IOT) was transferred from departmental to an administered programme on 1 July 2004. The decrease in revenues and assets was largely attributable to the IOT transfer.

5.556 The decrease in expenses and liabilities was due to a number of factors. In addition to the IOT transfer, expenses in 2003–04 included the initial recognition of a $63.4 million provision for the Commonwealth's asbestos related disease claims. Liabilities declined due to a revision of an estimate for asbestos related disease claims.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	290.07	289.87
Total expenses	3 873.49	3 728.82
Total assets	1 008.66	935.92
Total liabilities	70.61	82.29

5.557 Revenues remained fairly stable in comparison to 2003–04 with a small increase in revenue arising from the transfer of IOT, offset by a reduction in the dividend from the Albury Wodonga Development Corporation, which was transferred from the Department of Transport and Regional Services (DoTARS) to the Department of Finance and Administration.

5.558 The increase in expenses of DoTARS was attributable to higher grants expenses for various programmes including Natural Disaster Relief Management and an increase in suppliers expenses due largely to the IOT transfer.

5.559 Assets increased predominantly due to the transfer of IOT. This was partially offset by a decrease in investments following the transfer of the Albury Wodonga Development Corporation to the Department of Finance and Administration.

5.560 The reduction in liabilities was primarily due to a $38.1 million decrease in the Maritime Industry Finance Corporation subsidy loan in accordance with loan terms. This decrease was partially offset by an increase in grants payable under various programs, recognition of provisions for asbestos removal and higher employees provisions relating to the IOT transfer.

Audit results

Summary of audit findings

5.561 The ANAO reported one moderate control weakness in the interim phase of the audit relating to deficiencies in the proposed business continuity and disaster recovery plans. This matter is still being progressed by DoTARS. Six new issues and one legislative breach were identified in the final phase of the audit.

Financial Statement Preparation Process

5.562 Significant delays were experienced in the preparation of the 2004–05 financial statements. These delays were partly attributable to problems with the operation of accounting software, loss of key staff prior to year-end and the lack of a detailed financial statement preparation plan. The draft financial statements were incomplete and contained calculation and disclosure errors. In addition, many of the supporting working papers were insufficient. DoTARS is putting in place a number of strategies to ensure that in future good quality financial statements, with appropriate supporting documentation, are prepared in a timely manner.

Reconciliations

5.563 A range of reconciliations, including bank reconciliations, were incomplete, contained unexplained variances or were not reviewed. Failure to complete reconciliations may lead to errors in the general ledger or irregularities in payments not being detected in a timely manner.

FMIS Help Desk

5.564 The FMIS Help Desk staff performed duties that exceeded their expected roles, including the modification of their own access profiles to super user level. Human Resource functions were also undertaken including the creation and modification of employee records. Whilst no inappropriate transactions were identified, a risk exists that errors may occur if no documented audit trail is maintained. The ANAO recommended that access profiles be appropriately documented and monitored.

Appropriation Management

5.565 The ANAO noted deficiencies in the reconciliation of funding from Government between DoTARS records and the records of the Department of Finance and Administration, increasing the risk of spending monies not appropriated. The ANAO recommended that revised procedures be developed to improve controls in this important area.

Contract Management

5.566 Deficiencies were noted in how DoTARS ensured compliance reviews were performed by Centrelink on its behalf, with respect to the Tasmanian Freight Equalisation Scheme and Bass Strait Vehicle Equalisation Scheme, and that independent audit reports from agents were submitted as required. DoTARS should ensure that functions performed by other entities on its behalf be reviewed to ensure compliance to established performance standards.

Employee Termination Payments Processing

5.567 There is no clearly defined procedure for the calculation and independent review of employee termination payments. The absence of formal termination calculation procedures increases the risk of errors in final money determination calculations.

5.568 DoTARS had an ineffective Section 31 Agreement concerning the retention and expenditure of specified receipts for the period 1 July 1998 to 2 March 2005, resulting in a contravention of Section 83 of the *Constitution*. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

5.569 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	0	6	7
Legislative Breach	0	0	1	1
Total	**1**	**0**	**7**	**8**

Airservices Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	690.74	615.46
Total expenses	632.51	568.90
Total assets	601.06	544.78
Total liabilities	382.10	353.76

5.570 The increase in revenues was largely attributable to higher airways revenue due to continued strong growth in aviation activity and airway price increases from 1 January 2005.

5.571 The increase in expenses was due to several factors including significant one-off expenses recorded in 2004–05 such as the booking of provisions for eligible termination payments relating to restructuring initiatives, actuarial adjustments for employee provisions, and the sale of land.

5.572 The increase in assets was attributable to greater capital investment on the technology refreshment projects. This is a five-year investment program that is expected to help Airservices Australia to maintain and enhance the services provided to customers.

5.573 The increase in liabilities is attributed to increases in provisions for employee entitlements and redundancies for restructuring initiatives.

Audit results

Summary of audit findings

5.574 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian Rail Track Corporation

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	489.90	557.74
Total expenses	342.05	88.13
Total assets	1 215.54	874.00
Total liabilities	125.51	30.88

5.575 Australian Rail Track Corporation (ARTC) revenues for 2004–05 decreased as a result of several factors, including a reduction in government grants of $350 million. This has been largely offset by increased revenues attributable to new responsibilities of operating the New South Wales (NSW) interstate main lines, the Hunter Valley rail corridor and dedicated metropolitan freight lines to Sydney ports. In addition, ARTC took responsibility for managing the NSW Country Regional Network on behalf of the Rail Infrastructure Corporation. Interest revenues have risen due to a substantial increase in cash balances through the receipt of a large government grant in June 2004 and an operating cash surplus.

5.576 The movement in ARTC expenses was due to a significant increase in employee expenses and infrastructure maintenance costs as a result of expansion in operational activity associated with managing NSW track assets.

5.577 The increase in ARTC's assets was a combination of factors including an expanded cash base as a result of improved cash flows, additional receivables associated with the new NSW revenue stream and transfers of cash for employee leave provisions as a result of taking over the NSW lease. The South Australia and Western Australia assets were also revalued upwards as at 30 June 2005.

5.578 ATRC's liabilities have increased as a result of expanded operations for the management of NSW track assets.

Audit results

Summary of audit findings

5.579 There were no moderate or significant audit issues noted during the 2004–05 audit.

Civil Aviation Safety Authority

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	122.83	110.86
Total expenses	110.17	106.82
Total assets	62.54	46.32
Total liabilities	29.37	26.77

5.580 Excise and customs duty collected on aviation and turbine fuel is collected by the Australian Taxation Office and paid to CASA. Revenue has increased reflecting a growth in the number of users of aviation fuel. Other factors contributing to the growth in revenue were marginal increases in regulatory service fees and proceeds from the sale of assets. The increase in assets is mainly attributable to new computer software and increases in deposits at call as a result of the surplus for the year.

5.581 Expenses and liabilities remained stable across 2003–04 and 2004–05, with no significant movements.

Audit results

Summary of audit findings

5.582 The ANAO reported one moderate control weakness in the 2003–04 audit in relation to inaccurate recording of leave entitlements in the HRMIS. During the 2004–05 audit the ANAO noted that CASA had resolved this weakness. There were no moderate or significant audit issues noted during the 2004–05 audit.

5.583 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 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

National Capital Authority

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	20.18	20.92
Total expenses	20.18	21.20
Total assets	19.00	14.37
Total liabilities	7.77	6.66

5.584 Revenues and expenses remained stable between 2003–04 and 2004–05, with no significant movements noted.

5.585 The increase in assets is attributable to acquisitions and revaluations of property, infrastructure, plant and equipment.

5.586 Liabilities have increased principally due to the National Capital Authority receiving more monies in advance for the construction of commemorative works.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	5.09	5.30
Total expenses	14.60	10.42
Total assets	407.42	348.74
Total liabilities	0.49	0.43

5.587 The decrease in revenues is attributable to a reduction in contributions for the construction of commemorative works that has been partly offset by an increase in revenues from the sale of assets.

5.588 The increase in expenses is the result of asset revaluation decrements and the cost of assets sold during the year. The increase in assets is attributable to an increase in property, infrastructure, plant and equipment resulting from acquisitions and revaluation increments.

Summary of audit findings

5.589 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.590 There were no moderate or significant audit issues impacting on non-material entities within the portfolio.

Treasury Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Treasury	**Yes**	✓	19 Sep 05	
– Royal Australian Mint (commercial activity)	No	✓	12 Jul 05	
Australian Accounting Standards Board	No	✓	23 Sep 05	
Australian Auditing and Assurance Standards Board	No	✓	23 Sep 05	
Australian Bureau of Statistics	**Yes**	A	12 Aug 05	
Australian Competition and Consumer Commission	No	A	30 Aug 05	▲◆
Australian Office of Financial Management	**Yes**	✓	08 Aug 05	
Australian Prudential Regulation Authority	No	✓	19 Aug 05	
Australian Reinsurance Pool Corporation	No	✓	20 Sep 05	
Australian Securities and Investments Commission	**Yes**	✓	20 Jul 05	
Australian Taxation Office	**Yes**	✓	30 Sep 05	▲
Australian Valuation Office	No	✓	21 Sep 05	
Corporations and Markets Advisory Committee	No	✓	29 Aug 05	
National Competition Council	No	✓	30 Aug 05	
Office of the Inspector General of Taxation	No	✓	27 Sep 05	
Productivity Commission	No	✓	09 Aug 05	
Reserve Bank of Australia	**Yes**	✓	10 Aug 05	
Reserve Bank of Australia Officers' Superannuation Fund	No	✓	11 Oct 05	

✓: 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
☞: financial year end date other than 30 June 2005

✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.591 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.

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

Department of the Treasury

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	188.32	149.81
Total expenses	171.43	149.50
Total assets	105.24	80.38
Total liabilities	42.77	40.81

5.593 Revenues increased due to greater funding from Government for new policy proposals including the Financial Literacy Foundation and Information Programme, hosting of the G-20 meeting and the improvement of accounting and auditing standards-setting arrangements for the Financial Reporting Council. Furthermore, sales of goods and services increased due to higher Australian circulating coin sales.

5.594 Expenses increased as a result of a rise in salary rates in accordance with the certified agreement and higher staffing numbers for the new policy proposals. Supplier expenses also increased because of the new policy proposals.

5.595 The increase in assets was attributed to undrawn funding from Government of $16.8 million for expenditure deferred to later years, asset replacement and employee leave provisions.

5.596 Liabilities increased slightly as a result of growth in employee provisions due to higher staff numbers to deliver the new policy proposals and a salary rate increase in accordance with the certified agreement.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	1 474.18	2 921.16
Total expenses	36 697.09	33 722.82
Total assets	15 685.28	17 089.47
Total liabilities	5 119.33	5 354.60

5.597 The decrease in revenues was primarily due to a reduction in the dividend payable to the Treasury by the Reserve Bank of Australia (RBA).

5.598 Expenses increased due to higher payments made to the State and Territory governments for Goods and Services Tax (GST) collections as a result of growth in economic activity. There was an increase in foreign exchange losses as a result of the appreciation of the Australian Dollar against other currencies.

5.599 The decrease in assets was attributable to the significant decrease in receivables as a result of a smaller dividend due from the RBA.

5.600 Liabilities fell marginally due to the Treasury making a cash payment against a lodged promissory note prior to year-end.

Audit results

Summary of audit findings

5.601 The ANAO reported two moderate control weaknesses in the interim phase of the audit relating to change management procedures for updating standing data within the HRMIS, and the identification of duplicate employee records within the HRMIS. During the final phase of the audit the ANAO noted that the Treasury had resolved these weaknesses. No new moderate or significant issues were identified in the final phase of the audit.

5.602 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	2	2	0	0
Total	**2**	**2**	**0**	**0**

Australian Bureau of Statistics

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	290.78	270.52
Total expenses	287.80	272.17
Total assets	146.62	143.31
Total liabilities	90.35	88.57

5.603 The Australian Bureau of Statistics (ABS) received additional funding from Government relating to the 2006 Census preparations. Revenues also increased due to a greater level of demand for ABS standard products and information consultancies, and the inclusion of the International Statistical Institute (ISI) conference recoveries from participants, which did not occur in 2003–04.

5.604 The increase in expenses was due to several factors. Employee expenses increased due to a rise in salary rates in accordance with the certified agreement and the creation of a voluntary redundancy provision. These increases were partially offset by an underspend for employee expenses due to recruitment delays. Supplier expenses also rose primarily due to the inclusion of costs associated with the 2006 Census and the ISI conference.

5.605 Assets and liabilities remained stable with no significant movements in any class.

Audit results

Summary of audit findings

5.606 There were no moderate or significant audit issues noted during the 2004–05 audit.

5.607 The ABS had an ineffective Section 31 Agreement concerning the retention and expenditure of specified receipts for the period 1 July 1997 to 30 June 1998 and 1 July 1999 to 6 March 2005 and no agreement for the period 1 July 1998 to 30 June 1999, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

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

Ratings	Opening position at August 2004	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	0	0	0	0
B	0	0	0	0
Legislative Breach	0	0	1	1
Total	**0**	**0**	**1**	**1**

Australian Office of Financial Management

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	9.01	8.68
Total expenses	8.12	7.70
Total assets	10.34	9.56
Total liabilities	1.10	1.19

5.609 The increase in the Australian Office of Financial Management's (AOFM) revenues is primarily attributable to revenue from the Australian Agency for International Development (AusAID) to reimburse costs associated with a greater number of overseas deployments and support for debt management in other countries.

5.610 AOFM's expenses increased largely due to higher employee remuneration and superannuation costs resulting from the annual appraisal cycle and an increase in employer superannuation contribution rates. Also contributing to the increase were one-off costs associated with the buy-back of British pound debt and additional employer superannuation charges imposed by Finance.

5.611 No significant movements were noted in assets and liabilities of AOFM.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	3 131.38	2 816.92
Total expenses	5 920.34	5 614.66
Total assets	29 311.60	18 837.87
Total liabilities	59 174.21	58 598.12

5.612 During the current year, AOFM executed $6.6 billion of new swap transactions (as compared to $2.7 billion maturing), which led to an increase in both administered revenues and expenses. The increase in revenues also resulted from higher average investment levels and yields on term deposits.

5.613 The increase in assets was due to an increase of $10.6 billion in the balance of investments (term deposits) of surplus Official Public Account (OPA) funds, compared to the prior year.

5.614 Liabilities increased by $576 million primarily as a result of a net increase in Commonwealth Government Securities on issue and capital growth on Treasury (capital) indexed bonds.

Audit results

Summary of audit findings

5.615 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian Securities and Investments Commission

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	208.07	191.34
Total expenses	207.99	196.16
Total assets	56.62	58.13
Total liabilities	54.04	63.05

5.616 The increase in Australian Securities and Investments Commission (ASIC) revenues resulted from an increase in funding from Government for specific litigation and enforcement costs, Corporate Law Economic Reform Program (CLERP 9) legislative reforms and surveillance activities, and to sustain existing operations, as well as court cost recoveries from successful prosecutions.

5.617 Expenses increased due to a number of factors, including employment of additional resources to give effect to the above initiatives, increases in salaries and associated on-costs, additional legal expenses incurred from high profile legal cases, the replacement and upgrade of systems and a change in depreciation methodology. These were partly offset by the expiration of finance leases and cost cutting measures across the organisation.

5.618 Assets decreased as a result of the expiration of finance leases for computer equipment, which were returned to the lessor. The decrease was partly offset by an increase in intangible assets relating to the upgrade of systems.

5.619 The decrease in liabilities was due to the expiration of existing lease liabilities with no new agreements entered into to replace the ones expired and a reduction in payroll accruals. Also contributing to the movement was a reduction in expenditure accruals for normal operating expenses and an accrual for capital expenditure in 2003–04 that did not recur in 2004–05.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	568.41	493.23
Total expenses	49.01	41.43
Total assets	73.43	66.57
Total liabilities	4.65	5.71

5.620 The increase in revenues was mainly attributable to a rise in annual review fees and the fees being received for a full year compared to a partial year in 2003–04. Also contributing to the movement was an increase in the number of incorporations, and fines.

5.621 Expenses increased as a result of a higher write-off of Commonwealth monies due to ASIC's new deregistration powers. In addition, there was a full year of fee waivers granted for certain late fees, compared to a partial year in 2003–04.

5.622 The increase in assets can be attributed to the movement in receivables caused by the increase in the annual review fee and in the number of registered companies and schemes on ASIC's database. This increase was partly offset by increases in the provision for doubtful debts.

5.623 No significant movement in liabilities occurred in 2004–05.

Audit results

Summary of audit findings

5.624 There were no moderate or significant audit issues noted during the 2004–05 audit.

Australian Taxation Office

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	2 434.99	2 313.53
Total expenses	2 459.84	2 315.19
Total assets	732.96	671.60
Total liabilities	774.38	688.15

5.625 The increase in revenues was due to additional funding from Government for the new policy funding relating to administration of Super Choice, Review of Self-Assessment and activities carried out by Customs on behalf of the Australian Taxation Office (ATO). The increase in expenses was impacted by this additional funding, a rise in salary rates in accordance with the certified agreement and increasing IT costs.

5.626 There was an increase in non-financial assets represented by a change of accounting treatment for the IT contract from an operating lease to a finance lease, and additional software assets flowing from the new change program currently being implemented. This was partially offset by a reduction in the cash balance due to an operating loss and capital expenditure running in excess of cash received within the ATO's funding for depreciation.

5.627 The increase in liabilities was primarily due to disclosure for the first time of the finance lease relating to the IT contract, and an increase in the provision for compensation resulting from delays in making Superannuation Guarantee Charge payments.

Items administered on behalf of the Australian Government

Key financial measures for year	2005 $m	2004 $m
Total revenues	226 928.79	203 493.00
Total expenses	15 283.94	8 306.00
Total assets	58 066.65	51 088.00
Total liabilities	31 308.27	26 014.00

5.628 Taxation revenues continued the trend of strong growth particularly in income tax with results exceeding expectations. Income tax revenue grew by almost 15 per cent. Increases in Income Tax Withholding revenue resulted from the continuing strength in labour market conditions. Increases in Other Individuals taxation revenue was due to higher distributions from partnerships and trusts and the lagged effect of strong growth in investment income in the 2003–04 income year.

5.629 Buoyant business conditions produced strong income growth across a number of industries in 2004–05, with strong gains, in particular, for the finance and insurance sector resulting in an increase in the Companies taxation revenue. The resource sector has also benefited from high commodity prices. High profit outcomes in the 2003–04 income year boosted companies' balancing payments in 2004–05.

5.630 Expenses including benefits, subsidies and other expenses increased by 85 per cent to $15.3 billion in 2004–05. While this was impacted by a change in accounting policy for administered expense items there were also changes in Government policy increasing benefits payable and expanding the range of eligible recipients. This was particularly so for Superannuation Co-contribution and Family Tax Benefits.

5.631 Expenses associated with the provision for bad and doubtful debts rose by $2 billion due to a number of factors including increasing debt levels, greater difficulty in collecting debt and improvement in the methodology for estimating bad and doubtful debts. An analysis of the administered debt balance in the financial statements indicated that there was a significant increase in the provision for doubtful debts over the last three years, that is, from $2.4 billion in 2002–03 to $5 billion in 2004–05. Currently, the provision for doubtful debts in respect of taxation receivables is stated at 26 percent. A high percentage of debt provisioning together with an equally high write off this year raised important analytical and management issues which will be monitored in 2005–06.

5.632 The movement in assets was largely attributed to increases in receivables and accrued revenue for similar reasons identified for revenue growth. This is partially offset by increases in the provision for doubtful debts and credit amendments. Receivables have also increased due to the change in accounting policy for General Interest Charge on disputed debt.

5.633 The rise in liabilities was primarily due to higher provisioning for refunds coinciding with the increase in accrued revenue explained above and increase in accrued expenses resulting from disclosure for the first time of all administered expense items on a full accrual basis.

Audit results

Summary of audit findings

5.634 The ATO initiated a number of projects to clear the qualifications raised in the 2003–04 audit opinion. These projects have been progressed to a stage that provided reasonable assurance that the related 2004–05 financial statement balances were materially correct.

5.635 The audit highlighted important issues relating to the need for improved accounting over processing of significant financial transactions, especially at year-end, together with the need for stronger analysis and increased management oversight.

5.636 In the interim phase of the audit, the ANAO reported nineteen issues to be addressed by the ATO to support the adequacy of internal controls and the reliability of information reflected in the financial statements. The ATO had resolved five high risk and four moderate risk issues by the completion of the audit. There were two new significant and seven new moderate financial reporting issues and related control aspects identified during the final phase of the audit that require remedial action by the ATO. A summary of all outstanding issues is provided below.

Significant risk matters - Category A

Preparation of the administered financial statements

5.637 In prior years significant concerns have been raised over the preparation of the administered financial statement within the timeframe set by the Department of Finance and Administration. The administered financial statement preparation process was streamlined for 2004–05 as a result of the development and implementation of the FMIS general ledger project during the year. While the process is now more transparent, cumulative adjustments of $6.79 billion were made to the financial statements in response to the ANAO representations. Approximately $3 billion of these adjustments, resulting from accounting errors, were made at a very late stage, just before signing the financial statements. The level of accounting adjustments to the draft financial statements raises governance issues in regard to the ATO delivering a complete set of financial statements within the required timeframe.

5.638 The level of adjustments highlighted the need for a complete understanding by the preparers together with active involvement by management over quality assurance and analysis in the financial statement preparation process. There is also scope to improve the timing, quality and level of supporting documentation.

Calculation and posting of the General Interest Charge to client accounts

5.639 In 2003–04, the ATO identified that a functionality gap in one of the business systems resulted in accrued General Interest Charge (GIC) not being applied to all taxpayer accounts for companies and superannuation funds, in respect of outstanding annual income tax payments. The financial statements for 2003–04 contained an estimate of the revenue impact of this omission of $555 million, together with the associated remission expense of $490 million. The ANAO was unable to form an opinion on the estimated GIC revenue and remission expense and hence issued a qualification with limitation of scope.

5.640 System changes were undertaken to rectify these problems. As the ATO has not been able to record the GIC on client accounts, a calculation module was run to determine the amount of the GIC. This approach allowed the financial impact to be reliably determined for the 2004–05 financial statements. Additional GIC revenue of $489.6 million and an additional remission expense of $533.9 million were recognised in this year's financial statements. In addition, a note to the financial statements disclosed management's estimate of the proportion of the amounts that relates to prior years.

5.641 The ATO had commenced posting the GIC to client accounts for the amounts that were not considered for remission. Final posting to the client accounts will confirm the accuracy regarding the amount included in the 2004–05 financial statements.

Supporting documentation

5.642 The administered financial statements contain a significant number of estimates and allocations. The base amounts and related estimation and allocation processes are supported by the information obtained from a data warehouse. Notwithstanding that some improvements have been made in the maintenance of records for 2004–05, the audit identified a number of instances where it was difficult to identify in the supporting documentation the parameters used to extract information from the data warehouse, which supports figures in the financial statements. Furthermore, the trail critical to the identification of the data source in the data warehouse, which supports the financial statement balances, was only provided on request from the ANAO.

5.643 In addition, it was noted that the allocation of some of the revenue and expense items was not always based on a comprehensive rationale.

5.644 The documentation of key elements of the ATO's financial reporting close processes needs improvement, particularly in relation to the adequacy, validity and completeness of supporting documentation and to demonstrate that quality assurance checks have been performed.

Management analysis of the estimation process

5.645 The ATO prepares its administered financial statements on a full accrual basis. Economic analysis is carried out for the estimation of the revenues to be accrued each year. The estimation for accrued revenues is based on various economic models. There was no evidence of management review of the analysis by the ATO specialists over the economic models and the supporting documentation.

5.646 In addition, the ATO estimated accrued expenses for all the expense items for the first time, for recognition in the 2004–05 financial statements. Due to a lack of historical data, the ATO had developed estimation methodologies to derive the accrued expenses. The ANAO review of the approach, parameters used and the calculations performed by the ATO led to the development of more robust disciplines for estimating a number of balances, such as fuel subsidies, family tax benefits and superannuation co-contribution.

5.647 The ATO has agreed to put in place processes to ensure that adequate management analysis is performed and appropriate approval is obtained prior to the inclusion of estimates for accrued revenue and expenditure in future financial statements.

Moderate risk matters – Category B

Superannuation surcharge

5.648 In 2003–04, a number of unprocessed data matching exceptions were identified within the superannuation surcharge business system. The ATO addressed this backlog in 2004–05 by stratifying the exceptions according to the amount of revenue likely to result from further processing. For the majority of the exceptions, the ATO's analysis indicated that further work would not result in any revenue. In addition, the ATO determined a range of exceptions, with estimated revenue of $158 million, which would not be processed. The ATO decided not to process these exceptions as they are either too old under the tax law, uneconomical or inappropriate to pursue. After the elimination of these exceptions, the balance of the outstanding exceptions was estimated and brought to account as Commonwealth revenue. Noting that the ATO does not proceed with the assessment process where the time allowed under the tax law is passed, it was recommended that the ATO give priority to take action and assess the outstanding exceptions so that the number of exceptions remains manageable at all times.

Superannuation Surcharge – Unfunded Defined Benefit

5.649 There are continuing differences between the debt records held by the ATO and those held by the Unfunded Defined Benefit (UDB) superannuation funds for Superannuation Surcharge. Although the ATO had implemented a compliance audit program to ensure that these differences do not represent a risk to the tax system, the objectives of the program did not extend to reconciling the superannuation funds' records with the ATO data.

5.650 Notwithstanding that this revenue item is phasing down, it was recommended that the ATO consider comparing and analysing its records against the superannuation fund's records, on a trial basis to gain a clear understanding of the reasons and areas of variances. The objective of this reconciliation will be to develop accuracy in future calculations of the accumulated surcharge debt managed by UDB population.

Superannuation Guarantee Charge

5.651 Subsequent to the introduction of the new Superannuation Guarantee (SG) system in November 2003, the ATO discovered that the system did not function correctly and was unable to process assessments. In some instances the system produced errors in the interest calculations and in other cases the payments made to employees were not always in accordance with the specified design. Several system fixes, called 'solves', were made in order to accurately raise the Superannuation Guarantee Charge (SGC) assessments and payments.

5.652 Further 'solves' are required relating to write-offs and insolvency cases in order to clear the backlog of payments. The ATO may incur further costs in order to compensate the employees affected by the delays in processing the payments to them or their superannuation funds. It was recommended that the ATO give priority to rectifying the problems in the SG system, so that the related payments are calculated correctly and processed in a timely manner.

Control self assessment framework

5.653 The aim of a control self assessment framework is to ensure that the ATO can identify potential events that may affect its activities, and manage risks associated with these events to provide assurance on an ongoing basis. Deficiencies in the ATO's systems and records that were detected during the audit of the 2003–04 financial statements raised concern as to the capability of the current control self assessment framework to provide timely information on the adequacy of internal controls.

5.654 It is acknowledged that a number of important initiatives have been taken by the ATO during 2004–05 aimed at improving governance arrangements. It was recommended that the control framework be enhanced to provide for an integrated approach to fulfilling governance responsibilities. Mechanism to allow the provision of information to appropriate stakeholders on the effectiveness of the control framework is considered a worthwhile objective. The ATO has advised that as part of improving its assurance framework, its Finance branch will be working with other assurers to improve integration within the ATO. The ATO has commenced work on an assurance strategy which emphasises a more proactive and risk based approach. During 2005–06 this strategy will be expanded.

Certificate of Compliance – Payment of public money

5.655 A Certificate of Compliance process forms an integral part of the control self-assessment framework. This process allows risk owners in the various operational areas in the ATO to provide assurance to executive management regarding the effective operation of financial controls in place. The ATO made significant changes to this process in 2004–05 so that financial risks relating to payments and refunds are managed effectively. However all facets of the process are not performed consistently. This will be closely monitored in 2005–06.

SAP security – Privileged access

5.656 The ATO uses the SAP system for human resource (HR) and payroll management, and financial management. During the analysis of SAP security, the ANAO identified that some SAP users are assigned powerful account privileges on a temporary basis. This access provides the user with the ability to perform all sensitive transactions or combinations of sensitive transactions for financial and HR data. It was recommended that the ATO review the use of high privileged roles by staff and restrict the use of these powerful access roles in the operating environment to emergency and non-recurring problems.

SAP security – Access combination and incompatible roles

5.657 Analysis of SAP security on human resource management identified that a high number of users had been inadvertently assigned incompatible functionalities. It was also noted that incompatibility of roles, assigned within the SAP team, was not always explicitly considered or formalised when assigning roles. It was recommended that the ATO assess the appropriateness of access to sensitive and incompatible transactions.

Outstanding moderate risk matters from interim

5.658 Reasonable progress is being made to resolve the eight outstanding issues of moderate significance. During the interim audit, the ANAO recommended improvements in relation to:

- establishing or updating agreements for the provision and receipt of services between the ATO and other Australian Government entities;
- costing of internally developed software;
- user access to payroll and recruitment functions;
- the use of the Firecall facility designed to make changes to production data when emergency fixes are needed during processing of transactions;
- finalising Business Continuity Plans for all critical business processes, information technology systems and sites;
- administered cash consolidated reconciliations relating to superannuation and Fringe Benefit Tax;
- management of special accounts; and
- Certificate of Compliance process relating Excise, Superannuation business systems, HECS, Legacy systems and third party refunds.

5.659 Action on these issues was ongoing and will be examined by ANAO during the 2005–06 financial statements audit.

Conclusion

5.660 The ATO financial statements, on a year on year basis, are subject to volatility of revenues and expenses. In addition, significant adjustments were made in the financial statements. The ATO has made a very conscious effort to address the issues raised by the ANAO. Actions had already been taken or were in process to rectify the issues raised during the audit of the 2004–05 financial statements. The Audit Committee had undertaken a proactive role in the financial statement process and was continuing to improve governance arrangements. Central to this will be the need for heightened executive management oversight of outcomes.

5.661 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2005.

Ratings	Opening position at March 2005	Issues resolved prior to August 2005	New issues to August 2005	Closing position at August 2005
A	7	5	2	4
B	12	4	7	15
Total	**19**	**9**	**9**	**19**

Reserve Bank of Australia

Financial results

Summary of entity results

Key financial measures for year	2005 $m	2004 $m
Total revenues	1 549.00	3 076.00
Total expenses	1 475.00	1 121.00
Total assets	84 959.00	73 073.00
Total liabilities	75 401.00	62 217.00

5.662 Revenue decreased due to valuation losses of $923 million on the portfolio of securities and foreign exchange in 2005, compared with valuation gains of $1.07 billion in 2004. Expenses rose as a result of higher interest rates and a higher level of deposits.

5.663 Assets and liabilities increased as a result of the higher level of Government term deposits arising from the Government's fiscal surplus. These funds were invested primarily in the foreign exchange portfolio through currency swaps.

Audit results

Summary of audit findings

5.664 There were no moderate or significant audit issues noted during the 2004–05 audit.

Comments on non-material entities

5.665 There were no moderate or significant audit issues impacting on non-material entities, with the exception of the Australian Competition and Consumer Commission (ACCC).

Australian Competition and Consumer Commission

5.666 The ANAO identified no new moderate or significant issues in 2004–05. However, three issues remained outstanding from 2003–04. These issues and their corresponding implications are described below.

5.667 Although some progress had been made, ACCC did not have a Business Continuity Plan in place. As a result, in the event of failure of, or damage to, vital services or facilities, ACCC may not be able to re-establish key business operations in a timely manner.

5.668 The absence of formal logging procedures over the transactions and functions enacted by privileged FMIS and Payroll system users, increased the risk that ACCC may not detect fraudulent transactions, or inappropriate and malicious updating of data.

5.669 Although some progress has been made, remaining deficiencies in ACCC's processes for administered revenue recognition and debt recovery increased the risk of incomplete or inaccurate FMIS records and the non-recovery of debts.

5.670 ACCC had an ineffective Section 31 Agreement concerning the retention and expenditure of specified receipts for the period 1 July 1997 to 14 March 2005, resulting in contraventions of Section 83 of the *Constitution* and Section 48 of the FMA Act. The background to this issue is contained in Chapter Three under the heading 'Audit Reports containing Additional Statutory Disclosure'.

6. Results of the Review of Triple Bottom Line Reporting

This chapter provides a summary of the results of the reviews of Triple Bottom Line Reports for 2004–05.

Overview

6.1 Triple Bottom Line (TBL) reporting has been a part of the international private sector reporting for well over a decade, however, it is relatively new in the public sector with the first TBL report, for an Australian Government entity produced in 2002–03 by the Department of Family and Community Services (FaCS). 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 requires organisations to be clear about their purpose, taking into consideration the needs of all their stakeholders.

6.2 Since its inception, there have been considerable advances in the preparation of TBL reports. Perhaps the most significant is the work undertaken by the Global Reporting Initiative (GRI), an independent, international foundation that develops voluntary guidelines for Sustainability Reporting. The GRI recently released the Sector Supplement for Public Agencies. The GRI and the associated Sector Supplement have provided useful guidance in undertaking reviews of TBL reports.

6.3 In 2004–05, the ANAO was asked to provide independent assurance over the data contained within TBL Reports for the FaCS and the Department of the Environment and Heritage (DoEH).

6.4 Currently, no specific standards exist in relation to preparing or verifying TBL reports. In undertaking the audit reviews, the ANAO sought guidance from a number of sources, including the GRI's Sustainability Reporting Guidelines and the associated Sector Supplement, Assurance Standard AA1000, and the General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports Standard. The planning and work carried out for the TBL engagements were in accordance with the requirements of Australian auditing standard *AUS 110 Assurance Engagements other then Audits or Reviews of Historical Information*.

6.5 As in prior years the ANAO agreed with both agencies on the procedures that would be performed and the 'error coefficient' which data would be assessed against. The objective of the review 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 review 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

6.6 This is the third year that FaCS has prepared a TBL report demonstrating a commitment to the principals of transparency and accountability in reporting on economic, social and environmental performance. FaCS' TBL report encompassed social, environmental and economic performance indicators.

6.7 In relation to this engagement the ANAO was able to express an opinion on a number of data parameters, that based on procedures performed, nothing came to the ANAO's attention that the TBL data reported by FaCs was materially misstated. However, there were a number of other data parameters that the ANAO was unable to conclude that the data was free from material misstatement.

6.8 Generally, the ANAO noted an improvement in the completeness, accuracy and reliability of data in the TBL Report.

Department of the Environment and Heritage

6.9 This is the second year that DoEH has planned to produce a TBL Report and the second year that the ANAO has been asked to provide independent assurance over data contained within those reports, demonstrating a commitment to the principles of accountability and transparency.

6.10 The objective of the review is to provide an independent opinion on the completeness, accuracy and reliability of selected environmental and social data contained within DoEH's TBL report. As per the terms of reference for this engagement, the ANAO will not provide assurance on any economic data contained in the report.

6.11 DoEH's TBL report format and final content is yet to be finalised. As such, the ANAO has not finalised the review or issued an independent audit opinion to DoEH

Ian McPhee	Canberra ACT
Auditor-General	21 December 2005

Appendices

Appendix 1: Significant Findings by Major Entity

For the interim phase of the audit cycle, as part of the 2004–05 financial statement audit cycle, three entities (excluding the Department of Defence) reported 'A' rated findings (significant business or financial risks). The entities, the Attorney-General's Department (AGD), the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA), and the Australian Taxation Office (ATO), reported findings in relation to the following:

- FMIS Access Management (AGD);
- FMIS Management (DIMIA);
- Administered Financial Statement Preparation (ATO);
- Provision for Doubtful Debt and Credit Amendments (ATO);
- General Interest Charge (ATO);
- Superannuation Surcharge Expectations (ATO);
- Monitoring of Unfunded Defined Benefit Superannuation Funds (ATO);
- Superannuation Guarantee Charge (ATO); and
- Financial Management and Reporting of Special Appropriations (ATO).

Further details of the aforementioned findings, and about the 'B' category findings, in various entities are included in Part 5 of Audit Report No.56 2004–05. Table 1 of this report summarises a number of 'A' and 'B' findings included in Audit Report No.56 2004–05. Table 2 provides a summary of all 'A' and 'B' findings as at 31 August 2005 for material entities.

Table A1

'A' and 'B' ratings by entity at 31 March 2005

Entity	2005 Rating		2004 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	0	0	3
Attorney-General's Department	1	3	0	1
Australian Customs Service	0	6	0	1
Australian Federal Police	0	3	0	4
Department of Communications, Information Technology and the Arts	0	0	0	2
Department of Defence	TBA	TBA	27	48
Department of Veterans' Affairs	0	2	0	5
Department of Education, Science and Training	0	0	0	2
Commonwealth Scientific and Industrial Research Organisation	0	0	0	3
Department of Employment and Workplace Relations	0	1	0	2
Department of Environment and Heritage	0	8	0	4
Department of Family and Community Services	0	12	0	8
Department of Finance and Administration	0	1	0	0
Department of Human Services	TBA	TBA	N/A	N/A
Centrelink	0	4	0	5
Health Insurance Commission	0	2	0	21
Department of Foreign Affairs and Trade	0	0	0	0
Department of Health and Ageing	0	1	0	2
Department of Immigration and Multicultural and Indigenous Affairs	1	4	0	12
Department of Industry, Tourism and Resources	0	2	0	0
Department of Prime Minister and Cabinet	0	0	0	1
Department of Transport and Regional Services	0	1	0	1
Department of the Treasury	0	2	0	1
Australian Taxation Office	7	12	1	9
Total	**9**	**64**	**1***	**87***

Note: N/A means not applicable.
TBA means the audit was still in progress at the time of publication of Audit Report 56.
* The totals for 2003–04 excluded Defence as there are no comparative 2004–05, figures available.

Table A2

'A' and 'B' ratings by material entity at 31 August 2005

Entity	2005 Rating		2004 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	0	0	3
Grains Research and Development Corporation	0	0	0	0
Attorney-General's Department	0	3	0	1
Australian Customs Service	0	4	0	0
Australian Federal Police	0	3	0	4
Family Court of Australia	0	0	0	0
High Court of Australia	0	0	0	0
Department of Communications, Information Technology and the Arts	0	0	0	0
Australian Broadcasting Authority	0	0	0	0
Australian Broadcasting Corporation	0	0	0	0
Australian Communications Authority	0	0	0	1
Australian Postal Corporation	0	0	0	0
Australian Sports Commission	0	0	0	1
National Archives of Australia	0	1	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	0
Special Broadcasting Service Corporation	0	2	0	0
Telstra Corporation Ltd	0	0	0	0
Department of Defence	TBA	TBA	27	48
Australian War Memorial	0	0	0	0
Defence Housing Authority	0	0	0	1
Department of Veterans' Affairs	0	0	0	5
Department of Education, Science and Training	0	0	0	0
Australian National Training Authority	0	0	0	0
Australian Nuclear Science and Technology Organisation	0	0	0	5
Australian Research Council	0	0	0	0
Commonwealth Scientific and Industrial Research Organisation	0	0	0	2
Department of Employment and Workplace Relations	0	1	0	1
Coal Mining Industry (Long Service Leave Funding) Corporation	0	0	0	0
Comcare Australia	0	1	0	4

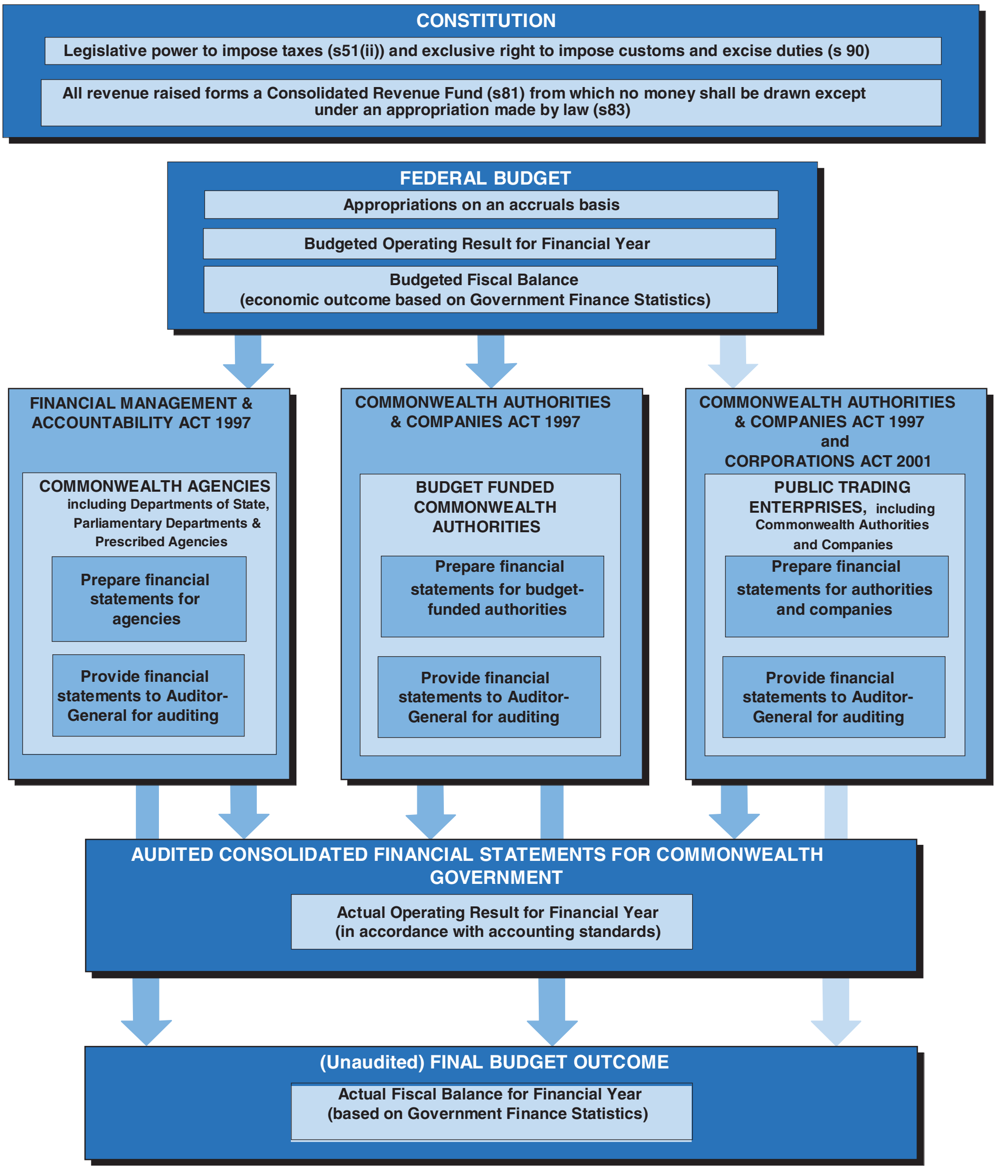
Entity	2005 Rating		2004 Rating	
	A	B	A	B
Indigenous Business Australia	0	0	0	0
Department of Environment and Heritage	0	11	0	4
Australian Greenhouse Office	0	0	0	1
Bureau of Meteorology	0	0	0	0
Department of Family and Community Services	0	14	0	8
Department of Finance and Administration	0	0	0	0
Australian Electoral Commission	0	0	0	0
Australian Industry Development Corporation	0	0	0	0
Department of Human Services^	0	1	N/A	N/A
Centrelink	0	4	0	5
Health Insurance Commission	0	2	0	17
Medibank Private Ltd	0	0	0	0
Department of Foreign Affairs and Trade	0	0	0	0
Australian Agency for International Development	0	0	0	1
Australian Trade Commission	0	0	0	0
Export Finance and Insurance Corporation	0	0	0	0
Department of Health and Ageing	0	1	0	3
National Blood Authority	0	1	0	1
Department of Immigration and Multicultural and Indigenous Affairs	0	4	0	14
Aboriginal and Torres Strait Islander Land Fund Account	0	0	2	0
Department of Industry Tourism and Resources	0	0	0	1
Tourism Australia*	0	0	0	0
Department of Parliamentary Services	0	0	0	0
Department of the Prime Minister and Cabinet	0	0	0	1
Department of Transport and Regional Services	0	7	0	1
Airservices Australia	0	0	0	0
Australian Rail Track Corporation	0	0	0	0
Civil Aviation Safety Authority	0	0	0	1
National Capital Authority	0	0	0	0
Department of the Treasury	0	0	0	0
Australian Bureau of Statistics	0	0	0	0
Australian Office of Financial Management	0	0	0	0
Australian Securities and Investments Commission	0	0	0	0
Australian Taxation Office	4	15	10	7

Entity	2005 Rating		2004 Rating	
	A	B	A	B
Reserve Bank of Australia	0	0	0	0
Total	**4**	**75**	**12**	**93**

Note: N/A: Not applicable
*: Entity was renamed in 2004–05 to Tourism Australia from Australian Tourist Commission.
^: This entity commenced as reporting entities of the Australian Government in 2004–05.
TBA means 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 entities, authorities and other entities controlled by the Commonwealth Government.

The financial statements for the year ended 30 June 2005 and the audit report thereon were published in December 2005. The results of the audit are reported in Chapter 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 and Assurance 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 testing of systems and internal controls.

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. An audit conducted in accordance with 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.

Series Titles

Audit Report No.20 Performance Audit
Regulation of Private Health Insurance by the Private Health Insurance Administration Council
Private Health Insurance Administration Council

Audit Report No.19 Performance Audit
Managing for Quarantine Effectiveness–Follow-up
Department of Agriculture, Fisheries and Forestry
Biosecurity Australia

Audit Report No.18 Performance Audit
Customs Compliance Assurance Strategy for International Cargo
Australian Customs Service

Audit Report No.17 Performance Audit
Administration of the Superannuation Lost Members Register
Australian Taxation Office

Audit Report No.16 Performance Audit
The Management and Processing Leave

Audit Report No.15 Performance Audit
Administration of the R&D Start Program
Department of Industry, Tourism and Resources
Industry Research and Development Board

Audit Report No.14 Performance Audit
Administration of the Commonwealth State Territory Disability Agreement
Department of Family and Community Services

Audit Report No.13 Performance Audit
Administration of Goods and Services Tax Compliance in the Large Business Market Segment
Australian Taxation Office

Audit Report No.12 Performance Audit
Review of the Evaluation Methods and Continuous Improvement Processes for Australia's National Counter-Terrorism Coordination Arrangements
Attorney-General's Department
The Department of the Prime Minister and Cabinet

Audit Report No.11 Business Support Process Audit
The Senate Order for Departmental and Agency Contracts (Calendar Year 2004 Compliance)

Audit Report No.10 Performance Audit
Upgrade of the Orion Maritime Patrol Aircraft Fleet
Department of Defence
Defence Materiel Organisation

Audit Report No.9 Performance Audit
Provision of Export Assistance to Rural and Regional Australia through the TradeStart Program
Australian Trade Commission (Austrade)

Audit Report No.8 Performance Audit
Management of the Personnel Management Key Solution (PMKeyS) Implementation Project
Department of Defence

Audit Report No.7 Performance Audit
Regulation by the Office of the Gene Technology Regulator
Office of the Gene Technology Regulator
Department of Health and Ageing

Audit Report No.6 Performance Audit
Implementation of Job Network Employment Services Contract 3
Department of Employment and Workplace Relations

Audit Report No.5 Performance Audit
A Financial Management Framework to support Managers in the Department of Health and Ageing

Audit Report No.4 Performance Audit
Post Sale Management of Privatised Rail Business Contractual Rights and Obligations

Audit Report No.3 Performance Audit
Management of the M113 Armoured Personnel Carrier Upgrade Project
Department of Defence

Audit Report No.2 Performance Audit
Bank Prudential Supervision Follow-up Audit
Australian Prudential Regulation Authority

Audit Report No.1 Performance Audit
Management of Detention Centre Contracts—Part B
Department of Immigration and Multicultural and Indigenous Affairs

Better Practice Guides

Public Sector Audit Committees	Feb 2005
Fraud Control in Australian Government Agencies	Aug 2004
Security and Control Update for SAP R/3	Jun 2004
Better Practice in Annual Performance Reporting	Apr 2004
Management of Scientific Research and Development Projects in Commonwealth Agencies	Dec 2003
Public Sector Governance	Jul 2003
Goods and Services Tax (GST) Administration	May 2003
Managing Parliamentary Workflow	Apr 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
Internal Budgeting	Feb 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.49 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Cash Management	Mar 1999

Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	Jul 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Asset Management Handbook	Jun 1996