

The Auditor-General
Audit Report No.18 2007–08
Financial Statement Audit

**Audits of the Financial Statements of
Australian Government Entities for the
Period Ended 30 June 2007**

Australian National Audit Office

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of Australia 2005

ISSN 1036-7632

ISBN 0 642 80995 X

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Canberra ACT
20 December 2007

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities in accordance with the authority contained in the contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2007*.

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

Yours sincerely

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

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations

AAO	Administrative Arrangement Orders
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
AEIFRS	Australian Equivalents to International Financial Reporting Standards
ACMA	Australian Communications and Media Authority
AFP	Australian Federal Police
AGD	Attorney-General's Department
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
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	<i>Commonwealth Authorities and Companies Act 1997</i>
CEIs	Chief Executive's Instructions
CE	Chief Executive
CFO	Chief Financial Officer
CFS	Consolidated Financial Statements
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

DHS	Department of Human Services
DIMA	Department of Immigration and Multicultural Affairs
DITR	Department of Industry, Tourism and Resources
DMO	Defence Materiel Organisation
DoCITA	Department of Communications, Information Technology and the Arts
DEW	Department of the Environment and Water Resources
DoHA	Department of Health and Ageing
DHS	Department of Human Services
DoTARS	Department of Transport and Regional Services
DVA	Department of Veterans' Affairs
FaCSIA	Department of Families, Community Services and Indigenous Affairs
FBO	Final Budget Outcome
Finance	Department of Finance and Administration
FMA Act	<i>Financial Management and Accountability Act 1997</i>
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
Treasury	The Treasury

Foreword

As part of the Australian National Audit Office's (ANAO) annual financial statement audit of Australian Government entities, I report the results of our audit work to the Parliament in two reports each year. This report provides the final results of the audit of the financial statements of all Australian Government entities and the Consolidated Financial Statements of the Australian Government, for the financial year ended 30 June 2007. The results of the interim phase¹ of the audits of significant entities were reported in Audit Report No.51 2006–07, *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the year ended 30 June 2007*.² These reports also discuss contemporary issues and practices impacting on public sector entities' financial reporting responsibilities, and the ANAO's responsibilities.

The preparation of audited financial statements in compliance with the Finance Minister's Orders³ is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unqualified audit opinion. Australian Government entities in cooperation with the ANAO devote considerable effort to achieving timeliness in reporting.

The audit report on the 2006–07 Consolidated Financial Statements (CFS) of the Australian Government was issued on 10 December 2007. The audit report expressed the opinion that the financial statements were true and fair. The removal of qualifications contained in previous audit reports reflects the reduction in the severity of the qualification of the Defence financial statements, and a consequential reduction in the issues that were carried forward to the whole of government level. Also, the CFS now recognise GST as revenue of the Australian Government and, as a result, the audit qualification made because of the previous non-recognition of GST has been removed.

¹ The interim audit phase is directed towards the audit of key financial controls and processes within entities.

² The 23 agencies covered in Audit Report No.51 2006–07 represent approximately 95 per cent of total General Government Sector revenues and expenses.

³ 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 *Finance Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

Further progress has recently been made in relation to the harmonisation of Australian Accounting Standards with the requirements of Government Finance Statistics. In October 2007, the Australian Accounting Standards Board (AASB) issued a revised standard dealing with both the harmonisation of reporting of GGS and whole-of-government reporting. The new standard is intended to be applied for the 2008–09 financial year and the ANAO will be devoting attention to the audit issues relating to its implementation in the year ahead.

At the individual public sector entity level, each entity is expected to have in place effective governance and project management arrangements designed to ensure the timely and accurate preparation of its financial statements, including the early recognition and resolution of any issues that impact on the financial statements. The results of our audits in recent years have indicated that entities have progressively improved their financial preparation arrangements, including achieving greater alignment between monthly financial reporting processes, year end processes and improved quality control and assurance processes. Overall, entities' financial statement preparations were generally sound. Areas where an increase in focus is required by a number of entities include documentation to support the financial statements, the implementation of appropriate quality control and/or quality assurance processes and adherence to agreed timetables.

A number of entities also continued to experience difficulty in meeting the deadlines for the submission of audit cleared financial information to the then Department of Finance and Administration (Finance).⁴ Despite the later deadline, the percentage of material entities that met the deadline reduced from 80 per cent in 2005–06 to approximately 76 per cent in 2006–07. The percentage of non-material entities that met the deadline remained relatively constant with 59 per cent meeting the deadline in 2006–07 compared with 60 per cent in 2005–06.

Not surprisingly, given the current employment market, some entities continue to experience difficulties in their ability to recruit and retain suitably qualified staff to assist in preparing the entity's financial statements. The ANAO faces similar pressures and a sustained effort is required across the

⁴ For 2006–07, the 72 material entities were required to submit audit cleared information to Finance by 15 August 2007 (30 July in 2006) and non-material entities were required to submit audit cleared information by 31 August 2007 (30 August in 2006).

public sector if entities are to be able to establish and maintain the workforce capability to meet their future financial management responsibilities including the preparation of their annual financial statements.


Consistent with the trend in relation to the results of the interim phase of the audit of entities' 2006–2007 financial statements, there has been a reduction in the number and significance of issues arising from the final phase of the 2006–07 financial statements audits. Issues that are common across a number of entities that were identified in the final audit phase were in respect of the management of IT environments, particularly systems access, business continuity management and reconciliations of balances and/or transactions in key financial systems. Generally, our audits also found that entities have made good progress in addressing and resolving, where possible, issues identified during the interim audit phase.

As mentioned in previous reports, the ANAO has increased its emphasis on legislative compliance as part of its financial statements audits in the last two years. This increased attention has involved the ANAO assessing key aspects of legislative compliance in relation to annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public moneys. It is encouraging to note that the results of the 2006–07 audit coverage have indicated that entities have increased their attention to complying with these requirements.

No doubt the improved performance on legislative compliance was reinforced by the Government's decision that, commencing from the 2006–07 financial year, Chief Executives of each FMA agency are required to provide an annual Certificate of Compliance with specified elements of the financial management framework. The Directors of GGS, CAC Act authorities and wholly-owned companies were also required to provide a report on compliance with relevant aspects of CAC Act legislation. The deadline for the submission of Certificates in respect of 2006–07 was 15 October 2007. The majority of entities met this deadline, with a number of Chief Executives being in the preferred position of being able to sign their certificates prior to or at the same time as the financial statements were finalised. A substantial number of breaches were identified by entities with the most common being in respect of requirements around the commitment, approval and spending of public moneys. Entities devoted considerable resources to enable completion of the Certificate of Compliance process and generally found that it had been beneficial in raising the awareness of staff to the requirements of the financial management

framework. The breaches identified did not have any material impact on entities' financial statements.

Finally, I would like to acknowledge the professionalism and commitment of my staff in finalising the audits of some 238 entities' financial statements in the tight timeframes required. This work has enabled the tabling of this report in a timely manner for the information of the Parliament noting that the tabling of the report reflects the date of signing of the Consolidated Financial Statements. I would also like to acknowledge the important role played by Audit Committees, Chief Financial Officers and other entity staff involved in financial statement preparations. Their efforts in providing information and assistance to my audit staff were much appreciated.

A handwritten signature in black ink, appearing to read 'Ian McPhee', with a long horizontal stroke extending to the left.

Ian McPhee

Auditor-General

Summary

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 agencies, 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 ANAO delivers two reports annually to Parliament addressing the outcomes of the financial statement audits of public sector entities. The first of these, *Audit Report No.51 2006–07 Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2007*, outlined details of the ANAO's assessment of audit findings relating to the internal controls of major entities, including governance arrangements, information systems and control procedures. The findings summarised in that report are the results of the interim phase of the financial statement audits of significant Australian Government reporting entities.
4. This report complements the interim phase report referred to above, and provides a summary of the final audit results of the audits of the financial statements of all Australian Government entities, including the Consolidated Financial Statements for the Australian Government.
5. The audit findings in this report have been reported to the management of each entity, and to the responsible Minister(s).

Summary of audit findings and related issues

6. The ANAO is responsible for the audit of the financial statements of all the Australian Government entities. For the 2006–07 financial year, the ANAO

has issued 230 unmodified audit opinions (clear opinions); one qualified audit opinion; and one audit report containing 'other legal and regulatory requirements'. This result is consistent with the trend over recent years that has seen an overall reduction in the number of audit opinions that have been qualified.

7. At the date of this report, the audit of seven financial statements have not been finalised. During 2006–07 the Auditor-General ceased to be the auditor of 11 entities for the following reasons:

- 6 entities ceased to be owned or controlled by the Commonwealth⁵; and
- 5 entities ceased to exist⁶.

8. The final phase of our 2006–07 audits identified a relatively small number of new moderate or significant control related issues. Those issues that were identified generally related to the management of the IT environment, particularly the management of systems access, business continuity management and reconciliations of balances and/or transactions in key financial systems; these issues were also identified in the interim audit phase in a number of entities. Our audits also found that entities generally had taken or commenced action to address many of the issues identified during the interim audit phase. As a result, a number of these issues had been satisfactorily resolved or their rating downgraded.

⁵ These entities are the Telstra Group, the Melbourne Symphony Orchestra Pty Ltd, the Sydney Symphony Orchestra Pty Ltd, the Symphony Australia Holdings Pty Ltd, the Tasmanian Symphony Orchestra Pty Ltd and the West Australian Symphony Orchestra Holdings Pty Ltd.

⁶ These entities were :

- Telstra Instalment Receipt Trustee Limited
- National Institute of Clinical Studies Ltd - functions transferred to the National Health and Medical Research Council
- Commonwealth Superannuation Scheme Board - merged with the PSS Board and renamed the Australian Reward Investment Alliance (ARIA)
- Public Sector Superannuation Pooled Investment Trust - name change to ARIA Investments Trust
- Public Sector Superannuation Scheme Board - merged with the CSS Board and renamed ARIA

9. This report also discusses the ANAO's assessment of entities' financial statement preparation processes, noting that entity processes were generally effective, reflecting an improvement in recent years. The report also includes commentary on the outcome of the 2006–07 Certificate of Compliance process. A significant number of legislative breaches were identified by entities and many entities indicated that the process had highlighted the need for increased awareness of the requirements of the legislative and policy financial framework.

REPORT STRUCTURE

The report is organised as follows:

- Chapter One - Financial Reporting and Auditing Frameworks: provides commentary on recent developments in the financial reporting and auditing frameworks under which the Australian Government and its reporting entities operate.
- 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 2006–07.
- Chapter Three - Summary of Audit Results and Related Issues: summarises the final results of audits of the financial statements, and provides commentary on two related matters – the preparation of financial statements by entities and the 2006–07 Certificate of Compliance process.
- Chapter Four - Results of financial statements audits by Portfolio: provides the results of individual financial statement audits including any additional significant control matters identified since Audit Report No.51 2006–07. It is structured in accordance with the portfolio arrangements established by the Administrative Arrangements Order (AAO) of 30 January 2007. For reporting purposes, this reflects the portfolio arrangements that existed at 30 June 2007. These arrangements were revised by an AAO dated 3 December 2007. Details of the revised portfolio and departmental arrangements are set out at Appendix 1.

1. Financial Reporting and Auditing Frameworks

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

Introduction

1.1 The Australian Government publishes financial statements based on two differing reporting frameworks. Whole-of-government and individual entity financial statements are prepared in accordance with standards made by the Australian Accounting Standards Board (AASB).⁷ These standards are often referred to as Generally Accepted Accounting Principles (or GAAP). On the other hand, Budget financial reports, including the Final Budget Outcome Report, which focus primarily on the general government sector, are presented mainly in accordance with the Government Finance Statistics (GFS) framework, which is the responsibility of the Australian Bureau of Statistics.

1.2 Since 2002, the AASB has been developing standards which seek to bring together the requirements of the two frameworks. A harmonised standard for the financial reporting of the general government sector (GGS) was approved in September 2006. On 1 November 2007, an amended standard was released, re-titled to incorporate requirements for whole-of-government reporting.⁸

1.3 The financial statements of the Government and its entities prepared under GAAP are audited by the ANAO. The Final Budget Outcome Report is not subject to audit. I wrote to the then Minister for Finance and Administration in May 2007 seeking advice on the former Government's

⁷ Australian Accounting Standards apply to Australian Government entities by way of being made a reporting requirement in Orders made by the Finance Minister under the authority of the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*. The Finance Minister's Orders are a legislative instrument and are available at <<http://www.finance.gov.au/ace/index.html>>.

⁸ The AASB announced in a media release on 10 October 2007 the approval of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which includes GAAP and GFS harmonisation requirements for financial reporting by both General Government Sectors and whole-of-governments – details of announcement at <http://www.aasb.com.au/whats_new/media_docs/MR-GAAP-GFS_harmonisation_10-10-07.pdf>. The Standard was released to the AASB website on 1 November 2007.

intentions with respect to the adoption of the new standard for the reporting of the GGS and the audit of the financial statements prepared under that standard. I have recently written in similar terms to the incoming Minister.

1.4 Since the mid 1990s, there have been three other AASB standards dealing specifically with government reporting. These standards have, over the years, remained largely unchanged.

1.5 During 2007, public sector issues in Australian accounting standard setting have been receiving greater attention. The AASB agreed at its February 2007 meeting on 11 project areas that would be its key focus for 2007, including seven projects that are primarily related to the public sector. The projects include withdrawing the existing government standards and relocating most of the requirements contained in these standards into the other existing topic-based AASB standards.

1.6 Since 2005, AASB standards have incorporated the requirements of standards made by the International Accounting Standards Board (IASB), whose constituency is for-profit private sector entities. This international focus has been heavily influenced by a recognition that Australian financial reporting ought to be consistent with international standards. For-profit entities applying these Australian-equivalents to International Financial Reporting Standards (AEIFRS) will automatically comply with the international standards.

1.7 AEIFRS apply also to Australian not-for-profit entities, including those in the public sector. This is consistent with the AASB's policy that standards should be sector-, or more accurately, transaction-neutral⁹. In some areas the standards have been modified for not-for-profit entities. A number of matters arising from the introduction of AEIFRS have been raised with the AASB.

1.8 The AASB has also identified, as a priority, consideration of differential (less onerous) reporting standards for small and medium-sized entities in both the private and public sectors. In May 2007 the AASB issued an invitation to comment on a proposed revised differential reporting regime for Australia and an IASB exposure draft of *A Proposed IFRS for Small and Medium-sized Entities*.

⁹ 'Sector neutrality' as it is commonly referred to, or 'transaction neutrality', is discussed in AASB Action Alert No.98 available on the AASB website <www.aasb.com.au>. It means that similar transactions should be accounted for in a similar manner, irrespective of whether the transaction occurs in the for-profit private sector, the not-for-profit private sector or the public sector.

1.9 The audits of the financial statements of the Australian Government and its entities are undertaken by the ANAO applying auditing standards made by the Auditor-General.¹⁰ These ANAO Auditing Standards incorporate, by reference, the auditing standards prescribed by law for audits conducted under the *Corporations Act 2001*. These standards are based international standards issued by the International Auditing and Assurance Standards Board (IAASB). Further changes in these standards are foreshadowed as a result of the IAASB's 'clarity' project.

1.10 Apart from developments nationally and internationally in financial reporting and auditing, a major development at the Australian Government level in 2006–07 was the introduction of a requirement for entities in the general government sector to provide Certificates of Compliance with a range of financial management, legal and policy requirements. Chapter 3 outlines the ANAO's experience with the introduction of the certificates.

1.11 Another item of note was the March 2007 report of the Senate Standing Committee on Finance and Public Administration on its inquiry into the transparency and accountability to Parliament of Commonwealth public funding and expenditure.¹¹ The Committee made 19 recommendations aimed at improving the Parliament's oversight of proposed and actual Commonwealth funding and expenditure. The Senate Chairs' Committee accepted a proposal made to the Inquiry by the Auditor-General to provide a synopsis to each secretary of a Legislative and General Purpose Standing Committee on recent performance audits relevant to their portfolio.¹²

Public sector accounting standards

Sector-neutral accounting standards

1.12 In early 2006, the Financial Reporting Council (FRC), which sets the strategic direction for accounting and auditing standard setting in Australia,

¹⁰ ANAO Auditing Standards are made by the Auditor-General for the purposes of section 24 of the *Auditor-General Act 1997*. They are registered legislative instruments and are available at <<http://www.comlaw.gov.au/ComLaw/Legislation/LegislativeInstrument1.nsf/0/72CC8107B4F04466CA2571F700066982?OpenDocument>>.

¹¹ Legislative and General Purpose Standing Committee on Finance and Public Administration, *Transparency and accountability of Commonwealth public funding and expenditure*, The Senate, March 2007.

¹² The Senate Chairs' Committee, *Response to Finance and Public Administration Committee's Report on Transparency and accountability of Commonwealth funding and expenditure*.

completed a review of the AASB's policy of 'sector neutrality' in accounting standard setting in Australia. The review examined how adequately the sector neutral approach met the information needs of users of financial statements and the public interest more generally.

1.13 The FRC concluded as a result of the review that the needs of users for a single conceptual framework concerning the for-profit, not-for-profit and public sectors were not being met. However, the FRC took comfort from the level of progress in Australia and internationally on public sector issues, including the release of the original AASB 1049 for general government sector reporting and the IPSASB Conceptual Framework Project (see paragraphs 1.22 to 1.26 below). The FRC also noted that the AASB's priorities for 2007 were to progress issues in respect of public and not-for-profit sector accounting.

1.14 The FRC agreed it would review progress in dealing with those issues that are of relevance to the not-for-profit sector in mid-2008.

1.15 The existence of a range of approaches for modifying IFRSs for application by not-for-profit/public-benefit¹³ entities has recently been acknowledged by the AASB and the New Zealand Financial Reporting Standards Board (NZFRSB).¹⁴ At a joint meeting¹⁵ of the Boards held on 8 October 2007, most members supported an approach of modifying the IFRSs only when there is a specific not-for-profit/public-benefit reason for doing so.

1.16 The Boards agreed to jointly develop a paper for further consideration on criteria that could be used as the basis for a joint policy for identifying when there is a not-for-profit entity/public-benefit entity reason for modifying IFRSs.

¹³ 'Public benefit entities' are defined in New Zealand standard NZ IAS 1 *Presentation of Financial Statements* as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

¹⁴ The New Zealand Accounting Standards Review Board has mandated application of IFRS, in the form of New Zealand equivalents to IFRS (NZ IFRS) for all entities other than small entities which meet specified criteria (these entities can choose to continue to apply pre-NZ IFRS), for periods commencing on or after 1 January 2007, with the option for early adoption for periods commencing on or after 1 January 2005. NZ IFRS are developed for application by profit-oriented entities and with additional requirements on measurement and recognition applicable to public benefit entities.

¹⁵ AASB and NZ FRSB hold joint meetings as part of the process to harmonise trans-Tasman accounting standards and financial reporting requirements. A Protocol for co-operation was signed at the inaugural joint meeting of the two standard setting bodies on 3-4 May 2006. The Protocol aims to minimise differences between the accounting standards in Australia and New Zealand, ensure that the AASB and FRSB present similar positions at international forums to maximise influence and promote sharing of staff resources. The Protocol establishes reciprocal attendance at meetings and subject to resources, holding of joint meetings at least annually.

Conceptual frameworks for accounting standards

1.17 AASB standards, comprising mainly Australian equivalents to IFRSs, are underpinned by a conceptual framework also largely taken from the IASB, which as noted earlier, make standards for for-profit private sector entities.

1.18 The IASB is undertaking a major review of the conceptual framework underpinning its accounting standards in conjunction with the United States' Financial Accounting Standards Board (FASB). The objective of this joint project is to develop a common framework that is complete and provides a sound foundation for developing future standards that are principles-based, internally consistent, internationally converged and that lead to financial reporting that provides information that is useful to present and potential investors and creditors and others in making resource allocation decisions. The framework will build on the existing IASB and FASB conceptual frameworks.¹⁶

1.19 On 6 July 2006 the Boards published a consultative document, *Preliminary Views on an improved Conceptual Framework for Financial Reporting – The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*, setting out the IASB and FASB's preliminary views on the first two chapters of an enhanced conceptual framework. This discussion paper addresses the objective of financial reporting and the qualitative characteristics of decision-useful financial information. The Boards have commenced their consideration of the comments received on this paper and they plan to issue an exposure draft in late 2007.

1.20 Further discussion papers and exposure drafts are planned to be issued for various stages of the project progressively up to 2009.

1.21 Because of the focus on private sector entities, the AASB and three other national standards boards¹⁷ are monitoring the project from a not-for-profit perspective. The monitoring group's preliminary views on project proposals for the objectives and characteristics of financial reporting considered that the proposals gave insufficient emphasis to accountability; recognised only a narrow group of users and concentrated excessively on

¹⁶ The Boards are conducting the project in eight phases on the following key areas in order of attention: Objectives and qualitative characteristics; Elements and Recognition; Measurement; Reporting Entity; Presentation and Disclosure; Purpose and status; Application to not-for-profit entities; Remaining issues as exist.

¹⁷ The monitoring group consists of Chairs and Senior Staff of the Australian, United Kingdom and Canadian Accounting Standards Board and the Canadian Public Sector Accounting Standards Boards and New Zealand Financial Reporting Standards Board.

financial reports providing users with information to assess an entity's future cash flows. The group's work is continuing.

1.22 With the IASB proposing changes to the concepts and definitions in its framework, the International Public Sector Accounting Standards Board¹⁸ (IPSASB) considered that it would be timely to develop its own framework for general purpose financial reporting by public sector entities to make explicit the concepts that underpin financial reporting in the public sector.

1.23 In July 2006 the IPSASB agreed with a number of national accounting standards boards, including the AASB, that it would lead a collaborative project to develop a public sector conceptual framework in conjunction with participating boards. A project brief was developed that establishes the major characteristics of the project and the proposed process for its development. The Project Brief dated December 2006 is available on the IPSASB website.¹⁹

1.24 In developing this conceptual framework, the IPSASB and its Conceptual Framework Subcommittee²⁰ will consider the information that may be included within general purpose financial reports in addition to financial statements and notes, and the implications of any such information for each component of the Framework as appropriate.

1.25 Consultation papers are planned to be issued for various stages of the project progressively up to 2010, with the final Framework document planned to be issued in 2012.

1.26 The IPSASB Framework project continues to be a priority for the AASB. Its primary contribution to the project will be the development by AASB staff of a draft Consultation Paper on the concept of a reporting entity. An initial issues paper was tabled at the March 2007 meeting of the IPSASB.

¹⁸ The IPSASB has been setting accounting standards internationally for the public sector using as its basis the standards of the IASB. IPSASB standards have not been appropriate for direct application in Australia largely because they have been based on versions of IASB standards that pre-dated the stable platform of standards which the IASB settled on for application internationally from 1 January 2005.

¹⁹ The IPSASB's Project Brief can be found at <http://www.ifac.org/PublicSector/Downloads/20-12_ProjectBriefAndAttachmentsCompleteForConceptualFramework.pdf>.

²⁰ The AASB was appointed at the July 2006 meeting of the IPSASB as a member of the IPSASB Conceptual Framework Subcommittee and also to the monitoring group that will oversee project development on an ongoing basis – refer Public Sector Conceptual Framework Project Brief published in December 2006 available at http://www.ifac.org/PublicSector/Downloads/2012_ProjectBriefAndAttachmentsCompleteForConceptualFramework.pdf.

AASB review of its public sector-specific standards

1.27 Previous ANAO reports have referred to the AASB's approach to dealing with public sector issues.²¹

1.28 In keeping with its policy of issuing sector-neutral standards, the AASB released, in late May 2007, exposure draft *ED 156 Proposals Arising from the Short-term Review of the Requirements of AAS 27, AAS 29 and AAS 31*. The exposure draft proposed to relocate requirements (with current relevance) from AASs 27, 29 and 31 into topic-based Standards. These requirements remain substantively unamended for the short-term with only a few exceptions. The Board decided at its 16 November 2007 meeting that it would approve, out of session, a Standard making amendments to existing topic-based Standards arising from the review of AASs 27, 29 and 31, two new topic-based Standards on administered items and disaggregated disclosures, and one revised Standard, AASB 1004 *Contributions*. The Board also confirmed at its meeting on 16 November that it will consider the relative priorities of public sector issues for longer term review.²² Subject to approval of these Standards, AASs 27, 29 and 31 will be withdrawn.

1.29 The AASB's proposals would retain for the time being the requirements in AAS 29 in relation to reporting of administered items. The AASB considered that accounting for administered items by government agencies raised some fundamental conceptual issues relating to users' needs, the concept of control in the public sector and the reporting entity concept. Accounting for administered items would therefore be considered in due course in a broader context rather than as a separate issue.

1.30 The AASB's proposals arising from its short-term review will include a small number of additional changes to existing requirements, including:

- new disclosures in relation to broad categories of recipients of government transfers (for example, pensions) and the amounts involved;

²¹ Previous Audit Reports (ANAO Audit Reports No.51 of 2006–07, *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2007*, No.15 of 2006–07, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006*, No.21 of 2005–06 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006* and No.48 of 2005–06 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ended 30 June 2006*) have referred to the AASB's approach to public sector accounting standards.

²² As noted in AASB Action Alert No.109 available on the AASB website <www.aasb.com.au>.

- removal of the requirement for governments to separately disclose the net cash flows of government-controlled financial institutions in the Statement of Cash Flows and notes to the financial statements; and
- mandatory reporting of disaggregated information on the assets employed and liabilities incurred in relation to each major activity undertaken by government agencies.

1.31 In addition, the AASB proposes new guidance on heritage assets in relation to their nature and their depreciation, including identifying circumstances when depreciation may not be required (currently Australian Government entities depreciate their heritage and cultural assets where the financial impact is material).

1.32 The AASB is anticipating issuing standards to give effect to its short-term review proposals in the second half of 2007 to be applied for annual reporting periods beginning on or after 1 July 2008.

1.33 The AASB's Public Sector Policy Paper (as updated at 15 June 2007) identifies a number of other issues that the Board intends to address in due course. These include the following areas: definition and control of a not-for-profit entity²³, income from non-exchange transactions, public sector obligations, service concession arrangements from a grantor perspective (the government's role in public-private partnerships)²⁴, heritage and cultural assets, related party disclosures, measurement of contributions by owners as owners, consolidation of for-profit and not-for-profit entities and disaggregated information and budget reporting.²⁵ Progress on a number of these matters is linked to the outcomes of projects being undertaken internationally by the IASB and the IPSASB.

1.34 The AASB has begun considering the issues arising in accounting for income from non-exchange transactions in conjunction with the NZFRSB as

²³ The AASB considered a draft consultative document *Proposed Definition and Guidance for Not-for-Profit Entities* at its 16 November 2007 meeting. This document incorporates the NZ FRSB's definition and guidance on public benefit entities. The AASB plans to issue an Invitation to Comment late 2007.

²⁴ The AASB released Interpretation 12 *Service Concession Arrangements* in February 2007. The Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. It does not address the accounting by grantors.

²⁵ AASB Public Sector Policy Paper (as at 15 June 2007) available at <www.aasb.com.au>.

part of their concurrent agenda²⁶. The Boards are developing a joint Discussion Paper as a first step to promulgating a common Standard.

1.35 In Australia, the proposed Standard would replace the current Standard AASB 1004 *Contributions*. Accounting for contributions has been a vexed matter for some years. Different views exist as to when amounts payable under grant agreements should be recognised where made subject to conditions. The Australasian Council of Auditors-General (ACAG) has encouraged the AASB to continue to give this subject a high priority and to expand its considerations to include accounting by grantors.

1.36 The attention being given by the AASB to resolving public sector reporting issues is welcome.

Accounting Standards for Small and Medium-sized Entities

1.37 The IASB is proposing to reduce the reporting burden for small and medium-sized entities (SMEs) by introducing differential (i.e. less onerous) reporting standards. An exposure draft for a proposed standard titled *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs) was released for comment by October 2007.²⁷ The proposed IFRS is intended to be a stand-alone document, with minimal cross-references to full IFRSs.

1.38 In deciding on the content of the proposed IFRS for SMEs, the IASB focused on the types of transactions and other events and conditions typically encountered by SMEs with about 50 employees.

1.39 For its part, the AASB issued an Invitation to Comment (ITC 12), *Request for comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* (SMEs), in May 2007. This consultative paper incorporated the IASB exposure draft, reproduced without amendment.

1.40 The IASB definition of an SME, bearing in mind the IASB's for-profit private sector focus, is an entity that publishes financial statements but does not have 'public accountability'. The IASB defines 'public accountability' as

²⁶ On the 8 October 2007 at a joint meeting between the AASB and the NZ FRSB, as noted in AASB Action Alert No.108 available on the AASB website <www.aasb.com.au>.

²⁷ <<http://www.iasb.org/Current+Projects/IASB+Projects/Small+and+Medium-sized+Entities/Exposure+Drafts+for+Small+and+Medium-sized+Entities/Exposure+Drafts+for+Small+and+Medium-sized+Entities.htm>>.

filing financial statements in order to issue instruments in a public market or holding assets in a fiduciary capacity for a broad group of outsiders such as banks and pension funds.

1.41 This definition is not appropriate for public sector entities. The AASB proposes that the simplified reporting requirements should be available to a not-for-profit public sector entity to apply where the entity (including any subsidiaries) falls below nominated size thresholds of \$25 million in revenue and \$12.5 million in assets at balance date. Different criteria are proposed to be applied to for-profit public sector entities.²⁸

1.42 The AASB has prepared a submission to the IASB on the exposure draft of *A Proposed IFRS for SMEs*. The AASB is scheduled to deal with issues relating specifically to the Australian reporting environment, including public sector issues, at its December 2007 meeting.

1.43 The AASB made a submission to the IASB on the exposure draft of *A Proposed IFRS for SMEs* on 28 November 2007²⁹. The AASB expressed a number of concerns to the IASB about the IFRS for SMEs, including that:

- the proposed IFRS for SMEs is not a truly stand-alone document; it could be improved by including more of the appropriate treatment options in full IFRSs instead of adopting a cross-referencing approach;
- it is unclear how the IFRS for SMEs might operate for the purposes of selecting accounting policies;
- there is a need for further simplification of the recognition and measurement requirements;
- the disclosure requirements are too onerous and should be reduced to those disclosures deemed necessary, based on a consideration of user needs for SMEs and taking into account the financial statements as a whole; and
- subsidiaries should be permitted to apply full IFRS recognition and measurement requirements (to be consistent with their parent, where

²⁸ The AASB notes in ITC 12 references to public sector entities are generally references to only not-for-profit sector entities. For-profit entities that hold assets in a fiduciary capacity for a broad group of outsiders, file financial statements for the purpose of issuing securities in a public market or have consolidated revenue above \$500 million or consolidated assets above \$250 million apply full AEIFRS.

²⁹ AASB submission to the IASB on the *Exposure Draft of A Proposed IFRS for SMEs* is available from the AASB website <www.aasb.com.au>.

appropriate) without having to comply with all the disclosure requirements in full IFRSs.

1.44 The AASB supports the IASB's proposal that applying the IFRS for SMEs should be a matter for each jurisdiction. The AASB may examine other options on which to base a differential reporting regime. The AASB intends to begin consideration of issues relating specifically to the Australian reporting environment, including public sector issues, at its December 2007 meeting.

1.45 As for the impact of the size test on reporting by Australian government entities, Finance has submitted to the AASB that thresholds of \$100 million for revenue and \$50 million for assets (in each case combining departmental and administered items) would be appropriate. Finance observed that the nature of the accountability information, additional to AEIFRS information, being requested of public sector entities is at a program or transaction level which is not provided in existing AEIFRS reports and that the higher thresholds it proposes would not significantly reduce accountability for public sector entities.

1.46 Given the continuing expansion in financial reporting requirements over recent years, the opportunity to explore a reduction in the reporting obligations on smaller public sector entities while preserving their accountability is worthwhile. There is considerable scope to improve the cost-effectiveness and focus of reporting requirements for smaller public sector entities. However, there is a need to also ensure consistent quality in financial reporting to meet the needs of users, particularly the Parliament.

GAAP/GFS harmonisation

1.47 The Australian Government publishes two significant ex-post annual financial reports. These are the Final Budget Outcome (FBO) Report and the Consolidated Financial Statements (CFS). The FBO Report must, by law, be publicly released by the Treasurer by 30 September each year.³⁰ The CFS is, by law, to be given to the Auditor-General for audit as soon as practicable after preparation but no later than 30 November each year.³¹

³⁰ *Charter of Budget Honesty Act 1998* section 18(1).

³¹ *Financial Management and Accountability Act 1997* section 55.

1.48 The FBO Report is based on the GFS framework³² whereas the CFS is prepared in accordance with accounting standards. The FBO Report is not audited.

1.49 In 2002, the FRC provided the AASB with a strategic direction to harmonise Generally Accepted Accounting Principles (GAAP) reporting with Government Finance Statistics (GFS) for the public sector, in response to concerns about the potential confusion that arises from applying accrual principles but reporting different results for the same public sector entity.³³ The pursuit of harmonisation is intended to achieve a single set of government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.

1.50 In September 2006, the AASB approved the issue of accounting standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*. The more significant requirements of AASB 1049 *Financial Reporting of General Government Sectors by Governments* were summarised in previous Audit Reports.³⁴

1.51 The December 2006 meeting of the FRC considered the steps remaining to address the strategic direction of 2002.³⁵ Among other things, the FRC encouraged the AASB to complete its project on GAAP/GFS harmonisation for whole-of-government reporting by the Australian Government and State and Territory Governments in time for a concurrent start with the GGS standard.

1.52 A revised standard AASB 1049, re-titled *Whole of Government and General Government Sector Financial Reporting*, was released by the Board on 1 November 2007. In terms of its whole-of-government requirements, it will replace AAS 31 *Financial Reporting by Governments*. It applies from the 2008–09 financial year.

³² The FBO figures are derived from the GFS Framework. The FBO report also includes financial information prepared in accordance with accounting standards and reconciled to GFS.

³³ This information is contained in the Project Summary – *AASB GAAP/GFS Harmonisation Project*, which is available on the AASB website <www.aasb.com.au>.

³⁴ ANAO Audit Reports No.15 of 2006–07, op. cit., and No.51 of 2006–2007, op. cit.

³⁵ FRC Bulletin 2006 / 9 – 18 December 2006 at <<http://www.frc.gov.au/bulletins/2006/09.asp>>.

1.53 The new Standard's requirements for whole-of-government reporting include:

- application of other Australian Accounting Standards, except as specifically varied;
- the whole-of-government report to be made available no later than the GGS report;
- application of the principles and rules in the ABS GFS manual³⁶ where they do not conflict with GAAP;
- the reporting, on the face of the primary statements, of specified key fiscal aggregates used in GFS,³⁷ measured in accordance with GAAP;
- where the measurement of a key fiscal aggregate using the GFS basis differs, a reconciliation between the GAAP and GFS measures, presented in a note;
- the presentation of the above information on key fiscal aggregates not only for the whole-of-government, but also for each sector i.e. the GGS, the Public Non-Financial Corporations (PNFC) sector and the Public Financial Corporations (PFC) sector;
- the presentation of original budgeted financial statements and explanations of major variances between budget and actuals for whole-of-government, but only where the budgeted financial statements are tabled in Parliament;
- the presentation of financial statements for each sector, in addition to the consolidated accounts; and
- reconciliations between sector and government information.

1.54 The AASB will now proceed to consider the priority to be given to pursuing GAAP/GFS harmonisation for individual entities, such as departments, within GGS. The Board will not be proceeding with GAAP/GFS harmonisation for public sector entities within the PNFC and PFC sectors.³⁸

³⁶ *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005*, (latest issue released 31 July 2006), available on the ABS website <<http://www.abs.gov.au>>.

³⁷ The key fiscal indicators are net worth (and 'total change in net worth' for whole-of-government reporting), net operating balance, net lending/borrowing, total other economic flows and the cash surplus/deficit.

³⁸ AASB Media Release 10 October 2007 available on AASB website <www.aasb.com.au>.

1.55 In Audit Report No.15 of 2006–07, I welcomed the first release of AASB 1049 because I considered it would reduce the complexity and potential confusion that arises from the preparation of financial reports on different accounting bases and also improve comparability of GGS budget statements with audited reports on the budget outcome. I consider that the new AASB 1049 incorporating GGS and whole-of-government financial reporting requirements should also achieve these outcomes, facilitating economic and financial analysis, and ensuring GGS and whole-of-government statements are prepared on a consistent basis.

1.56 The requirements of the harmonised standard for GGS and whole-of-government raise a number of issues for audit offices, including the auditing of GFS measurements and of explanations for variances between budget and actual figures. In this regard, the Australian Auditing and Assurance Standards Board (AUASB) has approved a project plan to formulate a pronouncement addressing the audit implications of Accounting Standard AASB 1049 for GGS reporting.

1.57 The ANAO previously indicated that it would be willing to audit the FBO report if requested, subject to adequate resources being made available. In May 2007 I wrote to the then Minister for Finance and Administration seeking advice on the former Government's intentions with respect to the adoption of AASB 1049 in respect of the GGS, and the audit of the harmonised report. I have recently written in similar terms to the incoming Minister. I would be a strong supporter of the adoption of the harmonised report and having the report on financial outcomes for the year audited by the ANAO.

1.58 As previously noted³⁹, Finance and the Department of the Treasury are examining issues associated with the implementation of AASB 1049 in conjunction with proposed revisions to the Uniform Presentation Framework.⁴⁰

1.59 The release of the harmonised standard covering both whole-of-government and GGS financial reporting will allow for the consistent presentation of financial information for all sectors of government in the 2008–09 Budget and Outcome reporting cycle and will increase the information value of each of the reports.

³⁹ In ANAO Audit Report No.51 of 2006–07, op. cit.

⁴⁰ The Australian, State and Territory governments have an agreed framework — the *Accrual Uniform Presentation Framework* — for the presentation of government financial information on a basis consistent with the ABS GFS publication. (Source: Budget Paper No.1, Statement 9, 2007–08 Budget).

Implementation of Australian equivalents to International Financial Reporting Standards (AEIFRS) by Australian Government entities

1.60 Previous ANAO Reports have referred to the adoption in Australia of international financial reporting standards and the financial effects of that change on Australian Government entities in 2005–06. Audit Report No.51 of 2006–07 reported that all material Australian Government entities indicated unreserved compliance with AEIFRS on first-time adoption of AEIFRS in 2005–06, other than the Department of Defence (Defence). Defence indicated exceptions within the extent permitted by the standards.⁴¹

1.61 Audit Report No.51 also referred to issues, identified during the course of the 2005–06 financial statements, in regard to AEIFRS, that were specific to the not-for-profit public sector. Finance raised a number of these issues with the AASB. Some of the major accounting issues relate to the measurement of the Government's unfunded superannuation liability, the determination of fair value for public policy loans, and accounting for make-good provisions in valuing property plant and equipment on a depreciated replacement cost basis.

1.62 Since then, advice has been received from the AASB that many of the issues involved requests for further guidance where the new standards required the exercise of judgement, and in a principles-based environment the AASB was reluctant to provide guidance, particularly in relation to issues that are not specific to the public sector.

1.63 In mid-2006 the IASB announced that it would not require new or amended International Financial Reporting Standards (IFRSs) to be applied before 1 January 2009. In this way, the IASB will be providing four years of stability in the IFRS platform of standards where, as in Australia, IFRSs were adopted in 2005.⁴²

1.64 During early 2007, the AASB approved amendments to Australian Accounting Standards to make available, for Australian for-profit entities in particular, certain optional reporting requirements that exist in IFRSs. Originally AEIFRS did not include optional treatments that did not correspond

⁴¹ As contained in note 1.5 (a) p. 368, of the financial statements section of the Department of Defence's 2005–06 Annual Report, their financial report complied with AEIFRS except for AASB 102 *Inventories* in relation to General Stores and AASB 116 *Property, Plant and Equipment* in relation to Repairable Items.

⁴² Details of the IASB's decision can be found at <<http://www.iasb.org/News/Press+Releases/IASB+takes+steps+to+assist+adoption+of+IFRSs+and+reinforce+consultation+No+new+IFRSs+effective+until.htm>>.

to pre-AEIFRS Australian Standards. These changed requirements will come into effect for the 2007–08 reporting period.

1.65 In May 2007 the AASB approved an amendment to AASB 102 *Inventories*.⁴³ The amendment changed the measurement basis of inventories held for distribution by not-for-profit entities from the lower of cost and current replacement cost to cost adjusted when applicable for any loss of service potential. It was approved by the Finance Chief Executive for early adoption by Australian Government entities for the 2006–07 reporting period. Defence, which holds material inventories for distribution, was able to apply this measurement basis in its 2006–07 financial report to its explosive ordnance and fuel inventories.

Reporting compliance with the Financial Management Framework

Requirement to certify compliance and financial sustainability

1.66 Audit Report No.51 of 2006–07 drew attention to developments within the Australian Government in relation to compliance with financial management legislation, including the release in October 2006 of Finance Circular No.2006/08 *Certificate of Compliance—FMA Act Agencies* dealing with this certification.

1.67 In December 2006, Finance issued Circular No.2006/11 *Compliance Reporting – CAC Act Bodies*, addressed to Commonwealth Authorities and wholly-owned Commonwealth companies in the General Government Sector.⁴⁴

1.68 Further discussion of the Certificate of Compliance is included in Chapter 3.

⁴³ Accounting Standard AASB 2007–5 *Amendment to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities*. The date of effect is 2007–08, with adoption in 2006–07 permitted.

⁴⁴ The requirement to report compliance is made under the Finance Minister's powers under sections 16(1)(c) and 41(1)(c) of the *Commonwealth Authorities and Companies Act 1997* to require the directors to give the Finance Minister such reports, documents and information in relation to the entity's operations as the Finance Minister requires.

ANAO auditing of compliance

1.69 The ANAO's focus on legislative compliance as a part of its financial statement audit coverage has continued. The coverage involves the use of work programmes addressing key aspects of legislative compliance in relation to annual and special appropriations, annotated appropriations, special accounts and the investment of public monies.

1.70 In the context of its compliance focus, the ANAO's annual work programme continues to include performance audits that examine the development and application of the financial framework. The proposed audits are:

- Financial Management of Administered Annual Appropriations;⁴⁵
- Implementation of the Federal Register of Legislative Instruments (FRLI); and
- possibly, a follow-up audit on Investment of Public Funds.

1.71 The commencement of the audit of administered appropriations will have regard to the Government's response to the recommendations of the March 2007 report of the Senate Standing Committee on Finance and Public Administration on its inquiry into transparency and accountability of Commonwealth public funding and expenditure.⁴⁶

1.72 As mentioned in ANAO Report No.51 of 2006–07, the Committee made a number of recommendations for changes to the appropriations framework, including in relation to:

- the expression of outcomes in clear, simple and measurable terms;
- the provision of programme information in budget documents and in the Appropriation Acts;
- the review and reporting of special appropriations;
- the lapsing of unspent appropriations;
- the reporting of transfers between appropriations; and

⁴⁵ The audit would assess agencies' management of, and accountability for, amounts appropriated by Parliament for administered expenses.

⁴⁶ *op. cit.*, The Senate, March 2007. At the time of the preparation of this Report, no Government response had been tabled.

- the management of net appropriations.

1.73 The FRLI audit has been delayed to enable enhancements to be made to the Register by the Attorney-General's Department (which provides the Register) and to provide agencies with sufficient time to have effectively implemented systems to comply with the legislative requirements.

Changes to the Financial Management and Accountability Act

1.74 The *Financial Framework Legislation Amendment Act (No. 1) 2007* received royal assent on 25 September 2007. It amends the *Financial Management and Accountability (FMA) Act 1997*, the *Auditor-General Act 1997* and the *Legislative Instruments Act 2003*. These changes are intended to simplify the financial framework and address issues relating to the management of appropriations, in order to improve the efficiency of government operations whilst meeting the requirements of the Constitution, the Government and Parliament. Primary amendments pertain to the FMA Act, with consequential amendments made to the other Acts.

1.75 The amendments were made partly in response to findings in ANAO Audit Report No.28 of 2005–06 *Management of Net Appropriation Agreements*.⁴⁷

1.76 Key amendments include⁴⁸:

- amendments to section 32 of the FMA Act to improve efficiency in implementing machinery of government changes;
- amendment of section 31 to remove the requirement for over 80 bilateral net appropriation agreements, to provide instead for the making of a regulation (in relation to departmental appropriations only);
- a new section 32A that clarifies the timing of certain adjustments to appropriations in relation to Special Accounts, repayments to the Commonwealth, recoverable GST and relevant Agency receipts; and
- amendment to clarify a Chief Executive's power to issue directions when providing delegations (or sub-delegations) to officials.

⁴⁷ Page 6 *Senate Financial Framework Legislation Amendment Bill (No. 1) 2007 Replacement Explanatory Memorandum*.

⁴⁸ Outlined in the *Senate Financial Framework Legislation Amendment Bill (No. 1) 2007 Replacement Explanatory Memorandum*.

Developments in Australian Auditing Standards

1.77 As mentioned in paragraph 1.9 above, the ANAO Auditing Standards incorporate, by reference, the current versions of the standards set by the AUASB for the auditing of financial statements ('Australian Auditing Standards' or 'ASAs').⁴⁹ My intention is that audits conducted by the ANAO should be conducted to the same standards required of the auditing profession in Australia.

1.78 ASAs were issued with effect under the *Corporations Act 2001* from 1 July 2006. The issue of these standards was in part due to concerns about the quality of financial reporting, following high-profile corporate collapses both in Australia and overseas. As a result, the standards impose more stringent requirements on auditors generally, including the ANAO. The ANAO's budget for 2007–08 and forward years reflects an increase in funding that will assist the ANAO in meeting the new requirements.

1.79 The AUASB uses International Standards on Auditing (ISAs)⁵⁰ as the basis for making Australian Auditing and Assurance Standards. ISAs are made by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants. The IAASB recognises that standards need to be understandable, clear and capable of consistent application. In 2003 the IAASB reviewed the drafting conventions used in its standards in order to improve their clarity and hence the consistency of their application.⁵¹

1.80 In September 2007, the IAASB agreed that its set of clarified ISAs should be effective for audits of financial statements for periods beginning on

⁴⁹ The AUASB Standards made for the purposes of section 336 of the *Corporations Act 2001* are also published on Federal Register of Legislative Instruments.

⁵⁰ International Standards on Auditing (ISAs) are made by the International Auditing and Assurance Standards Board (IAASB) of IFAC, of which the Auditor-General is a member. The strategic direction of the AUASB includes the development of Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use as a base, as appropriate, the ISAs;
- make such amendments to ISAs as are necessary to conform with the Australian regulatory environment and statutory requirements; and
- incorporate additional requirements based on standards in other national jurisdictions, where appropriate and considered to be in the public interest.

⁵¹ The IAASB's document *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, which was revised in December 2006, establishes the conventions to be used by the IAASB in drafting future ISAs and the obligations of auditors who follow those standards. It is available at <<http://www.ifac.org/Members/Downloads/IAASB-AP-AmendedPreface.pdf>>.

or after 15 December 2009. The IAASB remains committed to publishing the entire suite of clarified ISAs in late 2008.

1.81 In settling on this implementation date, the IAASB recognised among other things that a significant number of the ISAs, including some that have been substantively revised, will be finalised in clarified form in the latter half of 2008 and all will be effective at the same time.

1.82 Accordingly, the IAASB concluded that extension of the effective date strikes an appropriate balance between the desire that users of financial statement audits obtain the benefit of the revised and redrafted ISAs as soon as practicable and the fact that jurisdictions need time to translate and adopt the ISAs and audit practitioners need time to implement them effectively. The revised effective date allows for a reasonable period which stakeholders can use to further adoption or convergence, training and implementation activities.

1.83 In late October, the AUASB announced that Australian Auditing Standards will be further revised and reissued based on the new 'clarity' format versions of the ISAs. The revised Australian standards will be operative for reporting periods beginning on or after 1 January 2010. The AUASB will undertake a comprehensive project to ensure that the revised Australian standards in the new format will continue to conform with ISAs and the enforceability required under Australian regulatory arrangements. Exposure drafts for the revised standards will be issued during the course of 2008 and early 2009.⁵²

1.84 The AUASB has also been giving priority to public sector auditing projects. The projects include development of a standard to replace existing standards on performance auditing and a new standard on compliance auditing. In addition, as mentioned earlier in this chapter, the AUASB has commenced a project to address the audit implications of AASB 1049.

1.85 ANAO Report No.51 of 2006–07 noted the release by the AUASB of a discussion paper on *Auditing Small and Medium Sized Entities*. Following consideration of constituents' comments, the AUASB resolved it would continue to actively monitor developments internationally, in particular by the IAASB and others, who are considering the introduction of global guidance on

⁵² As noted in AUASB Media Release 26 October 2007 available on the AUASB website <www.auasb.gov.au>.

the audit of SMEs; and to encourage the professional accounting bodies in Australia to provide training and guidance in this area.⁵³

Conclusion

1.86 To be useful, the information in financial statements must be relevant and reliable, capable of being understood by a reasonably well-informed reader and comparable across years and between entities.⁵⁴ The greater attention being given to public sector financial reporting issues and standards should improve the quality of the financial information being presented to the users of that information.

1.87 In particular, the harmonisation of GAAP and GFS financial reports proposed for 2008–09, through the introduction of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, should help to better inform members of the Parliament of the financial performance and position of both the budget sector and the Australian Government as a whole. Considerations relating to the implementation and audit of this standard will be an important focus for both the Government and the ANAO.

1.88 It remains important that the work of the AASB continues to address the major issues affecting reporting by public sector entities, including considerations of an appropriate conceptual framework. Nevertheless, to the extent that it is meaningful, the commonalities that exist between public and private sector concepts should be maintained.

1.89 Change also continues to be a feature of the auditing standards. The ANAO will assess the impact of the ‘clarity’ project through the ‘exposure draft’ due process during 2008 and early 2009.

⁵³ Bulletin: Auditing Small and Medium Sized Entities (SMEs), AUASB September 2007.

⁵⁴ AASB *Framework for the Preparation and Presentation of Financial Statements*, paragraphs 24–46 ‘Qualitative Characteristics of Financial Reports’.

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

This chapter outlines the results of the audit of the Consolidated Financial Statements of the Australian Government for the year ended 30 June 2007.

Background

2.1 The Consolidated Financial Statements (CFS) of the Australian Government are an important element of open and accountable government. The CFS and the associated financial analysis are designed to allow readers to assess the annual financial performance and position of the Australian Government. For example, it is possible to track the movements, over years, of the audited net asset position of the Australian Government.

2.2 The reported 2006–07 net result attributable to the Australian Government was a surplus of \$35.0 billion (2005–06: \$17.3 billion) and a reported positive net asset position of \$43.6 billion (2005–06: \$5.4 billion). These figures show the financial impact of government policies for the year and the associated movement in net assets and liabilities as at 30 June.

Audit Report

2.3 The CFS were signed by the incoming Minister for Finance and Deregulation on 10 December 2007 and the audit report was issued on the same day.

2.4 Historically, the CFS have been qualified in relation to the accounting treatment of the Goods and Services Tax (GST) and uncertainty sourced from the Department of Defence (Defence) financial statements in areas mainly relating to asset accounting.

2.5 The accounting treatment of the GST has been the subject of audit qualification since the GST was first introduced in the 2000–01 financial year because the GST was not recognised as Australian Government revenue and the associated payments to the States and Territories were not recognised as expenses. This accounting policy did not accord with AAS31 *Financial Reporting by Governments* which requires that all of the Government's assets, liabilities, revenues and expenses be recognised in its financial statements. The

CFS now recognise the GST as revenue of the Australian Government for the first time and the associated payments to the States and Territories as expenses. As a consequence there was no need for an audit qualification on taxation revenue recognition.

2.6 The financial effect of this change was to increase :

- Revenue by \$41.0 billion
- Expenses by \$40.2 billion
- Assets by \$9.1 billion
- Liabilities by \$0.5 billion
- Net surplus by \$0.8 billion and Net assets by \$8.6 billion

2.7 Progress has also been made in 2006–07 on those issues in the Department of Defence that caused material uncertainty in CFS in prior years. The severity of the qualification on the financial statements of the Department of Defence has been sufficiently reduced this year to remove the need for any related qualification on the 2006–07 CFS. While a significant inventory accounting issue remains in the Defence financial statements, this issue was not considered material in the context of the more substantial financial statements of the Australian Government.

2.8 With the resolution of these two issues, the CFS is unqualified for the first time since 1997–98, a significant event.

Accounting Issues

Executive Remuneration

2.9 As in previous years, the CFS for 2006–07 do not disclose the remuneration of Ministers or Executive Officers of Australian Government entities. There are specific public sector considerations in this area, however, 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.

2.10 In raising this matter previously, the ANAO has recognised that there are a range of issues to be settled in determining the scope and components of such disclosures in a public sector context.

2.11 The ANAO has suggested there would be benefit in exploring whether an aggregate disclosure of ministerial salaries and allowances could be introduced in 2007–08, in a manner similar to that presented in the financial statements of the Government of New Zealand, as a minimum, with consideration of options for further refinement of executive remuneration over time.

3. Summary Audit Results and Related Issues

This chapter provides: a summary of issues included in auditors' reports on entities' 2006–07 financial statements; a summary of other audit findings noted in the 2006–07 audits; and commentary on entities' financial statement preparation processes and the 2006–07 Certificate of Compliance processes.

Audit approach

3.1 Each year, under section 57 of the Financial Management and Accountability Act 1997 (FMA Act) and under clause 3, part 2 of Schedule 1 of the Commonwealth Authorities and Companies Act 1997 (CAC Act), the Auditor-General is required to report to the relevant Minister on whether the financial statements of Australian Government entities have been prepared in accordance with the Finance Minister's Orders (FMOs) and whether they give a true and fair view of the matters required by those Orders.

3.2 An audit performed in accordance with the Australian Auditing and Assurance Standards is designed to provide reasonable assurance that the financial report taken as a whole is free from material misstatement. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial report taken as a whole. Reasonable assurance relates to the whole audit process.⁵⁵

3.3 In accordance with generally accepted audit practice, the ANAO accepts a minimal level of risk that a material misstatement in the financial statements will not be detected by the audit procedures. This minimal risk is accepted because of the significant costs and impracticability of performing an audit that accepts no, or an extremely low, level of risk. The ANAO performs specific audit procedures to ensure that the risk taken is acceptably low. These procedures include, for example, reviewing the operation of internal controls, undertaking analytical reviews, testing a sample of transactions and account balances and confirming year-end balances with third parties.

⁵⁵ AUS 202 *Objective and General Principles Governing an Audit of a Financial Report*, paragraph 8.

3.4 Financial statement audits focus on the major financial reporting risks facing entities and the manner in which the entities seek to manage those risks. The risks will vary according to the size and nature of the organisation, including the nature of its operating environment, the complexity of its information technology systems and the geographical spread of its operations.

3.5 Financial statement audits are performed in a number of phases, primarily planning, interim and final. The ANAO's Audit Report No.51 2006–07 reported on the results of the interim phase of the audit of selected material entities. The final phase of the audit of Australian Government entities includes the audit of the CFS. The results from this phase are the focus of this report.

Classification of Entities

3.6 Seventy-two of the entities consolidated into the CFS are classified as material entities as they comprise the majority of the revenues, expenses, assets and liabilities of the Australian Government. The remaining entities are considered to be non-material reporting entities. The 72 material entities comprise 99 per cent of key financial statement balances consolidated into the CFS and are subject to significant quality assurance processes by Finance. Material entities are required to produce more detailed financial information than non-material entities for the purposes of providing monthly, end-of-year and estimates reports to Finance.

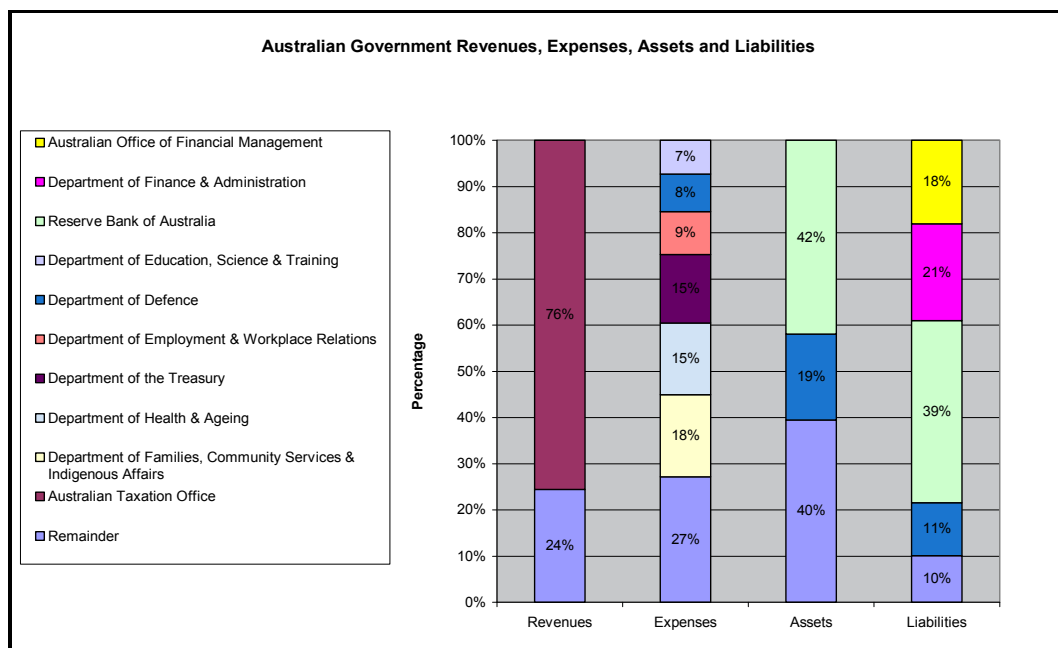
3.7 As at 30 June 2007, the following ten entities represented a significant proportion of the Australian Government financial statement balances:

- the Department of Defence;
- the Department of Employment and Workplace Relations;
- the Department of Education, Science and Training;
- the Department of Families, Community Services and Indigenous Affairs;
- the Department of Finance and Administration;
- the Department of Health and Ageing;
- the Department of the Treasury;
- the Australian Office of Financial Management;
- the Australian Taxation Office; and

- the Reserve Bank of Australia.

3.8 The contribution of these entities to the Australian Government's revenues, expenses, assets and liabilities (prior to elimination of inter entity transactions) is shown in Figure 3.1.

Figure 3.1



Source: ANAO analysis

Summary of the audit results

Summary of Reports Issued

3.9 The Auditor-General is required by law to provide to the relevant Minister an audit report on the annual financial statements of each Australian government reporting entity. The audit opinion included in the auditor's report may be qualified. An auditor's reports may also include an emphasis of matter without qualifying the audit opinion. The various types of audit opinions and other matters that may be included in an auditor's report are explained at Appendix 2. A summary of the qualifications, 'emphasis of matter' and 'Other Legal and Regulatory Requirements'⁵⁶ included in auditors' reports issued by the ANAO for the past two years is provided in this chapter.

Table 3.1

Summary of audit conclusions in audit reports issued

Financial Statement Audit Reports	2006–07	2005–06
Qualified (includes CFS audit report) ~	1	2
Emphasis of matter	0	6
Other Legal and Regulatory Requirements	1	3
Unqualified audit reports	230	214
Total Issued	231	225
Signed financial statements not presented for audit at the time of this report	7	13
Total reports	238	238

~ The 2005–06 audit report of the Department of Defence also contained an 'Other Statutory Matters'. The 2006–07 Defence audit report also contained an 'Other Legal and Regulatory Requirements'.

⁵⁶ 'Other Legal and Regulatory Requirements' were previously referred to as 'Other statutory matters'.

Entity Audit Reports Containing a Qualification

Department of Defence

3.10 Over the past few years Defence has developed and implemented significant financial management and business process reforms to address a range of significant system and control deficiencies. The 2006–07 audit confirmed that further progress to remediate significant prior year issues has been made. Of the issues identified for remediation in June 2005, only the qualification relating to the balance of Inventories – General remains.

3.11 Pricing and system related issues resulted in there being uncertainty in relation to the reported balance of Inventories - General of \$1.97 billion (2005–06 - \$1.79 billion) for the Department of Defence (Defence). Inventories - General is a component of the reported balance of Inventories totalling \$4.7 billion (2005–06 - \$4.0 billion).

3.12 This uncertainty also created uncertainties in a number of items reported in the 2006–07 Income Statement. Due to the abovementioned deficiencies in the department's accounts and records, there was insufficient appropriate audit evidence to support these items and their contribution to Income Statement totals. This constituted a limitation in the scope of the audit.

3.13 The audit opinion on the financial statements of Defence was accordingly qualified on an 'except for' basis due to an uncertainty in relation to the balance of Inventories - General and the consequential effect of this uncertainty on the Income Statement, comparative information for 2005–06 and the Statement of Changes in Equity.

Entity Audit Reports containing an Emphasis of Matter

3.14 No 2006–07 audit reports contained an emphasis of matter.

Entity Audit Reports containing Other Legal and Regulatory Requirements

Department of Defence

3.15 As a consequence of the matters referred above that resulted in an ‘except for’ opinion being issued on Defence’s 2006–07 financial statements, the ANAO concluded that Defence’s accounts and records did not properly record and explain the Department’s transactions and balances in respect of Inventories - General. This resulted in a contravention of section 48 of the FMA Act.

Summary of other audit findings

3.16 The ANAO rates 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 and must be addressed as a matter of urgency. This assessment should take account of both the likelihood and consequences of the risk eventuating.
B	Those matters which pose moderate business or financial risk or matters referred to management in the past, which have not been addressed satisfactorily. These would include matters where the consequences of the issue might be significant, however there is little likelihood of the consequences eventuating.
C	Matters which are procedural in nature or minor administrative failings. These could include minor accounting issues, audit issues, or relatively isolated control breakdowns, which need to be brought to the attention of management.

3.17 The final audit phase of the 2006–07 audits included a review of progress achieved by entities in addressing audit issues identified during the 2006–07 interim phase or carried forward from previous years. The ANAO noted that, overall, entities had made good progress in resolving outstanding audit issues. This was particularly the case in respect of findings relating to the reconciliation of key systems, the management of user access and various system control issues.

3.18 In situations where it was appropriate for the ANAO to review actions taken and was satisfied that the issue had been satisfactorily addressed, the matter has been reported as ‘resolved’. Where the issue has been partly

addressed, the finding may be downgraded in significance. In the remaining instances, the ANAO will review the actions taken by entities as part of the 2007–08 audit.

3.19 A number of new issues were identified during the final phase of the 2006–07 audits. These included issues relating to the management of entities' IT environment, including system access, Business Continuity Planning, reconciliations and controls over expenditure.

3.20 Appendix 4 provides a listing of the number of 'A' and 'B' audit findings for each entity as at the conclusion of the interim and final phases of the 2005–06 and 2006–07 audits.

Preparation of entity financial statements

Financial statement timeframes

3.21 The preparation and publication of annual audited financial statements is a fundamental mechanism by which entities meet their financial accountability and legislative obligations. It is generally accepted that a good indicator of the effectiveness of an entity's stewardship and financial management processes is the timely finalisation of the entity's financial statements, accompanied by an unqualified audit opinion. This is not to suggest that rushing preparations at the risk of error or unreasonable resource usage to bring forward financial statement completion is a sensible approach. The emphasis is on both the timeliness and quality of financial reporting.

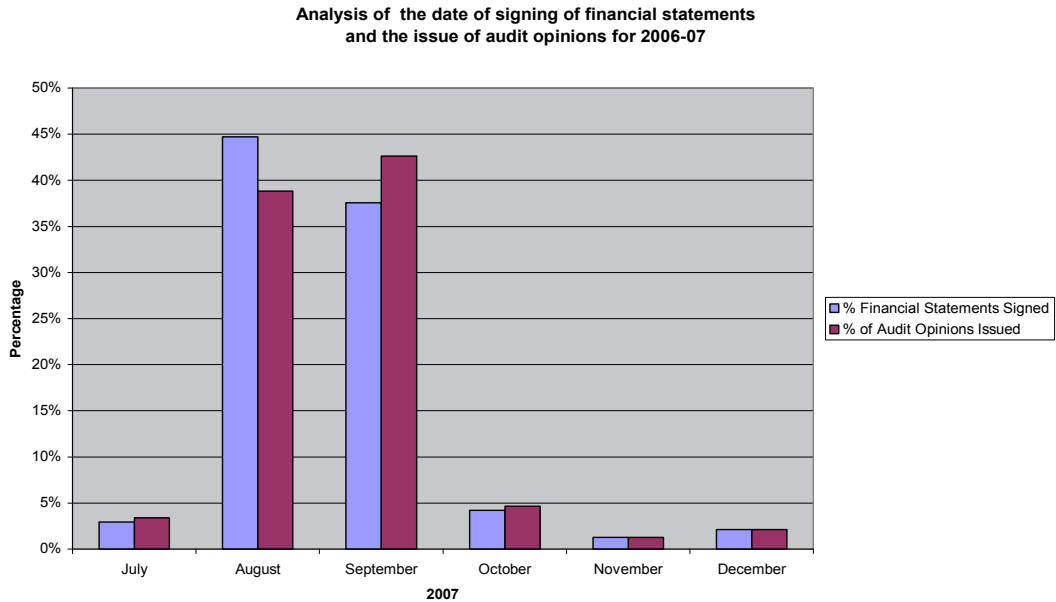
3.22 For 2006–07, material entities were required to submit audit cleared financial information to Finance by 15 August 2007. For non-material agencies, the date was 31 August 2007. In 2005–06 the dates were 30 July 2006 and 31 August 2006 respectively.

3.23 Approximately 76 per cent of material entities met the 15 August 2007 deadline and approximately 59 per cent of non-material entities met the deadline of 31 August 2007. Despite the later deadline for material entities, this represents deterioration on the position achieved for 2005–06 when 80 per cent of material entities and 60 per cent of non-material entities met the deadlines relevant to that year.

3.24 There are no deadlines for the signing of the actual financial statements (although in a number of entities the financial statements were signed at the same time as audit cleared information was provided to Finance) and the issue

of the related audit opinion. There is, however, a deadline of 31 October 2007 for the tabling of entities' annual reports⁵⁷ that are required to include a copy of the signed financial statements and the auditor's report. For the 2006–07 financial statements, Figure 3.2 below is an analysis of the dates on which entities' financial statements were signed and the auditor's report issued.

Figure 3.2



Source: ANAO analysis

3.25 This analysis indicates that the audit of a large majority of entities' financial statements were completed within three months of the end of the financial year. Overall this reflects positively on the financial stewardship of the public sector generally although there remains scope for some entities to improve the timeliness of their financial statement preparation.

Financial statement preparation processes

3.26 As part of the audit of entities' 2006–07 financial statements, the ANAO undertook an assessment of the effectiveness of financial statement preparation processes. While the main focus was on the 23 agencies covered by Audit

⁵⁷ Agencies are required to table their Annual Reports by 31 October. CAC Act authorities are required to provide their Annual Report to the responsible Minister by the 15th day of the fourth month after the end of the financial year, ie. 15 October.

Report No.51 2006–07, the ANAO’s audit of other entities’ also included, where appropriate, observations on those entities’ financial statement preparation processes.

3.27 In undertaking this analysis, the ANAO used as a guide the principles and other considerations outlined in the ANAO Better Practice Guide Preparation of Financial Statements by Public Sector Entities that was published in April 2006. This Guide has been well received by entities and has been used by many of them to assist in reviewing and improving, where appropriate, their own financial statement preparation processes.

3.28 The Guide identifies the following factors that contribute to the successful preparation of an entity’s financial statements:

- *demonstrating ownership and commitment:* characterised by Chief Executive/Board and senior management support and effective financial management and oversight arrangements,
- *maintaining robust risk management practices and internal controls:* characterised by the timely and comprehensive identification and assessment of risks and robust controls to prevent and detect errors and/or to mitigate risk of misstatement,
- *adopting good financial reporting practices throughout the year:* characterised by the preparation of regular accrual financial reports throughout the year,
- *establishing open and constructive relationships between key stakeholders:* characterised by open and constructive relationships between all the parties involved, and
- *managing staff and other resources effectively:* characterised by sufficient and appropriately qualified and trained staff and contractors, where necessary, at the right time, together with clearly defined roles and responsibilities.

Observations

3.29 The ANAO found that entities’ financial statement processes were generally effective. In only one of the 23 significant agencies and a small number of other entities the processes were considered to be unsatisfactory. This reflects a steady improvement in entity processes over the past few years and an increasing number of entities also displayed a number of better practice

characteristics. Nevertheless, there remains scope to improve before the APS achieves better practice levels.

3.30 Factors that were common among entities with effective financial statement preparation processes included the following:

- a recognition by senior entity management of the importance of the entity's financial statements;
- mature monthly reporting processes that included the preparation of accrual financial statements and comprehensive financial management reporting to senior management;
- a well resourced and appropriately qualified team responsible for the preparation of the financial statements;
- well established risk management arrangements that provided for the identification and management of financial statement risks;
- appropriate arrangements for the early identification and resolution of issues impacting on the financial statements, including maintaining effective lines of communication with both the ANAO and Finance;
- well structured and comprehensive supporting documentation;
- well understood responsibilities of both the financial statement preparation team and business areas of entities;
- effective quality control and quality assurance processes; and
- effective oversight of the preparation of financial statements by the entity's Audit Committee. Increasingly, this involves the establishment of a sub-committee of the Audit Committee with specific oversight responsibilities relation to the financial statements.

3.31 Given the current tight employment market for accounting and financial skills, a common area where many entities experience difficulties is their ability to recruit and retain suitable qualified staff to assist in preparing the financial statements. This is an issue that continues to impact the accounting and auditing professions generally and a sustained and continuous effort is required across the public sector if entities are able to establish and maintain the workforce capability to meet their future financial management responsibilities, including the preparation of their financial statements.

3.32 Aspects of the financial statement preparation process that the ANAO observed warranted improvement in some entities included the following:

- inadequate documentation to support the financial statements;
- failure to adhere to the agreed timetable; and
- a lack of appropriate quality control and/or quality assurance processes.

3.33 This suggests that, overall, entities' financial statement preparations were generally sound.

3.34 The ANAO will continue to work closely with Audit Committees, Chief Finance Officers and other senior managers in entities to identify opportunities to streamline and, where appropriate, improve the processes for financial statement preparation to the mutual benefit of both entities and the ANAO.

Certificate of Compliance

3.35 To reinforce the importance of legislative compliance by public sector entities, the Government decided to require, commencing from the 2006–07 financial year, Chief Executives of each FMA agency to provide an annual Certificate of Compliance (CoC). The Directors of GGS CAC Act authorities and wholly-owned companies are also required to provide a report on compliance with relevant aspects of CAC Act legislation.

3.36 The Certificate of Compliance process requires the Chief Executive of an FMA agency to certify, having regard to advice provided by the agency's internal control mechanisms, management and the audit committee, that the agency:

- has complied with the provisions of the FMA Act, the *Financial Management and Accountability Regulations 1997* and the *Financial Management and Accountability Orders 2005*;
- has exercised the powers delegated by the Finance Minister appropriately;
- has complied with Australian Government requirements on foreign exchange risk management;
- has complied with legal and financial requirements for the management of Special Accounts;

- has complied with the financial management policies of the Commonwealth;
- is operating within the agreed resources for the current financial year; and
- has adopted appropriate management strategies for all currently known risks that may affect the financial sustainability of the agency.

3.37 Agencies were required to provide the 2006–07 financial year Certificate by 15 October 2007. The requirements of the CoC results in agencies having to report all incidences of non-compliance.

3.38 The Directors of GGS CAC Act entities and wholly-owned companies were also required to provide a compliance report by the 15th day of the fourth month after the end of the financial year of the entity i.e. 15 October 2007.

3.39 Audit Report No.51 2006–07 included a discussion of the preparedness of the 23 agencies covered by that report in meeting this new requirement. The report foreshadowed that, where available, the ANAO would review all actual and potential legislative breaches identified by agencies and would assess their impact on their financial statements as part of its final audit coverage prior to the signing of the audit report on each agency's financial statements.⁵⁸

Observations

3.40 The following discussion is based on information obtained as part of the final audit phase of the 2006–07 financial statements audit of FMA agencies and GGS CAC entities. These observations are primarily based on information as advised by individual entities as our 2006–07 financial statements audit did not include an audit of the CoC process.

3.41 The audit identified that:

- approximately a third of material entities signed their Certificate of Compliance prior to, or at the same time as, signing their 2006–07 financial statements;

⁵⁸ The financial statements audit involves assessing key aspects of legislative compliance in relation to annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public moneys.

- the majority of entities signed their respective Certificates by 15 October 2007; and
- the ANAO's assessment of the legislative breaches in entities' Certificates of Compliance or other records of compliance breaches, identified no breaches that by their nature or significance required disclosure in the auditors' report on entities' financial statements.

3.42 Audit Report No.51 2006–07 also included a discussion about agencies' Certificate of Compliance preparedness and noted that a common approach adopted by many agencies was to introduce a compliance self assessment process, or to expand on existing arrangements so that they addressed all aspects covered by the Certificate. Our 2006–07 final audits confirmed that agencies generally had devoted a considerable level of resources involving both in-house staff and, in many cases, contractors to enable the completion of the Certificate of Compliance. The high level of investment by agencies, in part at least, reflects the fact that 2006–07 represents the first year in which the Certificate was required and it could be expected that there may be opportunities to streamline arrangements in future years.

3.43 The guidance issued by Finance indicates that the Chief Executive's certification should be based on agency's internal control mechanisms, management and Audit Committee advice and 'it is not intended that all actions and transactions of the agency must be checked'. In these circumstances, a key factor in the number of breaches identified was the nature of the processes put in place by individual entities. Where, for example, the processes involved a sample review of a large number of actions or transactions, the potential for a greater number of breaches to be identified is higher than in situations where agencies placed greater reliance on existing controls and self-assessment processes. Finally, in adopting a risk-based approach, agencies are likely to have placed greater emphasis on assessing compliance with particular legislative and policy requirements. For example, entities with a high level of procurement activity may have focussed greater attention on compliance with procurement requirements than an entity whose procurement activity is minimal.

3.44 In many entities the Certificate of Compliance process highlighted the need for increased awareness of the requirements of the legislative and policy financial framework and various actions have been taken to address this need. This has included an increase in the level of training as well as incorporating

regular self-assessments processes and/or independent reviews into entities' control environments.

3.45 A high level analysis by the ANAO has indicated that:

- in total a significant number of breaches were identified by entities;
- many breaches related to legislative or policy requirements that require certain action to be taken within specified timeframes; and
- entities applied differing interpretations to certain requirements.

3.46 Many of the breaches identified relate to requirements of the FMA or CAC Regulations and Orders rather than the requirements of the FMA or CAC Acts. While a significant number of breaches were identified by entities, many of the breaches consisted of multiple occurrences of a breach of the same legislative requirement rather than one-off breaches of a large number of individual requirements.

3.47 The ANAO analysis also suggests that, in broad terms, the majority of breaches related to Regulations in respect of the commitment, approval and spending of public money, the failure to document the reasons for non-adherence to the Commonwealth Procurement Guidelines and non-adherence to time-related requirements.

3.48 Our analysis also indicated that many breaches related to legislative or policy requirements that require certain action to be undertaken within specified timeframes, for example, those relating to banking requirements⁵⁹ and the payment of leave entitlements of employees moving between agencies.⁶⁰

3.49 There may be scope for requirements such as these to be reviewed by Finance without impacting on the level of control or the underlying intent of the requirements themselves. There is also scope for entities themselves to review their own procedures and business processes to identify opportunities

⁵⁹ FMA Order 3.1.1 requires the banking of public moneys received 'as soon as practicable, but in any case not later than:

(a) the next banking day; or
(b) a banking day approved by the Chief Executive.'

⁶⁰ FMA Order 6.45 requires leave entitlements of employees moving between agencies to be paid within 30 days of the employee becoming an ongoing employee of the receiving agency-rendered invoice.

to assist, to the maximum extent possible, individual staff complying with the requirements of the relevant financial framework.

3.50 It is also evident from a review of the 2006–07 Certificates that entities have applied differing interpretations and taken different approaches when completing their respective Certificates. Some entities, for example, listed all known breaches while others have indicated that ‘various’ or ‘multiple’ breaches have occurred of particular requirements.

3.51 A number of entities’ certificates referred to breaches of section 48 of the FMA Act or Section 20 of the CAC Act relating to keeping accounts and records.⁶¹ While it appears that entities may have applied differing approaches to this requirement, the breaches that were identified by entities generally referred to instances where inadequate records had been kept of individual decisions and/or transactions relating to such matters as reconciliations, receipt of monies and recording of commitments. In view of the differing interpretations that can be made concerning the requirement to keep accounts and records, the ANAO suggests there would be merit in Finance also clarifying entities’ responsibilities in the context of the preparation of future Certificates.

3.52 In the context of the audit of entities’ financial statements, sub-section 57(4) of the FMA Act and Schedule 1 Part 2 Clause 4 of the CAC Act require the Auditor-General to include particulars of breaches of s. 48 of the FMA Act or s. 20 of the CAC Act respectively in the audit report on an entity’s financial statements. In determining whether a matter should be included in an audit report, the ANAO has regard to its materiality in the context of the financial statements as a whole. In each of the entities where s. 48 or s.20 breaches were identified, the ANAO considered that the breaches were not material and therefore did not warrant reference in the audit report.

3.53 Some agencies considered it useful to consult the Finance on interpretations and the approach to be taken to CoC issues, for example, in areas such as the presentation of multiple breaches.

⁶¹ Sub-section 48(1) of the FMA Act states that ‘A Chief Executive must ensure that accounts and records of the agency are kept as required by the Finance Minister’s Orders (FMO’s)’. Sub-section 2.38 of the FMOs provides more details of the accounts and records that must be kept. Section 20 of the CAC Act requires Commonwealth authorities to keep accounting records that ‘properly record and explain its transactions and financial position....’

3.54 The ANAO is aware that Finance has commenced a review of the Certificate of Compliance process itself and the outcomes of the 2006–07 process. In this context, the ANAO considers there would be benefit in Finance reviewing the various approaches and interpretations adopted by entities with a view to enhancing and refining, where appropriate, the Certificate of Compliance requirements and supporting guidance material for future years.

4. Results of Financial Statements Audits – By Portfolio

This chapter summarises the results of the audits of the 2006–07 financial statements of individual Australian Government entities.

Introduction

For reporting purposes, the structure of this chapter reflects the Portfolio arrangements, existing at 30 June 2007⁶².

4.1 The table for each portfolio indicates, for each portfolio entity:

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

The table also identifies, for each entity, whether previously reported moderate or significant issues remain unresolved and/or new moderate or significant issues were identified during the final audit.

4.2 Issues identified are rated in accordance with the seriousness of the particular matter. The three tier rating scale of 'A', 'B' and 'C', as outlined in Chapter Three, indicates to the respective entity the priority it should 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, subsequently be given a higher rating.

4.3 For each material entity⁶³ details of the balance of key departmental and administered financial measures for 2005–06 and 2006–07 are provided, accompanied by a brief explanation of any movements in these measures that are significant. In a number of entities, 2005–06 balances reflect adjustments

⁶² As established in the Administrative Arrangements Order dated 30 January 2007. These arrangements were revised by an AAO dated 3 December 2007. Details of revised portfolio and departmental arrangements are set out at Appendix 1.

⁶³ 72 entities are classified as 'material' entities for Whole of Government reporting purposes with the remainder classified as non-material. Entities considered material collectively account for 99 per cent of revenues, expenses, assets and/or liabilities of the Australian Government.

made in accordance with relevant accounting standards. As a result, a number of balanced are not necessarily the same as those reported previously.

4.4 For each portfolio entity, the Chapter also indicates the status of moderate or significant issues (category 'A' and 'B' issues respectively) identified in the interim audit phase, or in prior years, and summarises any new moderate or significant issues arising from the final phase of the 2006–07 audit.

Agriculture, Fisheries and Forestry Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Agriculture, Fisheries and Forestry	Yes	✓	3 Sept 07	3 Sept 07	
- Australian Quarantine and Inspection Service	No	✓	3 Sept 07	3 Sept 07	
- National Residue Survey	No	✓	3 Sept 07	3 Sept 07	
Australian Fisheries Management Authority	No	✓	31 Aug 07	4 Sept 07	
Australian Pesticides and Veterinary Medicines Authority	No	✓	27 Aug 07	29 Aug 07	
Australian Wine and Brandy Corporation	No	✓	8 Aug 07	21 Aug 07	
Biosecurity Australia	No	✓	12 Sept 07	12 Sept 07	
Cotton Research and Development Corporation	No	✓	28 Aug 07	30 Aug 07	
Dairy Adjustment Authority	Yes	✓	4 Sept 07	4 Sept 07	
Fisheries Research and Development Corporation	No	✓	15 Aug 07	16 Aug 07	
- Seafood Services Australia Limited	No	✓	14 Aug 07	16 Aug 07	
Forest and Wood Products Research and Development Corporation	No	✓	14 Aug 07	20 Aug 07	
Grains Research and Development Corporation	Yes	✓	13 Aug 07	15 Aug 07	
Grape and Wine Research Development Corporation	No	✓	9 Aug 07	24 Aug 07	
Land and Water Resources Research and Development Corporation	No	✓	6 Sept 07	6 Sept 07	
Rural Industries Research and Development Corporation	No	✓	11 Sept 07	14 Sept 07	
Sugar Research and Development Corporation	No	✓	29 Aug 07	30 Aug 07	
Wheat Export Authority ⌚: 30 September 2007	No	⌚	⌚	⌚	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other

Legal and Regulatory Requirements

⌚: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.5 The Agriculture, Fisheries and Forestry portfolio aims to advance the interests of Australia's agriculture, food, fisheries and forest industries in ways that protect and enhance the natural resource base and are underpinned by sound scientific and economic research.

4.6 The portfolio comprises the Department of Agriculture, Fisheries and Forestry (DAFF), a number of statutory bodies and a small number of companies. These portfolio entities implement policies, programmes and services to assist industries to deal with the challenges they face and improve their sustainability, competitiveness and profitability.

4.7 The portfolio is structured to contribute to the achievement of the government's objectives of:

- helping Australian agricultural, food, fisheries, and forestry industries become more competitive, profitable and sustainable;
- enhancing the natural resource base on which these industries rely;
- delivering scientific advice and economic research, policy advice and programmes and services to help deal with the challenges faced by agricultural, food, fisheries and forestry industries;
- 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.

Department of Agriculture, Fisheries and Forestry

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	620.1	562.9
Total expenses	634.3	555.7
Total assets	243.1	219.7
Total liabilities	212.5	174.7

4.8 The increase in income was largely attributed to additional funding from Government to increase departmental capacity for new or expanded programmes that included the Avian Influenza, Drought Assistance and Securing Borders against Illegal Fishing. In addition, revenue increased due to a higher level of activity and increases in fees and charges for services provided by the Australian Quarantine and Inspection Service.

4.9 Expenses also increased as a result of the measures outlined above and included an increase in operating lease rentals resulting from the relocation to new premises and associated lease extension payments on existing premises in the ACT.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	617.3	625.6
Total expenses	2 217.8	2 246.0
Total assets	241.1	716.1
Total liabilities	84.9	86.6

4.10 The decrease in administered expenses is largely due to the 2005–06 balance containing a \$500 million multi year grant to the Murray-Darling Basin Commission (MDBC), which is not included in 2006–07. The large increase in 2006–07 personal benefit payments associated with drought relief under the Exceptional Circumstances Programme has largely offset the 2006–07 reduction in grant payments.

4.11 The decrease in administered assets is largely due to a decrease of approximately \$441 million in investments, following the transfer of DAFF's 20% share of the MDBC plus other administered assets to the Department of the Environment and Water Resources following changes to Administrative Arrangement Orders dated 30 January 2007.

4.12 The movement in the other departmental and administered balances were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.13 There were no moderate or significant audit issues noted during the 2006–07 audit.

Grains Research and Development Corporation

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	97.4	115.1
Total expenses	115.6	126.7
Total assets	106.0	127.7
Total liabilities	40.7	45.3

4.14 The decrease in assets was a result of the disposal of some investments to sustain cash flow in a year with significantly lower income as a result of a drop in grain production and sales.

4.15 The decrease in expenses was attributable to a reduction in research and development expenditure due to lower grains production.

4.16 The movement in other balances were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.17 There were no moderate or significant audit issues noted during the 2006–07 audit.

Comments on non-material entities

4.18 There were no moderate or significant audit issues noted in non-material entities within the portfolio in 2006–07.

Attorney-General's Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Attorney-General's Department	Yes	✓	29 Aug 07	30 Aug 07	
Administrative Appeals Tribunal	No	✓	31 Aug 07	3 Sept 07	
Australian Crime Commission	No	✓	11 Sept 07	11 Sept 07	
Australian Customs Service	Yes	✓	29 Aug 07	30 Aug 07	▲
Australian Federal Police	Yes	✓	7 Aug 07	7 Aug 07	◆
Australian Government Solicitor	Yes	✓	13 Aug 07	13 Aug 07	◆
Australian Institute of Criminology	No	✓	31 Aug 07	5 Sept 07	
Australian Institute of Police Management	No	✓	19 Sept 07	19 Sept 07	
Australian Law Reform Commission	No	✓	4 Sept 07	4 Sept 07	
Australian Security Intelligence Organisation	No	✓	18 Sept 07	18 Sept 07	
Australian Transaction Reports and Analysis Centre	No	✓	30 Aug 07	31 Aug 07	
Criminology Research Council	No	✓	30 Aug 07	5 Sept 07	
CrimTrac Agency	No	✓	11 Sept 07	11 Sept 07	◆
Family Court of Australia	Yes	✓	30 July 07	30 July 07	
Federal Court of Australia	No	✓	6 Sept 07	6 Sept 07	
Federal Magistrates Court	No	✓	12 Sept 07	12 Sept 07	
High Court of Australia	Yes	✓	4 Sept 07	4 Sept 07	
Human Rights and Equal Opportunity Commission	No	✓	21 Aug 07	21 Aug 07	
Insolvency and Trustee Service Australia	No	✓	11 Sept 07	12 Sept 07	◆
National Native Title Tribunal	No	✓	4 Sept 07	4 Sept 07	
Office of Film and Literature Classification	No	✓	17 Sept 07	20 Sept 07	

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Office of the Director of Public Prosecutions	No	✓	18 Sept 07	20 Sept 07	
Office of the Privacy Commissioner	No	✓	22 Aug 07	22 Aug 07	
Office of Parliamentary Counsel	No	✓	30 Aug 07	30 Aug 07	

✓: auditor's report unqualified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains Other Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously and not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.19 The Attorney-General's portfolio comprises the Attorney-General's Department (AGD) and a number of statutory and non-statutory bodies. The 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.

4.20 The portfolio covers a broad range of law and justice matters and services including legal policy and services to the Australian Government in areas of administrative, constitutional, civil, family, and international law, law reform, bankruptcy estate administration and regulation. In addition, the portfolio 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.

Attorney-General's Department

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	232.0	203.9
Total expenses	217.9	185.5
Total assets	180.5	142.6
Total liabilities	51.2	40.6

4.21 The movement in income was largely attributable to an increase in funding for new initiatives such as establishing a document verification service, improving crisis communications procedures, maintaining telecommunication interception capability, and security for the 2007 Asia Pacific Economic Cooperation (APEC) Conference.

4.22 The increase in assets was primarily due to higher appropriation receivables reflecting changes in the timing of implementation of some programmes and accumulating employee and assets replacement provisions. Infrastructure, plant and equipment also increased as additional finance leased IT assets and computer equipment were purchased during the year.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	12.1	34.0
Total expenses	470.7	383.4
Total assets	341.4	323.3
Total liabilities	566.6	569.2

4.23 AGD's administered income was significantly lower in 2006–2007 primarily as a result of the following factors:

- AGD receives dividends from Australian Government Solicitor (AGS) on behalf of the Australian Government. In 2005–06, AGS distributed a special dividend of \$15 million, therefore increasing AGD's total income in that year. No special dividend was distributed in 2006–07; and

- until 30 June 2006, AGD, on behalf of the Australian Government, collected competitive neutrality payments from AGS. From 1 July 2006, AGS became a full tax paying entity and taxation is now paid directly to the ATO, in lieu of competitive neutrality payments previously received by AGD.

4.24 The increase in administered expenses in AGD were due to an increase in grants and subsidy payments, including additional spending across existing grant areas such as the Family Relationships Services Programme and APEC 2007 security arrangements, in addition to new funding provided for refurbishment of the joint Commonwealth/NSW law courts building in Sydney.

4.25 Movements in other departmental and administered items were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.26 The ANAO reported three moderate control weaknesses at the interim stage of the 2006–07 audit in relation to employee leave provisions, shared user ID and passwords, and the management of user access. The final audit phase found that AGD had satisfactorily addressed these findings.

4.27 The following table provides a summary of the status of previously reported audit issues. No new audit issues were identified during the final audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	3	(3)	0	0
Total	3	(3)	0	0

Australian Customs Service

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 211.6	1 029.8
Total expenses	1 213.4	1 028.0
Total assets	563.0	486.9
Total liabilities	216.5	177.6

4.28 Customs' income for 2006–07 increased due mainly to additional appropriations for policy initiatives including the enhancement of Australian fisheries and maritime surveillance, compliance and enforcement; strengthening air cargo security; and for Coastwatch operations in northern waters of Australia.

4.29 The increase in expenses was largely the result of an increase in expenses related to resources received free of charge from Defence in support of Border Protection Command surveillance operations, and also activities funded by the increased appropriations detailed above.

4.30 Customs' increase in assets was mainly related to the expansion of Customs' activities in northern Australia and the purchase and construction of housing, land and buildings to support these operations.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	6 185.4	5 488.1
Total expenses	16.4	10.3
Total assets	113.6	114.6
Total liabilities	12.9	16.2

4.31 The increase in administered income was primarily due to a 13 per cent rise in Customs duty collected, reflecting the introduction of excise duty legislation raising tariff rates effective from 1 July 2006, and an overall increase in total import volumes and values. Increases in non-taxation revenue resulted from a rise in fees, fines and prosecutions due to a number of significant

favourable court decisions in 2006–07 and Customs' increased focus on prosecuting offenders.

4.32 The movement in other departmental and administered balances were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.33 The ANAO reported eight moderate control weaknesses in the interim phase of the audit. These issues related to:

- access management;
- business continuity management;
- risk management;
- problem and incident and change management;
- asset management; and
- controls over the FMIS and HRMIS.

4.34 Customs has made positive progress in resolving the controls weaknesses previously identified by the ANAO and has resolved five moderate findings. No new issues were identified in the final phase of the audit.

4.35 The three audit findings previously reported that remain unresolved relate to:

- Risk management tools: Customs need to continue to develop and improve risk assessment procedures, including the testing of profiles before release, and system configuration controls in the profile and alerts system, that is designed to identify potentially high risk cargo or impacts to revenue protection activities;
- Human Resources Management Information System controls: System security and change management procedures were generally not being complied with, resulting in an increased risk of unauthorised access being granted or amended and remaining undetected; and
- Change management: Customs were reviewing the framework for change management and were implementing new governance

arrangements that included the implementation of a centralised change control process for all IT applications.

4.36 The ANAO will review the progress undertaken by Customs to resolve these issues as part of the 2007–08 audit.

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

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	8	(5)	0	3
Total	8	(5)	0	3

Australian Federal Police

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 089.3	922.0
Total expenses	1 095.3	916.2
Total assets	565.7	507.5
Total liabilities	215.7	198.5

4.38 The increase in these measures is primarily due to additional funding from government for new measures to address the increasing range of Australian Government law enforcement interests in Australia and overseas. In particular, additional funding was received for the Identity Security Strike Team, the collection and assessment of sensitive intelligence and counter terrorism liaison and capacity building.

Audit results

Summary of audit findings

4.39 The final audit phase identified one new moderate control weakness in 2006–07. The audit found that general security and access controls over two databases that support the financial and case management systems allowed

unauthorised staff to access sensitive information. The AFP took prompt action to address this matter. The audit also found that the AFP had satisfactorily addressed two moderate control weaknesses previously identified relating to business continuity planning and access controls over two databases that support the financial and human resources systems.

4.40 The following table provides a summary of the status of previously reported audit issues as well as new audit issues identified.

Ratings	Opening position (at end of 2007 interim audit)	New issues identified during the 2007 audit	Issues resolved during the 2007 audit	Closing position at end of 2007 final audit
A	0	0	0	0
B	2	1	3	0
Total	2	1	3	0

Australian Government Solicitor

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	122.8	116.3
Total expenses	112.2	106.1
Total assets	79.1	86.3
Total liabilities	48.4	61.0

4.41 The primary contribution to the increase in expenses was an increase in employee expenses as a result of salary reviews and an increase in employee numbers, in addition to expenses associated with new property leases entered into during the year.

4.42 A \$15 million special dividend was provided for in 2005–06, resulting in higher cash and liability balances at 30 June 2006. This dividend was paid during 2006–07, returning the cash and liability balances to normal operating levels.

4.43 The decrease in liabilities was largely due to the 2005–06 balance including a provision for a payment of special dividend, as referred to above, partially offset by an increase in employee provisions as a result of salary and

staff number increases and an increase in provisions due to new leases entered into during the year.

4.44 The movement in income was as a result of fluctuations in normal business activity.

Audit results

Summary of audit findings

4.45 The ANAO reported one moderate control weakness during the 2006–07 audit that related to incompatible user access to the financial management information system. The AGS has completed a review of those transactions created and approved by the same person and has expressed confidence that all invoices created and paid were legitimate. At the time of the final audit, AGS was also implementing improved access controls. These will be reviewed as part of the 2007–08 audit.

4.46 The following table provides a summary of previously reported issues.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	0	0	1	1
Total	0	0	1	1

Family Court of Australia

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	140.1	141.5
Total expenses	140.3	142.8
Total assets	47.9	49.6
Total liabilities	29.0	30.6

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1.9	2.3
Total expenses	0	0
Total assets	0	0
Total liabilities	0	0

4.47 There were no significant movements in these measures during 2006–07 and reflected fluctuations in normal business activities.

Audit results

Summary of audit findings

4.48 There were no moderate or significant issues noted during the 2006–07 audit.

High Court of Australia

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	14.1	14.1
Total expenses	14.1	13.9
Total assets	191.9	179.8
Total liabilities	2.3	2.2

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1.1	1.0
Total expenses	0	0
Total assets	0	0
Total liabilities	0	0

4.49 The movement in these balances were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.50 There were no moderate or significant audit issues noted during the 2006–07 audit.

Comments on non-material entities

4.51 There were no moderate or significant audit issues noted in non-material entities within the portfolio except for CrimTrac and Insolvency and Trustee Service Australia.

CrimTrac

4.52 The ANAO identified the following moderate control issues relating to CrimTrac's security management and business continuity and disaster recovery planning:

- CrimTrac's IT security policy had not been reviewed since September 2004 and other ACSI33 requirements in relation to System Security Plans (SSPs) and Standard Operating Procedures (SOPs) had not been considered. CrimTrac subsequently took appropriate action to update its IT security policy and substantial progress had been made in developing SSPs and SOPs for all CrimTrac systems; and
- CrimTrac's Business Continuity Plan (BCP) had not been endorsed by management and the testing program had not been completed. In addition, Disaster Recovery Plans (DRPs) covering all critical IT systems were not available to demonstrate CrimTrac's IT recovery capability in the event of a disaster. CrimTrac's BCP was subsequently endorsed by the Chief Executive in June 2007. The CrimTrac Board of Management approved a disaster recovery capability project with the allocation of associated funding in December 2006 and this project was progressing at the time of audit.

Insolvency and Trustee Service Australia

4.53 The ANAO identified the following moderate control issues during the 2006–07 audit:

- change management policies for the IT general control environment and corporate applications required further detail to better support ITSA's IT Security Policy; and
- there were no approved arrangements for logging and tracking changes to the IT environment and corporate applications.

4.54 These issues increased the risk of changes to the IT environment being assessed and implemented inconsistently and increased the risk that system changes would not be adequately recorded and monitored.

4.55 ITSA advised that it planned to review and appropriately revise its change management policies and procedures applying to the general IT environment and corporate applications.

Communications, Information Technology and the Arts Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Communications, Information Technology and the Arts	Yes	✓	25 Sept 07	27 Sept 07	
Australia Council	No	✓	5 Sept 07	5 Sept 07	
Australian Broadcasting Corporation*	Yes	✓	26 Jul 07	26 Jul 07	
– Adelaide Symphony Orchestra Pty Ltd 31 December 2006	No	✓	4 Apr 07	17 Apr 07	
– The Queensland Orchestra Pty Ltd 31 December 2006	No	✓	28 Mar 07	29 Mar 07	
Australian Business Arts Foundation Ltd	No	✓	3 Dec 07	3 Dec 07	
Australian Communications and Media Authority	Yes	✓	13 Aug 07	14 Aug 07	
Australian Film Commission	No	✓	17 Sept 07	19 Sept 07	
Australian Film, Television and Radio School	No	✓	31 Aug 07	31 Aug 07	
Australian National Maritime Museum	No	✓	19 Sept 07	24 Sept 07	
Australian National Maritime Foundation	No	✓	22 Oct 07	23 Oct 07	
Australian Postal Corporation	Yes	✓	23 Aug 07	23 Aug 07	
Australian Sports Commission	Yes	✓	30 Aug 07	13 Sept 07	
Australian Sports Foundation	No	✓	4 Oct 07	10 Oct 07	
Australian Sports Anti-Doping Authority	No	✓	29 Aug 07	31 Aug 07	
Bundanon Trust	No	✓	31 Aug 07	31 Aug 07	
Film Australia Limited	No	✓	24 Aug 07	24 Aug 07	
Film Finance Corporation Australia Limited	Yes	✓	13 Sept 07	14 Sept 07	
National Archives of Australia	Yes	✓	15 Aug 07	16 Aug 07	◆
National Gallery of Australia	Yes	✓	29 Aug 07	31 Aug 07	
– National Gallery of Australia Foundation	No	✓	29 Aug 07	31 Aug 07	
National Library of Australia	Yes	✓	3 Aug 07	3 Aug 07	◆

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
National Museum of Australia	Yes	✓	19 Jul 07	20 Jul 07	▲
NetAlert Ltd	No	⇒	⇒	⇒	
Regional Telecommunications Infrastructure Account	No	✓	25 Sept 07	27 Sept 07	
Special Broadcasting Service Corporation	Yes	✓	10 Aug 07	10 Aug 07	
– Multilingual Subscriber Television Limited	No	✓	10 Aug 07	10 Aug 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains Other

Legal and Regulatory Requirements

⇒: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

* During 2006–07, all orchestral companies which were formerly controlled entities of the Australian Broadcasting Corporation (ABC) were divested from the ABC following the implementation of the recommendations of the Strong Review which looked into the ongoing viability of the orchestral companies and their structure and resulted in sales of the existing companies to new entities and increased government funding. Two audits were conducted by the ANAO, in respect of The Queensland Orchestra Pty Ltd and Adelaide Symphony Orchestra Pty Limited, their divestment occurring after the 31 December 2006. As a result of the divestment and sale process, these entities are no longer subject to audit by the Auditor-General.

Portfolio overview

4.56 The Communications, Information Technology and the Arts portfolio comprises the Department of Communications, Information Technology and the Arts and a large number of 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 grants and other support, ensuring an integrated approach to delivery of online policy, overseeing regulations and developing industry codes of practice, as well as advising government.

Department of Communications, Information Technology and the Arts

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	155.7	129.1
Total expenses	130.4	114.6
Total assets	167.4	130.2
Total liabilities	32.5	27.5

4.57 The increase in income is primarily attributable to an increase in appropriations for the Connect Australia and Protecting Australian Families On-line (PAFO) programmes.

4.58 Assets increased primarily as a result of unspent appropriations due to delays in the implementation of some projects, including Connect Australia and PAFO. Additionally, there was an upwards revaluation of heritage and cultural assets.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	18 099.1	2 965.7
Total expenses	469.2	637.2
Total assets	11 902.3	34 266.7
Total liabilities	20.2	64.1

4.59 The increase in total income is mainly attributable to the recognition of the sale of Telstra shares and the transfer of Telstra shares to the Future Fund and Finance as part of the T3 sale, and an increase in interest revenue from the first full year of operation of the Communications Fund. These increases were partially offset by a decrease in dividend income from Telstra following its sale.

4.60 The decrease in expenses is primarily due to the inclusion of one-off grants for the Melbourne Commonwealth Games in 2005–06, and the transfer

of the National Relay Service program to the Australian Communications and Media Authority (ACMA) from 1 August 2006.

4.61 Total assets decreased largely as a result of the sale of Telstra shares.

4.62 Total liabilities decreased as a result of fewer claims lodged and payable relating to the Broadband Connect subsidy program, which has now been replaced by the Australian Broadband Guarantee program.

4.63 Movements in other departmental and administered items were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.64 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Broadcasting Corporation

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	994.7	961.3
Total expenses	972.5	929.2
Total assets	1 058.7	1 044.2
Total liabilities	286.5	302.1

4.65 There were no significant movements in these balances during 2006–07.

Audit results

Summary of audit findings

4.66 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Communications and Media Authority

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	84.6	76.8
Total expenses	86.6	73.8
Total assets	55.8	57.3
Total liabilities	23.7	23.5

4.67 The increases in income and expenses were mainly attributable to funding received for, and expenses associated with, the implementation of the Do Not Call Register.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	703.8	751.2
Total expenses	191.1	219.7
Total assets	313.2	307.1
Total liabilities	7.4	3.2

4.68 Administered income and expenses decreased due to a reduction in Universal Service Obligation (USO) levies received and paid in accordance with a Ministerial determination made under the *Telecommunications (Universal Service Levy) Act 1997*.

4.69 The increase in assets was primarily attributable to an increase in cash held from the collection of National Relay Service contract income subsequently paid to suppliers after 30 June 2007. The National Relay Service was transferred from the then Department of Communications, Information Technology, and the Arts to the Australian Communications and Media Authority in August 2006.

4.70 Movements in other departmental and administered items were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.71 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Postal Corporation

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	4 678.4	4 498.8
Total expenses	4 115.5	3 982.6
Total assets	5 490.5	4 808.4
Total liabilities	2 678.1	2 420.8

4.72 Assets have increased primarily as a result of the improved performance of the Corporation's superannuation plan. The increase in assets arises because the Australian Postal Corporation is able to recognise in its accounts any surpluses in the plan at year end.

4.73 The majority of the increase in liabilities is related to increases in deferred taxes associated with the increased surplus in the Corporation's superannuation plan.

4.74 Movements in other items were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.75 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Sports Commission

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	217.7	190.5
Total expenses	223.2	189.6
Total assets	267.3	223.2
Total liabilities	27.2	27.7

4.76 Total income and expenses have increased due to additional grant funding provided to sporting bodies and programmes. All grants provided by the Commission are funded through annual appropriations.

4.77 Movements in other items were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.78 There were no moderate or significant audit issues noted during the 2006–07 audit

Film Finance Corporation Australia Limited

Summary of financial results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	78.2	76.2
Total expenses	79.8	77.6
Total assets	58.7	46.1
Total liabilities	20.2	6.0

4.79 In previous years, an arrangement was made at the end of the financial year whereby committed funds were defeased to a third party, resulting in a decrease in the balance of committed funds at balance date. At 30 June 2007 this arrangement did not exist, resulting in a significant increase in liabilities.

4.80 Assets increased due to an increase in cash at bank to ensure sufficient funds were available to meet future payments for film drawdowns.

4.81 Movements in other items were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.82 There were no moderate or significant audit issues noted during the 2006–07 audit.

National Archives of Australia

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	75.61	76.65
Total expenses	68.01	70.31
Total assets	1 217.30	1 208.48
Total liabilities	14.36	12.83

4.83 There were no significant movements in these balances during 2006–07.

Audit results

Summary of audit findings

4.84 The ANAO identified four moderate control issues during the 2006–07 audit. These related to:

- the management of vendor recommended security software patches of Archives' servers, increasing the risk of unauthorised access to Archives systems;
- inadequate scheduling to test information backup and disaster recovery processes, increasing the risk of disruptions to business process and the ability to recover systems when required;
- inappropriate network privileges and access that increased the risk of unauthorised access to Archives systems; and

- the incorrect valuation of new additions to the collection.

4.85 Archives has advised of action being taken to address these findings.

4.86 The following table provides a summary of the status of previously reported audit issues as well as of new issues identified during the final audit phase.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	0	0	4	4
Total	0	0	4	4

National Gallery of Australia

Summary of financial results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	52.1	52.5
Total expenses	47.0	47.6
Total assets	3 449.3	3 346.4
Total liabilities	9.8	9.7

4.87 The movements in these balances were not significant and were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.88 There were no moderate or significant audit issues noted during the 2006–07 audit.

National Library of Australia

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	74.4	72.0
Total expenses	68.1	68.6
Total assets	1716.6	1 690.3
Total liabilities	15.6	14.5

4.89 The movement in these balances during the year were not significant and were as a result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.90 There was one issue of moderate risk identified during the 2006–07 audit relating to change management for the system used to record details of the National Collections. During 2006–07 this system underwent an upgrade, however, the NLA was unable to provide documented evidence of the following change management procedures:

- user acceptance testing and signoff of the testing by users;
- checks over the completeness, accuracy and validity of the data that was migrated to the upgraded system's environment; and
- sign off by designated Business Owners prior to the upgraded system being put into production.

4.91 The NLA advised it was reviewing its change management processes and expected to have amended processes in place by December 2007.

4.92 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised during the final audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	0	0	1
Total	1	0	0	1

National Museum of Australia

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	50.7	45.9
Total expenses	47.1	46.4
Total assets	369.4	356.8
Total liabilities	362.1	350.1

4.93 There has been no significant movement in these balances during 2006–07 and movements were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.94 Two moderate findings were raised during the final phase of the 2005–06 audit that were not fully addressed in 2006–07.

4.95 Although the NMA had implemented a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP), the plans did not adequately cover all IT systems and related procedures. In particular, there were no DRPs for critical IT systems and no BCP for the financial management information system (FMIS). An IT security policy was in draft form and did not cover the FMIS and some aspects of IT security required further improvement.

4.96 The ANAO recognises that considerable changes in IT staffing contributed to this situation and notes that the NMA is taking steps to address these issues.

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

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues (identified during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	2	0	0	2
Total	2	0	0	2

Special Broadcasting Service Corporation

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total revenues	240.9	241.8
Total expenses	240.4	240.9
Total assets	234.6	226.8
Total liabilities	91.2	97.5

4.98 The movements in these balances during 2006–07 were not significant and were largely attributed to fluctuations in normal business activities.

Audit results

Summary of audit findings

4.99 There were no moderate or significant audit issues noted during the 2006–07 audit.

Comments on non-material entities

4.100 There were no moderate or significant audit issues noted in non-material entities within the portfolio in 2006–07.

Defence Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Defence	Yes	Q, A	17 Oct 07	17 Oct 07	◆ ▲
Army and Air Force Canteen Service	No	✓	19 Sept 07	19 Sept 07	
Australian Military Forces Relief Trust Fund	No	✓	9 Nov 07	29 Nov 07	
Australian Strategic Policy Institute Ltd	No	✓	10 Sept 07	10 Sept 07	
Australian War Memorial	Yes	✓	8 Aug 07	8 Aug 07	
Defence Housing Authority	Yes	✓	13 Sept 07	14 Sept 07	
Defence Materiel Organisation	Yes	✓	13 Sept 07	13 Sept 07	◆ ▲
Defence Service Homes Insurance Scheme	No	✓	30 Aug 07	30 Aug 07	
Department of Veterans' Affairs	Yes	✓	30 Aug 07	30 Aug 07	◆ ▲
Military Superannuation and Benefits Board of Trustees No. 1	No	✓	6 Sept 07	6 Sept 07	
Military Superannuation and Benefits Scheme	No	✓	6 Sept 07	6 Sept 07	◆
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	21 Sept 07	24 Sept 07	
Royal Australian Air Force Welfare Trust Fund No. 3	No	✓	21 Aug 07	24 Aug 07	
Royal Australian Navy Relief Trust Fund	No	✓	18 Sept 07	20 Sept 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other

Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

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

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

Department of Defence

Summary of Financial results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total revenues	18 480	17 409
Total expenses	19 147	17 450
Total assets	57 472	55 169
Total liabilities	3 507	3 330

4.102 The increase in revenues was due to the maintenance of Defence funding growth at around three per cent per annum (in line with the Defence White Paper) and increased funding for acquisition related projects and military activities, due to the heightened level of military activity at the current time.

4.103 The increase in expenses was a result of increased depreciation and amortisation due to a re-assessment of the useful lives of major SME assets, increases to employee expenses following increases to staff numbers and remuneration within the ADF and increases in sustainment costs paid to the DMO.

4.104 The increase in assets was predominantly a result of additions and revaluation increments for Defence buildings, a write-back in the provision for obsolescence for inventories and an overall increase in the investment programme expenditure for the financial year.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total revenues	790	730
Total expenses	2 805	2 754
Total assets	1 188	1 149
Total liabilities	32 478	33 888

4.105 There were no material movements in revenue, expenses and assets administered by Defence in 2006–07. The comparatively small reduction in administered liabilities was predominantly a result of an increase in the interest rate used for discounting to present value the superannuation liability for the Defence Force Retirement and Death Benefits (DFRDB) and the Military Superannuation and Benefits (MSBS) schemes.

Audit results

Summary of audit findings

4.106 On 17 October 2007 the Secretary and the Chief Finance Officer certified Defence's 2006–07 financial statements as 'true and fair', except for the uncertainty relating to the amount of \$1.974 billion of Inventories - General (a component of the Inventories balance), the effect this item may have on the Income Statement for the year ended 30 June 2007 and the effect of the uncertainty over Inventories – General in the comparative financial statements for the year ended 30 June 2006. Issues previously identified by the Secretary and the Chief Finance Officer relating to the asset class known as Repairable Items (RIs are a component of the Specialist Military Equipment balance (SME)) that have been part of the focus of ongoing remediation activities within Defence, were sufficiently addressed to certify the balance at year-end was materially correct.

4.107 The Auditor-General's view was consistent with that of the Secretary and Chief Finance Officer and a qualified opinion on Defence's financial statements was issued on 17 October 2007, also concluding that Defence's financial statements were true and fair with the exception of Inventories - General. The audit qualification arose from uncertainty in relation to the reported balance of Inventories – General, of \$1.974 billion (2005–06 - \$1.797 billion), due to pricing and system related issues which prevented

Defence from complying with the requirements of Accounting Standard AASB 102 *Inventories*. This constituted a limitation on the scope of the audit⁶⁴.

4.108 As a consequence of the matters referred to above, Defence's accounts and records did not properly record and explain Defence's transactions and balances in respect of Inventories – General, in contravention of section 48 of the FMA Act, that requires the maintenance of proper accounts and records. The Auditor-General's opinion also included a reference to this matter under a section on other legal and statutory matters.

4.109 In accordance with agreements in place between Defence and the DMO, the DMO acts as the business process manager for Assets Under Construction (AUC), the Standard Defence Supply System (SDSS) and COMSARM (the system utilised to manage all explosive ordnance inventories). Subsequently, audit issues relating to the functions managed by DMO on behalf of Defence are reported separately to the DMO and are referred to later in this chapter in the section relating to DMO.

4.110 At the conclusion of the interim phase of the audit, the ANAO reported 16 significant and 39 moderately rated issues. During the final phase of the audit the ANAO observed that Defence had resolved 12 of the significant and 18 of the issues rated as moderate. Details of those issues assessed as resolved are provided below, along with the details of new or continuing issues, as observed during the final phase of the 2006–07 financial statement audit. In total, the ANAO raised 6 new issues rated as significant and 21 rated as moderate during this period.

Financial Management Framework

4.111 The Defence financial management framework encompasses the ongoing monitoring of the controls and reporting processes in place over financial transactions and balances within Defence (excluding SDSS controls which are managed by DMO). The phased development and implementation of the framework that commenced during 2006–07, assisted in the completion of the financial statement preparation process and resulted in the signing of the financial statements on 17 October 2007. While Defence did not meet the deadline of 15 August 2007 for the submission of audit cleared financial information to Finance, Defence continues to reduce the timelines required for

⁶⁴ Limitations on the scope of the audit arise when sufficient appropriate audit evidence does not exist to support a reported balance.

the preparation and signing of the financial statements (2005–06 signing - 26 October 2006; 2004–05 signing - 3 November 2005). 2007–08 will represent the first full financial year of testing, monitoring and reporting under the newly implemented Financial Management Framework Project and should continue to provide benefits to Defence's financial management. This reflects the Departments continuing efforts to improve the financial reporting operations and processes. No new issues with regard to the Financial Management Framework were noted during the 2006–07 final audit.

4.112 During the final phase of the audit, the ANAO observed that the following issues (reported at the conclusion of the interim phase of the audit) had been adequately resolved:

- system issues which had caused delays in the preparation of the financial statements;
- inadequacies in the management of accounts receivable processes;
- unreconciled balances reported in special accounts; and
- significant delays in clearing account balances during the production of the financial statements.

4.113 Issues which remained unresolved included:

- a need for greater oversight and management of the arrangements between the DMO and Defence; and
- deficiencies in quality assurance and reporting processes over financial transactions.

4.114 Completion of the development and implementation of the financial management framework will assist in a continuing improvement in the financial statement preparation process.

Logistics Management

4.115 SDSS is Defence's key logistics management system and also supports the financial statement transactions and balances relating to Inventories – General and Repairable Items (RI's). Over the last few years, Defence has committed to extensive programmes of remediation activity in response to previously identified logistics and financial management issues relating to the design and utilisation of SDSS.

4.116 During the final phase of the 2006–07 audit, the ANAO observed that a number of issues (reported at the conclusion of the interim phase of the audit) had been adequately resolved, including:

- insufficient assurance over part of the balance of RIs;
- an inability to report items that were not recorded in Defence’s authorised asset management system (commonly referred to as Not in Catalogue items); and
- weaknesses in the reconciliation process of SDSS with the key financial management information system (ROMAN).

4.117 As indicated previously, an issue which remained unresolved at the completion of the 2006–07 audit was the inability to obtain sufficient assurance over the balance of Inventories – General. Continuing issues in relation to the validation of the balance of Inventories – General resulted in the qualification of the 2006–07 audit report. To address these issues, Defence plans to undertake a multi-faceted strategy for 2007–08 including the upgrading, monitoring and testing of system and business process controls and functionality, the validation of inventory quantities and substantiation of the pricing of legacy inventory.

4.118 Defence was able to remediate the previously identified issues relating to the RIs balance in the final phase of the 2006–07 audit, and mitigate the previously reported uncertainty, with a combination of stocktaking, sample testing and confirmations from internal and third parties to confirm the completeness and existence of RI’s, allowing the substantiation of the balance of RIs at 30 June 2007.

4.119 The 2006–07 final audit identified the following issues with respect to the logistics management processes within Defence:

- a need for enhanced analysis and management of variances from the reconciliation process of SDSS with ROMAN;
- that improvements were required in the execution of third party assurance processes over RIs to validate the existence of items;
- the inappropriate netting and reporting of stocktake adjustments for RIs within the financial statements;
- a need to review the point of consumption for Inventories – General to ensure the completeness of the reported balance;

- a need to improve Defence's system for consolidating, reporting and monitoring of stocktake results;
- a need to reconcile SDSS with the fixed asset register for sensitive assets;
- a need to improve the management of the security of information and the documentation in support of the reconciliation process of SDSS with ROMAN;
- the need to continue to improve processes for the return of unused Naval stocks to warehouses;
- the completeness and integrity of records of SME and commercial vehicles; and
- the need to enhance the execution of pricing validation exercises for Inventories – General and RIs.

Purchase to Pay

4.120 At the completion of the 2006–07 interim audit significant control issues were noted in relation to a number of separate component groups that comprise the broader purchasing and payment system and business processes known as 'Purchase to Pay'. These include accounts payable management, the Card Management System⁶⁵ (CMS), the Master Supplier Register⁶⁶ (MSR) and the Invoice Scanning and Imaging System⁶⁷ (ISIS). The issues considered resolved at the conclusion of the 2006–07 audit were:

- deficiencies in the change management framework for the CMS; and
- a lack of clarity over lines of responsibility and accountability and formal testing of the MSR system.

⁶⁵ The Card Management System (CMS) is the system used to manage Defence's corporate credit card transactions.

⁶⁶ The Master Supply Register (MSR) is Defence's single authoritative source for vendor related data.

⁶⁷ The Invoice Scanning and Imaging System (ISIS) is the system used to increase the efficiency of payments made on invoices received by utilising data imaging technology.

4.121 Issues remaining outstanding at the conclusion of the 2006–07 audit include:

- the need to strengthen the delegations and approvals procedures required to be completed during procurement and non-compliance with procurement policies;
- continued existence of duplicate invoices;
- a lack of adequate reconciliations of supplier payable accounts;
- the need to strengthen the recovery testing process and business continuity planning for CMS;
- deficiencies in user access management, fraud control and the quality assurance framework within CMS;
- the currency of the approval to operate the MSR within the Defence systems environment;
- the management of business continuity processes for ISIS;
- deficiencies in the change management framework and user access management for ISIS; and
- business process weaknesses impacting on the effectiveness of ISIS.

4.122 Significant new issues were also identified during the final phase of the audit that related to:

- a need to improve the data quality and management of vendor records;
- a need to improve compliance with policies and procedures for the management and use of purchase and travel cards; and
- deficiencies in user access management and the change management framework for the MSR.

4.123 The extent of these issues limited the ANAO's ability to place reliance on these purchasing controls, resulting in the ANAO performing additional substantive testing to complete the audit and greater emphasis being placed on Defence's analytical and substantive procedures in order to obtain sufficient assurance over the Purchase to Pay function. These issues point to the need for improved internal control processes within this function in 2007–08 and will require the ANAO to plan to complete greater levels of audit work than would be necessary if reliance could be placed on systems controls.

Human resource management

4.124 The Human Resource (HR) management systems for Defence are PMKeyS for all civilian personnel transactions and military leave processing and recording and ADFPay for military payroll processing. During the 2006–07 interim audit phase, significant business process issues were reported. Those that were considered to have been appropriately addressed by the completion of the audit included:

- control issues relating to annual leave and payroll management processes; and
- insufficient documentation to substantiate leave balances.

4.125 Those still outstanding included:

- the need to improve record keeping procedures, exception processing and payroll processes for civilian employees;
- the need to strengthen the approval, audit and record keeping procedures for long service leave transactions;
- inconsistent application of requirements over the review of annual leave transactions;
- deficiencies in the approval and reporting of payments that are made outside normal pay parameters;
- the need to reconcile records from the PMKeyS interface with ADFPay;
- insufficient password parameters and incorrect completion of access forms, creating the potential for unauthorised access to ADFPay; and
- issues surrounding the administration of security audits within PMKeyS.

4.126 Defence has made significant improvements in the management of members' and employees' leave records over the past few years with no new issues noted during the final phase of the 2006–07 audit. However, the extent of the issues resulted in the ANAO being able to place only minimal reliance on Defence's monitoring controls. This resulted in Defence having to complete additional analytical and substantive procedures and the ANAO increasing emphasis at year-end on these in order to obtain sufficient assurance over employee expense transactions.

General asset management

4.127 The 2006–07 interim audit found that while progress had been made in relation to general and heritage and cultural asset management, issues previously reported relating to asset management remained unresolved. These included:

- inadequacies over the review of the value of heritage and cultural assets, the lack of reconciliations of separate heritage and cultural records with ROMAN, and deficiencies in the implementation of the Defence Heritage Toolkit;
- a need to improve the compilation processes for the provision for decontamination balance; and
- a need to strengthen the processes of assessing impairment of general assets.

4.128 During the final audit only the latter issue remained unresolved and no further issues were identified.

Specialist Military Equipment (SME) asset management

4.129 During the 2006–07 interim audit, the following significant issues were reported in relation to the management of SME assets:

- insufficient assessment of the asset capitalisation thresholds of SME assets;
- issues in relation to the calculation of provisions for decommissioning and restoration; and
- inconsistencies in the application of the impairment assessment of Assets Under Construction.

4.130 At the completion of the 2006–07 audit Defence had remediated all of the above issues. No new significant issues were raised during the final audit phase.

Explosive Ordnance reporting

4.131 In the 2006–07 interim audit, the ANAO reported the need to increase vendor confirmations to validate the current replacement cost of explosive ordnance in accordance with the accounting standards, and a need to improve the quality assurance processes over the explosive ordnance balance. While

these issues were satisfactorily resolved during the final audit, the following new issues were identified:

- discrepancies noted as a result of stocktakes performed across a number of sites;
- a lack of regular monitoring and control over items processed through disposal accounts;
- a lack of supporting documentation and appropriate authorisation for disposals/destructions of explosive ordnance; and
- a lack of a documented and controlled environment for calculation of the Provision for Obsolescence for explosive ordnance, including a lack of formal review and analysis of movements and process documentation.

Commitments and Leases

4.132 During the interim audit issues remained outstanding in relation to the preparation and reporting of information for the Schedule of Commitments. These issues included:

- significant delays in the completion and quality assurance processes over the schedule; and
- insufficient documentation to substantiate significant amounts reported and over the accuracy and completeness of subsidiary data sources used to compile the schedule.

4.133 During the final audit phase, Defence commenced a quality assurance process for the preparation of the Schedule of Commitments, including the collection of supporting documentation to support the information contained within the schedule. However, some delays were again experienced with the preparation and reporting of the schedule in 2006–07 and there continued to be insufficient quality assurance and documentation available to substantiate significant components.

4.134 In addition, the ANAO noted:

- completeness issues within Defence's contract register and a lack of reconciliation of the register to the general ledger;
- accuracy and completeness issues within Defence's master lease register; and

- numerous issues resulting from Defence's assessment of embedded derivatives and embedded leases.

4.135 These issues impact on the ability of Defence to accurately determine its current and future commitments in a timely manner. Additional substantive audit procedures were able to be performed by the ANAO as part of the final audit phase to obtain assurance that the respective financial statement items were materially correct at 30 June 2007.

IT general control environment

4.136 The IT general control environment includes the management of a broad range of operating systems and process controls. In 2006–07, issues were noted in relation to a lack of an overarching Defence Business Continuity Plan; a need to improve the segregation of duties; and inappropriate programmer access within the access control facility that provides access to Defence's key financial and inventory systems. Although not directly contributing to a material impact on the reliability of Defence's financial statements, these issues increase the risk of Defence being unable to continue operations in the event of a disruption to business and reduce the ability of Defence to efficiently manage user access profiles. These issues, along with all other outstanding issues will be re-assessed in 2007–08.

Financial Management Information System

4.137 The scope of ANAO's 2006–07 audit of Defence's financial management information system included a review of security policies and procedures, segregation of duties, and change management. The ANAO continued to identify inappropriate segregation of duties relating to user access management and insufficient review processes surrounding application security. These issues increased the risk of unauthorised, incorrect or invalid transactions being processed and remaining undetected and will be again reviewed in 2007–08.

Budget and reporting system

4.138 The ANAO's audit of Defence's Budget and Reporting System for 2006–07 included a review of security policies and procedures, segregation of duties and change management. Issues were raised in relation to change management, including the need for formalised sign-off/approval processes and the retention of appropriate documentation and segregation of duties. These issues increased the risk that unauthorised access, transactions and changes remain undetected or unresolved. This will be re-assessed in 2007–08.

4.139 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since the 2006–07 interim audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	16	(12)	5	9
B	39	(18)	22	43
Total	55	(30)	27	52

Conclusion

4.140 Defence continues to remediate its control environment and financial management framework. Critical to this was Defence’s centralised testing and monitoring of controls identified and implemented through the Financial Management Framework Project. Nevertheless, continued focus and effort is required to ensure that newly instituted remediation gains are not lost and are sustainable on an ongoing basis.

Australian War Memorial

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	47.0	41.0
Total expenses	45.1	40.0
Total assets	1 160.6	777.6
Total liabilities	8.3	9.1

4.141 The increase in income was mainly due to two significant one-off donations received by the Australian War Memorial (AWM) and a general increase across all the main AWM revenue streams.

4.142 The increase in expenses was mainly due to an increase in depreciation expense as a result of the revaluation of the AWM collection and an increase in employee benefits expenses associated with a 4% pay increase.

4.143 The increase in assets was largely due to the revaluation of the national collection during 2006–07.

Audit results

Summary of audit findings

4.144 There were no moderate or significant audit issues noted during the 2006–07 audit.

Defence Housing Authority

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	837.4	857.3
Total expenses	737.1	756.7
Total assets	1 581.1	1 547.4
Total liabilities	482.5	472.9

4.145 The decrease in income is due to a decrease in inventory sales as a result of DHA holding more housing stock as investment property.

4.146 The decrease in expenses is mainly due to the reduction in the Write Down and Impairment of Assets resulting from housing prices having improved or holding steady during the year.

4.147 The increase in assets is largely attributable to the increase in investment properties, as DHA has concentrated their housing purchases on strategic investment properties and also retaining selected properties from construction.

4.148 The increase in liabilities is due to an increase in the revenues received in advance from the Department of Defence as a result of the renegotiation of the Service Agreement between the two agencies.

Audit results

Summary of audit findings

4.149 A prior year issue relating to the timeliness of engaging independent asset valuers for assessments of inventory, investment property and infrastructure, has been resolved.

4.150 The following table provides a summary of the status of audit issues during the 2006–07 audit. There were no moderate or significant audit issues noted during the 2006–07 audit.

Ratings	Opening position 2007	Issues resolved (during 2007)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	(1)	0	0
Total	1	(1)	0	0

Defence Materiel Organisation

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	8 123.0	7 600.9
Total expenses	8 088.9	7 592.1
Total assets	1 945.6	1 195.3
Total liabilities	1 761.1	1 080.8

4.151 The increase in income by the Defence Materiel Organisation (DMO) was the result of increased demand for supply of goods and services to Defence.

4.152 The increase in expenses was largely attributable to the costs associated with the supply of goods and services to Defence. Sustainment costs were higher as a result of repairs and maintenance expenses due to increasing operational tempo, the environments in which assets were deployed and the quarantine repair requirements associated with repatriation (including for the

Collins-class submarines, and support for major surface ships and aerospace weapons systems). Purchases of assets for supply to Defence also increased, which was driven by spending on non-project Specialist Military Equipment.

4.153 The increase in assets is largely attributable to the increase in appropriations receivable, as a result of delays in the commissioning of Assets Under Construction (AUC) projects due to technical issues and setbacks in delivery by suppliers. In addition, there was an increase in project prepayments following the Government's mid-2006 approval of the acquisition of troop lift helicopters. Prepayments relating to Foreign Military Sales⁶⁸ also increased due to C-17 Globemaster acquisitions and the Air Warfare Destroyer.

4.154 The increase in liabilities was due to an increase in unearned revenue from Defence as a result of delays in the completion of AUC projects, as explained above. Supplier payables also increased, reflecting an increase in accrued expenses relating to a number of acquisition and sustainment contracts.

Audit results

Summary of audit findings

4.155 At the conclusion of the 2006–07 interim audit there remained six significant and 16 moderate audit issues. The issues related to the areas of: the financial management and reporting framework (including appropriation management); asset management; the Standard Defence Supply System (SDSS); AUC; the management of bureau service arrangements for key financial systems and the Defence personnel recording and reporting system, PMKeyS; and change management for the key explosive ordnance management information system, COMSARM.

4.156 During the final phase of the audit, the ANAO found that DMO had taken action to resolve issues across a number of areas, resulting in the following findings being resolved or downgraded in their status: inappropriate SDSS systems configuration – resolved; processing of identified errors in AUC and tracking of contract payments against milestones – resolved; appropriation management – resolved; bureau service arrangements of key financial systems – downgraded; bureau service arrangements for PMKeyS – downgraded; reporting of commitments - downgraded; and AUC work in progress accruals

⁶⁸ Prepayment for overseas procurement of military equipment.

- downgraded. One new significant issue was identified relating to revenue recognition. A summary of outstanding issues is provided below.

Validity of revenue recognised

4.157 Under the current business model, DMO recognises revenue for sustainment activities on the receipt of goods by Defence. The audit identified that revenue was being recognised for Supply Chain Assets (spares) for which insufficient information existed to support recognition of corresponding asset balances by Defence. As a result, DMO have recognised revenue for which Defence have not been able to record a supply of assets.

Bureau service arrangements for key financial systems and PMKeys

4.158 As part of the 2005–06 audit, the ANAO reviewed a number of Defence IT systems used by DMO via bureau service arrangements. The systems reviewed included: ROMAN, defence's key financial management system; BORIS, the Budget and Output Reporting Information System; MSR, the Master Supplier Register; CMS, the Card Management System; and PMKeyS. While these systems are owned and operationally managed by Defence, their operation has a significant impact on the internal controls of DMO for financial reporting purposes. The ANAO identified a number of breakdowns within the control environment for these systems. Further details, of these issues are included in the Defence audit findings.

4.159 In response, DMO has established a control framework for bureau service arrangements. Some of the required controls in the framework were in place, while other monitoring and review controls were yet to be implemented.

Reporting of commitments

4.160 While a number of issues reported previously have now been resolved, such as correctly classifying and appropriately substantiating reported commitments, the 2006–07 final audit phase identified that DMO had failed to implement adequate procedures to confirm the completeness of master lease and contract registers, and to ensure that only current commitments are reported in the financial statements. This impacts the ability of DMO to accurately determine its current and future commitments.

The financial management and reporting framework

4.161 The 2006–07 audit identified that DMO's financial management and reporting framework continued to evolve throughout the second year of DMO's operation as a prescribed agency. As such, a number of weaknesses have been identified and observations made with regard to: the AUC control

framework; the clearing of AUC work in progress accrual account; the accrued AUC expenditure; SDSS workstation security; SDSS application security; and general asset management. These issues increase: the risk of material misstatement in the financial statements; may lead to management making decisions based on incomplete and/or inaccurate information; and can create additional pressure on the reporting process, increasing the risk of missing Government reporting deadlines.

DMO military workforce payments

4.162 DMO recognise payments to the DMO military workforce as suppliers expenses. There is a tension between this accounting treatment and the relevant FMA Regulation that outlines certain requirements relating to DMO. Although the classification of these expenses as suppliers expenses does not impact on the total Expense balance in DMO's Income Statement, the ANAO considers the future accounting treatment of these payments should be resolved, including by seeking advice from Finance. The ANAO has been advised that DMO is seeking advice from Finance on this matter.

SDSS Controls Framework: Design and Implementation

4.163 The SDSS Controls Framework was implemented by Defence to provide an endorsed, documented framework that sets out the control activities in support of SDSS and the Defence Supply Chain Manual (DSCM). The Framework's primary objectives were to enhance the operation, reliability and information quality of the supply chain processes. While the ANAO identified, on the whole, a high level of compliance across sites audited, weaknesses identified during the audit included: low compliance with key controls associated with asset management, inventory management and management of purchases in SDSS associated with manual reconciliations; the inconsistent use of reports and a number of units raising purchases directly through ROMAN. In addition, the ANAO raised issues regarding controls that have not been correctly configured within SDSS.

4.164 Weaknesses in, and non-compliant application of, this framework may result in the existence of invalid, inaccurate or inappropriately authorised transactions within SDSS.

SDSS Controls Framework: Security Compensating Controls

4.165 As part of the ongoing management of segregation of duties within SDSS, DMO has implemented a number of the compensating controls until satisfactory implementation of the SDSS Controls Framework has been

achieved. It was noted that compensating controls did not have a sufficient level of management oversight and review, some reporting requirements were not being met and access to reporting functionality was inadequate.

4.166 Without effective compensating controls, there is a risk that transactions and data within the SDSS application do not represent valid, accurate and authorised events.

Rollout of Assets Under Construction

4.167 The timely rollout of assets under construction (AUC) is fundamental to accurately determining the balances of assets and AUC at year end and enabling their appropriate management. The ANAO had previously identified that the rollout of AUC was not consistently performed in a timely manner. During 2006–07, it was noted that this matter had yet to be fully resolved as appropriate preventive and detective measures had not been fully implemented.

Allocation of costs within projects

4.168 The ANAO noted an inconsistent approach to the allocation of cost to assets rolled out for projects, and a lack of review and approval of Budgeted Cost Models (BCMs). These factors increased the risk of errors in calculations and compliance with capitalisation policies.

Financial statement preparation

4.169 DMO signed its financial statements on 13 September 2007, compared with 9 October 2006 for 2005–06. Although the DMO did not meet the Government deadline of 15 August 2007 for the submission of audited financial information to Finance, it is expected that further inroads can be made into the timely provision of future financial statement information by:

- building on the experiences of 2006–07;
- implementing ongoing improvements to the control environment;
- further enhancement of the hard close process, in particular the resolution of all significant issues within the hard close timetable; and
- increased focus on the retention and filing of supporting documentation.

4.170 The following table provides a summary of the status of previously identified audit issues as well as new audit issues identified during the 2006–07 final audit phase.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Issues reclassified (during 2007 final audit)	Closing position (at conclusion of 2007 final audit)
A	6	(1)	0	(4)	1
B	16	(3)	1	0	14
Total	22	(4)	1	(4)	15

Department of Veterans' Affairs

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	342.8	334.7
Total expenses	339.3	325.5
Total assets	227.5	212.2
Total liabilities	104.8	99.4

4.171 Income increased as a result of additional appropriation funding for new budget measures including the introduction of the Health and Social Services Access Card, implementation of a range of income support and health care initiatives.

4.172 The increase in expenses was mainly due to increased expenditure relating to IT costs associated with the move to the new OneDVA national structure.

4.173 Increases in assets were mainly due to the capitalisation of a significant amount of internally developed software, a revaluation of leasehold improvements and higher levels of insurance investments. These increases were partially offset by a decrease in cash and appropriations receivable balances due to the payment of British and Commonwealth Allied Forces veterans being made out of the departmental appropriations for the current year and higher levels of capital expenditure.

4.174 Liability movement due to an increase in outstanding insurance claims payable offset by decreases in revenue received in advance and unexpired risk liability.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	2.6	2.4
Total expenses	10 668.0	10 039.0
Total assets	1 231.1	859.0
Total liabilities	2 489.3	2 363.7

4.175 Increases in administered expenses were primarily due to higher rates payable for income support pension and entitlements; general increases in demand by veterans for services with a corresponding increase in the cost of those services. There were also a number of budget measures which included payment of the One-Off payment to older Australians and to ex-prisoners of war in Europe.

4.176 Significant asset increases were caused by revaluation of the Australian War Memorial investment as well as an increase in receivables for State hospitals, due to a time lag in reconciling advance payments for hospital treatment.

4.177 Movements in administered liabilities are primarily due to increase in actuary assessment of outstanding claims under the *Military Rehabilitation and Compensation Act 2004* and the *Safety Rehabilitation and Compensation Act 1988*.

Audit results

Summary of audit findings

4.178 ANAO reported three moderate control weaknesses throughout the year. These were in relation to the capitalisation of internally developed software; DVA's IT disaster recovery plan; and IT application access management.

4.179 The IT disaster recovery plan and IT application access management issues were identified during the interim phase of the audit; however these were not reviewed at the end of the year. These issues will be revisited during the next year's audit process, with the understanding that DVA has commenced work to address the findings.

4.180 The capitalisation of internally developed software cost was raised as an issue during the final phase of the audit. DVA's current methodology capitalises internally developed software cost on a basis that may not be an

accurate reflection of the indirect costs associated with the development phase. A review of the methodology is scheduled to be undertaken during 2007–08 in order to improve the overall costing and management of internally developed software.

4.181 DVA also considered the impacts of the legal breach identified during the 2005–06 financial year in relation to the British, Commonwealth and Allied Forces’ veterans. DVA sought legal advice for this matter, and as a result, utilised departmental appropriations to pay for these veterans in the current year and will receive an administered appropriation for following years.

4.182 The following table provides a summary of the status of previously reported audit issues as well as new issues raised during the final audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	2	0	1	3
Total	2	0	1	3

Comments on non-material entities

4.183 There were no moderate or significant audit issues noted in non-material entities within the portfolio in 2006–07 except in relation to the Military superannuation and Benefits Scheme.

Military Superannuation and Benefits Scheme

4.184 Sections 1012B and 1012F of the *Corporations Act 2001* require that new members of the Military Superannuation and Benefits Scheme (MSBS) receive a Product Disclosure Statement within a specified timeframe. This requirement was breached, in that 100 new recruits to the Defence Force did not receive their new member kit, which includes the Scheme’s Product Disclosure Statement, within the prescribed three months of entry. This information has now been distributed to these members. To reflect this breach, the ANAO issued a qualified opinion with regard to compliance with sections 1012B and 1012F of the *Corporations Act 2001*. This is not a qualification on the financial statements of the MSBS.

Education, Science and Training Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Education, Science and Training	Yes	✓	31 Aug 07	5 Sept 07	
Anglo-Australian Telescope Board	No	✓	21 Sept 07	28 Sept 07	
ANU Enterprise Pty Ltd ☞ 31 December 2006	No	✓	30 Mar 07	4 Apr 07	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	19 Sept 07	20 Sept 07	
Australian Institute of Marine Science	No	✓	24 Aug 07	27 Aug 07	◆
Australian National University ☞ 31 December 2006	No	✓	30 Mar 07	4 Apr 07	
Australian Nuclear Science and Technology Organisation	Yes	✓	16 Aug 07	16 Aug 07	
Australian Research Council	Yes	✓	14 Aug 07	14 Aug 07	
Australian Scientific Instruments Pty Ltd ☞ 31 December 2006	No	✓	30 Mar 07	4 Apr 07	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	23 Aug 07	28 Aug 07	◆
Food Science Australia	No	✓	31 Oct 07	31 Oct 07	
Science and Industry Endowment Fund	No	✓	23 Aug 07	28 Aug 07	
Teaching Australia – Australian Institute for Teaching and School Leadership Ltd	No	✓	20 Sept 07	26 Sept 07	
The Carrick Institute for Learning and Teaching in Higher Education Ltd	No	✓	4 Sept 07	4 Sept 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other

Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.185 The Australian Government takes a national leadership role in education, science and training. Through the Department of Education, Science and Training and a number of portfolio entities, the Australian Government works with various industries, State and Territory governments, Higher Education providers, other Australian Government agencies and a range of service providers to deliver high quality policy, advice and services for the benefit of Australia.

Department of Education, Science and Training

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	507.8	436.7
Total expenses	507.8	452.4
Total assets	133.7	132.3
Total liabilities	83.3	88.4

4.186 The increase in income and expenses was primarily due to additional funding received and expenditure incurred to deliver a range of new policy initiatives including *Skills for the Future*, *National School Chaplaincy Programme*, *Research Quality Framework* and a national approach to training and skills recognition.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	666.9	216.4
Total expenses	19 260.8	18 755.4
Total assets	14 521.9	13 260.5
Total liabilities	2 971.8	3 442.2

4.187 The significant increase in administered income is mainly due to a gain recognised from a decrease in the provision for Unfunded University

Superannuation and the fair value of the HECS/HELP debt. These balances are the result of an annual actuarial assessment.

4.188 The increase in administered expenses is mainly attributable to the following factors:

- overall, the grants to schools, vocational education and higher education sectors increased as a result of indexation and higher education places and student numbers across the schemes. The increase was partly offset by the effect of a change in the accounting policy for treatment of grants. The accounting treatment applied to DEST's grants was changed in 2006–07. Previously, education grants were expensed and a corresponding liability recorded when the Ministerial Determination was signed (usually at the beginning of each calendar year) This resulted in the value of grants not paid being recognised in the current year. The changed accounting treatment involves the recognition of grant expenses at the time of payment or meeting acquittal requirements, whichever is the earlier.
- increased supplier expenses mainly relating to activities associated with the *Skills for the Future* programme.

4.189 The increase in administered assets is mainly due to an increase in new debt incurred under the Higher Education Loan Programme and an increase in the actuarial assessed value of the Unfunded University Superannuation Scheme.

4.190 There was also a significant increase in the value of administered investments as a result of an increase in their fair value.

4.191 The decrease in administered liabilities is mainly attributable to a downward revaluation of the provision for Unfunded University Superannuation, resulting from an actuarial assessment. The decrease was partially offset by an increase in grants payables relating to the implementation and growth of a number of smaller grants programmes.

4.192 As a result of the change in accounting treatment, the grants liability has been reduced by \$8,295.9 million.

4.193 Movements in other departmental and administered items were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.194 There were no moderate or significant audit findings noted during the 2006–07 audit.

Australian Nuclear Science and Technology Organisation

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	191.1	161.8
Total expenses	210.5	176.8
Total assets	989.9	966.3
Total liabilities	263.6	222.6

4.195 The increase in the income is attributable to an increase in appropriations from Government to cover increased operational costs.

4.196 The significant increase in expenses is due to an increase in employee expenses as a result of remuneration increases, higher staff numbers and some structural changes. Supplier expenses also increased significantly as a result of operational issues associated with a new reactor, resulting in the need to acquire products previously produced in-house.

4.197 The increase in total assets was attributable to the completion of a new reactor, with the value of the project decommissioning costs being capitalised. Liabilities also increased as a result of the establishment of a provision for decommissioning costs.

Audit results

Summary of audit findings

4.198 There were no moderate or significant audit findings noted during the 2006–07 audit.

Australian Research Council

Summary of financial results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	15.0	15.0
Total expenses	14.7	14.3
Total assets	11.4	10.9
Total liabilities	3.3	3.1

4.199 Movements in these items were not significant.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	8.8	7.3
Total expenses	567.5	573.5
Total assets	3.4	1.7
Total liabilities	227.4	230

4.200 The decrease in administered expenses was mainly due to funding reductions for Linkage Infrastructure and e-Research projects. This was partly offset by increased new and ongoing funding for the Linkage and Discovery projects.

4.201 The movements in the remaining items were attributable to fluctuations in normal business activities.

Audit results

Summary of audit findings

4.202 There were no moderate or significant audit findings noted during the 2006–07 audit.

Commonwealth Scientific and Industrial Research Organisation

Summary of financial results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	973.7	957.8
Total expenses	972.7	947.8
Total assets	1 569.7	1 559.0
Total liabilities	401.4	393.1

4.203 The increase in income relates to increases in appropriations and goods and services income in line with CSIRO's increased activity. This was partly offset by a significant decrease in the reported gains on the sale of property due to a significant gain being reported in the 2005–06 year.

4.204 Movements in other departmental items were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.205 One moderate audit finding was reported as part of the 2006–07 final audit related to a lack of clear policies and guidance for determining the fair value of CSIRO's equity investments. CSIRO has advised that action will be taken to address this issue.

4.206 The following table provides a summary of the status of audit issues identified during the 2006–07 audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	0	0	1	1
Total	0	0	1	1

Comments on non-material entities

4.207 There were no moderate or significant audit issues noted in non-material entities within the portfolio except for the Australian Institute of Marine Science.

Australian Institute of Marine Science

4.208 The interim phase of the audit identified one moderate issue relating to IT access security. Improvements were required on security controls around the Windows environment. These included ensuring all users are permanently suspended from the network after multiple logon attempts, passwords are changed on a regular basis, the domain systems administrator role is limited to two staff and there is regular review of failed logon attempts.

4.209 The ANAO also considered that the Institute needed to strengthen various security controls around the IT operating environment including improving levels of review over key security logs, removing unused systems, reviewing technical logs on a daily basis, conducting reviews over shell scripts which run with higher security privileges than normal users and conducting regular network strength testing. Deficiencies were also noted with the security surrounding Electronic Fund Transfer (EFT) payment files. Unauthorised changes could be made to EFT payment files without any audit trails.

4.210 The Institute has advised that these issues have since been resolved. The ANAO will review remedial actions taken during the 2007–08 audit.

Environment and Water Resources Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of the Environment and Water Resources	Yes	✓	14 Aug 07	16 Aug 07	
National Water Commission	Yes	✓	6 Aug 07	7 Aug 07	
Bureau of Meteorology	Yes	✓	24 Aug 07	24 Aug 07	
Director of National Parks	No	✓	6 Sept 07	6 Sept 07	
Great Barrier Reef Marine Park Authority	No	✓	3 Oct 07	3 Oct 07	◆
National Environment Protection Council Service Corporation	No	✓	31 Aug 07	11 Sept 07	
Natural Heritage Trust of Australia Account	No	✓	14 Aug 07	16 Aug 07	
Office of the Renewable Energy Regulator	No	✓	4 Sept 07	4 Sept 07	
Sydney Harbour Federation Trust	No	✓	18 Sept 07	18 Sept 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.211 The Environment and Water Resources Portfolio comprises the Department of the Environment and Water Resources (DEW) and a number of statutory and non-statutory bodies. DEW is the central policy and coordinating entity within the portfolio. The structure of the portfolio has changed through the Machinery of Government changes announced by the Prime Minister on 23 January 2007 and approved by the Governor General on 30 January 2007. The changes included the transfer of the Office of Water Policy from the Department of the Prime Minister and Cabinet and staff working on water matters from the Department of Agriculture, Forestry and Fisheries into the

renamed Department of the Environment and Water Resources. In addition the National Water Commission was incorporated into the Portfolio.

4.212 The Environment and Water Resources Portfolio's role is to provide leadership on environmental issues with a national focus, or that are under direct Australian Government jurisdiction. The portfolio works towards achieving the following outcomes:

- the environment, especially those aspects that are matters of national environmental significance, is protected and conserved;
- Australia's interests in Antarctica are advanced; and
- more efficient and sustainable use of Australia's water resources.

Department of the Environment and Water Resources

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	397.5	376.0
Total expenses	421.1	405.2
Total assets	487.0	493.4
Total liabilities	261.4	257.2

4.213 The increase in income was largely attributable to an increase in appropriations, relating to the continuation funding for Fuel Quality Standards and Regional Marine Planning. In addition there was an increase in sales of goods and services in areas such as charges for services provided in accordance with memorandum of understandings and the Natural Heritage Trust (NHT) Recovery for grants programmes.

4.214 Movement in other items were not significant and were the results of fluctuations in normal business activities.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	141.8	21.0
Total expenses	594.2	501.1
Total assets	920.7	325.3
Total liabilities	15.6	20.1

4.215 The increase in administered income was primarily due to land assets being recognised for the first time for North Head, New South Wales, being transferred from the New South Wales State Government to the Commonwealth and for Point Nepean, Victoria, which was transferred from the Department of Defence.⁶⁹

4.216 Administered expenses increased predominantly due to an increase in funding for grant programmes, climate change projects and for new water resources functions.

4.217 The increase in administered assets is primarily a result of the Machinery of Government changes which transferred the Commonwealth's 20 per cent investment share in the Murray Darlin Basin Commission from DAFF into DEW (approximately \$440 million). In addition there was a general increase in the investment held in the Sydney Harbour Federation Trust and the valuation on land transferred.

4.218 Administered liabilities decreased due to a reduction in the number and amount of grant amounts owing to recipients.

Audit results

Summary of audit findings

4.219 The ANAO reported one moderate control weakness in the interim phase of the audit in relation to the control over the payment of invoices without the raising of a purchase order. ANAO observed that DEW had taken action to address this issue.

⁶⁹ The Financial Minister Orders require transfers of assets from one entity to another to be brought to account as assets in the receiving entity's accounts with a corresponding entry to income.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	(1)	0	0
Total	1	(1)	0	0

Bureau of Meteorology

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	238.1	232.4
Total expenses	230.6	229.7
Total assets	327.8	313.2
Total liabilities	86.4	86.6

4.220 There has been no significant movement in income, expenses and liabilities during the 2006–07 audit cycle.

4.221 The increase in assets is primarily a result of unspent appropriations for the Bureau's capital works programme for the ongoing replacement of equipment used for monitoring and forecasting weather.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	16.7	15.8
Total expenses	0	0
Total assets	2.7	2.8
Total liabilities	0	0

Audit results

Summary of audit findings

4.222 There were no moderate or significant audit issues noted during the 2006–07 audit.

National Water Commission

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	10.4	10.4
Total expenses	10.0	9.6
Total assets	7.9	7.6
Total liabilities	2.1	2.2

4.223 There has been no significant movement in income, expenses, assets and liabilities during the 2006–07 audit cycle.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	0	0
Total expenses	584.0	17.1
Total assets	49.0	1.5
Total liabilities	33.3	5.2

4.224 Administered expenses consist of payments under the Australian Government Water Fund, primarily for the Water Smart Australia (\$1.6 billion) and Raising National Water Standards (\$200 million) programmes. The significant increases in expenses, assets and liabilities is attributable to the Commission's implementation of these programmes, including the funding of a major project totalling \$408 million associated with the Western Corridor recycled water scheme in Queensland.

Audit results

Summary of audit findings

4.225 There were no moderate or significant audit issues noted during the 2006–07 audit.

Comments on non-material entities

4.226 There were no moderate or significant audit issues noted in non-material entities within the portfolio in 2006–07 except in relation to the Great Barrier Reef Marine Park Authority.

Great Barrier Reef Marine Park Authority

4.227 During the 2006–07 audit the following two moderate issues were identified.

IT physical security and environment management

4.228 The ANAO noted a number of issues associated with the IT physical security and environment management that could result in interruption to the Great Barrier Reef Marine Park Authority's (GBRMPA) operations. Improvements were required to the computer room by fire proofing and making necessary adjustments to the room temperatures. These matters were subsequently addressed by GBRMPA. In addition, the ANAO noted that the disaster recovery plan had not been fully tested. Reviews of system backup logs had not been formalised and the offsite backup should be re-assessed for appropriateness, considering its current close proximity with GBRMPA's operations. Weaknesses in IT physical and environmental management increase the risk that GBRMPA will be unable to restore its key business system within an acceptable timeframe if an interruption occurs.

Access security management

4.229 A large number of GBRMPA's staff had the capability to access and alter certain files containing key financial information in the financial management information system. In relation to the network access, network security controls did not enforce users to periodically change their network passwords. In addition, the ANAO found excessive numbers of shared/generic user passwords. This level of access increases the risk of unauthorised, inaccurate and/or fraudulent transactions. The ANAO considers GBRMPA should tighten access controls including reviewing those relating to the System Administrator.

4.230 The GBRMPA has agreed to reassess its IT control environment and access security and take necessary action as required.

Employment and Workplace Relations Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Employment and Workplace Relations	Yes	✓	18 July 07	18 July 07	
Australian Building and Construction Commissioner	No	✓	28 Aug 07	29 Aug 07	
Australian Fair Pay Commission Secretariat	No	✓	31 Aug 07	31 Aug 07	
Australian Industrial Registry	No	✓	14 Sept 07	17 Aug 07	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	10 Aug 07	10 Aug 07	
Comcare Australia	Yes	✓	24 Aug 07	24 Aug 07	◆
Equal Opportunity for Women in the Workplace	No	✓	10 Aug 07	10 Aug 07	
Indigenous Business Australia	Yes	✓	21 Nov 07	21 Nov 07	◆
- Bowen Basin Holdings Pty Ltd	No	✓	6 Dec 07	6 Dec 07	
- Bowen Basin Holdings Trust	No	✓	6 Dec 07	6 Dec 07	
- Bowen Basin Investment Pty Ltd	No	✓	6 Dec 07	6 Dec 07	
- Bowen Basin Investment Trust	No	✓	6 Dec 07	6 Dec 07	
- Centrum Insurance Brokers Pty Ltd	No	✓	27 Aug 07	27 Aug 07	
Office of Workplace Services	No	✓	13 Sept 07	13 Sept 07	
Seafarers' Safety, Rehabilitation and Compensation Authority	No	✓	4 Sept 07	4 Sept 07	

✓: auditor's report unqualified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains Other Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.231 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.

Department of Employment and Workplace Relations

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 523.7	1 560.4
Total expenses	1 533.4	1 540.7
Total assets	374.0	305.3
Total liabilities	199.9	137.8

4.232 Income decreased primarily due to a decrease in appropriation funding from Government. This decrease was partially offset by an increase in revenue from the provision of services to other agencies.

4.233 The increase in assets related mainly to leasehold improvements in new premises in Canberra and Sydney; an increase in appropriation receivable; and

an increase in intangibles relating to systems development to support the Welfare to Work programme.

4.234 Liabilities increased predominantly due to an increase in trade creditors resulting from an increase in outstanding payments for services provided by Centrelink under the Business Partnership Agreement and an increase in property and communications costs incurred but not paid at year end. Employee provisions also increased as a result of increased staff numbers. There was also an increase in lease incentives from a new tenancy agreement entered into in February 2007.

4.235 The movement in expenses was not significant.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	224.4	207.4
Total expenses	23 496.5	23 593.0
Total assets	868.0	770.8
Total liabilities	541.3	491.4

4.236 Administered assets increased due to a higher receivable relating to the recovery of personal benefit overpayments. The value of the investment in Comcare also increased.

4.237 Administrative liabilities is higher due to an increase in personal benefits payable.

4.238 The increase in administered income and expenses were not significant.

Audit results

Summary of audit findings

4.239 There were no significant or moderate audit issues noted during the 2006–07 audit.

Coal Mining Industry (Long Service Leave Funding) Corporation

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	126.8	132.3
Total expenses	87.0	93.2
Total assets	578.8	505.7
Total liabilities	535.7	502.4

4.240 Income decreased as a result of an adjustment in the levy rate applied to employers in the coal mining industry from 5% to 2.8% of eligible wages. This was partly offset by an increase in revenues from investments.

4.241 Assets increased due to an increase in the value of investments.

4.242 The movements in other items were not significant.

Audit results

Summary of audit findings

4.243 There were no significant or moderate audit issues noted during the 2006–07 audit.

Comcare

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	263.7	367.3
Total expenses	219.5	332.2
Total assets	2 652.7	2 700.5
Total liabilities	2 537.4	2 629.2

4.244 An actuarial assessment of Comcare's claim liabilities at 30 June 2007 resulted in a reduction in the provision for common law asbestos outstanding

claims liability and a comparatively smaller increase in the provision for workers compensation claim liability. The movement in the claim liabilities is the primary reason for the movements in income, expenses, assets and liabilities.

Audit results

Summary of audit findings

4.245 There was one moderate audit issue noted during the 2006–07 audit.

4.246 Comcare is responsible for managing and reporting the Australian Government's common law and statutory asbestos liabilities. The responsibility for the common law liabilities was transferred from a number of other Australian Government agencies, together with the associated records and asbestos data. Some of this data is compromised and has impacted the confidence that can be placed on the reliability of the actuary's estimates.

4.247 The ANAO found that Comcare's quality assurance processes over the data provided to the actuary for the 2007 asbestos liability valuation need to be improved. Comcare advised they had commenced processes to ensure the integrity of the data in the future.

Indigenous Business Australia

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	147.2	131.5
Total expenses	95.1	80.7
Total assets	773.6	636.4
Total liabilities	52.4	39.6

4.248 The increase in income was the result of additional government funding for the outback stores programme and increase in the Indigenous Home Ownership and Business Development and Assistance Programmes and Investment activities. In addition, specific funding was provided for the construction project for Wadeye House.

4.249 The increase in expenses was due to several factors. Employee costs were higher due mainly to the increases in staff numbers, associated with significant housing construction projects, and average salaries in accordance

with the certified agreement. Supplier expenses were higher primarily due to increased legal fees associated with investment and construction activities.

4.250 The movement in assets is attributable to higher levels of cash on hand due to increased government funding, increased Indigenous Home Ownership and Business Development and Assistance loan activity, and the acquisition of new investments during the year.

4.251 The increase in liabilities was primarily due to an increase in accruals in associated companies that are consolidated with IBA and the existence of a payable at year end relating to the purchase of an investment.

Audit results

Summary of audit findings

4.252 Six moderate risk matters were identified in the final phase of the audit. A summary of these issues is provided below.

Accrual of Annual Leave and Long Service Leave on-cost

4.253 The FMOs require entities to calculate the additional costs expected to be required to settle annual and long service leave liabilities. The audit identified that only the salary component costs of these liabilities have been accrued. On-costs for the long service leave and annual leave liabilities had not been accrued resulting in an understatement of liabilities. As a result, a significant adjustment was required at year-end.

Accounting for IBA Investments

4.254 The audit identified the following issues relating to the IBA's investment in subsidiaries, associated companies and investment properties:

- audited financial statements were not available for all subsidiaries and associated companies;
- the reported carrying value for certain entities was not consistent with the independent valuers assessment;
- some non-trading investments had not been subject to independent external valuation for a number of years;
- there were delays in determining the accounting treatment for the carrying value of some investments; and
- the accounting policies of subsidiaries and associated companies were inconsistent with those adopted by IBA, which requires additional disclosure to be made.

4.255 As a result of these issues, there was an increase risk that investments were incorrectly valued in the financial statements and that the accounting policies and procedures for investments were inconsistent with Australian Accounting Standards.

DEWR and IBA Memorandum of Understanding

4.256 IBA has a Memorandum of Understanding (MOU) with the Department of Employment and Workplace Relations (DEWR) for the provision of IT services. The current MOU does not provide IBA with visibility over the provision of:

- business continuity and disaster recovery services provided, including testing;
- backup and recoverability processes and procedures;
- data integrity, security and confidentiality requirements; and
- assurance, quality control and monitoring requirements.

4.257 The absence of a clear specification of the services to be provided and the associated performance standards may impact on the business operations of IBA. In these circumstances, the ANAO considers that IBA should take steps to obtain greater assurance over the level of services it requires, and those that the responsible department is able to provide.

SAP User Account Management

4.258 During the 2006–07 audit the ANAO identified a number of issues relating to the process for granting access to the SAP financial management system. These weaknesses included no written and formalised user account procedures, a lack of evidence of access requests or approval of access for the majority of current users. User access control weaknesses increase the risk of unauthorised user access to computer systems and increase the risk that the user access level may not be appropriate.

Change Management

4.259 At the time of the 2006–07 audit there were no formal change control procedures. In addition, audit testing identified gaps in the retention of records to support changes made to the financial management system. IBA have advised it was reviewing its change management processes and planned to introduce formal change control procedures .

4.260 Effective change control procedures provide the required level of assurance that changes made to the IT environment are appropriately

authorised, tested and recorded and provide for the separation of duties during key stages of the change management process.

IBA Governance arrangements

4.261 During the audit the ANAO identified the following issues relating to governance structures and IT governance:

- there was no organisational wide internal audit function ;
- the need to finalise the IT Strategic Plan;
- there was no IT Risk Management Plan or IT Security Policy; and
- increased documentation relating to IT operational procedures was required.

4.262 An internal audit function can assist the Audit Committee to comply with its obligations under the CAC Act and is a key source of information on the effectiveness of controls and the performance of IBA.

4.263 Policies and procedures provide the baseline for the required level of performance and service. The absence of such governance arrangements limits the ability of IBA to provide effective and efficient business and IT services and to measure the standard of performance provided.

4.264 IBA has been active in implementing actions to address the findings outlined above.

4.265 The following table provides a summary audit issues raised during the final audit phase of the 2006–07 audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	0	0	6	6
Total	0	0	6	6

Comments on non-material entities

4.266 There were no moderate or significant issues noted in non-material entities within the portfolio in 2006–07.

Families, Community Services and Indigenous Affairs Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Families, Community Services and Indigenous Affairs	Yes	✓	20 Aug 07	20 Aug 07	◆
- Aboriginals Benefit Account	No	✓	20 Aug 07	24 Aug 07	
- Aboriginal and Torres Straight Islander Land Fund Account	Yes	✓	20 Aug 07	24 Aug 07	
Aboriginal Hostels Ltd	No	✓	24 Sept 07	24 Sept 07	◆
Anindilyakwa Land Council	No	✓	19 Sept 07	26 Sept 07	
Australian Institute of Family Studies	No	✓	30 Aug 07	3 Sept 07	
Central Land Council	No	✓	22 Aug 07	6 Sept 07	
Indigenous Land Corporation	No	✓	29 Aug 07	3 Sept 07	
Northern Land Council	No	✓	21 Sept 07	24 Sept 07	
Tiwi Land Council	No	✓	3 Oct 07	23 Oct 07	
Torres Strait Regional Authority	No	✓	25 Sept 07	25 Sept 07	
Wreck Bay Aboriginal Community Council	No	✓	13 Nov 07	13 Nov 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.267 The Families, Community Services and Indigenous Affairs (FaCSIA) portfolio's role is to provide policy advice, income support and assistance to families and their children, senior citizens and community groups. The portfolio also provides policy advice on issues affecting women in Australia and a whole-of-government approach to programmes and service delivery for Indigenous Australians.

Department of Families, Community Services and Indigenous Affairs

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 217.8	1 482.1
Total expenses	1 223.2	1 498.0
Total assets	298.3	221.7
Total liabilities	127.0	90.7

4.268 There was a substantial reduction in income and expenditure in 2006–07, as this was the first year that Centrelink had been directly appropriated for IT Infrastructure funding. This impacted the appropriation revenue received by FaCSIA and the associated expense for service delivery payments to Centrelink.

4.269 The increase in assets reflects an increase in land and buildings as a result of an asset revaluation conducted as at 30 June 2007, and an increase in internally developed software, due to a number of IT projects being undertaken in 2006–07.

4.270 FaCSIA's liabilities increased mainly due to the recognition of lease incentives and the supply of services relating to IT projects.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	278.3	199.6
Total expenses	46 781.2	43 101.4
Total assets	3 177.6	3 395.1
Total liabilities	4 190.7	3 693.3

4.271 Administered income increased primarily because of interest revenue from investments held by the Aboriginals Benefit Account (ABA) and the Aboriginal and Torres Strait Islander Account (ATSILA). This has been partly offset by a decrease in the New Zealand Reciprocal Agreement and other revenues.

4.272 There was a general increase in all administered expenses, with personal benefit expenditure accounting for the largest increase. This was due to a number of one-off bonuses announced by the Government.

4.273 The decrease in assets was due to less cash held at year end and a decrease in receivables. This has been offset by an increase in investments in related Commonwealth entities.

4.274 Administered liabilities increased as a result of the transfer of the responsibility for the administration of the Childcare Rebate from the Australian Tax Office to FaCSIA in late 2006–07 that resulted in an increase in personal benefits payable as at 30 June 2007.

Audit results

Summary of audit findings

4.275 The ANAO reported five moderate control issues in the interim phase of the 2006–07 audit. These issues related to:

- business continuity planning;
- appropriation reconciliations between FaCSIA's financial records and Finance's records;
- employee records management;
- corporate credit card purchases; and
- the management and reporting of commitments.

4.276 During the final phase, the ANAO observed that FaCSIA had resolved four of these issues. Further action needed to be taken on the outstanding issue relating to the management and reporting of commitments. FaCSIA's current financial statement close process was not able to fully meet the requirements for identifying and reporting commitments. The ANAO found information provided was incomplete or had insufficient details to confirm the accuracy of some commitment balances.

4.277 One new issue was identified during the final phase of the audit relating to the management of the FaCSIA Online Funds Management System (FOFMS). Weaknesses were noted in relation to the reconciliation of the FOFMS and the records in FaCSIA's financial management information system, and controls surrounding password security. FaCSIA was able to provide sufficient assurance over the financial information within FOFMS by

undertaking a high level reconciliation at year end, however, the lack of regular reconciliations between the two systems and insufficient access security represent a business risk to FaCSIA.

4.278 The following table provides a summary of the status of prior year issues as well as the 2006–07 audit issues raised by the ANAO.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	5	(4)	1	2
Total	5	(4)	1	2

Aboriginal and Torres Strait Islander Land Fund Account

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	94.0	83.0
Total expenses	108.5	26.2
Total assets	1 560.3	1 574.9
Total liabilities	0	0

4.279 Interest income increased in line with a higher holding of investments throughout the year. Expenses also increased mainly due to payments to the Indigenous Land Council including accrued interest for the first time.

4.280 The movement in assets was not significant.

Audit results

Summary of audit findings

4.281 There were no moderate or significant audit issues noted during the 2006–07 audit.

Comments on non-material entities

4.282 There were no moderate or significant audit issues noted in non-material entities within the portfolio, except for the Aboriginal Hostels Limited.

Aboriginal Hostels Limited

4.283 Three moderate control weaknesses were identified during the 2006–07 audit. These issues related to:

- weaknesses in relation to the timeliness of the preparation and review of bank reconciliations and the failure to resolve the unexplained variances;
- the posting of duplicate payments to the cash book and a lack of system checks for duplicate payments; and
- inadequate documentation being maintained for employee commencements and separations.

4.284 The ANAO observed that reasonable steps have been undertaken by the company to address these issues.

Finance and Administration Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Finance and Administration	Yes	✓	13 Aug 07	13 Aug 07	
Albury- Wodonga Corporation	No	✓	8 Oct 07	8 Oct 07	
ARIA Alternative Assets Trust	No	✓	19 Sept 07	19 Sept 07	
ARIA Co Pty Ltd	No	✓	19 Sept 07	19 Sept 07	
ARIA Investments Trust	No	✓	19 Sept 07	19 Sept 07	◆
ASC Pty Ltd	Yes	✓	13 Aug 07	13 Aug 07	
Australian Electoral Commission	Yes	✓	27 Sept 07	28 Sept 07	
Australian Industry Development Corporation	Yes	✓	31 Aug 07	31 Aug 07	
Australian Reward Investment Alliance (ARIA)	No	✓	19 Sept 07	19 Sept 07	
Australian River Co Ltd ☞: 30 November 2006	No	✓	14 Mar 07	16 Mar 07	
Board of Guardians of the Future Fund and the Future Fund Management Agency	Yes	✓	21 Aug 07	22 Aug 07	
Business Services Trust Account ☞: 28 February 2007	No	✓	24 May 07	24 May 07	
CFM Pooled Superannuation Trust	No	✓	19 Sept 07	19 Sept 07	
CFM Australian Equities Fund	No	✓	19 Sept 07	19 Sept 07	
Commonwealth Grants Commission	No	✓	07 Sept 07	07 Sept 07	
ComSuper	No	✓	24 Aug 07	24 Aug 07	◆
Commonwealth Superannuation Scheme (CSS)	No	✓	19 Sept 07	19 Sept 07	
CSS/PSS Pty Ltd	No	✓	19 Sept 07	19 Sept 07	
Medibank Private Ltd	Yes	✓	16 Aug 07	16 Aug 07	
PSS/CSS A Property Trust	No	✓	19 Sept 07	19 Sept 07	
PSS/CSS B Property Trust	No	✓	19 Sept 07	19 Sept 07	

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Public Sector Superannuation Scheme (PSS)	No	✓	19 Sept 07	19 Sept 07	
Public Sector Superannuation Accumulation Plan (PSSap)	No	A	19 Sept 07	19 Sept 07	◆
Telstra Sale Company Limited	No	✓	16 Oct 07	16 Oct 07	

✓: auditor's report unqualified

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Q: auditor's report contains a qualification

A: auditor's report contains Other Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously and not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.285 The Finance and Administration portfolio consists of the Department of Finance and Administration and a large number of statutory and non-statutory bodies. The portfolio's principal responsibilities include:

- Budget policy advice and process, and review of governmental programmes;
- Government financial accountability, governance and financial management frameworks including procurement policy and services;
- shareholder advice on Government Business Enterprises (GBEs) and commercial entities treated as GBEs;
- general policy guidelines for Commonwealth statutory authorities;
- superannuation related to former and current members of Parliament and Australian Government employees;
- asset sales;
- strategic management of non-Defence Commonwealth-owned property in Australia, including construction, major refurbishment, 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;
- evaluation and audit of indigenous programmes and operations; and
- advice on the Future Fund.

Department of Finance and Administration

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	782.4	515.3
Total expenses	544.4	323.5
Total assets	2 296.0	1 864.2
Total liabilities	370.2	328.1

4.286 The increase in income is due to government funding relating to the costs to support the sale of Telstra (T3) and gains related to the valuations of investment properties. These increases were partially offset by lower insurance premium revenue charged by Comcover.

4.287 Expenses increased as a result of activities relating to the Telstra sale, as well as an increase in insurance claims paid, particularly in the third quarter of 2006–07.

4.288 The increase in assets was due to undrawn appropriations for the Telstra sale; undrawn Property Special Account appropriations; asset valuations as at 30 June 2007 and work in progress relating to construction activity.

4.289 The increase in liabilities is a result of Comcover's outstanding claims liabilities following an actuarial review. Also impacting the increase in liabilities were increased equity amounts from the Property Special Account that are to be returned to the Official Public Account in 2007–08. Offsetting these increases were reductions in the lease liability relating to the Tuggeranong Office Park.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 838.7	1 498.1
Total expenses	5 684.4	5 366.6
Total assets	7 403.0	959.6
Total liabilities	65 335.6	66 918.7

4.290 Administered income increased due to the unwinding of the discount factor on the Telstra sale final instalment receivable and the positive movement in the valuation of the Telstra shares held by Finance as part of the Telstra sale arrangements.

4.291 The movement in administered expenses is attributed to increases in superannuation expenses associated with the Commonwealth Sector Superannuation Scheme.

4.292 The increase in administered assets is due to the recognition, as part of the Telstra sale arrangements, of the Telstra Bonus Loyalty shares and the Telstra final instalment receipts due to be received from investors in May 2008. These increases were partially offset by a reduction in cash and cash equivalents held at year end.

4.293 Administered liabilities decreased as a result of a downward adjustment in the superannuation provision in 2006–07. The decrease related to the higher discount rate measured by reference to the ten year government bond rate as at 30 June 2007. This decrease was partially offset by the recognition of a provision for the Telstra Bonus Loyalty shares that are expected to be released to qualifying Telstra investors in May 2008.

Audit results

Summary of audit findings

4.294 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Electoral Commission

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	122.2	109.4
Total expenses	129.1	104.4
Total assets	59.4	53.3
Total liabilities	34.7	27.2

4.295 The increase in income and expenses was attributable to the increased funding and costs associated with the federal election. Movements in the other items were not significant and were the result of fluctuations in normal business activities.

Audit results

4.296 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Industry Development Corporation

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	28.6	37.1
Total expenses	27.9	36.8
Total assets	147.8	467.7
Total liabilities	140.6	460.8

4.297 The decrease in income was as a result of a reduction in the interest revenue received on investments following the divestment of significant assets as part of the on-going wind down of the Corporation.

4.298 Similarly, the decrease in expenses is attributable to a reduction in finance costs as a result of the significant repayment of treasury borrowings in 2006–07.

4.299 The reduction in assets and liabilities was primarily a result of the wind down of the Corporation's residual operations in accordance with the *AIDC Sale Act 1997* and the repayment of significant treasury borrowings during 2006–07.

Audit results

Summary of audit findings

4.300 There were no moderate or significant audit issues noted during the 2006–07 audit.

ASC Pty Ltd

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	312.4	260.9
Total expenses	270.3	234.6
Total assets	276.6	245.9
Total liabilities	117.8	124.5

4.301 The increase in income and expenses is attributable to increased activity on the *Through Life Support* and *Air Warfare Destroyer* projects in comparison to the prior year.

4.302 The increase in assets was primarily a result of acquisitions and revaluation increments to land and buildings held by ASC Pty Ltd and its subsidiary ASC Engineering Pty Ltd. Also contributing to this increase was the value of work in progress at year end.

4.303 The movement in liabilities was not significant.

Audit results

Summary of audit findings

4.304 In the 2005–06 audit the ANAO recommended an improvement in the process of tracking and documenting warranty-related expenditure. The 2006–07 audit identified that the company had satisfactorily addressed this issue and no new moderate or significant audit issues were noted during the audit.

4.305 The following table provides a summary of the status of audit issues identified during the 2006–07 audit.

Ratings	Opening position 2007	Issues resolved (during 2007)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	(1)	0	0
Total	1	(1)	0	0

Board of Guardians of the Future Fund and the Future Fund Management Agency

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	2 817.5	163.7
Total expenses	9.9	0.7
Total assets	53 062.2	18 163.3
Total liabilities	595.5	0.3

4.306 During the year the Future Fund continued in its establishment phase. Substantial effort was devoted to putting the infrastructure in place to deliver investment readiness and the commencement of an active investment programme in June 2007.

4.307 The movement in assets is due to increased term deposits held with the Reserve Bank in line with additional Government contributions made during the year. In addition, listed equities and managed investment schemes increased primarily due to the Telstra shares transferred to the Future Fund during 2006–07.

4.308 The increase in income is attributable to an increase in Telstra dividends and imputation credits received, increased interest received from Reserve Bank term deposits relating to higher term deposit balances, the impact of a full year of interest (only three months of accrued interest in 2005–06), and unrealised gains resulting from increases in the fair value of investments held.

4.309 The increase in expenses was primarily due to expenses relating to the establishment of permanent operations in Melbourne, an increase in management and consulting expenses associated with investing and increased staffing costs.

4.310 Total liabilities increased due to an increase in payables for unsettled security investment purchases at year end.

Audit results

Summary of audit findings

4.311 There were no moderate or significant audit issues noted during the 2006–07 audit.

Medibank Private Pty Ltd

4.312 An unqualified audit report on Medibank Private Pty Ltd's 2006–07 financial statements was issued.

Comments on non-material entities

4.313 The moderate audit issues that were identified in the 2006–07 audits of ARIA Investments Trust, the Public Sector Superannuation Accumulation Plan and ComSuper are summarised below.

ARIA Investments Trust

4.314 A reconciliation is performed on a monthly basis between the investment balances recorded by the ARIA Investments Trust's custodian and the general ledger maintained by the Australian Reward Investment Alliance (ARIA). The audit identified that the nature of the reconciling items was not documented and reviewed in detail. In addition, the reconciliation was only reviewed by management on an annual basis, rather than monthly. These factors increased the risk that discrepancies between the respective systems were not identified, and a misstatement of investments and associated income and expenses balances. To address this issue, adjustments to ARIA's procedures have been made, effective from 1 July 2007.

Public Sector Superannuation Accumulation Plan

4.315 Section 1017D(3A) of the *Corporations Act 2001* requires that members receive certain information within one month of leaving the Plan. This requirement was not met in relation to members who exited the Plan after 10 July 2006. At the time of audit, this matter was still being resolved by the trustee with the Plan's administrator. To reflect this breach, the ANAO issued a qualified audit opinion with regard to compliance with the *Corporations Act 2001*. The financial statements of the Public Sector Superannuation Accumulation Plan were unqualified.

ComSuper

4.316 The following moderate audit issues were identified during the 2006–07 audit.

4.317 A number of security weaknesses were identified in relation to the application that is used to administer one of the Australian Public Service superannuation schemes, and the server on which the application resides. These weaknesses related to the security of a payment file sent to the Reserve Bank of Australia for processing, and a lack of segregation of duties that meant one person had access to process benefits and contributions as well as administer security aspects of the application. There was also evidence of the sharing of the password for the system administrator account. These matters increased the risk that fraudulent or inappropriate transactions may be processed, and that accountability for system changes would be difficult to maintain.

4.318 The ANAO identified that powerful administrator accounts and their passwords were shared between staff for some servers and applications. Generic accounts were also used and shared on one server that hosted two applications used to administer superannuation schemes. Without the use of individual administrator accounts, there was an increased risk that accountability for unauthorised changes to production environments could not be maintained.

4.319 A number of weaknesses were also identified in relation to network security. These included a lack of network specific security policies; the need for the password for the administrator account to be periodically changed; a lack of account lock-out controls over a number of staff after multiple incorrect password attempts; the ability for a small number of network accounts to re-

use passwords; and a small number of network accounts being able to utilise multiple network logons. These weaknesses undermined the overall security profile of ComSuper and increased the risks of unauthorised network access.

4.320 ComSuper has advised that it had addressed or was in the process of addressing these issues.

Foreign Affairs and Trade Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Foreign Affairs and Trade	Yes	✓	15 Aug 07	17 Aug 07	
AusAID	Yes	✓	25 Sept 07	25 Sept 07	
Australian Centre for International Agricultural Research	No	✓	3 Sept 07	3 Sept 07	
Australia-Japan Foundation ☞ 30 November 2006	No	✓	26 Mar 07	27 Mar 07	
Australian Secret Intelligence Service	No	✓	28 Sept 07	28 Sept 07	
Australian Trade Commission	Yes	✓	8 Aug 07	8 Aug 07	
Export Finance and Insurance Corporation	Yes	✓	9 Aug 07	9 Aug 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other

Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.321 The Foreign Affairs and Trade portfolio, comprises the Department of Foreign Affairs and Trade and a small number of statutory and non-statutory bodies. The portfolio supports Ministers in the conduct of Australia's foreign and trade policy, and by pursuing bilateral, regional and global strategies to further these policy objectives. The portfolio contributes 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, investment and a positive image of Australia internationally;
- providing assistance to developing countries to improve economic performance and governance;
- providing consular and passports services to Australians; and
- the management of the Australian Government overseas owned estate.

Department of Foreign Affairs and Trade

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	941.3	834.6
Total expenses	805.6	699.4
Total assets	2 409.6	2 054.0
Total liabilities	210.5	176.9

4.322 The increase in income was principally due to increased appropriation funding for a range of new measures in 2006–07 and increased fees for services provided to other agencies.

4.323 Increases in expenses primarily relate to new funding measures for 2006–07 resulting in higher staff numbers and increases in associated travel, accommodation and general expenses; expenditure incurred in the emergency evacuations and relief assistance for the Beirut crisis and Yogyakarta plane crash; and higher production costs from the increased demand for passports.

4.324 The increase in assets were largely the result of higher market values for the overseas owned estate, and increases in leasehold improvements and appropriation receivables relating to the upgrade of security in overseas posts.

4.325 Liabilities also increased due to a higher number of property and security related projects being undertaken by DFAT.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	354.3	347.3
Total expenses	256.2	246.9
Total assets	387.2	556.6
Total liabilities	109.6	186.9

4.326 There were no significant movements in DFAT's administered income and expenses during 2006–07.

4.327 The reduction in administered assets was due mainly to a repayment by the Russian Government of its National Interest Account debt to the Australian Government and the disposal of the Australian Government's investment in the Australian Trade Commission when the Commission became a prescribed agency under the *Financial Management and Accountability Act 1997*.

4.328 The reduction in administered liabilities was due to the derecognition of a payable by the Australian Government to the Export Finance and Insurance Corporation (EFIC) as a result of a change in funding arrangements for the National Interest Account that were approved by the Australian Government following a review of EFIC in 2007.

Audit results

Summary of audit findings

4.329 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Agency for International Development

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	93.7	79.3
Total expenses	93.4	77.8
Total assets	42.9	25.7
Total liabilities	24.8	14.7

4.330 The increase in income was mainly due to additional funding from Government to support Australia's expanding overseas aid and assistance programmes, including implementation of the Aid White Paper, and supplementary funding for the administration of the Australia-Indonesia Partnership for Reconstruction and Development.

4.331 The increase in expenses was due mainly to additional expenses relating to increased staffing levels and supplier costs associated with the delivery of the expanding overseas aid and assistance programme.

4.332 The asset position improved due to an increase in appropriations receivable and the capitalisation of leasehold improvements and related infrastructure, plant and equipment associated with a new lease.

4.333 Liabilities increased due to increases in leasehold payables and make good provisions. Employee benefit accruals also rose in line with increased staffing levels.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 341.5	0.1
Total expenses	1 902.7	1 587.3
Total assets	1 235.4	100.2
Total liabilities	966.1	1 266.9

4.334 Income and assets increased primarily due to recognition for the first time of the subscription paid to the International Development Association and the Asian Development Fund as an asset, and revaluation of the multi-lateral loan paid to the Indonesian Government on the Tsunami projects.

4.335 The increase in expenses was largely a result of additional grants resulting from new multi-year agreements, expansion of the scholarship programme and costs associated with implementation of the Aid White Paper.

4.336 The decrease in liabilities was primarily due to the revaluation of multi-lateral grants payables to various overseas governments.

Audit results

Summary of audit findings

4.337 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Trade Commission

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	203.7	204.2
Total expenses	206.7	206.5
Total assets	97.9	132.0
Total liabilities	43.3	39.6

4.338 The reduction in assets was due to the transfer of ownership of overseas land and buildings to the Department of Foreign Affairs and Trade.

4.339 The movements in other items were not significant and were as a result of fluctuations in normal business activity.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	0.0	0.7
Total expenses	154.5	145.5
Total assets	0.5	7.6
Total liabilities	3.4	2.0

4.340 Increases to administered expenses and liabilities were due to an increase in Export Market Development Grants during 2006–07 and a change in the accounting treatment to bring to account the grants at year end.

4.341 The decrease in administrative assets is primarily due to a lower level of cash held on deposit. This occurred as a consequence of Austrade's becoming a prescribed agency under the FMA Act on 1 July 2006.

Audit results

Summary of audit findings

4.342 There were no moderate or significant audit issues noted in the 2006–07 audit.

Export Finance and Insurance Corporation

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	134.1	90.1
Total expenses	93.4	61.4
Total assets	2 460.7	1 293.9
Total liabilities	2 100.9	972.2

4.343 The large movements in these balances are a reflection of revised funding arrangements between EFIC and the Australian Government that were approved following a review of EFIC undertaken in 2006–07.

4.344 The financial results reported in 2005–06 included National Interest Account transactions and EFIC's Commercial Account. The 2006–07 balances only reflect the transactions recorded in EFIC's Commercial Account.

Audit results

Summary of audit findings

4.345 There were no moderate or significant audit issues noted in the 2006–07 audit.

Comments on non-material entities

4.346 There were no moderate or significant audit issues noted in non-material entities within the portfolio in 2006–07.

Health and Ageing Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Health and Ageing	Yes	✓	17 Aug 07	17 Aug 07	▲
- Therapeutic Goods Administration	No	✓	17 Aug 07	17 Aug 07	▲
Aged Care Standards and Accreditation Agency Ltd	No	✓	13 Sept 07	14 Sept 07	
Australian Institute of Health and Welfare	No	✓	17 Sept 07	18 Sept 07	
Australian Radiation Protection and Nuclear Safety Agency	No	✓	6 Sept 07	6 Sept 07	
Cancer Australia	No	✓	30 Aug 07	31 Aug 07	
Food Standards Australia New Zealand	No	✓	19 Sept 07	20 Sept 07	
General Practice Education and Training Ltd	No	✓	31 Aug 07	3 Sept 07	
National Blood Authority	Yes	✓	14 Aug 07	14 Aug 07	◆
National Health and Medical Research Council	Yes	✓	3 Sept 07	3 Sept 07	◆
Private Health Insurance Administration Council	No	✓	14 Sept 07	14 Sept 07	
Private Health Insurance Ombudsman	No	✓	17 Aug 07	17 Aug 07	
Professional Services Review	No	✓	28 Sept 07	28 Sept 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other

Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.347 The Health and Ageing portfolio consists of the Department of Health and Ageing and a number of statutory and non-statutory bodies that are responsible for contributing to achieving a health care system that meets the health care and ageing needs of all Australians. The portfolio's services are delivered through 23 outcomes set by the Australian Government. Each portfolio entity has developed performance information to determine the effectiveness in achieving entity-specific outcomes.

4.348 Portfolio entities also work towards the following whole-of-portfolio targets in relation to the health status of Australians:

- continued improvement in life expectancy for both males and females over time;
- further reductions in infant mortality rates over time;
- additional improvements in disability adjusted life expectancy over time;
- improved life expectancy, health expectancy and infant mortality rates for Aboriginal and Torres Strait Islanders, so that they are comparable with the general population; and
- improved life expectancy, health expectancy and infant mortality rates for low income Australians, so that they are comparable with the general population.

Department of Health and Ageing

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	629.9	568.7
Total expenses	609.9	566.6
Total assets	264.3	211.7
Total liabilities	184.7	174.6

4.349 The increase in income was principally due to an increase in major new funding in the areas of complaints resolution, aged care, health workforce, private health insurance, indigenous health and the Pharmaceutical Benefits Scheme. This increase was partially offset by the transfer of departmental funding to the National Health and Medical Research Council.

4.350 Assets increased due to an increase in appropriations receivables relating to undrawn operational and capital appropriations, the acquisition of leasehold assets, and the construction of a National Incident Room.

4.351 Movements in the other items were as a result of fluctuations in normal business activities.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	313.5	405.0
Total expenses	41 117.4	38 375.8
Total assets	454.9	373.5
Total liabilities	2 377.5	2 366.7

4.352 The decrease in administered income was largely the result of two items recognised by DoHA in 2005–06, which did not occur in 2006–07. The first item related to the actuarial assessment of the ‘Incurred But Not Reported’ medical indemnity claims liability resulting in the recognition of income. The other item related to the recovery of medical indemnity competitive neutrality costs.

4.353 Increased expenses reflect the Australian Government’s continued spending priorities for improving Australia’s health and ageing systems that included initiatives in the areas of Pharmaceutical Benefits Scheme, aged care and health services.

4.354 The increased administered assets were attributable to further acquisitions for the National Medical Stockpile.

4.355 The movement in administered liabilities was not significant.

Audit results

Summary of audit findings

4.356 During the interim phase of the audit, the ANAO identified two moderate audit matters relating to Business Continuity and Disaster Recovery Planning at the TGA and the management of the department’s extensive grant programmes.

4.357 DoHA advised that it has taken remedial action to address these risks. The results of the remedial action taken will be reviewed by the ANAO during the 2007–08 audit.

4.358 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2007.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	2	0	0	2
Total	2	0	0	2

National Blood Authority

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	10.2	8.2
Total expenses	9.1	7.6
Total assets	10.6	8.6
Total liabilities	5.3	4.9

4.359 Movements in these items were not significant and relate mainly to fluctuations in normal business activities.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	246.9	217.1
Total expenses	608.9	566.1
Total assets	83.7	61.2
Total liabilities	65.3	79.6

4.360 The significant increase in administered income was due to the initial recognition of post-fractionated plasma inventory held by the Australian Red Cross Blood Service (ARCBS) but controlled by the NBA. An additional contribution to the increase was higher State and Territory contributions made under the National Blood Agreement, resulting from higher demand for blood and blood products.

4.361 The large increase in administered expenses relates mainly to increased supplier payments made to the NBA's blood and blood product suppliers relating to the overall increase in supply, as well as increased funding to the ARCBS, based on the volume of blood supplied to meet demand.

4.362 The increase in administered assets was due primarily to the initial recognition of post-fractionated plasma inventory held by ARCBS. This increase was partially offset by a decrease in the receivable balance for amounts owing from States and Territories and GST receivables at year-end due to timing differences.

4.363 The decrease in administered liabilities was largely as a result of a significant reduction in charges payable to the ARCBS, resulting from Jurisdictional Blood Committee commitments being carried over from 2005–06 to 2006–07. This decrease was partially offset by an increase in unearned income from the States and Territories related to ARCBS capital funding carried forward in accordance with the approved budget.

Audit results

Summary of audit findings

4.364 The ANAO identified one moderate control weakness during the 2006–07 audit related to IT general controls over system access and authorisation. The audit identified that access to certain files maintained on the NBA's server was not restricted to those who required access as part of their work responsibilities.

4.365 The NBA advised it was taking action to ensure that IT general controls are sufficient to ensure access and authorisation is restricted only to those individuals who require it.

4.366 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised during the 2006–07 final audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	(1)	1	1
Total	1	(1)	1	1

National Health and Medical Research Council

4.367 The National Health and Medical Research Council (NHMRC) became an independent statutory entity portfolio on 1 July 2006 following amendments to the *National Health and Medical Research Council Act 1992*. The NHMRC was previously part of DoHA.

4.368 Following an Australian Government decision in August 2006, the National Institute of Clinical Studies Limited (NICS), previously a Commonwealth-owned public company, was incorporated into the NHMRC on 1 April 2007.

4.369 The Australian Government provides funding to NHMRC to manage investment in health and medical research, develop health advice for the Australian community, health professionals and government, and provide advice on ethical behaviour in health care and in the conduct of health and medical research.

Summary of Financial Results⁷⁰

Departmental items

Key financial measures for year	2006–07 \$m
Total income	47.2
Total expenses	32.9
Total assets	26.3
Total liabilities	8.4

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m
Total income	0
Total expenses	463.0
Total assets	0
Total liabilities	0

⁷⁰ As 2006–07 was the first year that the NHMRC operated as a separate entity, comparative figures are not shown.

Audit results

Summary of audit findings

4.370 The ANAO reported one moderate control weakness during the final phase of the 2006–07 audit relating to duplicate and incorrect payments of grant funding amounts. Although the NHMRC had identified some of the duplicate payments, in some instances the NHMRC had not taken timely action to recover them.

4.371 The NHMRC has advised of action to address these issues.

4.372 The following table summarises the status of audit issues.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	0	0	1	1
Total	0	0	1	1

Comments on non-material entities

4.373 There were no significant or moderate audit issues noted in non-material entities within the portfolio in 2006–07.

Human Services Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Human Services	Yes	✓	15 Aug 07	15 Aug 07	◆ ▲
CRS Australia	No	✓	15 Aug 07	15 Aug 07	
Centrelink	Yes	✓	30 July 07	30 July 07	▲
Medicare Australia	Yes	✓	14 Aug 07	15 Aug 07	◆
Australian Hearing	Yes	✓	24 Aug 07	5 Sept 07	
Health Services Australia Ltd	No	✓	17 Sept 07	17 Sept 07	
Work Solutions Australia Pty Ltd	No	✓	17 Sept 07	17 Sept 07	

✓: auditor's report unqualified

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Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.374 The Department of Human Services (including the child Support Agency and CRS Australia) was created in October 2004 as part of the Finance and Administration portfolio. The Human Services portfolio was subsequently established as a result of revised Administrative Arrangements Orders that took effect on 30 January 2007. The Department of Human Services (DHS) is the central policy and coordinating entity within the portfolio, with other General Government Sector Entities being Centrelink and Medicare Australia. Non-Government Sector Entities consist of Australian Hearing and Health Services Australia Ltd. The structure of the entities within the portfolio is aligned to provide effective and efficient implementation of Government policy.

4.375 The portfolio covers a broad range of human services delivery matters and services including:

- directing, coordinating and improvements to service delivery;

- ensuring children of separated parents receive financial support from both parents;
- assisting people with injury or disability in finding employment or return to work by providing individualised vocational rehabilitation;
- ensuring payments and services to disadvantaged families with disabilities, indigenous people and people from diverse cultural and linguistic backgrounds;
- administering a range of health and payments programs;
- providing people with a better quality of life by managing their hearing impairment; and
- providing occupational health, safety and medical assessments.

Department of Human Services

4.376 DHS consists of the core department, the Child Support Agency (CSA) and CRS Australia. The core department is small and strategic. The role of the core department is to direct, coordinate and broker improvements to service delivery. CSA is responsible for ensuring that children of separated parents receive the financial support that both their parents are responsible for providing. CRS Australia assists people who have a disability or injury to return to work

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	648.9	487.7
Total expenses	630.2	476.9
Total assets	294.7	169.4
Total liabilities	153.3	107.0

4.377 The increase in income was largely due to: additional funding for New Policy Proposal Funding (NPP) activity for CSA; a new Memorandum of Understanding with the Department of Employment and Workplace Relations and CRS for the provision of vocational rehabilitation programmes.

4.378 The increase in expenses was primarily related to a significant increase in supplier expenses relating to contractor costs, NPP activity and the Access Card; and a \$60 million increase in employee expenses due to an increase in overall staff numbers and rising salaries for officers whose conditions are determined by the Certified Agreement.

4.379 The significant increase in assets was primarily due to a \$58 million equity injection; a \$52 million increase in receivables for departmental outputs; and capitalisation of the Access Card.

4.380 The main factors which resulted in an increase in liabilities were increased employee provisions following an increase in staff numbers relating to the Building a Better CSA and the Access Card programmes and a pay increase within the Certified Agreement; an increase in the provision for makegood; and an increase in supplier payables relating to a programme initiative that accelerated expenses in the fourth quarter for CSA and transactions relating to the Access Card.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 106.3	1 121.5
Total expenses	1 213.6	1 050.7
Total assets	562.1	536.6
Total liabilities	522.9	469.5

4.381 The increase in administered expenses was due mainly to the write-down and impairment of assets and the commencement of the Job Capacity Assessment programme on 1 July 2006, as a key part of the Government's Welfare to Work package.

4.382 The increases in assets and liabilities mainly represent increases in Child Support receivables and payables. Child Support receivables represent net debts owed to CSA by non-custodial parents. The Child Support system operates on a trust accounting basis, with the Commonwealth essentially underwriting the receivables to permit payments to be made to custodial parents. This results in Child Support payables that largely offset the Child Support receivables balance.

Audit results

Summary of audit findings

4.383 The ANAO reported three moderate control weaknesses in the interim phase of the audit. The first issue related to the non-performance of administered reconciliations. This matter has now been resolved. The remaining two matters related to:

- system access and segregation of duties: weaknesses were identified in the management of user access to CSA's financial management information system (FMIS) resulting in weaknesses in the authorisation, delegation and access controls over key financial and payroll transactions; and
- system configuration: settings in the financial management and materials management modules of the CSA FMIS were either not configured, or were inappropriately configured, in relation to purchases and payments, the general ledger and asset purchases.

4.384 CSA has advised that remedial action has been taken to address these issues. The ANAO will review the action taken as part of the 2007–08 audit.

4.385 One moderate weakness was also reported during the final audit relating to the management of human resources. The ANAO identified a number of employees for which valid prior service had not been recognised by CSA.

4.386 The following table provides a summary of the status of previously reported audit issues as well as the 2006–07 audit issues raised by the ANAO since the interim phase of the audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	3	(1)	1	3
Total	3	(1)	1	3

Centrelink

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	2 511.0	2 318.3
Total expenses	2 503.2	2 307.1
Total assets	839.4	799.6
Total liabilities	556.6	568.4

4.387 The increase in income was mainly related to 2006–07 budget initiatives including funding for the Government's Fraud and Compliance measures, Job Capacity Assessments and Drought Assistance.

4.388 The movements in other measures were not significant and largely were the result of fluctuations in normal business activity.

Audit results

Summary of audit findings

4.389 The ANAO reported three moderate control weaknesses in the interim phase of the 2006–07 audit. These issues related to:

- the ANAO performed recalculations of a sample of personal benefit payments and identified one exception due to Centrelink not performing a 'refresh' of customer records after a benefit payment system change was made;
- unresolved variances between the FMIS and the Debt Management Information System. Delays in actioning and clearing variances may reduce the ability of the Commonwealth to collect amounts that are determined to be debts; and
- excessive or inappropriate access being given to users perform various critical business transactions and functions within the FMIS that were inconsistent with their duties. In response, Centrelink advised that it had reviewed individual requirements and was satisfied that the level of access met current business requirements.

4.390 Centrelink has advised it had taken action to address these issues. A review of action taken will be undertaken as part of the 2007–08 audit.

4.391 The following table provides a summary of the status of prior year issues as well as the 2006–07 audit issues raised by the ANAO.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	3	0	0	3
Total	3	0	0	3

Medicare Australia

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	626.0	428.8
Total expenses	623.7	437.2
Total assets	292.0	262.4
Total liabilities	163.0	146.4

4.392 The significant increases in income and expenses reflect the fact that the figures for 2005–06 covered only the nine-month period from 1 October 2005 to 30 June 2006.

4.393 The increase in assets is mainly attributable to the capitalisation of a large number of new fit-outs, as well as the development of software to enhance service delivery in the Medicare office network and to facilitate electronic claiming for Medicare services.

4.394 The increase in liabilities was mainly due to an increase in the value of lease incentive liabilities (due to a number of large value leases being renewed) and an increase in employee benefits due to increased average staffing levels and an annual pay increase.

Audit results

Summary of audit findings

4.395 Medicare Australia administers funds for other agencies such as the Department of Health and Ageing (DoHA) and DVA. The following moderate audit findings relate to these relationships.

4.396 Medicare Australia has developed a statistical model to estimate the Pharmaceutical Benefits Scheme outstanding claims provision at the end of each month. This model has not been reviewed or updated to reflect changes in claiming behavior resulting from the introduction of weekly settlements for on-line claimers under the PBS. As a result, a significant adjustment was required at year-end that did not have a material impact on the financial statements.

4.397 In 2004–05, the Australian Bureau of Statistics (ABS) reviewed the methodology used to estimate PBS and Medicare expenditure leakage. When the application of the methodology was reviewed by ANAO as part of the 2006–07 audit, it was identified that both the PBS and Medicare compliance teams were not strictly applying this methodology, putting at risk the statistical validity of the leakage estimates.

4.398 Medicare Australia has commenced actions to consider the accounting for on-line payments and to make changes to the claims model. Medicare Australia also indicated it was considering how best to provide assurance regarding estimates of expenditure leakage.

4.399 The 2006–07 interim audit found that a revised authority to issue drawing rights for annual appropriations covering the 2006–07 financial year had not been issued to Medicare Australia by the Secretary of DoHA until 2 March 2007. This resulted in non compliance with section 26 of the FMA Act by Medicare Australia for the period from 1 July 2006 to 2 March 2007.

4.400 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised during the 2006–07 final audit phase.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	(1)	2	2
Total	1	(1)	2	2

Australian Hearing

Summary of Financial Results

Departmental Items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	154.0	137.0
Total expenses	143.0	130.0
Total assets	72.0	68.0
Total liabilities	52.0	53.0

4.401 The increase in revenue is mostly attributable to an increase in Community Service Obligation funding, an increase in the number of clients seen and the introduction of a new mid range of ‘top up’ hearing devices.

4.402 The increase in expenditure reflected the increased number and cost of staff required by Australian Hearing and the increase in supplier expenses need to service the increase in activity.

Audit results

Summary of audit findings

4.403 There were no moderate or significant audit issues noted in the 2006–07 audit.

Immigration and Citizenship Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Immigration and Citizenship	Yes	✓	7 Sept 07	7 Sept 07	▲◆
Migration Review Tribunal and Refugee Review Tribunal (MRT-RRT)	No	✓	30 Aug 07	30 Aug 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.404 The Department of Immigration and Citizenship (DIAC) is responsible for enriching Australia through the well managed entry and settlement of people. DIAC's business is managing the permanent and temporary entry of people into Australia, enforcing immigration law, successfully settling migrants and refugees and promoting the benefits of citizenship and cultural diversity.

4.405 The Migration Review Tribunal (MRT) and the Refugee Review Tribunal (RRT) provide independent merits review of general visa decisions and protection visa decisions made by DIAC.

Department of Immigration and Citizenship

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 236.6	1 097.1
Total expenses	1 276.6	1 136.6
Total assets	677.0	483.6
Total liabilities	339.8	258.6

4.406 Income increased mainly due to an increase in appropriation funding in support of initiatives resulting from the Palmer Review. Specific budget measures included 'Systems for People', Securing Borders against illegal foreign fishing, Detention Services Implementation of Review and health services, Enhancement of Immigration Compliance activities, and Migration Legislation amendments.

4.407 The increase in expenditure was due to both increases in activity volumes and new policy proposals, resulting in increased employee and supplier expenses. In addition, employee expenses reflect an increase in salary rates in line with DIAC's Collective Agreement.

4.408 Assets increased primarily due to the revaluation of Land and Building and an increase in Intangible assets.

4.409 DIAC's liabilities increased principally due to an increase in payables associated with the provision of IT services for the 'Systems' for People' project. In addition, the department entered in new finance lease for the provision of IT services and increased employee provisions associated with increased staffing levels and salaries in line with the Certified Agreement.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	633.7	624.7
Total expenses	273.5	339.7
Total assets	21.4	26.6
Total liabilities	36.6	37.0

4.410 Overall, the increase in DIAC's administered income was not significant. The net movement mainly reflects an increase in revenues from fees and charges attributable to increased applications lodged prior to the new requirements to undertake citizenship tests. The increase was offset by a decrease in the recovery of detention costs due to lower numbers of detainees and the implementation of the residential determination programme. In addition, income reduced as a result of the transfer of functions to other agencies.

4.411 The decrease in administered expenses is mainly due to a reduction in grant expenses associated with functions transferred from DIAC to FaCSIA during 2005–06.

4.412 The movement in administered assets and liabilities were not significant and reflected fluctuations in normal business activities.

Audit results

Summary of audit findings

4.413 One new moderate audit finding was identified during the final phase of the 2006–07 financial statements audit. The issue concerned inconsistencies in the reconciliation, validation and reporting of business system transactions to the balances in the FMIS.

4.414 Control weaknesses over integrating and reconciling financial transactions recorded within the FMIS and the recording of business events within business systems could result in material errors in the financial statements.

4.415 Five moderate audit findings, identified during the interim audit phase or earlier audits, remained outstanding and relate to:

- onshore visa business system application security;
- offshore visa business system security and processing controls;
- application and general IT environment change management;
- Business Continuity Planning; and
- management of the Financial Management Information System (FMIS).

Onshore visa business system application security

4.416 The 2005–06 audit identified significant weaknesses associated with IT security governance and control activities for the onshore visa business system. During the 2006–07 audit, the ANAO noted improvements in IT security governance and applications security generally, however, issues relating to the onshore visa business system remain outstanding. Inadequate security controls increases the risk of fraud, data manipulation and data integrity issues.

Offshore visa business system security and processing controls

4.417 The 2005–06 audit identified significant weaknesses associated with security governance and control activities for the offshore visa business system. Notably, the failure to monitor privileged user accounts and sensitive business events, and the absence of a periodic audit log review. Inadequate security controls increases the risk of fraud, data manipulation and data integrity issues.

4.418 DIAC has implemented system changes that will go some way to remediating the security risks, however long term strategies to more effectively manage the systems were still being developed at the timing of the 2006–07 final audit.

Application and general IT environment change management

4.419 The ANAO's review of the change management process identified significant improvements in the controls and oversight of changes made to key systems. Since the interim phase of the 2006–07 audit, a number of discussions have been held over DIAC's progress in remediating the finding.

Business continuity planning

4.420 Since 2002–03, the ANAO has reported weaknesses in DIAC Business Continuity and Disaster Recovery Planning. Failure to adequately maintain and tested the BCPs and DR arrangements may prevent DIAC from restoring critical business processes and systems within an acceptable timeframe, if there is an interruption to operations.

4.421 DIAC has made significant progress in addressing this finding, including the completion of a business impact analysis, a review of all BCPs and the development of a testing schedule for 2007–08. The testing of the new arrangements, as per the testing schedule, will allow the department to assess the effectiveness of the arrangements.

Management of the Financial Management Information System

4.422 In 2005–06 the ANAO raised a significant audit finding in relation to the robustness of controls within DIAC's FMIS, and in particular the alignment between DIAC's policies and business needs, and the internal controls configured in the FMIS.

4.423 DIAC has partially remediated the finding by developing a number of remediation plans that address the FMIS security environment, system parameters and settings. As a result, the risk was reassessed and the finding re-categorised to a moderate audit risk.

4.424 DIAC has yet to develop an overarching framework that assesses and documents DIAC's business needs and policies, and the subsequent alignment of these business needs with the FMIS system parameters and settings.

4.425 DIAC continues to implement strategies to address all audit findings. A review of DIAC's activities against each finding will be undertaken as part of the 2007–08 audit.

4.426 The following table provides a summary of the status of previously reported audit issues as well as of new issues raised during the final phase of the 2006–07 audit:

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	6	(1)	1	6
Total	6	(1)	1	6

Comments on non-material entity

4.427 There were no moderate or significant audit issues noted during the 2006–07 audit of the Tribunal.

Industry, Tourism and Resources Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Industry, Tourism & Resources	Yes	✓	15 Aug 07	15 Aug 07	◆
CVC Reef Limited	No	✓	9 Oct 07	9 Oct 07	
Geoscience Australia	No	✓	28 Aug 07	28 Aug 07	◆
IIF Bioventures Pty Limited	No	⇒	⇒	⇒	
IIF (CM) Investments Pty Limited	No	⇒	⇒	⇒	
IIF Foundations Pty Limited	No	⇒	⇒	⇒	
IIF Investments Pty Limited	No	⇒	⇒	⇒	
IIF Newport Pty Limited	No	⇒	⇒	⇒	
IP Australia	No	✓	27 Aug 07	27 Aug 07	
National Offshore Petroleum Safety Authority	No	✓	20 Aug 07	6 Sept 07	◆
Tourism Australia	Yes	✓	14 Sept 07	14 Sept 07	
Wind Corporation Australia Limited	No	✓	9 Oct 07	9 Oct 07	

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E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.428 The Department of Industry, Tourism and Resources (DITR) is the central policy and coordination agency of the portfolio. DITR develops and implements a range of industry policies and programmes and delivers business services that build on the three key drivers of economic growth of innovation, investment and international competitiveness.

4.429 These policies and programmes are designed to increase the international competitiveness of Australian manufacturing, resources and services industries including tourism as well as developing Australia's innovation and technology capabilities and infrastructure, and facilitate an increased level of foreign investment in Australia.

4.430 The Department works in close partnership with other portfolio entities, the industry, and with a range of other stakeholders, to achieve these goals.

Department of Industry, Tourism and Resources

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	340.5	305.1
Total expenses	339.5	300.3
Total assets	147.1	114.0
Total liabilities	92.1	76.1

4.431 The increase in income and expenses is due to the introduction of new measures during the year, including the set up of administered programmes such as the Liquid Petroleum Gas Vehicle Scheme, and electronic authentication, validation and notary services.

4.432 The increase in assets is primarily due to an increase in leasehold improvements resulting from the fitout of the Department's new head office. The increase in liabilities is primarily attributable to lease incentives for the lease of the new premises.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 185.7	1 066.2
Total expenses	1 827.1	1 868.2
Total assets	553.2	533.8
Total liabilities	307.2	410.4

4.433 The increase in administered revenues is primarily due to an increase in petroleum royalties, resulting from an increase in production levels and global oil prices.

4.434 The decrease in liabilities is primarily due to a decrease in Automotive Competitiveness and Investment Scheme subsidies payable and grants payable relating to various programmes.

Audit results

Summary of audit findings

4.435 The ANAO identified one moderate control weakness in the final audit relating to a significant gap in the reconciliation process used to verify the accuracy of the Automotive Competitiveness and Investment Scheme liability. As a result, processing errors were not detected before the production of the draft financial statements. DITR advised that it has commenced, and made significant progress in, developing enhanced governance processes including multi-level reconciliations and accounting procedures.

4.436 The following table provides a summary of the status of previously reported audit issues as well as new audit issues identified during the 2006–07 audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	0	0	1	1
Total	0	0	1	1

Tourism Australia

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	162.2	167.9
Total expenses	162.8	164.4
Total assets	32.5	39.5
Total liabilities	15.7	22.5

4.437 The decrease in income was due mainly to a reduction in appropriations attributable to non-recurring funding provided in the prior year following the September 11 terrorist attacks in the United States of America.

4.438 Total assets decreased due mainly to a fall in cash holdings at year end.

4.439 The decrease in liabilities is due to a decline in supplier payables due mainly to trade shows in 2007 being held earlier in the year than previously and reduced employee provisions due to a non-recurring prior year redundancy provision.

Audit results

Summary of audit findings

4.440 There were no moderate or significant audit findings noted in 2006–07.

Comments on non-material entities

4.441 There were no moderate or significant audit issues noted in non-material entities within the portfolio in 2006–07, except for Geoscience Australia and the National Offshore Petroleum Safety Authority.

Geoscience Australia

4.442 The following three moderate control issues were identified during the 2006–07 audit of Geoscience Australia.

4.443 Controls over the access to the Financial Management Information System (FMIS) database environment were inadequate. Shortcomings identified included limited audit logs, multiple users for single or generic accounts with limited formal review processes, and password security that

was not compliant with Geoscience Australia's Security Policy or the Australian Government Information and Communications Technology Security Manual (ACSI 33). As a result, there was an increased risk of loss of accountability for actions performed, unauthorised access to the server or operating system, and an increase in the ability to circumvent key application and auditing controls that are established at the application level. Geoscience Australia advised that full data base logging has now been activated in the FMIS.

4.444 Access to the FMIS operating system environment had limited controls, including password controls that were not compliant with Geoscience Australia's Security Policy or ACSI 33 and no formal periodic review was undertaken of user access to the operating system that hosts the financial production environment. In addition, instances were identified where multiple users for a single or generic account were being used rather than assigned to an individual, as well as instances of user accounts existing for contractors no longer engaged by Geoscience Australia.

4.445 No disaster recovery plan (DRP) has been established for the FMIS. The disaster recovery plan for Geoscience Australia's core infrastructure has been prepared, but the plan had yet to be tested. Testing of the infrastructure recovery plan was scheduled to occur by the end of June 2008.

4.446 Geoscience Australia advised that action had been taken or commenced to address these issues. This includes activating full data base logging in the FMIS. Actions taken will be reviewed as part of the 2007–08 audit.

National Offshore Petroleum Authority

4.447 During the year the administration of the payroll function was brought in-house utilising the 'paypac system'. The system was not integrated with the general ledger and reconciliations between the payroll and general ledger systems were inadequate. As a result variances between the systems occurred. However, the Authority took remedial action to address this issue and a full reconciliation was achieved for 30 June 2007.

Parliamentary Departments

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Parliamentary Services	Yes	✓	22 Aug 07	22 Aug 07	◆
Department of the House of Representatives	No	✓	31 Aug 07	6 Sept 07	
Department of the Senate	No	✓	31 Aug 07	31 Aug 07	

✓: auditor's report unqualified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A: auditor's report contains Other Legal and Regulatory Requirements

☞: financial year end date other than 30 June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Parliamentary Departments overview

4.448 There are three parliamentary departments supporting the Australian Parliament:

- Department of Parliamentary Services (DPS);
- Department of the House of Representatives (DHR); and
- Department of the Senate (DoS).

4.449 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.

4.450 DHR 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. DHR 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.

4.451 The main function of DoS is the effective and efficient provision of services to support the Senate, its committees and Senators. DoS also conduct education programs and prepare publications to promote an understanding of the Senate and of parliamentary processes.

Department of Parliamentary Services

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	121.6	119.6
Total expenses	118.1	118.7
Total assets	109.4	106.7
Total liabilities	19.1	19.8

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	0.0	0.0
Total expenses	49.3	45.2
Total assets	1 712.0	1 728.0
Total liabilities	0.0	0.1

4.452 Movements in these items were not significant and were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.453 DPS is responsible for providing IT services and support to all three Parliamentary Departments. Any disruption to IT has the potential to significantly impact the ability of the departments to meet their policy and/or service delivery responsibilities in a timely manner.

4.454 The 2006–07 audit identified one moderate rated issue relating to DPS's Business Continuity Plan. In the event of an unplanned disruption, a lack of critical plans including, an Information Technology (IT) Disaster Recovery Plan and Finance and Human Resource Business Continuity Plan, could adversely affect the continued availability of key resources that sustain and support essential business processes. ANAO observed that some progress has been made towards implementing a department-wide Business Continuity Plan.

4.455 The following table provides a summary of the status of previously reported issues. No issues were identified during the final audit phase of the 2006–07 audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	0	0	1
Total	1	0	0	1

Prime Minister and Cabinet Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of the Prime Minister and Cabinet	Yes	✓	3 Aug 07	3 Aug 07	
Australian National Audit Office	No	✓	26 Jul 07	26 Jul 07	
Australian Public Service Commission	No	✓	28 Aug 07	28 Aug 07	
Commonwealth Ombudsman Office	No	✓	10 Sept 07	11 Sept 07	
National Australia Day Council Limited	No	✓	11 Sept 07	11 Sept 07	
Office of National Assessments	No	✓	19 Sept 07	21 Sept 07	
Office of the Inspector-General of Intelligence and Security	No	✓	2 Sept 07	4 Sept 07	
Office of the Official Secretary to the Governor-General	No	✓	27 Sept 07	27 Sept 07	

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Legal and Regulatory Requirements

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June 2007

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

▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.456 The Department of the Prime Minister and Cabinet (PM&C) and the other seven entities in 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.

Department of the Prime Minister and Cabinet

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	147.3	99.6
Total expenses	155.1	80.9
Total assets	94.2	65.8
Total liabilities	33.4	20.7

4.457 The increase in income and expenses was largely due to activities associated with the Asia Pacific Economic Cooperation (APEC) 2007 Conference.

4.458 The increase in assets was mainly related to the acquisition of assets and fit out of new premises.

4.459 The increase in liabilities also principally relates to an increase in supplier payables and employee provisions relating to APEC.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	9.0	7.1
Total expenses	11.9	14.4
Total assets	44.9	33.3
Total liabilities	13.1	14.4

4.460 Administered expenses decreased in line with the decrease in the number of ceremonies of state during the year.

4.461 The increase in administered assets was the result of a revaluation increment for land and buildings.

4.462 Movements in other items were not significant and were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.463 The ANAO reported one moderate control weakness during the interim phase of the audit, relating to weaknesses in reconciliation processes of the Department's bank accounts and appropriation draw downs. The ANAO observed that PM&C had satisfactorily addressed this issue at the time of the final audit.

4.464 The following table provides a summary of the status of previously reported audit issues. No new moderate or significant issues were identified in the final phase of the audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	(1)	0	0
Total	1	(1)	0	0

Comments on non-material entities

4.465 There were no moderate or significant audit issues noted in non-material entities within the portfolio in 2006–07.

Transport and Regional Services Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Transport and Regional Services	Yes	✓	8 Aug 07	9 Aug 07	◆
Airservices Australia	Yes	✓	28 Aug 07	29 Aug 07	◆
Australian Maritime College ☞ 31 December 2006	No	✓	16 Mar 07	22 Mar 07	
A. M. C. Search Limited ☞ 31 December 2006	No	✓	16 Mar 07	22 Mar 07	
Australian Maritime Safety Authority	No	✓	25 Sept 07	25 Sept 07	
Australian Rail Track Corporation	Yes	✓	29 Aug 07	30 Aug 07	
Civil Aviation Safety Authority	Yes	✓	29 Aug 07	30 Aug 07	
National Capital Authority	Yes	✓	2 Aug 07	2 Aug 07	
National Transport Commission	No	✓	10 Sept 07	10 Sept 07	

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Legal and Regulatory Requirements

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▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.466 The Transport and Regional Services portfolio comprises the Department of Transport and Regional Services and a number of statutory authorities that are responsible for delivering transport and regional development programmes and services to assist the Minister for Transport and Regional Services to achieve the Government's desired outcomes for the benefits of the Australian community.

4.467 Transportation is an important element in Australia's economic prosperity, ensuring all Australians have access to a high standard of general services and facilities that are safer, more effective and efficient.

4.468 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.

4.469 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.

Department of Transport and Regional Services

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	218.5	223.5
Total expenses	227.4	223.2
Total assets	145.8	168.9
Total liabilities	55.2	51.1

4.470 During the year the Jervis Bay Territory Programme was restructured and reclassified from departmental to an administered programme. This resulted in a decrease in income due to the lapsing of some programme funds and the decrease in assets was as a result of the transfer of land, buildings, plant and equipment and an appropriation receivable to administered assets. This was partially offset by an increase in cash, at year end, and an increase in the capitalisation of internally developed software.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	246.0	322.6
Total expenses	4 440.4	4 076.3
Total assets	4 521.7	4 603.6
Total liabilities	31.5	25.2

4.471 The decrease in income was due to the cessation of the Stevedoring levy and cessation of the aircraft noise levy at the Sydney airport from 1 July 2006.

4.472 Expenses increased due to the expansion of a number of programmes, including Improving the National Network programme, an increase in suppliers expenses and increased depreciation due to transfer of Jervis Bay Territory assets to administered items.

4.473 The decline in investments relating to Air Services Australia, Australian Maritime Safety Authority and Civil Aviation Safety Authority resulted in a decrease in assets. This decrease was offset by the upwards revaluation of infrastructure, plant and equipment, heritage and cultural assets and an increase in prepayments for Strategic Regional Programme.

4.474 The increase in liabilities was as a result of increased credit card purchases which remained unpaid at the end of the year. There was also an increase of grants payable in relation to the Financial Assistance Grants programme.

Audit results

Summary of audit findings

4.475 The ANAO reported one moderate control issue relating to management of Sydney Noise Amelioration Programme in the interim phase of the 2006–07 audit. The ANAO made a recommendation that was directed at improving the documentation of important program decisions in future. This has been considered by DOTARS.

4.476 During the final phase of audit, the ANAO identified one moderate control weakness relating to grants management and reporting. The audit found that for the supplementary AusLink roads to Recovery Programme, no quarterly expenditure reports had been received by DOTARS in accordance with the funding agreement. In other grants programmes, the States, Territories and local governments had not always provided monthly and quarterly expenditure reports and had frequently submitted reports outside the timeframes specified in grant agreements. The ANAO considered that DOTARS should improve the management of grant programmes in accordance with agreed terms and conditions. DOTARS has agreed to address this matter. A range of issues relating to the administration of the Regional Partnerships Programme are also outlined in Audit Report No.14 2007–08. The

audit also found that DOTARS had been recognising grant expenses in a manner that was inconsistent with the principles applied in recognising prepayments for the AusLink and Strategic Regional Programmes. DOTARS has agreed to resolve this issue in the broader context of grants recognition.

4.477 The following table provides a summary of the status of previously reported audit issues as well as new audit issues identified during the 2006–07 audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	1	(1)	1	1
Total	1	(1)	1	1

Airservices Australia

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	728.7	683.5
Total expenses	575.4	547.8
Total assets	785.2	706.8
Total liabilities	400.2	388.8

4.478 The increase in assets is due primarily to an increase in the value of the defined benefit fund asset, the purchase of additional infrastructure, plant and equipment and an upwards revaluation of land and buildings, partly offset by a decrease in deferred tax assets.

4.479 Movements in other items were not significant and were the result of fluctuations in normal business activities.

Audit results

Summary of audit findings

4.480 The 2006–07 audit identified two moderate control weaknesses relating to the need for Airservices Australia to implement a Disaster Recovery Plan for

key revenue systems and inadequate enforcement of change management procedures relating to key financial systems.

4.481 The following table provides a summary of the status of previously reported audit issues as well as new audit issues identified during the 2006–07 audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	0	0	0	0
B	0	0	2	2
Total	0	0	2	2

Australian Rail Track Corporation Ltd

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	584.6	786.0
Total expenses	794.8	437.4
Total assets	1 441.7	1 616.3
Total liabilities	213.6	180.6

4.482 The significant decrease in income is largely attributable to income for 2005–06 including a \$270 million unconditional special government grant. No similar grant was received in 2006–07.

4.483 The increase in expenses was largely caused by the recognition of an impairment loss of \$334 million due to the write-down of NSW assets based on an assessment of the network's value-in-use using projected cash flows over a 20 year forecast period. Expenses also increased in relation to incident costs, infrastructure maintenance and depreciation and amortisation.

4.484 The decrease in assets was largely due to a significant reduction in cash at year end as a result of an increase in investments in term deposits and commercial paper. This was partly offset by a large increase in the deferred tax asset due to an increase in the forecast of future profits.

4.485 The increase in liabilities relates to higher supplier and trade payables at year-end, due to increased capital expenditures.

Audit results

Summary of audit findings

4.486 There were no moderate or significant issues noted during the 2006–07 audit.

Civil Aviation Safety Authority

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	128.4	118.0
Total expenses	115.8	120.5
Total assets	79.5	67.6
Total liabilities	34.9	36.5

4.487 The increase in income primarily relates to increases in aviation fuel excise and regulatory service fees due to increased activity and demand.

4.488 The decrease in expenses is attributable to 2005–06 expenses reflecting redundancy and organisational restructure expenses.

4.489 The increase in assets is the result of a number of factors including an increase in investments, an increase in infrastructure, plant and equipment as a result of a revaluation, an increase in lease incentives related to the new Head Office building and a decrease in intangibles related to amortisation expenses for the year.

4.490 The movement in liabilities was not significant.

Audit results

Summary of audit findings

4.491 There were no moderate or significant issues noted during the 2006–07 audit.

National Capital Authority

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	19.7	19.9
Total expenses	20.4	20.4
Total assets	15.6	19.6
Total liabilities	7.8	11.1

4.492 The movements in income and expenses during 2006–07 were not significant.

4.493 The decrease in assets was due mainly to a reduction in receivables and cash held at year end.

4.494 The reduction in liabilities relates mainly to decreases in monies received in advance for construction of memorials. The 2005–06 balance also included outstanding payments for unusual items including storm damage repairs and accrued water and sewerage utility expenses.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	3.9	1.0
Total expenses	9.7	9.6
Total assets	456.7	414.6
Total liabilities	0.6	0.9

4.495 The increase in administered income relates mainly to an increase in contributions received for memorial construction.

4.496 The increase in administered assets resulted from increments in land valuations during 2006–07. Movements in administered expenses and liabilities during 2006–07 were not significant.

Audit results

Summary of audit findings

4.497 There were no moderate or significant audit issues noted during the 2006–07 audit.

Comments on non-material entities

4.498 There were no moderate or significant audit issues noted in non-material entities within the portfolio in 2006–07.

Treasury Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of the Treasury	Yes	✓	10 Aug 07	10 Aug 07	
Australian Accounting Standards Board	No	✓	5 Sept 07	5 Sept 07	
Auditing and Assurance Standards Board	No	✓	5 Sept 07	5 Sept 07	
Australian Bureau of Statistics	Yes	✓	3 Aug 07	3 Aug 07	
Australian Competition and Consumer Commission	No	✓	29 Aug 07	29 Aug 07	
Australian Office of Financial Management	Yes	✓	14 Aug 07	14 Aug 07	
Australian Prudential Regulation Authority	No	✓	30 Aug 07	30 Aug 07	
Australian Reinsurance Pool Corporation	Yes	✓	11 Sept 07	11 Sept 07	
Australian Securities and Investments Commission	Yes	✓	20 Jul 07	20 Jul 07	
Australian Taxation Office	Yes	✓	20 Sept 07	20 Sept 07	◆▲
Australian Valuation Office	No	✓	24 Aug 07	27 Aug 07	
Corporations and Markets Advisory Committee	No	✓	27 Aug 07	27 Aug 07	
HIH Claims Support Ltd	No	✓	6 Aug 07	8 Aug 07	
National Competition Council	No	✓	29 Aug 07	29 Aug 07	◆
Office of the Inspector General of Taxation	No	✓	21 Aug 07	21 Aug 07	
Productivity Commission	No	✓	16 Aug 07	17 Aug 07	
Reserve Bank of Australia	Yes	✓	9 Aug 07	9 Aug 07	
Reserve Bank of Australia Officers' Superannuation Fund	No	✓	26 Oct 07	26 Oct 07	
Royal Australian Mint	No	✓	3 Sept 07	3 Sept 07	◆

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▲: moderate or significant issues reported previously not resolved

◆: new moderate or significant issues noted

Portfolio overview

4.499 The Treasury portfolio consists of the Department of the Treasury and a large number of statutory and non-statutory bodies. The portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth and the improved wellbeing of Australians. This entails the provision of policy advice to portfolio Ministers, which seeks to promote a sound macroeconomic environment; effective government spending arrangements; effective taxation and retirement income arrangements; and well functioning markets. It also entails the effective implementation and administration of policies that fall within the portfolio Ministers' responsibilities.

Department of Treasury

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	142.2	140.9
Total expenses	152.6	123.6
Total assets	73.7	78.9
Total liabilities	39.8	34.9

4.500 The increase in expenses is mainly due to higher media advertisement expenses and higher employee expenses for the Financial Literacy Foundation education campaign.

4.501 Movements in other items were not significant and reflected fluctuations in normal business activities.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	1 873.0	2 169.6
Total expenses	39 955.6	38 639.7
Total assets	16 564.3	20 432.6
Total liabilities	4 929.3	5 097.8

4.502 The decrease in administered income was mainly attributable to a decrease in the dividend received from the Reserve Bank of Australia (RBA). In addition, the appreciation of the Australian Dollar during the financial year against currencies the Department of Treasury have assets and liabilities denominated in, resulted in a foreign exchange loss in 2006–07 rather than a gain as reported in 2005–06.

4.503 Expenses increased due to higher payments made to the State and Territory Governments for Goods and Services Tax (GST) collections. The higher payments were as a result of growth in economic activity in 2006–07. In addition, there was a net foreign exchange loss recorded due to appreciation of the Australian dollar against currencies in which the Department of the Treasury hold a number of investments.

4.504 The significant decrease in administered assets can be attributed to a decrease in the value of investments held in Australian government entities, the RBA in particular.

4.505 Administered liabilities have decreased as a result of the payment of claims to the HIH Claims Support Scheme and the annual actuarial assessment of outstanding assets and liabilities, resulting in a fall in the claims provided for. In addition, there was a decrease in the valuation of IMF Special Drawing Rights (SDR) allocation due to appreciation of the Australian dollar against the SDR rate.

Audit results

Summary of audit findings

4.506 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Bureau of Statistics

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	438.2	339.0
Total expenses	437.6	338.9
Total assets	169.4	170.7
Total liabilities	109.5	113.0

4.507 The increase in income and expenses was due primarily to additional funding received, and additional costs incurred, as a result of the Australian Bureau of Statistics undertaking the 2006 Census. The increased expenditure impacted both employee and supplier expenses.

4.508 Movements in assets and liabilities were not significant and reflected fluctuations in normal business activities.

Audit results

Summary of audit findings

4.509 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Office of Financial Management

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	10.1	9.5
Total expenses	8.4	8.6
Total assets	13.0	11.3
Total liabilities	1.4	1.3

4.510 Movements in these items were not significant and reflected fluctuations in normal business activities.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income before re-measurements	3 134.8	3 472.1
Total expenses before re-measurements	5 395.0	5 693.5
Re-measurement	1 014.7	1 107.7
Total assets	23 283.7	21 144.3
Total liabilities	57 138.3	58 927.3

4.511 The decrease in administered income before re-measurements was primarily due to lower interest revenue on term deposits and domestic interest rate swaps. Lower interest revenue on term deposits and interest rate swaps is largely attributable to lower average term deposit investment levels and a lower value of swap contracts outstanding in 2006–07 compared to 2005–06.

4.512 The decrease in expenses before re-measurements is mainly attributable to the finalisation, in 2005–06, of compensation payments to the States and the Northern Territory under the *Financial Agreement Act 1994*. A reduction in interest expense for Commonwealth Government Securities and domestic interest rate swaps also contributed to the overall reduction in expenses before re-measurement.

4.513 The movement in assets is represented by an increase in the level of investments held. The AOFM manages the overall level of cash held in the Official Public Account through short-term deposits with the Reserve Bank of Australia. This was partially offset by principal repayments totalling \$86 million made by the State and Territory Governments for State housing loans.

4.514 Liabilities decreased in 2006–07 due to the maturity of Treasury bonds. The decrease in Treasury bonds has been partially offset by the issuance of new Treasury bonds and the upward fair value adjustments to the value of Commonwealth Government Securities as a result of changes in market interest rates.

4.515 In 2006–07 the AOFM made a change to their administered accounting policy. In 2005–06 housing loans to the State and Territory governments were measured at fair value with the resultant gain or loss being reflected in the Income Statement. As a result of revisions made to Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*,

concessional loans are now valued at amortised cost. The change in accounting policy has resulted in a restatement of the AOFM's administered revenues and expenses for 2005–06.

Audit results

Summary of audit findings

4.516 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Reinsurance Pool Corporation

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	115.7	113.4
Total expenses	4.4	3.9
Total assets	378.9	281.7
Total liabilities	46.9	61

4.517 The movement in revenues is largely attributed to an increase in investment revenue which was partially off-set by a reduction in premium revenue. In 2006–07 the Australian Reinsurance Pool Corporation (ARPC) continued to invest surplus cash with the Reserve Bank of Australia (RBA) and with other financial institutions through fund manager, Suncorp Investment Management. There was also a marginal increase in the weighted average interest rate that contributed to the increase in investment revenue. The reduction in premium revenue occurred as a result of two refunds made during the year that related to revenue recognised in the prior year.

4.518 ARPC's increased expenses mainly related to the treatment of acquisition costs. ARPC's accounting policy in relation to these costs is to expense the prior year acquisition costs capitalised in full. In the prior year the amount capitalised increased as a result of the 'Cedant Review Program'. This program related to the performance of a review of a number of ARPC's cedants (policy holders) to ensure that the premium revenue remitted was accurate. This amount was capitalised in the prior year and written-off as an expense in 2006–07, resulting in an increase in expenditure. This increase was

partially off-set by a reduction in consultant expenses due to a change in the focus of the ‘Cedant Review Program’.

4.519 The increase in assets was primarily attributed to an increase in the funds invested with the RBA and an increase in the funds managed by Suncorp Investment Managers. All surplus funds in 2006–07 were invested with the RBA and with other financial institutions through fund manager, Suncorp Investment Managers as term deposits and at-call accounts.

4.520 The reduction in ARPC’s liabilities was due to an unsettled investment reflected in the prior year payables. ARPC purchased an investment through Suncorp Investment Managers on 30 June 2006 however, at balance date the funds had not been transferred from ARPC’s bank account. This was a one off transaction.

Audit results

Summary of audit findings

4.521 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Securities and Investments Commission

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	257.9	224.7
Total expenses	255.7	218.0
Total assets	109.1	78.3
Total liabilities	87.8	67.9

4.522 The increase in income was the result of additional government funding to sustain ASIC's surveillance, supervision and oversight capability. In addition, specific funding was also provided to meet enforcement costs for specific matters through the establishment of a Departmental Special Account.

4.523 The increase in expenses was due to several factors. Employee costs were higher due to both increases in staff numbers, and in average salaries in

accordance with the certified agreement. Supplier expenses were higher primarily due to increased litigation and enforcement activity.

4.524 The movement in assets is attributable to higher levels of cash on hand due to an increase in accrued expenditure and employees provisions that will be settled in the 2007–08 and future financial years, increased expenditure on leasehold improvements, and revaluation increments that occurred during the year.

4.525 The increase in liabilities was primarily due to higher accruals for specific litigation projects, and property lease incentives granted from new rental agreements.

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	558.5	585.9
Total expenses	50.2	47.8
Total assets	79.4	76.2
Total liabilities	4.6	4.2

4.526 The reduction in administered income was attributable to a reduction in both company registration fees and late fees and penalties.

4.527 Movements in other items were not significant and reflected fluctuations in normal business activities.

Audit results

Summary of audit findings

4.528 There were no moderate or significant audit issues noted during the 2006–07 audit.

Australian Taxation Office

Summary of Financial Results

Departmental items

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	2 661.8	2 517.5
Total expenses	2 601.1	2 526.3
Total assets	877.0	763.2
Total liabilities	836.2	805.6

4.529 The increase in revenue is largely due to increased appropriation revenue to fund compliance initiatives, plus the administration of new measures including Super Simplification, Fuel Excise Reform and the Tax Practitioner Legislative Framework.

4.530 The increase in expenses relates to increased information technology usage, advertising associated with Super Simplification and increased rental accommodation costs associated with new leases.

4.531 Assets increased due to an increase in the appropriations receivable, leasehold improvements for new Canberra office accommodation, capital expenditure on information technology systems, and prepayment of rent and maintenance agreements.

4.532 The net increase in liabilities relates to an increase in employee leave provisions and work not yet billed in relation office accommodation, advertising and the development of computer software, offset by a reduction in lease liabilities and other provisions (compensation).

Items administered on behalf of the Australian Government

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	254 821	238 619
Total expenses	12 768	11 151
Total assets	21 384	20 760
Total liabilities	6 759	7 493

4.533 The increase in total income is a reflection of the strong performance by companies particularly in the resources and finance sectors plus the strong labour market.

4.534 The increase in expenses is the result of: a growth in the number beneficiaries under the new fuel tax credit schemes reflecting the expansion of the schemes and relaxation of eligibility requirements; doubling of the superannuation co-contribution; and an increase in penalty remission expenses following a comprehensive review of debt cases.

4.535 The increase in assets is due mainly to an increase in taxation receivables caused by the strong economy and also the growth in both company and individual taxation.

4.536 The decrease in liabilities reflects changes in the estimation process for provisions for refunds and also streamlining of the processing of tax refunds.

Audit results

Summary of audit findings

Significant Risk Matters – Category A

4.537 During the 2006–07 final audit, no new significant risk matters were identified that would impact upon the reliability of information reported in the financial statements.

Outstanding significant risk matters from prior years

4.538 ANAO reported two significant risk matters in the interim phase of the 2006–07 audit. During the final phase of the audit the ANAO observed that ATO had effectively addressed the significant risk issue relating to administered cash management. The ANAO found, during the final phase of the audit, that ATO had documented procedures for the administered cash reconciliation, and maintains documentation to support variances identified during this process.

4.539 Progress has also been made on the second risk matter, ATO's review of its security policies in accordance with the Australian Government Protective Security Manual. The ANAO has reported previously that weaknesses in the application of secure storage principles may increase the risk that information and data is inappropriately distributed or increase the risk of unauthorised persons gaining access to classified information or data. However, further work needs to be undertaken by the ATO to ensure all

documents and information are compliant. The ATO is implementing a number of other initiatives to address the security issue.

Moderate Risk Matters – Category B

4.540 The ANAO reported seven moderate control weaknesses in the interim phase of the audit. During the final phase of the audit the ANAO observed that ATO had effectively addressed the moderate risk issue relating to the management of the Superannuation Holdings Account Special Account. This matter related to the need to investigate and correct discrepancies in the opening balance of the account. ATO liaised with Finance on this issue, and disclosed a correction to the account in its 2006–07 financial statements.

4.541 ANAO also observed considerable efforts had been undertaken by the ATO to address the following three previously reported moderate risk issues:

- preparation of the administered financial statements;
- provision of supporting documentation for administered financial statements; and
- disaster recovery planning for the data warehouse.

4.542 Following remedial actions taken by the ATO to date on the above three issues, the ANAO has assessed them as no longer posing a moderate business or financial risk to the ATO and has downgraded them to 'C' findings.⁷¹

Outstanding moderate risk matters from prior years

4.543 The 2006–07 audit identified that reasonable progress had been made to resolve a further three outstanding moderate risk issues previously reported. The ANAO has observed the ATO has plans in place to address issues in relation to:

- the superannuation quality assurance process: The ATO performs quality assurance reviews of the work performed by its staff to gain assurance that its policies and procedures are effective and are being appropriately applied. Deficiencies were identified in the application of the statistical sampling methodology, independence of panel members when reviewing their own areas of work and the validity of some errors raised. The weaknesses identified increased the risk that

⁷¹ The ANAO's ratings of audit findings is referred to in Chapter 3 of this report.

conclusions drawn from the superannuation quality assurance process may not be appropriate and representative, therefore reducing the level of assurance provided to the ATO executive;

- IT security management: The ANAO identified limitations in ATO's IT Security Policy's coverage of the management of IT security incidents, requirements for testing of third party software products, reviews of physical access to data centres and adequacy of internal compliance reviews. The ANAO also identified weaknesses in responsibilities for mainframe security access and procedures for user access. Weaknesses in IT security increased the risk that critical security procedures were not implemented and that the ATO may not appropriately respond to IT security incidents; and
- service level agreements with other Australian Government agencies: The ATO has a number of agreements with other agencies for the provision and receipt of services. Some Memoranda of Understanding (MOUs) had expired and were in the process of renegotiation. The ATO should continue efforts to establish or update Service Level Agreements and MOUs to ensure that there is a formal basis for the provision of services on behalf of other agencies.

New moderate risk matters identified

4.544 Three new issues were identified in the final phase of the 2006–07 audit. A summary of these issues is provided below.

4.545 The Electronic Lodgement System (ELS) processing application is central to processing of income tax returns and income tax exceptions. Both ATO Trusted Access and the ANAO identified weaknesses in relation to user access management, such as inappropriate creation of test and training accounts, lack of user reviews and user accounts in existence that should have been deleted or disabled. User access control weaknesses increase the risk of unauthorised user access to computer systems, or increase the risk that the user access level may not be appropriate.

4.546 During the audit the ANAO also identified a number of issues relating to the process for granting access to mainframe applications. These weaknesses included no quality processes to ensure appropriateness of matrices used, low priority being given to deactivating user access when no longer required and users being assigned to incompatible user groups. These weaknesses increased the risk of unauthorised and/or inappropriate user access.

4.547 The third moderate control weakness identified related to the recognition of Administered cash on hand at balance date. The variance identified was due to a change in the methodology for recognition of transactions recorded on or after 1 July 2007. The ANAO has recommended the ATO revert to the methodology used in prior years for reporting the actual cash on hand as at 30 June to ensure financial information is completely and accurately disclosed. An adjustment was made to the financial statements accordingly.

4.548 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised during the final audit phase of the 2006–07 audit.

Ratings	Opening position (at end of 2007 interim phase)	Issues resolved (during 2007 final audit phase)	New issues identified (during 2007 final audit phase)	Closing position (at conclusion of 2007 final audit)
A	2	(1)	0	1
B	7	(4)*	3	6
Total	9	(5)	3	7

* Includes three issues reclassified from Category B to Category C.

Reserve Bank of Australia

Summary of Financial Results

Key financial measures for year	2006–07 \$m	2005–06 \$m
Total income	2 710.0	4 498.0
Total expenses	4 103.0	2 405.0
Total assets	131 894.0	105 447.0
Total liabilities	123 276.0	94 239.0

4.549 The decrease in income is mostly attributable to net unrealised losses on securities and foreign exchange holdings, as a result of the appreciation of the Australian dollar. The loss was partially offset by an increase in the RBA's earnings from other areas. The RBA's value of earnings from other sources was \$1 381 million, compared with \$1 156 million in 2005–06.

4.550 Expenses increased in 2006–07 as a result of higher global interest rates and a higher level of deposits.

4.551 Assets and liabilities increased as a result of the higher level of Government deposits, mainly denominated in US dollars, arising from the Government's fiscal surplus and the proceeds from the sale of Telstra shares.

Audit results

Summary of audit findings

4.552 There were no moderate or significant audit issues noted during the 2006–07 audit.

Comments on non-material entities

4.553 There were no moderate or significant audit issues noted in non-material entities within the portfolio except for the National Competition Council and the Royal Australian Mint.

National Competition Council

4.554 The ANAO identified one moderate audit issue in 2006–07 in relation to a breach of the National Competition Council's (NCC) section 31 agreement.

4.555 The NCC has a valid section 31 agreement in place that allows the Council to retain certain monies earned. However in 2006–07, the NCC retained monies relating to Freedom of Information (FOI) requests. The current section 31 agreement does not have receipts related to FOI requests included as an allowable source of income to retain.

Royal Australian Mint

4.556 One moderate risk issue was identified during the 2006–07 audit. The Royal Australian Mint receives revenue for the minting of circulating coins in accordance with a Memorandum of Understanding (MOU) with the Department of the Treasury. Under the MOU the Mint is entitled to be reimbursed for all direct costs of manufacturing minted circulating coin, a proportion of indirect costs relating to manufacturing minted circulating coin plus some other elements.

4.557 The ANAO noted that the amount of revenue retained by the Mint was not calculated in accordance with this MOU. Subsequent to the retention of this revenue, the Mint obtained agreement from the Department of the Treasury to use a different calculation method to that contained in the MOU. Without this agreement, there was a risk that the Mint would not be entitled to retain these monies. The Mint and the Department of the Treasury are currently reviewing the MOU.



Ian McPhee
Auditor-General

Canberra ACT
20 December 2007

Appendices

Appendix 1: Revised portfolio and departmental administered arrangements as at 3 December 2007.

The following table provides details of revised portfolio and departmental administrative arrangements that took effect on 3 December 2007. This table does not include changes to other portfolio entities as a result of the Administrative Arrangement Order of 3 December 2007.

Portfolio and departmental arrangements at 30 June 2007	Revised arrangements with effect from 3 December 2007
Agriculture, Fisheries and Forestry Portfolio <ul style="list-style-type: none"> Department of Agriculture, Fisheries and Forestry 	Agriculture ,Fisheries and Forestry Portfolio <ul style="list-style-type: none"> Department of Agriculture, Fisheries and Forestry
Attorney-General's Portfolio <ul style="list-style-type: none"> Attorney-General's Department 	Attorney-General's Portfolio <ul style="list-style-type: none"> Attorney-General's Department
Communications, Information Technology and Arts Portfolio <ul style="list-style-type: none"> Department of Communications, Information 	Portfolio abolished <ul style="list-style-type: none"> Department abolished New Portfolio of Broadband, Communications and the Digital Economy <ul style="list-style-type: none"> New Department of Broadband, Communications and the Digital Economy
Defence Portfolio <ul style="list-style-type: none"> Department of Defence Department of Veterans' Affairs 	Defence Portfolio <ul style="list-style-type: none"> Department of Defence Department of Veterans' Affairs

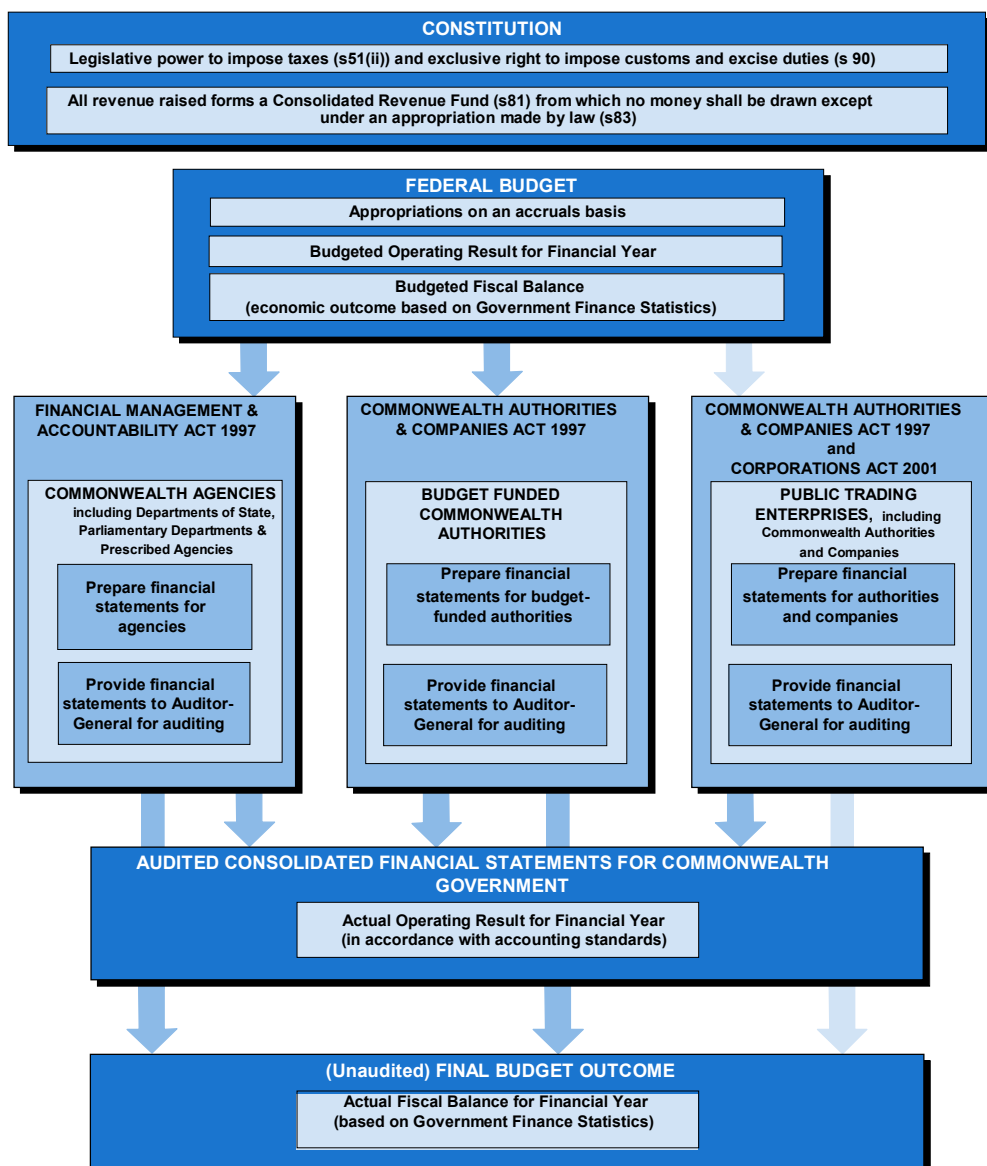
Portfolio and departmental arrangements at 30 June 2007	Revised arrangements with effect from 3 December 2007
<p>Education, Science and Training Portfolio</p> <ul style="list-style-type: none"> • Department of Education, Science and Training 	<p>New Portfolio of Education, Employment and Workplace Relations</p> <ul style="list-style-type: none"> • New Department of Education, Employment and Workplace Relations
<p>Environment and Water Resources Portfolio</p> <ul style="list-style-type: none"> • Department of the Environment and Water Resources 	<p>Environment, Water, Heritage and the Arts Portfolio</p> <ul style="list-style-type: none"> • Department of Environment, Water, Heritage and the Arts
<p>Employment and Workplace Relations Portfolio</p> <ul style="list-style-type: none"> • Department of Employment and Workplace Relations 	<p>Portfolio abolished</p> <ul style="list-style-type: none"> • Department abolished <p>Functions incorporated into:</p> <ul style="list-style-type: none"> • Education, Employment and Workplace Relations Portfolio; and • Department of Education, Employment and Workplace Relations
<p>Families, Community Services and Indigenous Affairs Portfolio</p> <ul style="list-style-type: none"> • Department of Families, Community Services and Indigenous Affairs 	<p>Families, Housing, Community Services and Indigenous Affairs Portfolio</p> <ul style="list-style-type: none"> • Department of Families, Housing, Community Services and Indigenous Affairs
<p>Finance and Administration Portfolio</p> <ul style="list-style-type: none"> • Department of Finance and Administration 	<p>Finance and Deregulation Portfolio</p> <ul style="list-style-type: none"> • Department of Finance and Deregulation
<p>Foreign Affairs and Trade Portfolio</p> <ul style="list-style-type: none"> • Department of Foreign Affairs and Trade 	<p>Foreign Affairs and Trade Portfolio</p> <ul style="list-style-type: none"> • Department of Foreign Affairs and Trade
<p>Health and Ageing Portfolio</p> <ul style="list-style-type: none"> • Department of Health and Ageing 	<p>Health and Ageing Portfolio</p> <ul style="list-style-type: none"> • Department of Health and Ageing

Portfolio and departmental arrangements at 30 June 2007	Revised arrangements with effect from 3 December 2007
Human Services Portfolio <ul style="list-style-type: none"> • Department of Human Services 	Human Services Portfolio <ul style="list-style-type: none"> • Department of Human Services
Immigration and Citizenship Portfolio <ul style="list-style-type: none"> • Department of Immigration and Citizenship 	Immigration and Citizenship Portfolio <ul style="list-style-type: none"> • Department of Immigration and Citizenship
Industry, Tourism and Resources Portfolio <ul style="list-style-type: none"> • Department of Industry, Tourism and Resources 	Portfolio abolished <ul style="list-style-type: none"> • Department abolished New Portfolio of Innovation, Industry, Science and Research <ul style="list-style-type: none"> • New Department of Innovation, Industry, Science and Research • New Department of Resources, Energy and Tourism
Parliamentary Departments <ul style="list-style-type: none"> • Department of Parliamentary Services • Department of the House of Representatives • Department of the Senate 	Parliamentary Departments <ul style="list-style-type: none"> • Department of Parliamentary Services • Department of the House of Representatives • Department of the Senate
Prime Minister and Cabinet Portfolio <ul style="list-style-type: none"> • Department of Prime Minister and Cabinet 	Prime Minister and Cabinet Portfolio <ul style="list-style-type: none"> • Department of Prime Minister and Cabinet • New Department of Climate Change

Portfolio and departmental arrangements at 30 June 2007	Revised arrangements with effect from 3 December 2007
<p>Transport and Regional Services Portfolio</p> <ul style="list-style-type: none"> • Department of Transport and Regional Services 	<p>Infrastructure, Transport, Regional Development and Local Government Portfolio</p> <ul style="list-style-type: none"> • Department of Infrastructure, Transport and Regional Development and Local Government
<p>Treasury Portfolio</p> <ul style="list-style-type: none"> • Department of the Treasury 	<p>Treasury Portfolio</p> <ul style="list-style-type: none"> • Department of the Treasury

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, a summary of 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 2006 and the audit report thereon were published in December 2006. 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 Australian Government entities' financial statements

Audit scope

The Chief Executives of agencies, and the directors of authorities and companies, are responsible for the truth and fairness of the financial statements and for the records, controls, procedures and organisation that support the preparation of those statements. The ANAO's independent audits of financial statements are undertaken to form an opinion whether, in all material respects, the statements are true and fair.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards (AAS), 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 AASs 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 auditor's report on financial statements

The auditor's 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.

The various types of auditor's reports that can be issued are explained below.

Unqualified Audit Reports

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 (including the Australian Accounting Interpretations) 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

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

The types of qualified audit opinions and the basis for issuing 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

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

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.⁷² The Auditor-General may also refer to contraventions of other statutory requirements that he considers significant.

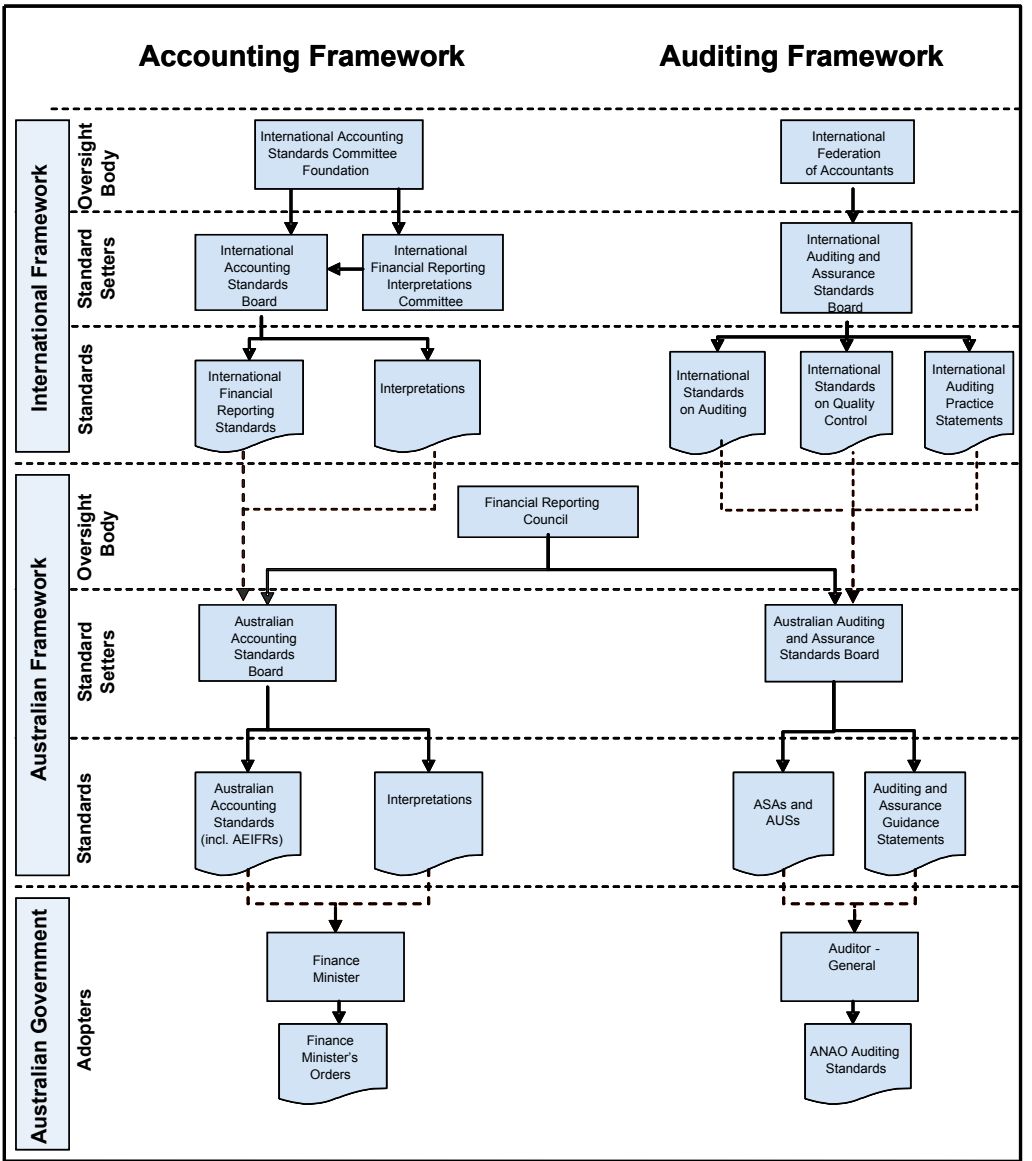
The 'other legal and regulatory requirements' section of the audit report allows the Auditor-General to draw to the attention of Parliament significant departures from the financial management framework that affect an entity's financial report.

Further, the ANAO does not audit all subsidiaries of Australian Government entities for reasons including the impracticability of auditing overseas subsidiaries. There are also some instances where the ANAO issues an audit report on consolidated financial statements where an immaterial subsidiary's accounts have not yet been finalised and audited. In these cases, the audit report on the entity's consolidated financial statements will contain an additional statutory disclosure stating this fact in accordance with Schedule 1, Part 2 Section 6(2) & (3) of the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

⁷² Section 48 of the FMA Act, together with Order 2.3 of the FMOs, requires that the accounts and records of each entity properly record and explain the entity's transaction and financial position.

Appendix 3: The Accounting and Auditing Standards Frameworks

The figure below depicts the standard setting framework, for accounting and auditing, in the Australian Government context.



* From 1 July 2006, the AASB is responsible for accounting interpretations, formerly the responsibility of the Urgent Issues Group.

Source: ANAO

Appendix 4: Numbers of audit findings

Table A 1

Moderate or significant findings of significant entities⁷³, grouped by portfolio, at the interim audit phase

Entity	2006–07 Rating		2005–06 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	0	0	1
Attorney-General's Department	0	3	0	5
Australian Customs Service	0	8	2	5
Department of Communications, Information Technology and the Arts	0	0	0	0
Department of Defence*	16	39	18	36
Defence Material Organisation*	6	16	6	14
Department of Veterans' Affairs	0	2	0	4
Department of Education, Science and Training	0	0	0	0
Department of Employment and Workplace Relations	0	0	0	0
Department of the Environment and Water Resources	0	1	0	11
Department of Family and Community Services and Indigenous Affairs	0	5	0	8
Department of Finance and Administration	0	0	0	0
Department of Human Services	0	3	0	4
Centrelink	0	3	0	5
Department of Foreign Affairs and Trade	0	0	0	0
Department of Health and Ageing	0	2	0	1
Department of Immigration and Citizenship	0	6	2	4
Department of Industry, Tourism and Resources	0	0	0	2
Department of Prime Minister and Cabinet	0	1	0	0

⁷³ These entities are those reported in Audit Report No.51 2006–07 *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2007*.

Entity	2006–07 Rating		2005–06 Rating	
	A	B	A	B
Department of Transport and Regional Services	0	1	0	2
Department of the Treasury	0	0	0	1
Australian Office of Financial Management	0	0	0	0
Australian Taxation Office	2	7	5	14
Total	24	97	33	117

Source: ANAO

Note: *2005–06 results for Defence and DMO were not reported in Audit Report No.48 2005–2006 because the audits were still in progress at the time of the preparation of the report in June 2006. The 2005–06 results have now been updated. Defence and DMO 2006 findings were both as at 31 October 2006.

Table A 2

Moderate or significant findings of entities grouped by portfolio as at the final audit phase

Entity	2006–07 Rating		2005–06 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	0	0	1
Grains Research and Development Corporation	0	0	0	0
Attorney-General's Department	0	0	0	6
Australian Customs Service	0	3	1	4
Australian Federal Police	0	0	0	2
Australian Government Solicitor	0	1	0	0
Family Court of Australia	0	0	0	0
High Court of Australia	0	0	0	1
Department of Communications, Information Technology and the Arts	0	0	0	0
Australian Broadcasting Corporation	0	0	0	0
Australian Communications and Media Authority	0	0	0	1
Australian Postal Corporation	0	0	0	0
Australian Sports Commission	0	0	0	0
Film Finance Corporation Australia Limited^	0	0	N/A	N/A
National Archives of Australia	0	4	0	0
National Gallery of Australia	0	0	0	0
National Library of Australia	0	1	0	0
National Museum of Australia	0	2	0	2
Special Broadcasting Service Corporation	0	0	0	0
Department of Defence	9	43	18	36
Australian War Memorial	0	0	0	0
Defence Housing Authority	0	0	0	1
Defence Material Organisation	1	14	6	14
Department of Veterans' Affairs	0	3	0	3
Department of Education, Science and Training	0	0	0	0
Australian Nuclear Science and Technology Organisation	0	0	0	0
Australian Research Council	0	0	0	0
Commonwealth Scientific and Industrial	0	1	0	0

Entity	2006–07 Rating		2005–06 Rating	
	A	B	A	B
Research Organisation				
Department of Environment and Water Resources	0	0	0	0
Bureau of Meteorology	0	0	0	0
National Water Commission^	0	0	N/A	N/A
Department of Employment and Workplace Relations	0	0	0	0
Coal Mining Industry (Long Service Leave Funding) Corporation	0	0	0	0
Comcare Australia	0	0	0	0
Indigenous Business Australia	0	6	0	0
Department of Family and Community Services and Indigenous Affairs	0	2	0	7
Aboriginal and Torres Strait Islander Land Fund Account	0	0	0	0
Department of Finance and Administration	0	0	0	0
Australian Electoral Commission	0	0	0	0
Australian Industry Development Corporation	0	0	0	0
ASC Pty Ltd	0	0	0	1
Board of Guardians of the Future Fund and the Future Fund Management Agency	0	0	0	0
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	0
Australian Trade Commission	0	0	0	0
Export Finance and Insurance Corporation	0	0	0	0
Department of Health and Ageing	0	2	0	1
National Blood Authority	0	1	0	1
National Health and Medical Research Council^	0	1	N/A	N/A
Department of Human Services	0	3	0	2
Centrelink	0	3	0	5
Medicare Australia	0	2	0	1
Australian Hearing	0	0	0	0
Department of Immigration and Multicultural Affairs	0	6	2	4
Department of Industry Tourism and Resources	0	1	0	2

Entity	2006–07 Rating		2005–06 Rating	
	A	B	A	B
Tourism Australia	0	0	0	0
Department of Parliamentary Services	0	1	0	0
Department of the Prime Minister and Cabinet	0	0	0	1
Department of Transport and Regional Services	0	1	0	1
Airservices Australia	0	2	0	0
Australian Rail Track Corporation	0	0	0	0
Civil Aviation Safety Authority	0	0	0	0
National Capital Authority	0	0	0	0
Department of the Treasury	0	0	0	1
Australian Bureau of Statistics	0	0	0	0
Australian Office of Financial Management	0	0	0	0
Australian Reinsurance Pool Corporation	0	0	0	0
Australian Securities and Investments Commission	0	0	0	0
Australian Taxation Office	1	6	2	11
Reserve Bank of Australia	0	0	0	0
Total	11	109	29	109

Note: N/A: Not applicable

^ These entities commenced as reporting entities of the Australian Government in 2006–07

Series Titles

Audit Report No.1 2007–08
Acquisition of the ABRAMS Main Battle Tank
Department of Defence
Defence Materiel Organisation

Audit Report No.2 2007–08
Electronic Travel Authority Follow-up Audit
Department of Immigration and Citizenship

Audit Report No.3 2007–08
Australian Technical Colleges Programme
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