

The Auditor-General
Audit Report No.44 2013–14
Financial Statement Audit

**Interim Phase of the Audits of the Financial
Statements of Major General Government
Sector Agencies for the year ending
30 June 2014**

© Commonwealth of Australia 2014

ISSN 1036-7632

ISBN 0 642 81478 3 (Print)

ISBN 0 642 81479 1 (Online)

Except for the content in this document supplied by third parties, the Australian National Audit Office logo, the Commonwealth Coat of Arms, and any material protected by a trade mark, this document is licensed by the Australian National Audit Office for use under the terms of a Creative Commons Attribution-NonCommercial-NoDerivatives 3.0 Australia licence. To view a copy of this licence, visit

<http://creativecommons.org/licenses/by-nc-nd/3.0/au/>.

You are free to copy and communicate the document in its current form for non-commercial purposes, as long as you attribute the document to the Australian National Audit Office and abide by the other licence terms. You may not alter or adapt the work in any way.

Permission to use material for which the copyright is owned by a third party must be sought from the relevant copyright owner. As far as practicable, such material will be clearly labelled.

For terms of use of the Commonwealth Coat of Arms, visit the *It's an Honour* website at <http://www.itsanhonour.gov.au/>.

Requests and inquiries concerning reproduction and rights should be addressed to:

Executive Director
Corporate Management Branch
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:

publications@anao.gov.au



Canberra ACT
19 June 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken the interim audit phase of the 2013–14 financial statements audits of major General Government Sector agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of these audits to the Parliament. The report is titled *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014*.

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

Yours sincerely



Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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

Phone: (02) 6203 7505
Fax: (02) 6203 7519
Email: publications@anao.gov.au

ANAO audit reports and information about the ANAO are available on our website:

<http://www.anao.gov.au>

Contents

Abbreviations and Acronyms	8
Summary	11
Introduction	11
Developments in financial reporting and auditing frameworks	12
Summary of audit results	13
Future audit coverage	17
1. Introduction	18
Background	18
Report structure	19
Acknowledgements	20
2. Financial Reporting and Auditing Frameworks	21
Introduction	21
Recent changes to the Australian public sector reporting framework	22
Future changes in the public sector reporting framework	23
Developments in Auditing Standards	24
Conclusion	25
3. Summary of Audit Findings and Related Issues	26
Introduction	26
Internal control	28
Control environment	28
Risk assessment process	36
Information system	38
Control activities	39
Monitoring of controls	50
Conclusion	52
4. Information Technology Controls	53
Introduction	53
IT control environment	54
General IT controls	56
Application controls	60
Business continuity arrangements	64
Trends over the period 2010–11 to 2013–14	65
Other activities	69
Conclusion	74

5. Results of the Interim Audit Phase by Agency.....	76
Introduction	76
Agriculture Portfolio.....	79
Department of Agriculture	79
Attorney-General's Portfolio.....	85
Attorney-General's Department	85
Communications Portfolio	91
Department of Communications	91
Defence Portfolio.....	96
Department of Defence.....	96
Defence Materiel Organisation	106
Department of Veterans' Affairs.....	113
Education Portfolio	119
Department of Education	119
Employment Portfolio	126
Department of Employment	126
Environment Portfolio.....	131
Department of the Environment.....	131
Finance Portfolio	136
Department of Finance	136
Future Fund Management Agency and the Board of Guardians.....	141
Foreign Affairs and Trade Portfolio	146
Department of Foreign Affairs and Trade	146
Health Portfolio.....	154
Department of Health.....	154
Immigration and Border Protection Portfolio	160
Department of Immigration and Border Protection	160
Australian Customs and Border Protection Service	166
Industry Portfolio	173
Department of Industry	173
Infrastructure and Regional Development Portfolio	180
Department of Infrastructure and Regional Development	180
Prime Minister and Cabinet Portfolio	185
Department of the Prime Minister and Cabinet.....	185
Social Services Portfolio	192
Department of Social Services	192
Department of Human Services.....	198
Treasury Portfolio.....	206
Department of the Treasury	206
Australian Office of Financial Management.....	212
Australian Taxation Office.....	216

Appendices 221

Appendix 1:	Agencies covered by this report	222
Appendix 2:	The Accounting and Auditing Standards Frameworks	223
Appendix 3:	The Financial Reporting Framework	224
Series Titles.....		230
Better Practice Guides		235

Tables

Table 4.1	Elements of the IT control environment.....	61
Table 5.1	Significant and moderate findings of agencies grouped by portfolio, reported at completion of the 2012–13 and 2013–14 interim audit phases	85

Figures

Figure 3.1:	Aggregate audit findings – categories A, B and C	40
Figure 3.2:	IT control environment – aggregate audit findings	41
Figure 3.3:	Purchases and payables – aggregate audit findings	42
Figure 3.4:	Grant accounting – aggregate audit findings.....	44
Figure 3.5:	Accounting and control of non-financial assets – aggregate audit findings	46
Figure 3.6:	Revenue, receivables and cash management – aggregate audit findings	47
Figure 3.7:	Human resource management process – aggregate audit findings	49
Figure 3.8:	Other control matters – aggregate audit findings	50
Figure 4.1:	2013–14 Assessment of IT security management	57
Figure 4.2:	2013–14 Assessment of IT change management.....	59
Figure 4.3:	Summary of FMIS applications 2010–11 to 2013–14	60
Figure 4.4:	Summary of HRMIS applications 2010–11 to 2013–14	61
Figure 4.5:	2013–14 assessment of FMIS controls	62
Figure 4.6:	2013–14 assessment of HRMIS controls	63
Figure 4.7:	IT security governance: 2010–11 to 2013–14	66
Figure 4.8:	Change management policy and governance frameworks: 2010–11 to 2013–14.....	67
Figure 4.9:	FMIS privileged user access: 2010–11 to 2013–14	68
Figure 4.10:	HRMIS privileged user access: 2010–11 to 2013–14	68
Figure 4.11:	Agencies' use of cloud services	72
Figure 4.12:	Agencies' impediments to the use of cloud computing	73
Key Elements of the Financial Reporting Framework.....		224

Abbreviations and Acronyms

AAO	Administrative Arrangements Order
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ACBPS	Australian Customs and Border Protection Service
AGD	Attorney-General's Department
Agriculture	Department of Agriculture
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
ASA	Australian Auditing Standards
ATO	Australian Taxation Office
AUASB	Australian Auditing and Assurance Standards Board
BCM	Business Continuity Management
BCP	Business Continuity Plan
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CEIs	Chief Executive's Instructions
CE	Chief Executive
CFO	Chief Finance Officer
CFS	Consolidated Financial Statements
CoC	Certificate of Compliance

Communications	Department of Communications
Defence	Department of Defence
DFAT	Department of Foreign Affairs and Trade
DMO	Defence Materiel Organisation
DSS	Department of Social Services
DVA	Department of Veterans' Affairs
Education	Department of Education
Employment	Department of Employment
Environment	Department of the Environment
FASB	United States Financial Accounting Standards Board
FFMA	Future Fund Management Agency and the Board of Guardians
Finance	Department of Finance
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GGs	General Government Sector
Health	Department of Health
HRMIS	Human Resources Management Information System

Human Services	Department of Human Services
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Immigration	Department of Immigration and Border Protection
Industry	Department of Industry
Infrastructure	Department of Infrastructure and Regional Development
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
MoG	Machinery of Government
PM&C	Department of the Prime Minister and Cabinet
RBA	Reserve Bank of Australia
Treasury	Department of the Treasury

Summary

Introduction

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

2. The preparation of audited financial statements in compliance with the Finance Minister's Orders¹ is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unmodified audit opinion. Australian Government entities, in cooperation with the Australian National Audit Office (ANAO), devote considerable effort to achieving such an outcome.

3. Financial statement audits are an independent examination of entities' financial statements and the results of the examination are presented in an auditor's report. This report expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein fairly present each entity's financial position and the results of its operations and cash flows. The accounting treatments and disclosures reflected in the financial statements by the entity are assessed against relevant accounting standards and legislative reporting requirements.

4. Under section 57 of the *Financial Management and Accountability Act 1997* (FMA Act), the Auditor-General is required to report each year to the relevant Minister on whether the financial statements of agencies² 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.

1 The Finance Minister's Orders (FMOs) made by the Minister for Finance set out the requirements for the preparation of financial statements of all reporting entities covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*. (Note: these Acts are to be replaced by the *Public Governance, Performance and Accountability Act 2013* from 2014–15).

2 The term 'agencies' refers to all organisations subject to the *Financial Management and Accountability Act 1997* (FMA Act). As the organisations covered by this report are 'agencies', this term is used predominantly in the report.

5. To assist agencies to manage their responsibilities, the ANAO periodically publishes better practice guides on a range of aspects of public administration. To date, the ANAO has published two Better Practice Guides: *Implementing Better Practice Grants Administration*; and *Administering Regulation: Achieving the right balance* during 2013–14. A guide on *Public Sector Governance: Strengthening performance through good governance* is expected to be published in the near future. Better Practice Guides are well received by agencies and contribute to agencies maintaining the maturity of their internal control systems and enhancing their performance.

6. The interim phase of the audit of agencies, the focus of this report, encompasses a review of governance arrangements related to agencies' financial reporting responsibilities, and an examination of relevant internal controls, including information technology system controls. The ANAO's examination of these areas is designed to assess the reliance that can be placed on agencies' internal controls to produce complete and accurate information for financial reporting purposes.

7. The audit findings in this report have been reported to the management of each agency and to the responsible Minister(s).

Developments in financial reporting and auditing frameworks

8. As a result of changes flowing from new accounting standards released by the Australian Accounting and Assurance Board (AASB) in 2013–14, most government agencies will be required, from 2014–15, to report their performance against budget, and explain any major variances from budget estimates. Agencies will also be required to explain, in more detail, how they calculated the reported fair values of their assets and liabilities.

9. In addition, the AASB's has introduced an optional Reduced Disclosure Regime. This regime allows, with the approval of the relevant regulator, certain entities to reduce the length of their financial report by omitting specified note disclosures. The Finance Minister is the regulator for Australian Government entities and has not endorsed the adoption of the reduced disclosure regime at this time.

10. In terms of changes to the auditing standards, the Australian Auditing and Assurance Standards Board issued a substantially revised ASA 610 *Using the Work of Internal Auditors* in November 2013. The revised standard that

applies to reporting periods commencing on or after 1 January 2014, includes an express prohibition on using internal audit to perform audit procedures under the direction, supervision and review by the external auditor.

Summary of audit results

Internal control in agencies³

11. A central element of the ANAO's financial statement audit methodology, and the focus of the interim phase of ANAO audits, is a sound understanding of an agency's responsibilities and internal controls. This understanding informs our audit approach, including the reliance we may place on agency systems to produce financial statements that are free from material misstatement. To do this, the ANAO uses the framework contained in the ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*. The key elements of internal control, as discussed in ASA 315, are the control environment; the risk assessment process; the information system, including the related business processes relevant to financial reporting and communication; control activities; and monitoring of controls.

Control environment

12. The ANAO assesses whether an agency's control environment includes measures that contribute positively to sound corporate governance in the context of the preparation of an agency's financial statements. These measures should be designed to mitigate identified risks of material misstatement in the financial statements, and reflect the specific governance requirements of each agency.

13. The ANAO observed that agencies have in place mature financial control environments designed to provide a sound basis for the effective preparation of the agency's financial statements. Audit committees, in particular, continue to have a positive influence on the effectiveness of agencies' control environments particularly in the areas of risk assessment, legislative compliance and financial system controls.

3 The observations, audit findings and conclusions outlined in this report relate to the audit coverage of the 23 major General Government Sector agencies covered by this report. These agencies are listed at Appendix 1.

Risk assessment process

14. An understanding of an agency's risk assessment processes is an essential element of the ANAO's financial statement audits. Agencies are expected to manage the key risks specific to their environment and the interim audit phase includes a review of controls relating to risks that may have a material impact on agencies' financial statements. Generally, the ANAO found that agencies have established formal risk assessment processes, reviewed by audit committees or a separate committee with specific responsibilities for risk.

15. An important element of the risk assessment process common to all agencies is fraud control management. All major agencies have fraud control plans prepared in accordance with the Commonwealth Fraud Control Guidelines and have formal processes for updating, reviewing and monitoring of fraud control strategies.

Information system

16. Information technology facilitates the way in which Australian Government agencies operate, and supports the business processes that deliver services to the Australian community.

17. Consistent with past practice, during the 2013–14 interim audits, the ANAO assessed the design and operation of key IT controls to determine the effectiveness of these controls and their impact on reducing risks affecting the integrity of financial information presented in agencies' financial statements.

18. The majority of IT controls continued to be well maintained by the majority of agencies during 2013–14. This includes IT controls in relation to change management, IT security governance and monitoring and FMIS and HRMIS master file maintenance. There has, however, been an increase in the number of agencies where improvements were warranted in the management of privileged and other user access to key financial business systems. Further, while business continuity and disaster recovery plans were generally well designed and testing of these arrangements had been undertaken, changes in organisational and system arrangements that are occurring in the Australian Public Sector will require agencies to be alert to the need to review, and as necessary revise, these plans.

Control activities

19. The results of the 2013–14 interim audit phase indicated that, overall, control activities relating to financial and accounting processes have continued to be maintained at an effective level, although there has been a small increase in the total number of audit findings compared with 2012–13. Control issues identified by the audits related to areas such as: IT general and application controls, particularly the management of privileged and other user access to key financial business systems, the timely capitalisation of assets to enable the accurate calculation of depreciation, the maintenance of complete and accurate asset registers and consistency of impairment assessments. A total of 135 category A, B, C and L1 findings⁴ were identified in the 2013–14 interim audit phase, with the majority of these findings posing a low business or financial management risk, a small increase compared with the 124 findings identified in 2012–13.

20. The ANAO continues to include an assessment of compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public moneys in its financial statement audits, as a result of interest shown by the Joint Committee of Public Accounts and Audit in past years. The 2013–14 interim audits continued to identify a high level of compliance in these areas, although actual or potential breaches of section 83 of the Constitution⁵ continue to be identified by a number of agencies. At the time of the 2013–14 interim audits, risk assessments by a number of agencies in relation to potential section 83 breaches were in progress. This matter is discussed at paragraphs 3.30 to 3.43 of chapter 3 of this report.

Monitoring of controls

21. Entities' arrangements for the monitoring of controls include quality assurance arrangements, internal and external reviews, control self-assessment processes, and internal audit. In particular, all agencies have in place

4 Category A findings are significant audit issues. Category B findings are moderate audit issues, Category C findings are minor audit issues and category L1 findings are instances of actual or potential breaches of the Constitution, and instances of non-compliance with other key legislative requirements. These categories are explained in paragraph 5.7 in chapter 5 of this report.

5 Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by the law. The effect of section 83 is that all spending by the Executive Government from the Consolidated Revenue Fund must be in accordance with an authority given by the Parliament.

arrangements to enable chief executives to provide an annual Certificate of Compliance⁶.

Agency audit findings

22. There was a small increase in the number of moderate (category B) findings in 2013–14 compared to 2012–13. Nevertheless, agency control regimes overall continue to be stable and well maintained and agencies have generally addressed prior year audit findings in a timely manner. The Machinery of Government changes that took place in September 2013 have required some agencies to review their governance and operating arrangements, resulting in some delays in the completion of planned audit coverage as part of the 2013–14 interim audit phase. A sustained effort will be required by the agencies concerned and the ANAO to ensure that the 2013–14 financial statements are prepared and audited in a timely manner.

23. However, as noted above, audits continue to identify control weaknesses in a number of areas such as: IT general and application controls, particularly the management of privileged and other user access to key financial business systems, the timely capitalisation of assets to enable the accurate calculation of depreciation, the maintenance of complete and accurate asset registers and consistency of impairment assessments.

24. Generally, agencies have been positive and timely in their response to ANAO audit findings.

25. The following summary outlines the trend in category A, B and L1 audit findings between 2012–13 and 2013–14 reported at the completion of the interim audit phase. There were:

- no category A findings reported in 2013–14, the same position as 2012–13;
- twenty-six category B audit findings across agencies in 2013–14. This is an increase from 23 findings reported in 2012–13;
- increases in the number of category B audit findings in eight agencies; four showed a decrease; two remained constant; and nine agencies had no category B findings in either 2012–13 or 2013–14; and

6 Agency chief executives are required to certify on an annual basis their agency's compliance with components of the Government's financial management framework. Further details of this process are outlined at paragraphs 3.23 and 3.24 of chapter 3 of this report.

- fifteen category L1 findings reported in 2013–14 compared to 11 in 2012–13.
26. A summary of category A, B and L1 audit findings by agency is provided in Table 5.1 in chapter 5 of this report.

Future audit coverage

27. In completing the audits of agencies' 2013–14 financial statements, the ANAO will complete its assessment of the effectiveness of internal controls and areas of audit focus in each agency. The summary results of this work will be reported by the ANAO in December 2014.

1. Introduction

This chapter provides background to the audits of the financial statements of Australian Government entities and sets out the structure of this report that covers 23 major General Government Sector agencies.

Background

1.1 In addition to undertaking financial statement audits of individual entities, the ANAO tables two reports annually that summarise the findings of the financial statement audits of public sector entities. These reports also discuss contemporary issues and practices affecting public sector entities' financial reporting responsibilities and the ANAO's responsibilities. This report outlines the ANAO's assessment of the internal controls of major agencies, including governance arrangements, information systems and control procedures. The findings summarised in this report are the results of the interim phase⁷ of the financial statement audits of 23 major General Government Sector agencies that represent some 95 per cent of total General Government Sector⁸ (GGS) revenues and expenses.

1.2 In reporting on the results of the interim phase of the financial statement audit program, the ANAO is providing assurance to the Parliament that the systems, controls and processes that are in place in major Australian Government agencies are operating in a way that allows agencies to prepare financial statements that give a true and fair view of their financial performance and position at financial year end.

1.3 The audit coverage undertaken forms an integral part of the ANAO's audit of the 2013–14 financial statements of these agencies. This report includes reference to issues that pose a moderate business or financial risk to the entity and other issues requiring attention by agency management.

7 Financial statement audits are generally performed in two phases—interim and final. The interim phase focuses on an assessment of agencies' key internal controls; in the final audit phase the ANAO completes its assessment of the effectiveness of key controls for the full year, substantively tests material balances and disclosures in the financial statements, and finalises its opinion on the agencies' financial statements.

8 The General Government Sector (GGS) comprises all government agencies and other entities that provide largely non-market public services and are funded primarily through taxes. This report covers the portfolio departments and other major GGS entities that comprise approximately 95 per cent of total GGS revenues and expenses. The number of agencies reflects the Administrative Arrangements Order of 12 December 2013.

1.4 At the individual agency level, a report on the results of the audit is provided to each agency chief executive and audit committee. Audit activity can act as a catalyst for improvement and provide a stimulus to agency management for the resolution of issues, where this is warranted.

1.5 The preparation of financial statements in compliance with the Finance Minister's Orders⁹ is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unmodified audit opinion. Australian Government entities, in cooperation with the ANAO, devote considerable effort to achieving timeliness in financial reporting.

Report structure

1.6 The report is organised as follows:

- Chapter 2 discusses a number of recent developments in accounting and auditing requirements and, in doing so, provides an overview of changes impacting the Australian Government's reporting and accountability frameworks.
- Chapter 3 provides summary observations relating to various elements of agencies' internal controls (including the control environment, the risk assessment process, the information system, control activities and monitoring of controls). This chapter also includes a discussion of audit findings over the period 2010–11 to 2013–14.
- Chapter 4 outlines findings relating to the audit of Information Technology (IT) systems, focusing on the IT control environment, IT security and application controls in financial management and human resource management information systems. There is also a discussion of business continuity and disaster recovery arrangements and use of cloud computing.
- Chapter 5 outlines, for each major agency covered by this report, details of business operations that influence financial statement audit coverage;

⁹ The Finance Minister's Orders (FMOs) made by the Minister for Finance set out the requirements for the preparation of financial statements of all reporting entities covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

governance arrangements relevant to the agency's financial statements; areas of audit focus; and any significant and moderate audit issues identified during the 2013–14 interim audit phase. The chapter is structured in accordance with the portfolio arrangements established by the Administrative Arrangements Order (AAO) of 12 December 2013.

Acknowledgements

1.7 Based on the work completed during the interim audit phase, the ANAO is well placed to complete the audit program following the preparation by agencies of their financial statements after the close of the 2013–14 financial year. The contribution and cooperation of Chief Finance Officers, other agency staff, and the key role undertaken by audit committee members is greatly appreciated.

2. Financial Reporting and Auditing Frameworks

This chapter provides commentary on recent developments in the financial reporting and auditing frameworks relevant to the Australian Government and individual reporting entities.

Introduction

2.1 The Australian Government's financial reporting framework is based, in large part, on standards made independently by the Australian Accounting Standards Board (AASB). This framework is designed to support decision-making by, and accountability to, the Parliament. The financial reporting and auditing frameworks are illustrated in appendices 2 and 3 of this report.

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

2.3 Major changes to Australian Accounting Standards effective in 2013–14 include the implementation of the new standards on fair value measurement and differential financial reporting requirements. To date, these differential financial reporting requirements have not been endorsed for application by Australian government entities.

2.4 Major developments in accounting standards internationally will continue to be a significant driver of changes to Australian Accounting Standards. At the international level, proposed significant changes to accounting standards are well progressed, potentially affecting reporting requirements in important areas such as reporting of financial instruments, revenue recognition, and lease accounting.

2.5 Australian Auditing Standards have been largely unchanged since the completion in 2009 of the major revision of International Standards of Auditing (ISAs) known as the 'Clarity' project.

Recent changes to the Australian public sector reporting framework

Fair value measurement

2.6 For many years accounting standards have required, or allowed, entities to present their assets and liabilities at fair value in the balance sheet. However, the guidance on measuring fair value was high-level, spread among several standards, and sometimes inconsistent.

2.7 In May 2011, the IASB issued an accounting standard to provide a single source of guidance on fair value measurement. This standard clarifies the definition of fair value, provides a framework for measuring fair value and enhances the associated disclosures. The AASB subsequently issued AASB 13 *Fair Value Measurement*, replicating the IASB standard. AASB 13 applies to reporting periods beginning on or after 1 January 2013.

Differential financial reporting – reduced disclosure requirements

2.8 In 2010, the AASB issued AASB 1053 *Application of Tiers of Australian Accounting Standards*, which applies to reporting periods beginning on or after 1 July 2013. AASB 1053 distinguishes two tiers of reporting requirements. Entities in the first tier must prepare financial statements in accordance with the full suite of Australian Accounting Standards. Federal, state and territory governments are included in this tier. Entities in the second tier would still present the same primary financial statements but with substantially reduced note disclosure. Government-controlled entities may opt for either tier, subject to the requirements of their regulator. This provides an opportunity to reduce the reporting burden for the majority of government entities.

2.9 The Minister for Finance, who performs the role of regulator for Australian Government entities, currently requires all Australian Government entities to apply the first tier reporting requirements.

2.10 Particularly in the context of identifying opportunities to reduce compliance requirements, the ANAO considers that the differential reporting regime provides an opportunity to reduce the administrative workload of

Australian Government entities and make financial reports easier to read, while still preserving sufficient disclosures to satisfy the needs of the Parliament.

Budgetary Reporting

2.11 The Australian Government prepares its financial statements under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. AASB 1049 requires governments to compare their financial results to their original budgets presented to the Parliament, and to explain major variances where they are relevant to assessing performance and accountability.

2.12 The AASB decided to extend this requirement to the financial statements of all not-for-profit entities in the General Government Sector (GGS)¹⁰ by issuing AASB 1055 *Budgetary Reporting*. AASB 1055 will apply to reporting periods beginning on or after 1 July 2014.

Accounting for carbon pricing

2.13 In 2012–13 the Clean Energy Act 2013 required a wide range of organisations to acquire and surrender a permit for each tonne of carbon emitted. The AASB published a staff paper¹¹ proposing that revenue from the sale of emission permits be recognised when emissions occur. It also proposed that the Government recognise a liability for permits expected to be sold back to the Government. This accounting treatment has been adopted.

2.14 In November 2013 the Government introduced legislation to repeal the Clean Energy legislation, with effect from 1 July 2014. The future accounting requirements in relation to carbon pricing will depend on the passage of this legislation through the Parliament.

Future changes in the public sector reporting framework

2.15 Further changes to the public sector reporting framework are expected over the next few years, as projects by Australian and international accounting standard setters lead to new accounting standards for both the public and private sectors.

¹⁰ op cit (refer footnote 8 on p. 18).

¹¹ Financial Reporting Implications of the Carbon Tax for Government; AASB staff papers are not authoritative pronouncements of the AASB.

2.16 Projects specific to the public sector include: disclosure of transactions with related parties; reporting of service performance; and new accounting rules for grants, taxes and appropriations. Projects aimed primarily at the private sector, but with public sector implications, include major revisions to the accounting standards on reporting of financial instruments, revenue recognition and lease accounting.

Developments in Auditing Standards

2.17 Section 24 of the *Auditor-General Act 1997* requires the Auditor-General to set auditing standards for ANAO audits. The ANAO Auditing Standards incorporate, by reference, the Australian Auditing Standards made by the Australian Auditing and Assurance Standards Board (AUASB) which establish mandatory requirements and provide explanatory guidance for audits of financial statements. As a result, the statutory audits of the financial statements of Australian Government entities conducted by the ANAO conform with the standards that apply to the broader auditing profession in Australia.

2.18 The AUASB uses International Standards on Auditing (ISAs) as the primary basis for the Australian Auditing Standards. ISAs are made by the International Auditing and Assurance Standards Board (IAASB), an independent standard setting board of the International Federation of Accountants (IFAC). In making its standards and guidance, the AUASB consults formally with organisations representing stakeholders, including users of financial statements, regulators and the accounting profession. The consultative processes are scheduled so that the AUASB can consider stakeholder views in making submissions on proposals from the IAASB.

2.19 The AUASB also works closely with the New Zealand Auditing and Assurance Standards Board (NZAuASB) to facilitate harmonisation of auditing and assurance standards in Australia and New Zealand.

2.20 In November 2013, the AUASB substantially revised ASA 610 *Using the Work of Internal Auditors*. The revision provides a more robust framework for evaluating and, where appropriate, using the work of an entity's internal audit function. To help preserve external auditor independence, the revision includes an express prohibition on using internal auditors to perform audit procedures under the direction, supervision and review of the external auditor. The revised standard applies to reporting periods commencing on or after 1 January 2014.

Conclusion

2.21 Ongoing developments in accounting and auditing frameworks and standards continue to have an impact on the financial reporting responsibilities of public sector entities and on the ANAO's auditing methodology. The ANAO will continue to assist entities through client seminars and publications that explain new regulatory and accounting requirements.

2.22 While there were few changes in Australian Accounting Standards during 2013–14, significant changes to the financial reporting framework are under way, both in Australia and internationally. A number of the proposed changes will affect the Australian public sector over the next few years, particularly in relation to reporting of financial instruments, revenue recognition and lease accounting.

3. Summary of Audit Findings and Related Issues

This chapter provides a summary of the ANAO's review of internal controls as part of the audit of the financial statements of major agencies.

Introduction

3.1 The chief executives of General Government Sector (GGS) entities subject to the FMA Act are required to prepare annual financial statements and present them to the Auditor-General for audit.¹² For large entities, the audit is conducted in two main phases, interim and final. The interim phase focuses on an assessment of agencies' key internal controls; in the final audit phase the ANAO completes its assessment of the effectiveness of key controls for the full year, substantively tests material balances and disclosures in the financial statements, and finalises its audit opinion on the agencies' financial statements. This report focuses on the results of the interim audit phase of the 2013–14 financial statement audits of all portfolio departments and other major General Government Sector agencies that collectively represent some 95 per cent of total GGS revenues and expenses.

3.2 Chief executives of FMA agencies are required to manage their affairs in a manner that promotes the efficient, effective, economical and ethical use of resources.¹³ This requires the development and implementation of effective corporate governance arrangements and internal controls designed to meet the individual circumstances of each entity and to assist in the orderly and efficient conduct of its business and compliance with applicable legislative requirements, including the preparation of annual financial statements that give a true and fair view.¹⁴

3.3 The overall objective of an audit of an agency's financial statements, as identified in the Australian Auditing Standards, is to form an opinion on

12 *Financial Management and Accountability Act 1997* (FMA Act), section 49. The FMA Act will be replaced by the *Public Governance, Performance and Accountability Act 2013* from 2014–15; this Act places similar provisions on accountable authorities of non-corporate entities.

13 FMA Act 1997, section 44.

14 FMA Act 1997, section 49.

whether the financial statements, in all material¹⁵ respects, are in accordance with the Australian Government financial reporting framework.¹⁶ In planning the audit, audit procedures are designed to achieve reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. The auditor is concerned with material misstatements, and is not responsible for the detection of misstatements that are not material to the financial statements taken as a whole.¹⁷

3.4 A central component of the ANAO's financial statement audit methodology, and the focus of the interim phase of our financial statement audits, is a sound understanding of the agency and its environment, including its internal controls, as they relate to the preparation of the financial statements. This enables the ANAO to make a preliminary assessment of the risk of material misstatement in an agency's financial statements and to plan an audit approach to reduce audit risk to an acceptable level. The ANAO reviews and evaluates an agency's key internal controls to assess its capacity to prevent and detect errors that may result in a material misstatement of the financial statements. In doing so, the ANAO recognises that the reliability of business processes, accounting records and financial systems can be enhanced through effective internal controls, and this influences the timing and extent of audit work required. The auditor's understanding of the agency, its environment and its internal controls, helps the auditor design the work needed and respond to significant risks that bear on financial reporting.¹⁸ Broad areas of audit focus determined as a result of this planning approach are discussed in chapter 5 for each agency covered by this report.

3.5 In accordance with generally accepted auditing practice, the ANAO accepts a low level of risk that the audit procedures will fail to detect that the financial statements are materially misstated. This low level of risk is accepted because it is too costly to perform an audit that is predicated on no level of risk. Specific audit procedures are performed to ensure that the risk accepted is

15 AASB 1031 *Materiality* states that information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to influence the economic decisions of users taken on the basis of the financial statements or affect the discharge of accountability by the management or governing body of the entity.

16 The key elements of this framework are set out in appendix 3.

17 ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 6.

18 Significant risks are those risks of material misstatement of the financial statements that, in the auditor's judgement, require special audit consideration.

low. These procedures include, for example, obtaining knowledge of the entity and its environment, reviewing the operation of internal controls, undertaking analytical reviews, testing a sample of transactions and account balances, and confirming significant year end balances with third parties.

Internal control

3.6 The ANAO uses the framework in ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* to consider the impact of different elements of an entity's internal controls on the design and conduct of an audit. These elements, as detailed in ASA 315¹⁹, are:

- control environment;
- agency risk assessment process;
- the information system, including the related business processes, relevant to financial reporting, and communication;
- control activities relevant to the audit; and
- monitoring of controls.

3.7 This chapter discusses each of these elements and outlines our observations in relation to each one, based on our review of relevant aspects of each agency's control environment and the results of our interim audits. As such it includes, where relevant, summary comments on category A, B, C and L1 audit findings.²⁰

Control environment

3.8 An entity's business and operations influence the control environment, which needs to be carefully reviewed as part of the audit process when assessing the risk of material misstatement in financial systems and reports. ASA 315 at paragraph A76 states:

The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning

¹⁹ ASA 315 *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment*, paragraph A58.

²⁰ op cit (refer footnote 4 on p. 15).

the entity's internal control and its importance in the entity. The control environment sets the tone of an organisation, influencing the control consciousness of its people.

3.9 In conducting an audit of an entity's financial statements, the ANAO focuses on specific elements of the control environment. In doing this, the ANAO establishes whether the environment in place comprises elements that contribute positively to establishing a foundation for effective internal control, and whether it minimises both financial and non-financial risks to the entity. This judgement has a major influence on the way that the audit is conducted, including the amount of audit work needed to form the audit opinion. Generally, the main elements reviewed are:

- governance arrangements—including the framework within which an agency's activities for achieving its objectives are planned, executed, controlled and reviewed;
- audit committee arrangements—including the arrangements in place to meet the committee's assurance role, including as a forum for communication between management and internal and external audit;
- assurance arrangements—including the internal audit function and quality assurance systems and processes;
- systems of authorisation, recording and procedures—designed to ensure that transactions are processed, recorded and accounted for correctly, including the assignment of appropriate authority and that responsibilities and compliance arrangements accord with applicable legislative requirements; and
- a financial performance management regime—that involves the preparation of financial reports, including comparison of actual results to budgets, variance analysis and relevant commentary to provide assurance about the financial performance of the agency.

3.10 The ongoing performance and effectiveness of these measures can make a significant contribution to the level of assurance that agency management and, in turn, the ANAO obtains for financial statement purposes.

Observations

3.11 Agencies generally have mature governance arrangements in place to provide direction, guidance and control over the financial management of their

organisations.²¹ Executive management committees met regularly to plan and monitor strategic direction and financial performance. Each agency produces a corporate plan or similar document that outlines the agency's goals and objectives, and thereby facilitates measuring agencies' progress in meeting them. Chief executives, their senior management group, and audit or risk committees continued to give attention to financial and risk management, including agency control environments.

3.12 Agencies also have well-established audit committee arrangements. These include a formal charter that outlines each committee's composition, roles, responsibilities and reporting lines, and processes for the regular reporting to the chief executive and the periodic self-assessment of performance. To provide guidance to agencies on the composition and role of the audit committee, the ANAO issued a Better Practice Guide *Public Sector Audit Committees* in August 2011.

3.13 The ANAO observed that agencies review their Chief Executive's Instructions (CEIs) periodically, with the objective of ensuring that they remain relevant. In addition, delegations and authorisations were regularly reviewed and updated.²²

3.14 Consistent with previous years, consideration of the financial position regarding current and future operations is included on the agenda of agencies' executive management meetings. Periodic financial performance reports to agencies' executives included budget forecasts and commentary on performance. The financial information provided to the agencies' executives was generally supplemented by non-financial operational information, to provide a balanced view of performance.

Legislative compliance

3.15 The financial framework for the Australian Government agencies included in this report is established by the FMA Act and its subsidiary legislation. The key feature of the framework is that the chief executive of each

21 A number of agencies that were significantly affected by the Machinery of Government changes of 18 September 2013 were settling revised governance arrangements at the time of the ANAO's 2013–14 interim audit phase.

22 From 1 July 2014 CEIs will be replaced by Accountable Authority Instructions. The full introduction of the *Public Governance, Performance and Accountability Act 2013* from 2014–15 will require agencies to update their delegations and authorisations.

agency is responsible for the financial management of their agency, including compliance with applicable laws and associated policies.

3.16 In reviewing an agency's control environment, the ANAO assesses whether management has established adequate controls to enable the agency to comply with key aspects of the FMA Act.

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

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

Observations

3.19 As in previous years, overall, the ANAO identified a high level of compliance in these areas, except in respect of potential or actual breaches of section 83 of the Constitution, which is discussed at paragraphs 3.26 to 3.29 below.

3.20 The 2013–14 interim audits identified that, generally, agencies continue to maintain updated listings of the laws, regulations and associated government policies that are relevant to their responsibilities. Agencies also have well-established processes to monitor compliance with legislation to enable chief executives to provide an annual Certificate of Compliance to their Minister.

3.21 Generally, audit committees are responsible for reviewing the effectiveness of legislative compliance arrangements, particularly in relation to

financial management requirements. An agency's internal audit function often assists with the monitoring of these arrangements.

3.22 Agencies also have established a variety of mechanisms to communicate the importance of compliance with legislation through documents such as CEIs, corporate plans, fraud control plans and delegation instruments.

3.23 The Certificate of Compliance process for FMA Act agencies was introduced in 2006–07 to improve compliance with the Australian Government's financial management framework and to ensure that Ministers are kept informed of compliance issues within their portfolios. Through the Certificate, agency chief executives certify to their portfolio Minister the agency's compliance with the components of the Government's financial management framework for the previous financial year.

3.24 The Certificate requirement that chief executives sign-off on compliance with the financial management framework and report identified instances of non-compliance has heightened the focus of agencies on compliance.

3.25 As part of the 2013–14 interim audits the ANAO reviewed agencies' progress in addressing the risk of breaches of section 83 of the Constitution.

Section 83 of the Constitution

3.26 Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law. The effect of section 83 is that all spending by the executive government from the Consolidated Revenue Fund (CRF) must be in accordance with an authority given by the Parliament. Breaches of section 83 can occur when conditions legislated by the Parliament are not met before payments are made from special appropriations and special accounts. In these circumstances the payments may be made without a valid appropriation. This includes situations where an administrative error such as a duplicate payment occurs, even if the overpayment is able to be recovered.

3.27 Potential breaches can take many forms, including:

- a payment or overpayment made as a result of an error, including payments made based on incorrect or inaccurate information used in assessing payment eligibility; or

- a payment made despite certain legislative preconditions, such as those that regulate an entitlement to a payment, not being fulfilled.

3.28 As reported in Audit Report No.13 2013–14, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*, the 2012–13 financial statements of 21 agencies, including 15 of the agencies covered by this report, included a reference to potential or actual breaches of section 83 of the Constitution. The auditors' reports on the financial statements of these agencies contained a report on other legal and regulatory requirements which drew attention to these disclosures due to the importance of these disclosures in a public sector context, but the audit opinions were unqualified as the financial statements fairly represented the financial operations and position of the agency at year end.²³

3.29 As part of the 2013–14 interim audits, the ANAO reviewed progress made by agencies in assessing the ongoing risk of breaches of section 83 of the Constitution and actions taken to address these risks. Chapter 5 of this report includes details of these reviews for relevant agencies.

Payments under National Partnership Agreements

3.30 The ANAO's financial statements audits include an assessment of the internal controls in relation to systems that produce material financial statement balances and the substantive testing of material balances and disclosures in entities' financial statements. Among the most significant balances that are reported in the Australian Government's Consolidated Financial Statements and in the financial statements of individual Australian Government entities are payments to the State and Territories. These payments are made in accordance with various legislative requirements and related agreements and in 2012–13 totalled \$92.3 billion. Of this, \$81.4 billion²⁴ relates to payments made under the *Federal Financial Relations Act 2009*.

3.31 ANAO Audit Report No. 13 2013–14²⁵ outlined arrangements for payments by the Commonwealth to the States and Territories under the *Federal Financial Relations Act 2009* and included discussion on payments made under National Partnership Agreements (NPA). This discussion outlined: details of

23 A report on other legal and regulatory requirements is a separate part of the auditor's report on the financial statements and does not affect the auditor's opinion on the truth and fairness of the financial statements.

24 Derived from the Treasury's 2012–13 financial statements.

25 See paragraphs 4.23 to 4.50 on pages 51 to 60 of Audit Report No. 13 2013–14.

arrangements in individual agencies and the Department of the Treasury (Treasury) for monitoring compliance with the terms and conditions of payment arrangements; and summarised the results of ANAO financial statement and performance audit coverage of these arrangements.

3.32 The ANAO suggested that as National Partnership arrangements continue to evolve, there would be benefit in relevant agencies exploring opportunities within existing administrative arrangements in the design of future agreements for introducing mechanisms for obtaining additional assurance over the integrity of information provided by the States and Territories, particularly where Commonwealth payments are dependent on this information. The ANAO considered that the strengthening of assurance mechanisms would assist in providing increased confidence to the Commonwealth, and the States and Territories, about the integrity of performance data particularly in circumstances where this performance data influences the level of Commonwealth payments under the agreements between governments.

3.33 Against this background, in early 2014 the Secretary of the Treasury and the Auditor-General wrote to relevant agencies concerning the governance and monitoring arrangements applied by agencies in relation to their management of National Partnership Agreements. Agencies were asked to review, and as appropriate, strengthen their monitoring of the performance requirements specified in agreements, as they relate to payments, noting that portfolio ministers or delegated officials are responsible for assessing performance and authorising payments to the States and Territories in accordance with the conditions set out in these agreements.

3.34 Responses from agency heads to date have been positive. Agencies have advised of a range of actions taken to review their internal processes, including commissioning internal audit coverage and increased review by audit committees of payment arrangements, and indicated that they considered existing arrangements to be robust. A number of agencies also indicated that planned education and training initiatives would assist in further strengthening existing arrangements.

3.35 One agency reported that two overpayments occurred during 2013–14 that may result in technical breaches of section 83 of the Constitution.

Observations

3.36 As part of the 2013–14 interim audits, the ANAO examined the processes in place within Treasury and relevant agencies to provide assurance over the accuracy of payments made to the States and Territories. These audits involved a review of arrangements relating to 25 NPAs with budgeted expenditure totalling \$9.5 billion.

3.37 The ANAO identified that, consistent with the findings of the 2012–13 audits, relevant agencies generally had controls in place to monitor the achievement of performance benchmarks, project milestones and other conditions contained within agreements that are required to be met before payments are made.

3.38 Nevertheless, consistent with previous observations, the ANAO identified:

- there was scope for some agencies to better utilise access clauses in agreements. These access clauses allow the Commonwealth to obtain additional information to support State and Territory provided data, and would provide independent assurance that States and Territories had met their obligations under the agreements prior to payment;
- instances where agencies relied on information submitted by the States and Territories, without independent verification; and
- many agreements do not provide the Commonwealth with the authority to request additional information from the States and Territories to assist in providing the Commonwealth additional assurance over the integrity of information provided by the States and Territories²⁶.

3.39 Positively, our audits also identified that:

- there had been an increased level of audit committee and internal audit activity in relation to National Partnership payment processes;
- a number of agencies had been actively seeking to strengthen controls over the review of State and Territory provided information; and

²⁶ These issues, under arrangements currently in place, increase the risk of a payment to the States and Territories being in breach of section 83 of the Constitution. A discussion of the risk of a breach of section 83 of the Constitution in relation to payments to the States and Territories is at paragraphs 5.444 to 5.448 in chapter 5 of this report.

- the Treasury had commenced a risk assessment of each NPA and advised that it expected that this assessment would be completed by 30 June 2014. The results of the risk assessment are expected to identify agreements that may warrant further attention in the context of meeting the Treasury's responsibilities.

3.40 The 2014–15 Budget included measures to establish number of new NPAs and to terminate a small number of existing agreements. Estimated expenditure under NPAs is budgeted to remain between \$12 and \$14 billion each financial year.

3.41 The Australian Government has expressed a preference for more streamlined arrangements between the Commonwealth and the States and Territories, and the Treasury has advised the ANAO that it anticipates that any revised arrangements will be implemented on a case by case basis as new agreements are established or where existing agreements are renegotiated.

3.42 The Australian Government has also commissioned a White Paper on the Reform of the Federation, which will include a review of various aspects of payments to the States and Territories, including issues around transparency and accountability. The Government has indicated that the White Paper is due to be completed by the end of 2015.

3.43 While in the light of the above mentioned developments, changes may be made to the way some payments are made to the States and Territories, the ANAO considers that while existing arrangements remain in place, it is important that agencies continue to maintain, and in some cases strengthen, arrangements that provide the necessary level of assurance that payments to the States and Territories under NPAs are made in accordance with these agreements.

Risk assessment process

3.44 An understanding of an agency's risk assessment process is essential to an effective and efficient financial statement audit. The ANAO reviews how agencies identify risks relevant to their financial statements, how these risks are managed and considers the risk of material misstatement of an agency's financial statements.

3.45 The ANAO found that agencies generally had well established arrangements in place for developing and updating risk management plans at

the organisational and work area levels. The risk assessments of most agencies also included consideration of the risks relevant to financial statement preparation. The process is generally reviewed by the agency's audit committee or a separate committee with specific responsibility for risk management.

Fraud control management

3.46 The *Commonwealth Fraud Control Guidelines* outline the principles for fraud control within the Australian Government and set minimum standards to assist agencies in carrying out their responsibilities to combat fraud²⁷ against their programs.

3.47 The importance of agencies establishing effective fraud control arrangements is recognised in section 45 of the FMA Act which specifies that chief executives must implement a fraud control plan for their agency. The Guidelines require agencies to conduct fraud risk assessments at least every two years. All agencies are required to provide the Australian Institute of Criminology (AIC) with fraud control information for its annual report on fraud against the Australian Government, and fraud control arrangements within Australian Government agencies. This report is titled *Fraud against the Commonwealth: Annual Report to Government*. The report is provided to Government to facilitate analysis of fraud and future policy development.

3.48 Unaudited data provided to the AIC for the year ended 30 June 2013 showed that:

- the Australian Federal Police accepted 72 referrals of fraud-related matters in 2012–13 and estimated the value of these cases to be \$102.4 million;
- 1 422 defendants were referred to the Commonwealth Director of Public Prosecutions for prosecution and 1 395 defendants were prosecuted by the Commonwealth Director of Public Prosecutions in fraud type matters; and

²⁷ The *Commonwealth Fraud Control Guidelines* define fraud against the Commonwealth as 'dishonestly obtaining a benefit, or causing a loss, by deception or other means'. This definition includes (but is not limited to) theft; accounting fraud (false invoices, misappropriation etc.); causing a loss, or avoiding and/or creating a liability; providing false or misleading information to the Commonwealth, or failing to provide information where there is an obligation to do so; misuse of Commonwealth assets, equipment or facilities; making, or using false, forged or falsified documents; wrongfully using Commonwealth information or intellectual property.

- during 2012–13, 1 062 convictions (these include fraud by Commonwealth employees and external parties) for fraud were achieved and there were 8 acquittals for fraud type matters.

3.49 These results continue to highlight the risk of fraud and the importance of agencies effectively managing their fraud control responsibilities.

3.50 An explanation of an auditor’s responsibility for preventing and detecting fraud is provided in Australian Auditing Standard ASA 240 *The Auditor’s Responsibilities Relating to Fraud in an Audit of a Financial Report*, which notes in paragraph 4:

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

3.51 In considering the risks of material misstatement of the financial statements due to fraud, ASA 240 requires that a number of audit procedures be undertaken. These include making enquiries of agencies regarding their risk assessment processes for identifying and responding to the risks of fraud, and the controls that management has established to mitigate these risks.

3.52 As with risk management plans, fraud control plans need to be reviewed regularly and updated when significant changes to roles or functions occur, so that they reflect an agency’s current fraud risk and control environment. There are benefits in agencies assessing their fraud risks as part of their risk management processes.

Observations

3.53 ANAO enquiries, as part of the 2013–14 interim audits, identified that agencies continue to recognise the importance of adhering to the Fraud Control Guidelines, with all agencies having a fraud control plan. The ANAO observed that all agencies had undertaken a fraud risk assessment which complied with the Fraud Control Guidelines. Agencies also had a formal process for updating fraud control plans, oversight and monitoring of fraud control strategies and initiatives.

Information system

3.54 An agency’s information system is used extensively for the processing of financial information that is used to prepare its financial statements. As a consequence, the review of each agency’s information system and its related

controls forms a significant part of the ANAO audit examination of internal controls. Information system controls include agency-wide general controls that establish an agency's IT infrastructures, policies and procedures, together with specific application controls that validate, authorise, monitor and report financial and human resource transactions.

Observations

3.55 The ANAO observed that the majority of agencies had effective IT general controls and IT application controls that support the preparation of agencies' financial statements, although increased attention to the management of privileged and other user access was required in a number of agencies. A comprehensive commentary on the results of the ANAO's review of information systems that underpin the financial transactions processing within major Australian Government agencies is provided in chapter 4 of this report.

Control activities

3.56 Australian Auditing Standard ASA 315 at paragraph A96 states:

Control activities are the policies and procedures that help ensure that management directives are carried out.

3.57 The auditor is required to obtain an understanding of control activities relevant to the audit, being those that the auditor considers necessary to understand in order to assess the risks of material misstatement. Further audit procedures responsive to these risks then need to be designed.

3.58 To illustrate trends in audit findings, that generally relate to agencies control environments, aggregate details of category A, B and C findings²⁸ over the last four years have been grouped into the following categories:

- IT control environment;
- purchases and payables;
- grant accounting;
- accounting and control of non-financial assets;
- revenues, receivables and cash management;

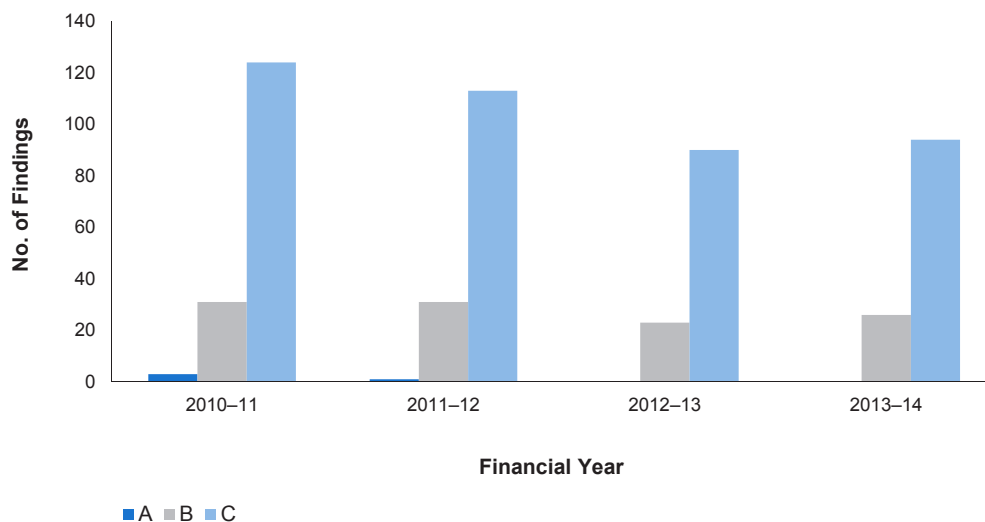
28 These categories are described at paragraph 5.7 of this report.

- human resource management processes; and
- other control matters.

Aggregate audit findings

3.59 Aggregate audit findings for the last four years are outlined in figure 3.1 below.

Figure 3.1: Aggregate audit findings – categories A, B and C



3.60 Over the last four years, the ANAO's interim audits have identified around 530 audit findings. From 2010-11 to 2012-13 there was reduction in the total number of findings, with the majority of findings being category C findings. While there was again no Category A findings identified in the 2013-14 interim audits, there was an overall small increase in findings arising from the 2013-14 audits. The number of category B findings increased from 23 in 2012-13 to 26 in 2013-14 and Category C findings increased from 90 in 2012-13 to 94 in 2013-14. The trend in the number of audit findings is reflected in the analysis of findings by category outlined below.

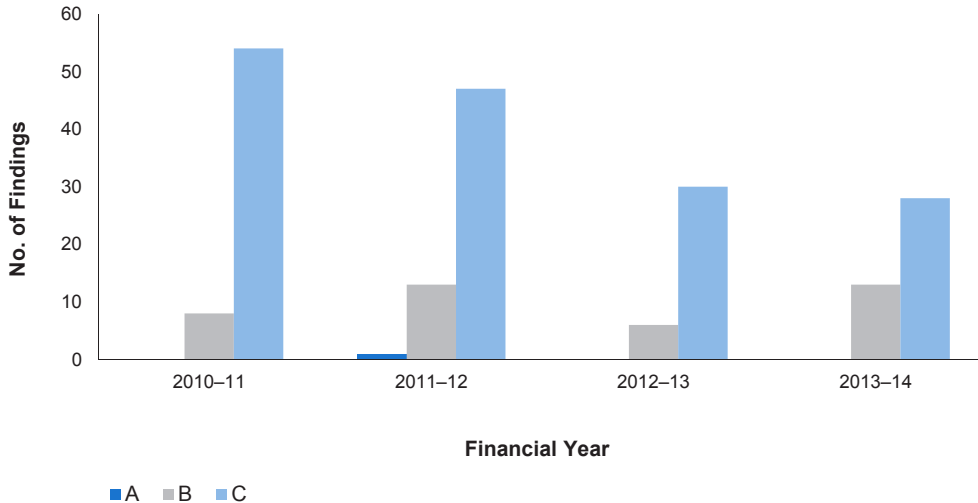
IT control environment

3.61 As mentioned above, the review of information systems and their related controls are an integral part of an agency's internal control environment. The main components reviewed are: IT general controls that encompass an agency's IT infrastructure, policies, procedures and standards

that support accounting and business processes; and IT application controls that validate, authorise, monitor and report financial and human resource transactions.

3.62 The number of audit findings over the last four years is outlined in figure 3.2 below.

Figure 3.2: IT control environment – aggregate audit findings



3.63 Findings in relation to agencies' IT control environments represent some 37 per cent of all findings, with 200 findings in total over four years. The ANAO has observed an overall improvement in the management of IT controls over the past four years.

3.64 Common issues noted for attention over the four years include controls to manage IT change management, the regular review and updating of change management processes, and the management of user access to key financial systems. The 2013-14 interim audits identified the need for improvements in the management of FMIS and HRMIS privileged and other user access in a number of agencies and a number of instances of non-compliance with the requirements of the Protective Security Policy Framework and the Australian Government Information Security Manual.²⁹

²⁹ A cross agency performance audit of Securing Agencies' ICT Systems, is expected to be tabled in the near future.

3.65 A comprehensive commentary on the results of the ANAO’s review of information systems that underpin the financial transactions processing within major Australian Government agencies is provided in chapter 4.

Purchases and payables

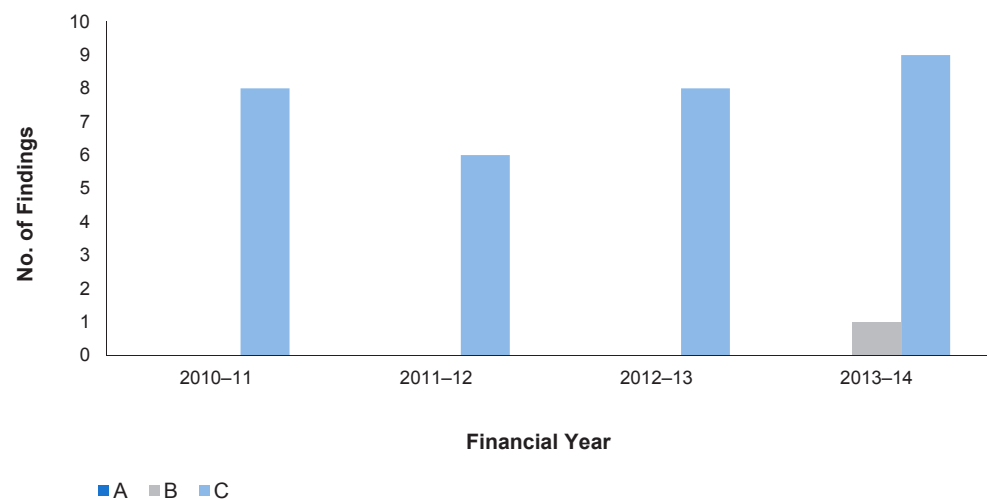
3.66 The main component of purchases and payables is payments to suppliers, including contractor and consultancy expenses, lease payments and general administrative and utility payments. Payments to suppliers generally represent a significant percentage of total departmental expenses incurred by agencies.

3.67 In 2012–13, the Consolidated Financial Statements (CFS) reported total expenses for the payments of goods and services of \$79.7 billion.

3.68 The main controls over purchases and payables which are given particular focus in our interim audits include: approval of the commitment and expenditure of public monies in accordance with delegations and authorisations; segregation of duties; controls to prevent duplicate payments; and controls over credit card expenditure.

3.69 The number of audit findings over the last four years is outlined in Figure 3.3 below.

Figure 3.3: Purchases and payables – aggregate audit findings



3.70 Over the last four years, agencies' controls over purchases and payables subject to audit review have been generally effective with a relatively small number of audit findings, representing some six per cent of total audit findings. The results of our 2013–14 interim audits continue to indicate effective controls in place over purchase and payables. The small number of category C issues identified related to the approval of the expenditure of public moneys and controls over credit card expenditure³⁰.

Grant accounting

3.71 Many agencies administer grant programs that involve the provision of funds to eligible recipients in accordance with legislative and policy requirements. Grant recipients include state and local governments and community organisations.

3.72 To assist decision-makers and administering agencies to understand, implement and comply with policy requirements and related guidance, the ANAO issued a Better Practice Guide *Implementing Better Practice Grants Administration* in December 2013.

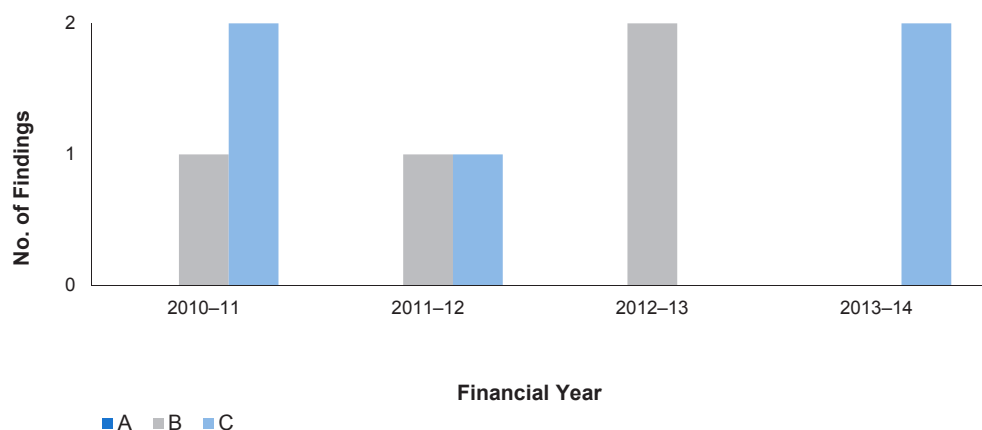
3.73 The main controls over the accounting of grant expenditure include: approval of the commitment and expenditure of grants to eligible recipients; the payment of grants in accordance with funding agreements; and controls over grant acquittals. Our interim audit work reviewed these control areas.

3.74 In 2012–13, the Consolidated Financial Statements reported total grant expenditure of \$120.5 billion.

3.75 The number of audit findings over the last four years is outlined in figure 3.4 below.

30 In 2012–13, the ANAO tabled ANAO Audit Report No.35 *Control of Credit Card Use* that assessed whether a selection of Australian Government agencies were effectively controlling the use of credit cards for official purposes.

Figure 3.4: Grant accounting – aggregate audit findings



3.76 Agencies' controls over the payment of grants have been generally effective, with a very small number of audit findings representing less than two per cent of total audit findings.

3.77 Audits of the general administration and the effectiveness of grant programs by agencies are included in the ANAO's performance audit program. These audits generally include: an examination of the design of the program to reflect policy intention and legislative requirements for the expenditure of public money; the processes by which grant applications are sought, received and assessed; and the monitoring and reporting arrangements undertaken to measure progress against the program objective. ANAO performance audits continue to identify the need for an improvement in a number of aspects of the administration of grants by agencies, including the establishment and application of clear eligibility requirements; appropriately documenting decisions relating to the assessment and selection of applicants; the monitoring of the delivery of programs and the management of funding agreements.³¹

31 In 2013-14, the ANAO tabled the following audits that addressed aspects of the administration of grants:

- ANAO Audit Report No.1 2013-14 *Design and Implementation of the Liveable Cities Program*;
- ANAO Audit Report No.8 2013-14 *The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviewed of Flood Reconstruction Projects in Queensland*;
- ANAO Audit Report No.11 2013-14 *Delivery of the Filling the Research Gap under the Carbon Farming Futures Program*;
- ANAO Audit Report No.16 2013-14 *Administration of the Smart Grid, Smart City Program*;
- ANAO Audit Report No.17 2013-14 *Administration of the Strengthening Basin Communities Program*; and
- ANAO Audit Report No.25 2013-14 *Management of the Building Better Regional Cities Program*.

Accounting and control of non-financial assets

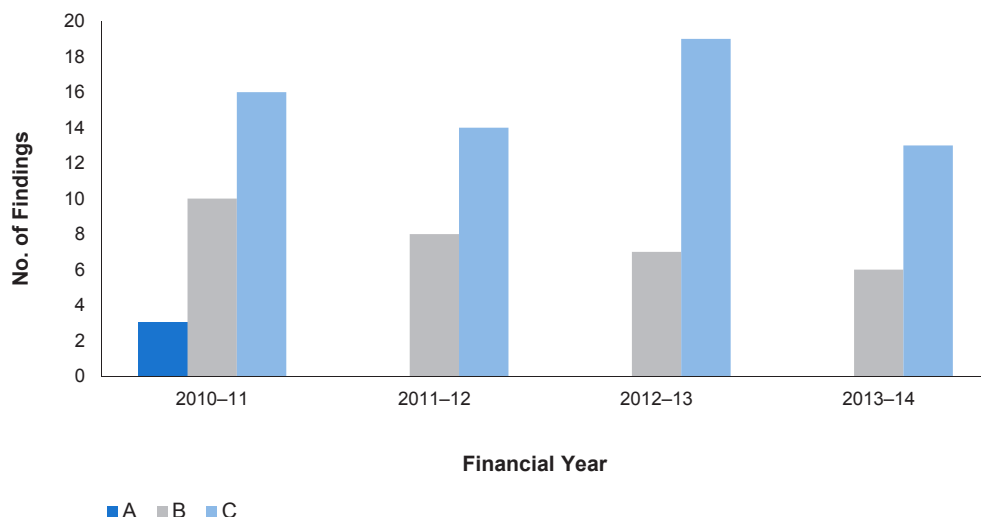
3.78 The accounting and control of non-financial assets represents an important aspect of agencies' financial management responsibilities. Agencies control a diverse range of non-financial assets on behalf of the Commonwealth, with the main classes of assets being land and buildings, leasehold improvements, infrastructure plant and equipment, inventories and internally developed software.

3.79 In 2012–13, the Consolidated Financial Statements reported total non-financial assets of some \$127.8 billion.

3.80 The main controls over assets that are given particular focus in our interim audits include: the approval of the commitment and expenditure of public monies in accordance with authorisations and delegations; reconciliations between the general ledger and subsidiary asset accounts; the maintenance of a reliable asset register that includes information about assets acquired, disposed of, and asset locations; physical security over assets including asset identification numbers; the appropriateness of depreciation rates and useful lives; approval of, and the accounting for, the disposal of assets; and the periodic conduct of stocktakes. The valuation of assets is covered as part of our final audit phases.

3.81 The number of audit findings over the last four years is outlined in figure 3.5 below.

Figure 3.5: Accounting and control of non-financial assets – aggregate audit findings



3.82 Over the last four years there have been 96 audit findings relating to the accounting and control of non-financial assets, representing approximately 18 per cent of the total number of audit findings. The results of our 2013–14 interim audits indicate a number of areas requiring improvement. These include issues relating to the timely capitalisation of assets to enable the accurate calculation of depreciation, the maintenance of complete and accurate fixed asset registers, and consistency of impairment assessments.

Revenue, receivables and cash management

3.83 The main components of revenue and receivables consist of Parliamentary appropriations, taxation revenue, customs and excise duties and administered levies. Other revenue is also generated by agencies from the sale of goods and services and a range of other sources including from interest earned from cash funds on deposit. Cash management involves the collection and receipt of public monies and the management of official bank accounts.

3.84 In 2012–13, the Consolidated Financial Statements reported total taxation revenues of \$335.7 billion, and non-taxation revenues of \$36.2 billion and reported cash holdings totalling \$4 billion.

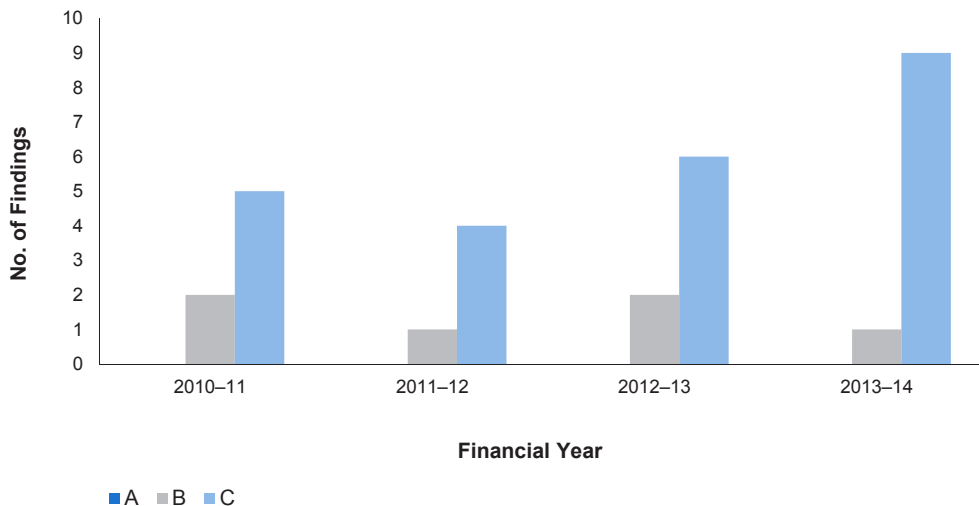
3.85 The main controls over revenue and receivables that are given particular focus in our interim audits include: policies for the recognition of

revenue; the regular review of receivables and accounting for impairment; and the segregation of receipting and recording of cash functions.

3.86 The main controls over the management of cash that are given particular focus in our interim audits include: the approval to open and close bank accounts; the exercise of delegations; and the preparation of bank reconciliations on a regular basis.

3.87 The number of audit findings over the last four years is outlined in figure 3.6 below.

Figure 3.6: Revenue, receivables and cash management – aggregate audit findings



3.88 Over the last four years, our interim audits have identified that agencies' key controls over revenue, receivables and cash have generally been effective, with audit findings in respect of these areas representing six per cent of total findings.

3.89 There has been a noticeable increase in the total number of findings in 2013-14, with the issues identified relating mainly to reconciliation processes and the management of receivables.

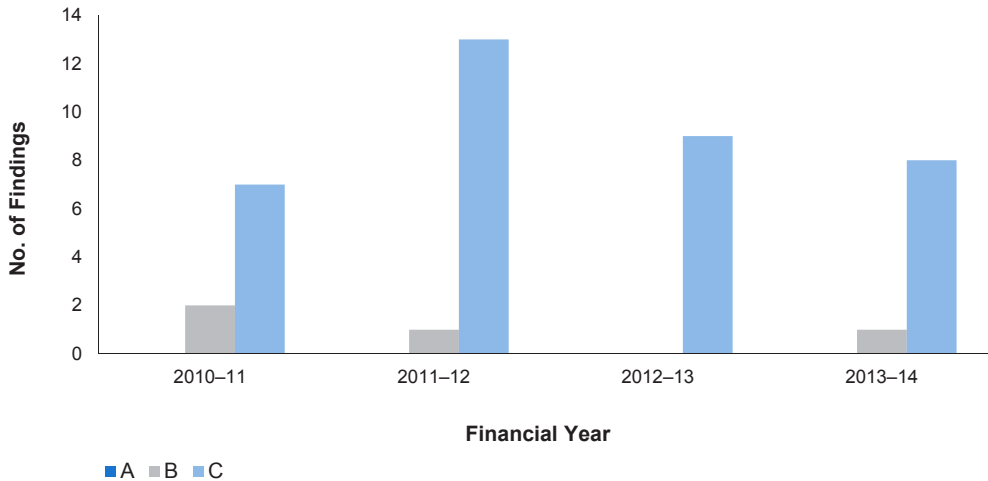
Human resource management processes

3.90 Human resource management processes encompass the day-to-day management and administration of employee entitlements and payroll functions. The main components of employee expenses consist of salary and wages, leave and other entitlements, employer superannuation contributions, separation and redundancy payments and workers compensation expenses. These items represent the largest departmental expenditure for most agencies. Employee entitlement liabilities, particularly relating to annual and long service leave, generally are one of the larger liabilities on an agency's balance sheet.

3.91 In 2012–13, the Consolidated Financial Statements reported \$44.5 billion in employee benefits expenses.

3.92 The main controls over human resource management processes that are given particular focus in our interim audits include: approvals over new employees; independent checks of employee salary and personnel details entered into the HRMIS; approval of changes of key HRMIS data; independent checks over payroll processes including leave entitlement calculations; the timely conduct and review of reconciliations; and the approval of leave and termination payments. To assist HR systems managers and practitioners to implement better practice the ANAO issued a Better Practice Guide *Human Resource Management Information Systems: Risks and Controls* in June 2013.

3.93 The number of audit findings over the last four years is outlined in figure 3.7 below.

Figure 3.7: Human resource management process – aggregate audit findings

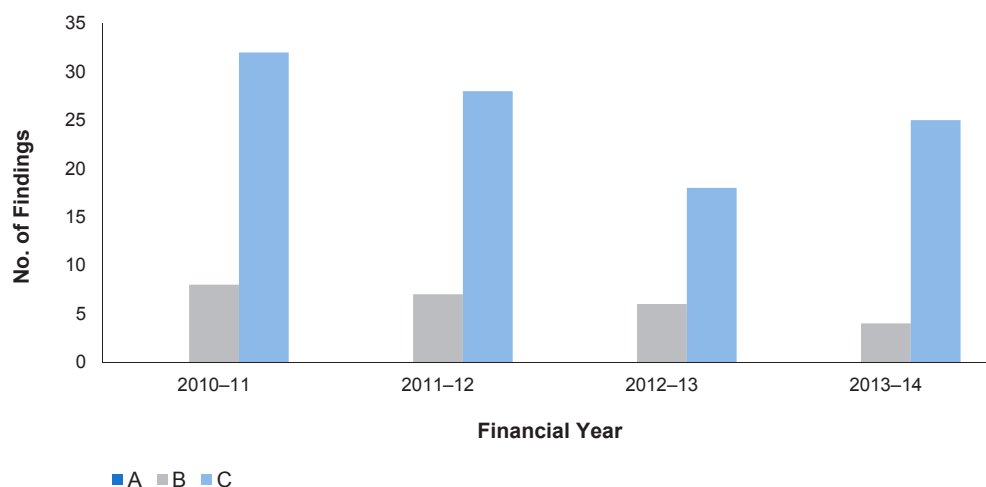
3.94 Over the four year period, there have been 41 findings in this category, representing approximately eight per cent of total audit findings. There has been an increase in the number of Category B audit findings in 2013–14 relating to quality assurance and review processes over time recording; processes for the commencement and termination of employees and leave processing.

Other control matters

3.95 Our audits also include a review of agencies' general control environments, particularly when they impact on agencies' financial statements. Issues considered include such matters as: areas of estimation and judgement; the management of service level agreements and memoranda of understanding; risk management; and financial statements quality assurance processes.

3.96 The number of audit findings over the last four years is outlined in figure 3.8 below.

Figure 3.8: Other control matters – aggregate audit findings



3.97 There have been 128 findings in this category over the last four years, representing approximately 24 per cent of total audit findings. Common issues noted over the four years, and again identified in the 2013–14 interim audits include: control weaknesses across a range of business processes, quality assurance issues and internal control deficiencies.

Monitoring of controls

3.98 Australian Auditing Standard ASA 315 at paragraph A106 states:

Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It involves assessing the effectiveness of controls on a timely basis and taking necessary remedial actions. Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular management and supervisory activities.

3.99 Agencies undertake many types of activities as part of their monitoring of control processes, including external evaluation reviews, control self-assessment processes, post-implementation reviews and internal audits. The level of review of different types of activities by the ANAO is dependent on the nature of each entity. However, given the significance of the internal audit function to Australian Government agencies, this function is reviewed by

the ANAO each year to gain an understanding of its contribution to the overall control environment.

Internal audit function

3.100 In the public and private sectors, internal audit has long been recognised by better practice entities as a valuable resource, and entities have given internal audit a key role in their governance arrangements.

3.101 Internal audit is a key source of independent and objective assurance advice on an agency's risk framework and internal control. Depending on the role and mandate of an agency's internal audit function, it can play an important role in assessing the adequacy of both the financial systems that underpin an agency's financial statements, and the preparation process.

3.102 To assist agencies in the management of their internal audit functions, the ANAO issued a Better Practice Guide *Public Sector Internal Audit* in September 2012. The Better Practice Guide outlines the key characteristics of a well performing Internal Audit function. The presence of these characteristics will provide confidence and assurance to chief executives, and where relevant Boards, that those financial and operational controls that manage organisational risks are operating in an efficient and effective manner.

3.103 As part of its financial statement coverage, the ANAO reviews the activities of internal audit in accordance with Australian Auditing Standard ASA 610 *Using the Work of Internal Auditors*³². The ANAO approach takes into account the work completed by internal audit, and, where appropriate, reliance is placed on it to ensure an effective audit approach.

Observations

3.104 The ANAO observed that internal audit coverage is generally based on an internal audit plan that is aligned with agencies' risk management plans and includes a combination of audits that address assurance, compliance, performance improvements and IT systems reviews. In addition, recommendations from management, audit committees and external influences such as the ANAO work program are factors considered in the development of internal audit work plans.

32 This standard was substantially revised in November 2013, with the revised standard applying to reporting periods commencing on or after 1 January 2014.

3.105 Where appropriate, the ANAO places reliance on internal audit work with aspects of the work being used to determine the nature, timing and extent of the ANAO audit procedures. The extent of reliance varies between agencies. Greater reliance is placed on internal audit work where the work is focused on financial controls and legislative compliance. The ANAO continues to encourage agencies to identify opportunities for internal audit coverage of key financial systems and controls as a means of providing increased assurance to chief executives to support their expressing an opinion on the agency's financial statements.

3.106 The ANAO also found that the internal audit functions of most agencies are generally subject to periodic review by their respective audit committee and/or by external reviewers. These reviews are generally based on a balanced set of indicators to assess internal audit performance. At the time of the 2013–14 interim audits, those internal audit functions that had been reviewed had been assessed as generally providing a satisfactory service.

Conclusion

3.107 The results of our 2013–14 interim audits identified that the effectiveness of controls over finance and accounting processes in the majority of agencies supports the production of reliable financial statement information, reflecting the general maturity of agencies' control environments. Nevertheless, there has been a small increase in Category B and C findings arising from the 2013–14 interim audits compared to the number of findings in 2012–13. The increase in findings has mainly been in the areas of IT controls, and accounting for revenue and receivables. Agencies have an ongoing responsibility to monitor the effectiveness of their systems and related controls to be confident of the integrity of the financial information reported to management and in their annual financial statements.

4. Information Technology Controls

This chapter presents the results of the ANAO's review of selected elements of the information technology (IT) control environments that underpin the processing of financial information used in the preparation of agencies' financial statements. This chapter also includes a review of the business continuity and disaster recovery arrangements operating in agencies and a discussion on the use of cloud computing.

Introduction

4.1 Information Technology (IT) systems facilitate the way in which Australian Government agencies operate and support the business processes that deliver services to the Australian community. Accordingly, systems are required to be accurate, reliable, and sustainable.

4.2 The Australian Government Information Management Office (AGIMO) has reported that total government IT expenditure in recent years has been between \$5 billion and \$6 billion.

4.3 The business processes that support financial statement preparation and reporting also require the support of IT systems. As a result, an assessment of IT controls is a core component of the assessment of an agency's control environment, and the financial statement audit process. The ANAO reviews both IT general controls³³ and application controls³⁴ for significant financial systems.

4.4 The weaknesses identified in this chapter are reported to agencies as category B or C findings, with details of category B audit findings included in Chapter 5 of this report³⁵. Aggregate findings relating to the IT control environment, including category C findings, are discussed at paragraphs 3.61 to 3.65 of chapter 3 of this report.

33 IT general controls are agency-wide structures, policies, procedures, and standards applied to information systems that support accounting and business processes. Effective operation of these controls helps make sure IT application controls work as intended throughout the financial year.

34 IT application controls operate at the accounting and business process level, consisting of access, configuration, and reporting controls. Reliance on the effective operation of these controls provides a means to confirm the accuracy and integrity of agencies' financial statements, particularly high transaction volume accounts. Audit coverage of these controls may be undertaken on a rotation basis.

35 Category B audit findings arising from our examination of Information Technology controls were identified in the Attorney-General's Department and the Departments of Agriculture, Defence, Foreign Affairs and Trade, Human Services, Immigration and Border Protection, Prime Minister and Cabinet, Social Services, and Veterans' Affairs.

4.5 While the primary focus of the ANAO's financial statement audits is on risks of material misstatement of agencies' financial statements, ANAO financial statement audits also provide a valuable insight into IT activities across government.

4.6 This chapter includes a discussion on trends observed in the four year period 2010–11 to 2013–14 in relation to a number of IT control categories. Commentary on the business continuity and disaster recovery arrangements in agencies³⁶, and on the usage and arrangements regarding the use by agencies of cloud computing, is also included.

IT control environment

4.7 The ANAO reviews the design, implementation and operation of key IT controls that are designed to ensure the integrity of financial information presented in agencies' financial statements. The ANAO undertakes this assessment each year in accordance with the Australian Auditing Standards³⁷. The accuracy, completeness and integrity of agencies' financial transactions and information are important considerations in formulating an agency's overall audit risk profile and, as such, it is important that controls are well designed and operate effectively.

Changes to the IT control environment

4.8 As part of the overall audit approach, an assessment is made each year of significant changes to agencies' control environments. By its nature, the IT control environment is subject to change and modification on a regular basis. For some agencies, changes to their IT systems, applications and processes represent major business change initiatives. Such changes may have a significant impact on the underlying IT control environment.

36 Effective business continuity and supporting disaster recovery processes minimise the likelihood and impact of a major disruption to business functions and processes, including key financial systems and supporting IT services.

37 Australian Auditing Standard, *ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*.

Elements of the IT control environment

4.9 Table 4.1 below outlines the elements of the IT control environment³⁸ reviewed by the ANAO as part of the 2013–14 financial statement audits of the major agencies covered by this report. The total number of agencies can vary from year to year³⁹, with 23 agencies reported in 2013–14.

4.10 A more detailed discussion of each IT control environment element is in table 4.1 below.

Table 4.1: Elements of the IT control environment

Control Area	Control Element	Control Categories
General IT controls	IT security management	User authentication and access management Network security Security governance Security monitoring and reporting
	IT change management	Approval and tracking Testing Backout procedures Change logs and reporting Emergency changes Policy and governance frameworks Release management
Application controls	Financial management information system	Application change management Masterfile maintenance Payment processing Privileged user management User access management
	Human resource management information system	Application change management Masterfile maintenance Payroll processing Privileged user management User access management
Business continuity arrangements	Financial management and human resource management systems	Business continuity and disaster recovery plans and testing

Source: ANAO compilation.

³⁸ Given the extensive number of individual controls assessed by the ANAO for each audit; for the purposes of this report, controls comprise a series of elements, for example IT security or IT change management, and elements comprise a series of control categories.

³⁹ Where comparative data has been included, the data for 2013–14 is for 23 agencies, 2012–13 is for 24 agencies, 2011–12 is for 25 agencies, and 2010–11 is for 26 agencies.

4.11 The charts and associated discussion that follow outline the ANAO assessment of the integrity of general IT controls, application controls and business continuity arrangements, as categorised in table 4.1 above. The discussion of audit findings in these areas focusses on those controls where increased management attention was warranted in some agencies.

General IT controls

4.12 General IT controls are the foundation of an agency's IT control environment. These controls commonly relate to all information systems and establish the environment in which application systems and controls operate. The ANAO's review of IT general controls focused on the controls present in the IT environment relevant to those systems that process financial transactions and information.

IT security management

4.13 The administration of government programs often involves agencies managing, protecting, and preserving large amounts of financial and personal information. The integrity of such information can be threatened by an IT security event, and put at risk the accuracy and completeness of an agency's financial information. Some events can also pose a risk to the program, operational, and other responsibilities of agencies, and may result in loss of public confidence.

4.14 IT security management is the primary mechanism used to protect information and information systems from unauthorised access, use, disclosure, modification, or destruction. The minimum standards for the protection of Australian Government information and data that agencies must meet are outlined in the Protective Security Policy Framework (PSPF)⁴⁰ and the Australian Government Information Security Manual (ISM).⁴¹

4.15 The ANAO reviewed the following categories of IT security management that are fundamental to safeguarding the security and confidentiality of agencies' financial information:

- user authentication and access management;

40 The Protective Security Policy Framework (PSPF) is the source of policies, procedures, and minimum standards for agencies in setting their protective security arrangements.

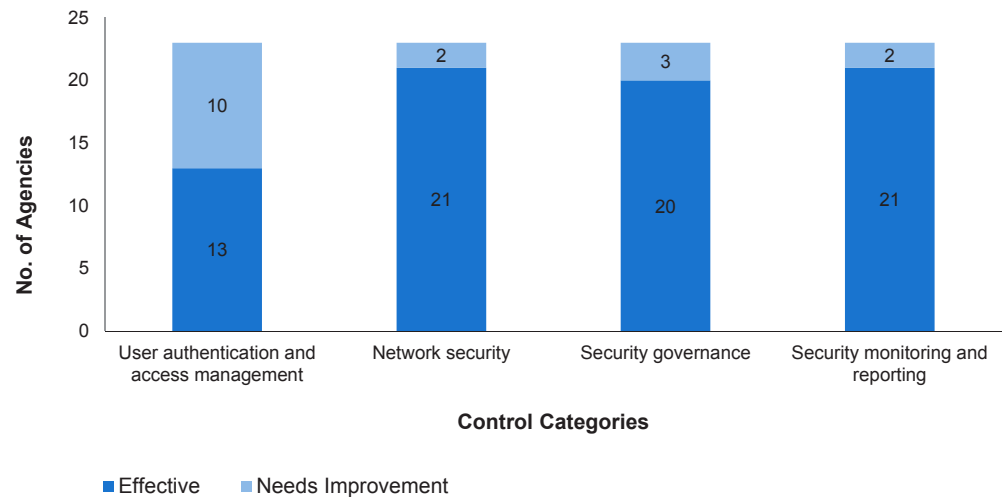
41 The Australian Government Information Security Manual complements the PSPF by providing principles and controls to assist Government agencies to achieve an assured IT security environment.

- network security;
- security governance; and
- security monitoring and reporting.

Observations

4.16 A summary of the ANAO’s assessment of the effectiveness of security control categories within agencies is provided in figure 4.1 below.

Figure 4.1: 2013–14 Assessment of IT security management



4.17 Overall, the ANAO identified that the security management controls implemented by agencies were effective in the majority of cases. However, there were a significant number of agencies where the management of user access to systems required improvement.

4.18 The weaknesses identified in user authentication and access management in 10 agencies warrants further management attention. In particular, the process of approval, establishment, monitoring and termination of user access to computer systems and networks requires improvement, including for users with privileged access.

4.19 Most agencies had established effective security governance frameworks, and had implemented effective controls for managing their IT security monitoring and reporting responsibilities. Two agencies required improvements to their network security arrangements, and two agencies required improvements to the monitoring of their IT security arrangements. In

addition, three agencies required improvements to their IT security governance arrangements, including approved policies and procedures.

4.20 The increased focus on IT security arrangements by government follows a greater appreciation of the security risks involved in protecting government information and systems, and recognises the increased complexity of systems operating across agencies and private and public networks. The increased focus on security risks has led to an increase in the minimum security standards as outlined in the PSPF and ISM, and as a result, agencies are required to satisfy a higher level of IT security protection. For some agencies the increased level of IT security protection is taking time to implement.

4.21 A cross agency performance audit of Securing Agencies' ICT Systems, is expected to be tabled in the near future. This audit reviewed seven agencies' compliance with the requirements of the PSPF and the ISM, particularly in relation to the top four mandated security strategies.

IT change management

4.22 Changes to an agency's IT environment are generally managed using a standardised process, although changes relating to the financial management information system (FMIS) and human resource management information system (HRMIS) are sometimes managed through a separate change management process. The findings in figure 4.2 below relate to an agency's standard change management process; the change management observations relating specifically to FMIS and HRMIS applications are described in figures 4.5 and 4.6. A change management process covers changes to all technology and communications components, including networks, hardware platforms, application software, and requires appropriate supporting documentation. The aim of the change management process is to manage changes in a controlled and timely manner, with a minimal number of incidents or problems occurring on release to the production environment.

4.23 For changes made to key business systems, the ANAO tested controls supporting agencies change management processes in the following key categories:

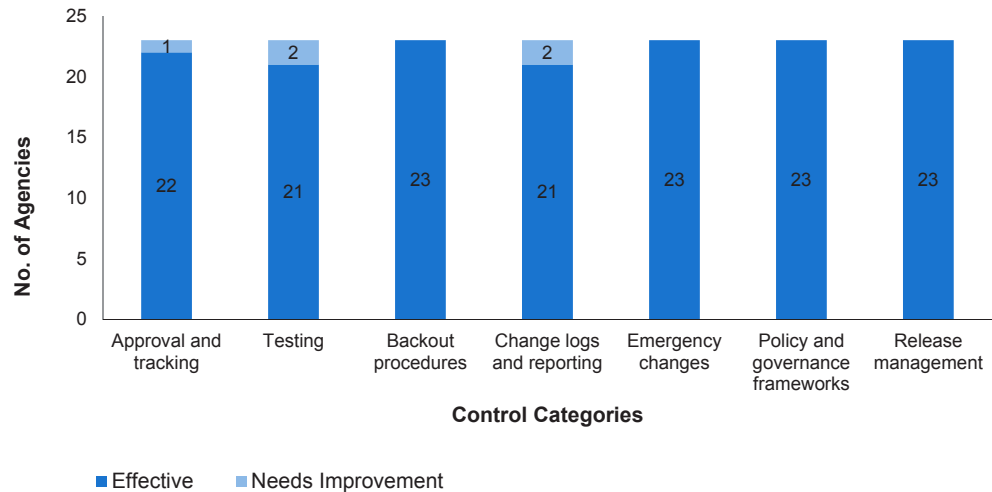
- approval and tracking;
- testing;

- backout procedures;
- change logs and reporting;
- emergency changes;
- policy and governance frameworks; and
- release management.

Observations

4.24 The findings from the testing of IT change management controls are summarised in figure 4.2 below.

Figure 4.2: 2013–14 Assessment of IT change management



4.25 Most agencies had effective change management policy and governance frameworks, and agencies had generally implemented operational change management practices effectively. However, improvements in change approval and tracking, change management testing, and change logs and reporting were required in a small number of agencies. Weaknesses in change management controls may reduce the level of oversight and control over system changes, and increase the risk of system changes being implemented that may affect the integrity of financial information.

Application controls

4.26 Australian Government agencies generally rely on two key financial reporting systems in the preparation of financial information. These are the FMIS and the HRMIS.

4.27 In view of their importance for financial reporting, the ANAO reviews agencies’ key FMIS and HRMIS controls.

4.28 The ANAO has published a Better Practice Guide *Human Resource Information Systems: Risks and Controls* to assist agencies in managing the risks involved in HRMIS functions. The ANAO has also published a Better Practice Guide, *SAP ECC 6.0 Security and Control*, to assist agencies managing the risks in SAP FMIS environments.

4.29 The figures below detail the various FMIS and HRMIS applications used by the agencies covered by this report over the last four years.

Figure 4.3: Summary of FMIS applications 2010–11 to 2013–14

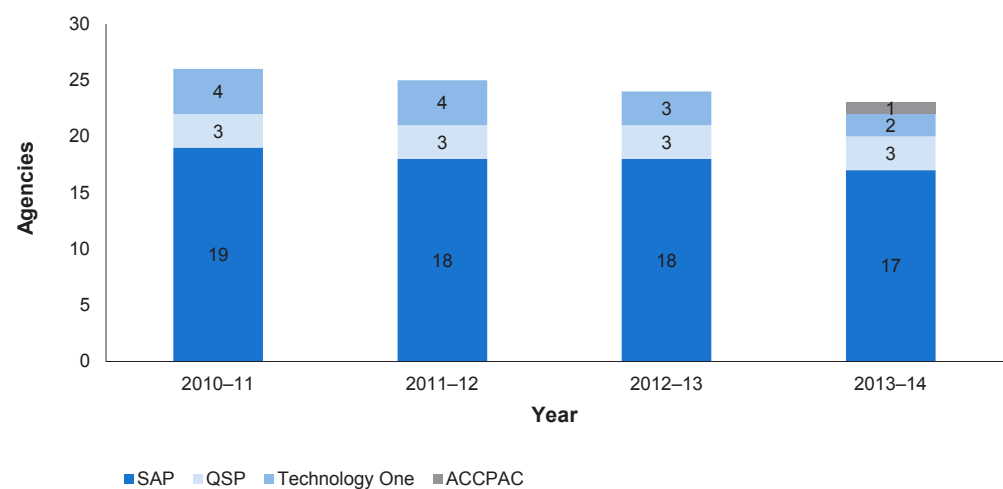
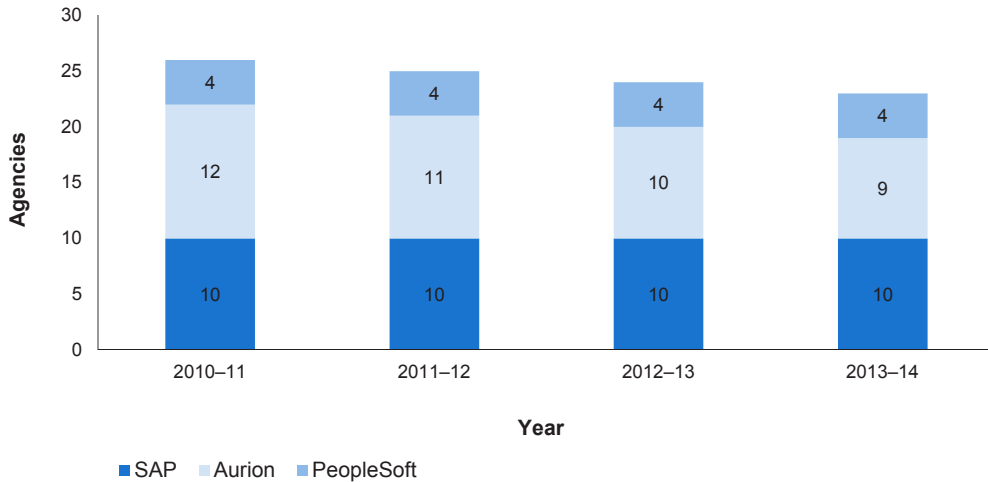


Figure 4.4: Summary of HRMIS applications 2010–11 to 2013–14

4.30 The ANAO observed that there has been little change in the range of applications utilised by agencies over the past four years, with the small number of changes mostly related to machinery of government changes. The selection and deployment of HRMIS and FMIS are costly projects for agencies and can impose considerable disruption to business operations. As a result, the number of agencies that change systems to an alternative application can be expected to be low.

Financial management information systems

4.31 The FMIS is the IT application that processes financial transactions and summarises financial information. It supports financial management decision-making, budget and financial planning, and the preparation of agency financial statements.

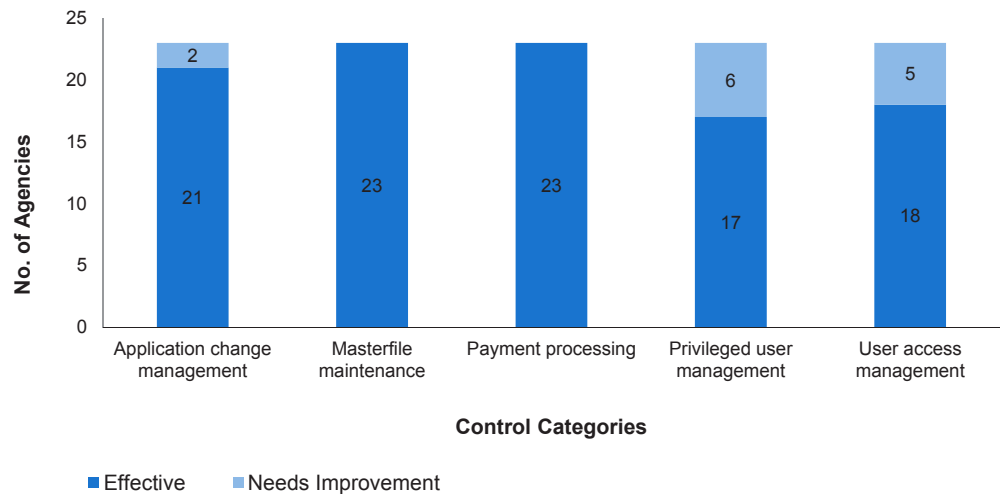
4.32 The following FMIS control categories were reviewed as part of the 2013–14 financial statement audits:

- application change management;
- masterfile maintenance;
- payment processing;
- privileged user management; and
- user access management.

Observations

4.33 The ANAO’s assessment of the key FMIS control categories integral to effective financial management and reporting, that have implications for the preparation of agencies’ financial statements, is summarised in figure 4.5 below.

Figure 4.5: 2013–14 assessment of FMIS controls



4.34 FMIS privileged user management remains an area requiring improvement in six of 23 agencies. FMIS user access management also required improvement in five agencies. When there is inadequate user access controls, particularly those related to the management of FMIS system administrators and other users who have high levels of access, there is an increased risk of individuals undertaking actions that may undermine the integrity of financial systems and information. It is therefore important that agencies take steps to address any deficiencies in user access controls, particularly in light of increasing security risks and enhanced agency security obligations.

4.35 The ANAO also identified that FMIS change management arrangements required improvement in two of 23 agencies. Without sound change management arrangements in place, it is possible for changes to be implemented without appropriate testing, review, and approval. This may undermine the integrity of financial systems and information.

Human resource management information systems

4.36 The HRMIS is the IT application that facilitates strategic and operational decision-making for payroll and human resource management. The payroll and related data held in the HRMIS is a major component of the financial reporting process.

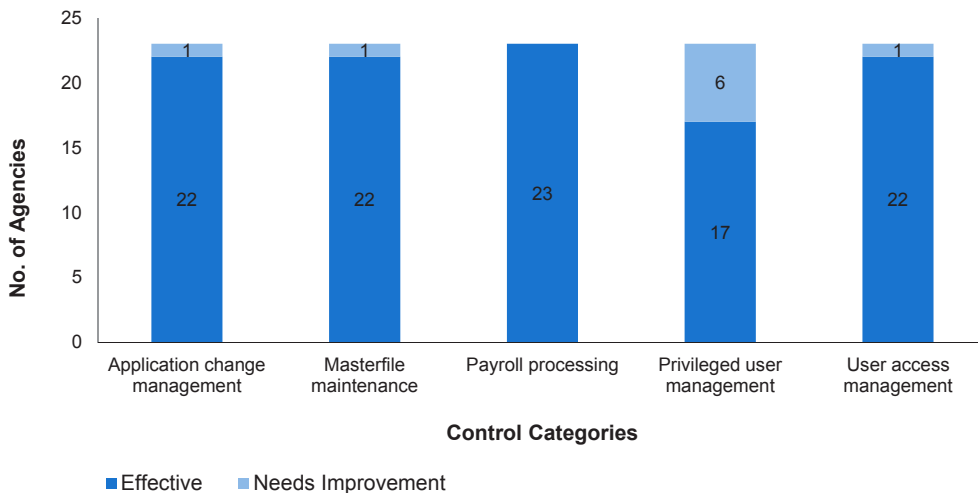
4.37 The key categories of HRMIS controls reviewed as part of the 2013–14 audit coverage were:

- application change management;
- masterfile maintenance;
- payroll processing;
- privileged user management; and
- user access management.

Observations

4.38 The ANAO's assessment of key HRMIS control categories that enhance the completeness and accuracy of HR financial information is outlined in figure 4.6 below.

Figure 4.6: 2013–14 assessment of HRMIS controls



4.39 The ANAO identified that in most agencies the key HRMIS controls used to support the preparation of agency's financial statements were effective. However, HRMIS privileged user management remained an area requiring

improvement in six of 23 agencies. HRMIS user access management also required improvement in one agency. Having appropriate controls for managing HRMIS system administrators and other users who have high levels of access to HRMIS financial transactions and information is required to manage the risk of inappropriate access, and the potential for individuals to undertake actions that may undermine information integrity.

4.40 Positively, all but one agency had effective HRMIS change management arrangements. Without sound change management arrangements in place it is possible for system changes to be implemented without appropriate testing, review, and approval.

4.41 All but one agency had effective HRMIS masterfile maintenance arrangements. Any deficiency in the controls and activities in relation to the updating and maintenance of master file data can have significant consequences to the completeness and accuracy of HR financial information. Agencies should ensure sound controls are maintained in relation to master file data.

Business continuity arrangements

Financial Management Information and Human Resource Management Information systems

4.42 As part of their internal control environment, agencies are expected to have well designed business continuity and disaster recovery arrangements in place that are subject to regular testing. An agency's business continuity plan should include financial and human resource business system requirements, with the design and testing of disaster recovery plans for these systems outlining the technical and other support that would enable normal business operations to be restored in the event of a business disruption. In view of the importance of an agency's FMIS and HRMIS to the preparation of its annual financial statements, a review of the business continuity and disaster recovery arrangements is included as part of the financial statement audit coverage.

4.43 All but one agency had FMIS and HRMIS business continuity plans that incorporated financial and human resource business system requirements, and had undertaken regular testing of the supporting disaster recovery plans. Without sound business continuity arrangements in place, there is an increased risk that financial and other information used to prepare agencies'

financial statements may not be able to be restored in the event of a business disruption.

Trends over the period 2010–11 to 2013–14

4.44 The ANAO's ongoing assessment of agencies' IT control environments identified a number of trends over the period 2010–11 to 2013–14 for particular control categories. Some trends point to areas that have improved over the last four years, while others suggest that further management attention is required in a number of agencies⁴² due to an increase in the control weaknesses identified in 2013–14. The most significant of these trends is discussed below.

4.45 In view of the importance of an agency's FMIS and HRMIS to the preparation of its annual financial statements, the ANAO includes in the discussion of the trends over the last four years the results of an assessment of the management of privileged user access in relation to these systems.

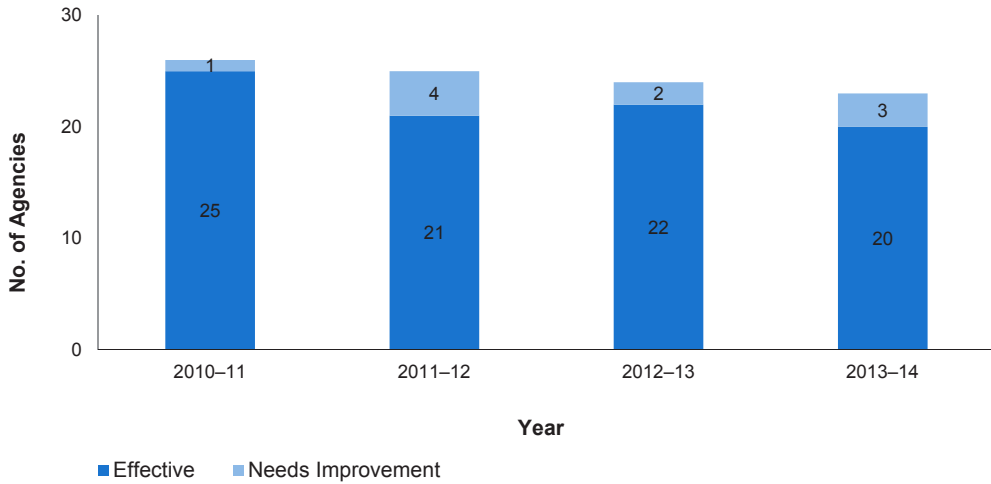
IT security governance

4.46 An IT security governance framework is an overarching set of structures, policies and procedures that address security matters within an agency. An effective security governance framework supports agencies to remain current with technology innovations and organisation changes, and to be better positioned to manage security threats and incidents, including those related to cyber security. Whole-of-government security framework changes, as reflected in the PSPF and ISM, have been further refined in 2013–14. Agency functions also undergo periodic changes including as a result of the machinery of government changes. As a result, it is important agencies establish and maintain an effective security governance framework, and implement related processes and procedures.

4.47 The trend of recent years in relation to IT security governance is summarised in figure 4.7 below.

42 op cit (see footnote 39 on p. 55).

Figure 4.7: IT security governance: 2010–11 to 2013–14



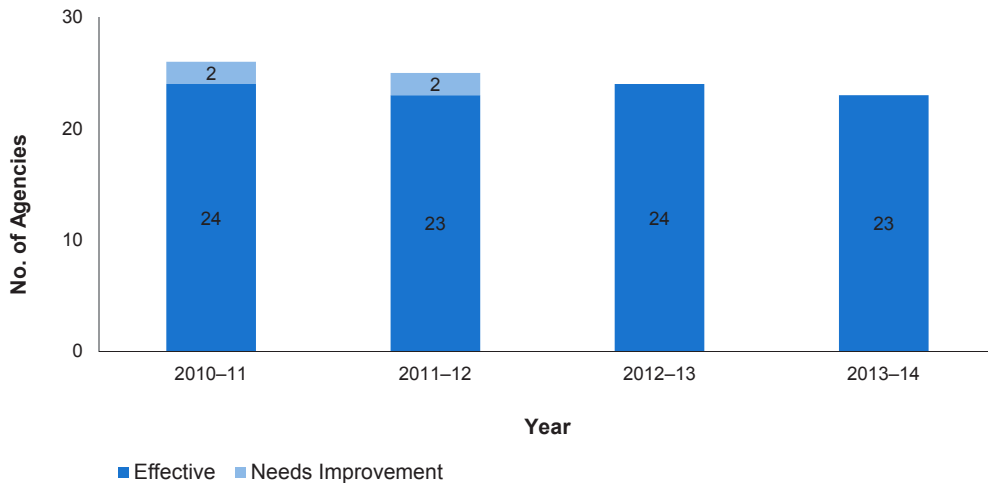
4.48 In recent years there has mostly been a high level of effectiveness of agency security frameworks, and this has been generally maintained in 2013–14.

IT change management policy and governance frameworks

4.49 IT change management policy and governance frameworks assist agencies to create a consistent and reliable approach to making changes in their IT environments.

4.50 As IT environments change, the controls surrounding change management require regular review to maintain their currency and applicability. The ANAO observations regarding change management policy and governance frameworks over the past four years are summarised in figure 4.8 below.

Figure 4.8: Change management policy and governance frameworks: 2010–11 to 2013–14



4.51 The policy and governance structures that support change management processes have been effective in the large majority of agencies since 2010–11. Consistent with the situation in 2012–13, all agencies had effective change management governance arrangements in place, including the effective implementation of related policies in 2013–14.

4.52 A high level of oversight and control over system changes decreases the risk of system changes being implemented that may affect the integrity of financial information, and it is therefore important for agencies to continue to have effective change management policy and governance arrangements in place, and monitor their implementation.

Management of privileged user access

Financial Management Information and Human Resource Management Information systems.

4.53 The management of FMIS and HRMIS privileged user access involves implementing a regime of system restrictions on users in respect of their rights to access and amend data within the FMIS and HRMIS. The ANAO observations regarding the management of FMIS and HRMIS privileged user access over the past four years are summarised in figures 4.9 and 4.10 below.

Figure 4.9: FMIS privileged user access: 2010–11 to 2013–14

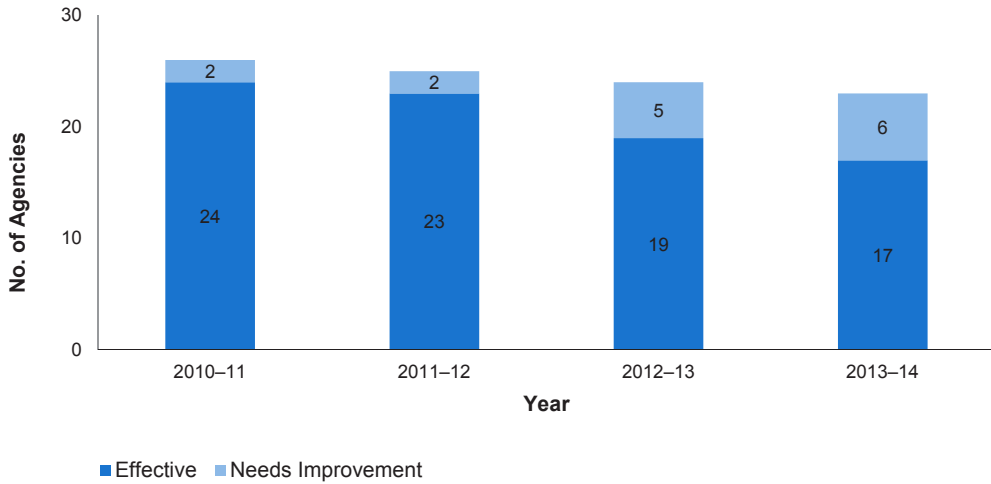
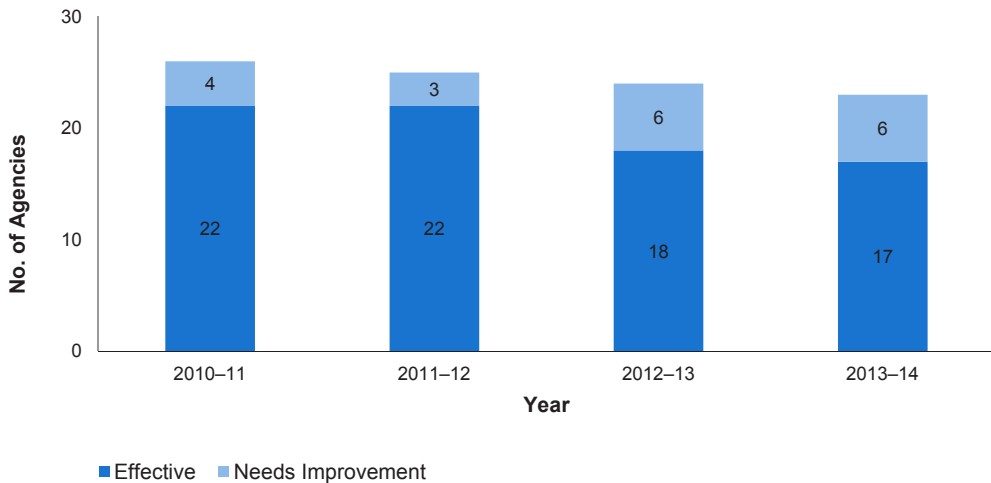


Figure 4.10: HRMIS privileged user access: 2010–11 to 2013–14



4.54 The administration of FMIS privileged user accounts was effective in all but two agencies in 2010–11 and 2011–12. However, there was a decline in 2012–13 and a further decline in 2013–14, with six of 23 agencies having deficiencies in the management of FMIS privileged user accounts.

4.55 In 2010–11 and 2011–12 an improvement in the management of HRMIS privileged user accounts was required in a small number of agencies. There was a decline during 2012–13 when six agencies were not effectively administering HRMIS privileged user accounts, and this trend continued in

2013–14, with six of 23 agencies having weaknesses in the management of HRMIS privileged user accounts

4.56 A reduced level of oversight and control over the managing, logging, and monitoring of privileged user activities increases the risk of inappropriate system access and activity. As privileged users typically have full access to all FMIS and HRMIS financial transactions and information, there is a risk to the integrity of financial and other information in the FMIS and HRMIS when privileged user access is not well managed. As such, it is important that agencies take steps to address any control deficiencies.

Other activities

4.57 As part of the 2013–14 financial statement audits, the ANAO reviewed agency-wide business continuity and disaster recovery arrangements, and considered the adoption of cloud computing by agencies.

Business continuity and disaster recovery arrangements

4.58 As mentioned earlier, as part of their internal control environment agencies should have well designed business continuity and disaster recovery arrangements in place. The development of effective business continuity arrangements requires, in the context of an agency's risk profile, consideration of an agency's most significant business processes, and the actions required to enable them to continue to operate or be restored in the event of an interruption to business operations. Significant business processes include those related to the collection, payment, and recording of information, with these processes now commonly supported by IT systems. In the event of a business disruption, appropriate business continuity and disaster recovery plans should be in place that are designed to support the continued operation or restoration of business processes and supporting IT systems, within agreed timeframes.

4.59 Business continuity and disaster recovery plans should be actively maintained by agencies, particularly as business circumstances change. Plans should also be tested on a regular basis to improve the likelihood that disruptions to business continuity are able to be managed effectively.

4.60 The design of the business continuity plans and disaster recovery plans of agencies may vary considerably according to their particular business and operational circumstances. Such variations may also be expected in continuity

testing arrangements, including the extent and frequency of testing arrangements.

4.61 The ANAO identified that all but one agency had suitably designed business continuity and disaster recovery plans and had conducted business continuity testing. While the ANAO observed some variation across major agencies, 22 agencies were considered by the ANAO to have business continuity and disaster recovery plans and testing arrangements that were appropriate to their business circumstances and covered the agency's significant business processes and IT systems.

4.62 Nevertheless, the ANAO also identified that a number of agencies relied on unplanned disruptions to business operations to test their business continuity plans. This approach can increase the risk of agencies having an inadequate response to such disruptions, including the potential for a lack of a coordinated approach or a lack of preparation for the type of business disruption experienced. An unplanned business continuity event may also not occur for some time.

4.63 In support of business continuity and disaster recovery plans, all major agencies had maintained IT backup and recovery regimes to support their disaster recovery arrangements.

4.64 A number of agencies reported they were reviewing their business continuity and disaster recovery arrangements in light of machinery of government changes that took effect in September 2013. These changes have also increased the number of cross agency agreements and dependencies in relation to service delivery. In these situations, it is important agencies review their business continuity and disaster recovery arrangements in the light of revised responsibilities or operational arrangements.

4.65 The ANAO will continue to monitor progress in this area to assess whether agencies' business continuity arrangements are appropriate in the event of business continuity disruptions.

4.66 A cross agency performance audit of business continuity management arrangements in three agencies is expected to be tabled in the first quarter of 2014–15.

Cloud computing

4.67 Cloud computing comprises service offerings located outside an agency's IT environment and generally accessible via the Internet. The services may include the provision of, and access to, computer applications, databases, and computer software and hardware. Cloud computing is normally provided seamlessly to users.

4.68 There has been a significant increase in the availability of cloud computing in recent years. The increase has been due to technology advances, including improvements in communications and accessibility, and a focus on reducing costs particularly in relation to standard information technology services.

4.69 The Australian Government has developed cloud computing policy and strategies to encourage and support Commonwealth agencies⁴³ in implementing cloud computing solutions that are compliant with Australian Government security requirements⁴⁴. IT procurement activities are required to consider cloud computing options, and the Report of the National Commission of Audit⁴⁵ recommends a cloud first policy for low risk, generic information and communication technology services.

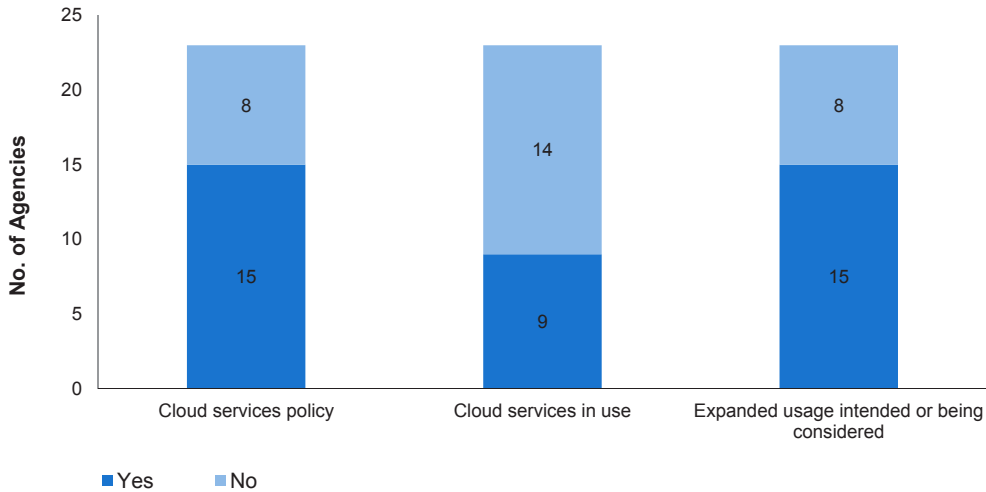
4.70 The ANAO obtained information from agencies on their policy approach, their current usage and intentions regarding cloud computing, and their views on the impediments to further usage of cloud computing. The results are summarised in figures 4.11 and 4.12 below.

43 Policy and strategy responsibility, and the production of supporting publications, is undertaken by the Australian Government Information Management Office (AGIMO).

44 The Protective Security Policy Framework (PSPF) is issued by the Attorney-General's Department, and the Information Security Manual (ISM) is issued by the Australian Signals Directorate.

45 The Report of the National Commission of Audit, National Commission of Audit, Phase One, February 2014.

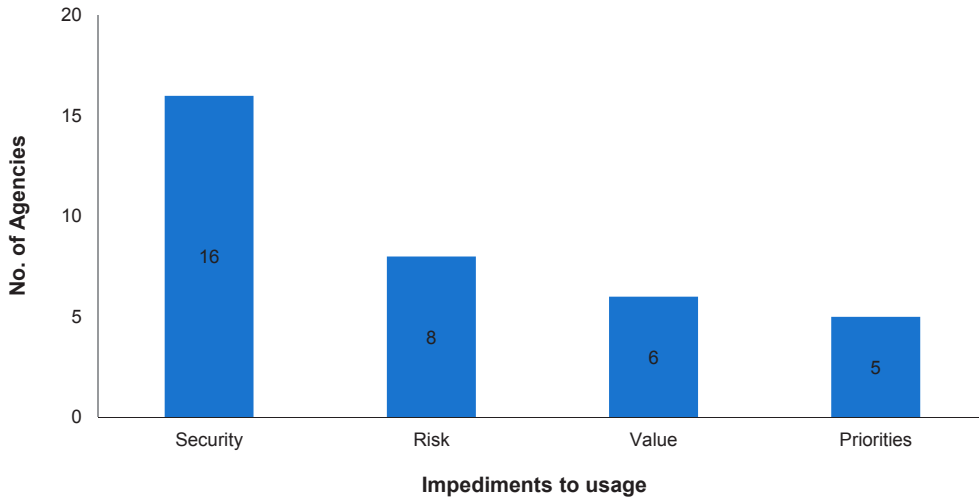
Figure 4.11: Agencies' use of cloud services



4.71 Fifteen of 23 agencies had a cloud computing policy that was consistent with the policy issued by AGIMO.

4.72 Nine of 23 agencies had cloud computing in place, generally for limited services, including the ability to lodge job applications or perform some travel related activities. No agencies had implemented a cloud computing solution for their key financial systems. Eleven agencies advised that they intended to implement or expand their usage of cloud computing, and another four agencies were considering the use of cloud computing.

4.73 The use of cloud computing by agencies has been predominantly where little or no information protection is required. Examples include developing a potential IT system to gauge its suitability, or preparing for a significant IT system upgrade.

Figure 4.12: Agencies' impediments to the use of cloud computing

Note: A number of agencies advised more than one impediment to the adoption of cloud computing.

4.74 Security concerns were the most common reason given by agencies for the limited use to date or possible future expansion of cloud computing. Eight agencies were also concerned about risks in relation to aspects such as reliability, capability, and legal issues; and six agencies were concerned about value for money considerations. Five agencies reported there had been other more immediate priorities.

4.75 Based on information provided by agencies, the ANAO observed:

- cloud computing provides advantages through the flexible application of resources and costs, responding to government initiatives, and in reducing the requirement for capital expenditure; and
- most agencies had an agency position regarding the use of cloud computing, with plans to support a progressive and well controlled adoption of cloud computing in the future.

4.76 Recognising the likely expanded adoption of cloud computing, the ANAO notes the importance of:

- implementing measures to adequately protect information, having appropriate controls in place for access to systems and information by third parties, and establishing and managing sound third party contracts; and

- where any personal or financial information may be required to support current or future uses of cloud computing, for instance to conduct testing in a pre-production environment, the information should be modified to mitigate the misuse of personal information.

4.77 The ANAO will continue to monitor agencies progress in application of cloud computing arrangements, particularly in relation to key financial systems.

Conclusion

4.78 The effective implementation and operation of general and application controls assists agencies to provide IT services in a reliable, timely and consistent manner. Such controls also reduce the risk of financial information being inaccurate, incomplete, or stored insecurely.

4.79 The majority of IT controls had continued to be well maintained in most agencies during 2013–14. This includes IT controls in relation to change management, IT security governance and monitoring, and the maintaining of FMIS and HRMIS master file data and their respective processing of payments and payroll.

4.80 However, there has been an increase in the number of weaknesses identified in user access and privileged user access arrangements in 2013–14. These weaknesses increase the risk of unauthorised changes being made to systems and data, including key financial data.

4.81 The ANAO also identified that some weaknesses in user and privileged user access arrangements were as a result of an increase in the minimum IT security standards outlined in the ISM, with some agencies requiring additional time to plan and implement enhanced IT security arrangements.

4.82 In addition, the Machinery of Government changes as a result of the Administrative Arrangements Order of 18 September 2013 has required a number of agencies to review and modify IT system access arrangements. Maintaining appropriate user access arrangements is important in ensuring that agencies appropriately protect systems and information, including financial information to the standard required by the Australian Government.

4.83 In future audits, the ANAO will continue to focus on the IT general control environment and on FMIS and HRMIS application controls. This will include user access management including for privileged users, IT security governance, and change management.

4.84 Business continuity and disaster recovery plans and related testing arrangements continued to be satisfactory in the majority of agencies. Changes in organisational and systems arrangements that are occurring in the Australian public service will require agencies to be alert to the need to review and as necessary revise their business continuity plans and associated testing arrangements.

4.85 Agencies have advised the ANAO that to date there has been limited use of cloud computing, with its use being confined to low risk services. Most agencies are, however, considering the appropriate use or expansion of their cloud computing activities, consistent with government policy. In this context, it is important that agencies continue to fully consider the risks and the appropriate control environment required when considering the use of cloud computing, particularly for the processing or storage of financial information.

4.86 The ANAO will continue to monitor agencies' control environments and their progress in implementing government IT policy and emerging technologies, in relation to the financial statement audit process.

5. Results of the Interim Audit Phase by Agency

This chapter summarises the results of the interim phase of the 2013–14 financial statement audits of the 23 agencies, grouped by portfolio, covered by this report.

Introduction

5.1 This chapter summarises the results of the ANAO's examination of the internal control of agencies as part of the interim phase of the audits of financial statements for the year ending 30 June 2014. These agencies comprise the portfolio departments and other entities that account for the majority of the financial activities of the General Government Sector, and are listed at appendix 1.

5.2 The ANAO's audits of Australian Government agencies are designed to be performed progressively to allow agencies to submit audit cleared financial information to the Department of Finance (Finance)⁴⁶ for the purposes of informing the Government of the General Government Sector's financial outcome for the 2013–14 financial year. The audit reports on agencies' financial statements are issued following the receipt of signed financial statements and the completion of all audit procedures.

5.3 The final results of the audits of the agencies covered by this report will be included in the Auditor-General's report on the audits of financial statements of Australian Government agencies for the year ended 30 June 2014, expected to be tabled in December 2014.

5.4 This chapter outlines the following information for each agency:

- the agency's primary role as reflected in its Portfolio Budget Statements; a summary of the agency's business operations; and the key characteristics of these operations that shape the ANAO's 2013–14 overall risk assessment and audit coverage;
- key financial balances and staffing levels for 2012–13 and 2013–14,⁴⁷

46 The deadlines for the submission of audit cleared information are 15 August for material agencies and 30 August for non-material agencies.

47 These figures are sourced from each agency's 2013–14 Portfolio Budget Statements, audited 2012–13 financial statements, or as advised by agencies.

- governance arrangements relevant to the agency's financial management responsibilities;
- the key areas of audit focus for the audit of the 2013–14 financial statements; and
- any significant and moderate (category A, B and L1) audit findings, and the conclusion relating to the audit coverage undertaken to date.

5.5 Category C audit findings reported to management relate to relatively minor matters and are not included in this chapter's summary of audit results for each agency.

5.6 The ANAO's overall assessment of the risk of material misstatement of the financial statements takes into account, for the purposes of planning the audit coverage, the significance and complexity of each agency's operations as well as the ANAO's knowledge of the agency's internal control. Key audit related business and financial statement risks are also identified and communicated to each agency. The ANAO's interim phase of the audit focuses on the steps taken by agencies to manage risks that have a potential impact on the financial statements, including their systems of internal control.

5.7 Issues identified during our audits are rated in accordance with the seriousness of the particular matter. The ratings are defined as follows:

- Category A (significant): Issues that pose a significant business or financial management risk to the entity; these include issues that could result in the material misstatement of the entity's financial statements.
- Category B (moderate): Issues that pose a moderate business or financial management risk to the entity; these may include prior year issues that have not been satisfactorily addressed.
- Category C (minor): Issues that pose a low business or financial management risk to the entity; these may include accounting issues that, if not addressed, could pose a moderate risk in the future.
- Category L1: Instances of potential or actual breaches of the Constitution; and instances of non-compliance with the entity's enabling legislation, legislation that the entity is responsible for administering, and the FMA or CAC Acts.

5.8 Category B or C issues remaining unresolved at the time of the subsequent year's audit, depending on the seriousness of the issue, may be given a higher rating.

5.9 The following table provides details of the number of category A, B and L1 findings relating to each agency identified in our 2012–13 and 2013–14 interim audits.

Table 5.1: Significant and moderate findings of agencies grouped by portfolio, reported at completion of the 2012–13 and 2013–14 interim audit phases

Entity	2013–14 Rating			2012–13* Rating		
	A	B	L1	A	B	L1
Department of Agriculture	0	1	0	0	0	0
Attorney–General's Department	0	1	0	0	1	1
Department of Communications	0	0	0	0	0	0
Department of Defence	0	10	1	0	9	1
Defence Materiel Organisation	0	1	0	0	2	0
Department of Veterans' Affairs	0	2	2	0	4	2
Department of Education	0	1**	1**	-	1**	1**
Department of Employment	0	0	0	-	-	-
Department of Environment	0	0	0	0	0	0
Department of Finance	0	1	1	0	0	1
The Future Fund Management Agency and the Board of Guardians	0	0	0	0	0	0
Department of Foreign Affairs and Trade	0	1	1	0	0	0
Department of Health	0	0	1	0	0	1
Department of Immigration and Border Protection	0	1	2	0	0	0
Australian Customs and Border Protection Service	0	0	1	0	3	0
Department of Industry	0	0	1	0	1	1
Department of Infrastructure and Regional Development	0	0	0	0	0	0
Department of the Prime Minister and Cabinet	0	2	1***	0	0	0
Department of Social Services	0	2	1	0	0	1
Department of Human Services	0	3	1	0	2	1
Department of the Treasury	0	0	1	0	0	1
Australian Office of Financial Management	0	0	0	0	0	0
Australian Taxation Office	0	0	0	0	0	0
Total	0	26	15	0	23	11

* See Table 5.1 on p. 85 of ANAO Audit Report No.49 2012–13.

** Responsibility for the resolution of the unresolved findings relating to the former Department of Education, Employment and Workplace Relations were transferred to the Department of Education.

*** A category L1 finding was raised for the former Department of Families, Housing, Community Services and Indigenous Affairs which remained unresolved at the end of the 2012–13 final audit phase. Indigenous functions were transferred to the Department of the Prime Minister and Cabinet as a result of Machinery of Government Changes on 18 September 2013. Responsibility for the resolution of the unresolved finding also transferred.

Source: ANAO.

Agriculture Portfolio

Department of Agriculture

5.10 The Department of Agriculture (Agriculture), formerly the Department of Agriculture, Fisheries and Forestry⁴⁸, is the primary policy and advisory body to the Australian Government on agriculture, fisheries, forestry and food issues. The department's role is to contribute to the overall portfolio aims of enhancing the productivity, competitiveness, and sustainability of Australia's agricultural, food, fisheries and forestry industries.

5.11 Agriculture's business operations include:

- development of systems, policies and regulatory frameworks to support the agriculture, fisheries and forestry industries;
- business and regulatory reform in relation to biosecurity and quarantine systems, and the eradication and management of nationally significant agricultural and environmental plant and animal pests and diseases in Australia;
- strengthening the sustainable use and management of natural resources, supporting regional forest agreements, regulation of agricultural and veterinary chemicals, and the reform and support of rural research; and
- providing support to farmers facing unexpected hardships through farm finance and national drought assistance programs.

5.12 The key characteristics of Agriculture's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- a self-assessment regime for the collection and reporting of levy revenue;
- a dependency on IT business systems and associated processes, particularly those that support revenue collections and disbursements to industry bodies and research and development corporations;
- a Memorandum of Understanding between the department and the Australian Customs and Border Protection Service that establishes

⁴⁸ The department's name changed as part of the Machinery of Government changes of 18 September 2013.

arrangements to collect a range of biosecurity import fees on behalf of the department; and

- drought and farm assistance programs, including the funding of low interest loans.

5.13 In the light of these characteristics and the ANAO's understanding of the operations of the department, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.14 The following table sets out Agriculture's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.15 Agriculture's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	344.7	346.3		
Revenue from government	315.0	298.1		
Deficit attributable to the Australian Government	(29.7)	(48.2)		
Total own-source income			453.3	451.0
Total expenses			886.9	791.1
Administered deficit			(433.5)	(340.1)
Total assets	240.5	261.8	578.2	344.4
Total liabilities	214.2	218.5	67.5	79.0
Total equity	26.3	43.3		
Net assets			510.7	265.4

Agriculture's estimated average staffing level for 2013–14 is 4 397 (2012–13: 4 554).

Governance arrangements

5.16 The department has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of Agriculture's business objectives. These arrangements support the department's financial reporting requirements, the effectiveness

and efficiency of its operations, and compliance with applicable legislative requirements.

5.17 The key elements of Agriculture's corporate governance arrangements include:

- a strategic statement that sets out the vision, mission and goals that the department commits to collectively and individually. The statement is underpinned by annual business plans at divisional level. A People Strategy complements the strategic statement and focuses particularly on how the department will develop its culture and support its people;
- an Executive Management Committee (EMC) that meets monthly, provides leadership to the department's divisions on administrative and operational aspects, and provides advice to the Secretary on strategic policy, budgets and performance;
- various governance committees that support the EMC, including an audit committee that meets a minimum of five times a year and focuses on financial reporting, internal control structures, risk management systems, internal and external audit functions, and fraud control;
- a financial statements sub-committee of the audit committee that meets at least three times a year and oversees the preparation of the annual financial statements;
- an internal audit function that provides planned risk-based audit coverage of Agriculture's operations, including its quarantine and biosecurity functions;
- a risk management process that involves updating strategic risk management plans at the departmental and divisional levels; and
- a fraud control plan which outlines Agriculture's approach to identifying, monitoring and managing the risk of fraud.

Areas of audit focus

5.18 In the light of the ANAO's understanding of Agriculture's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on

Agriculture's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the accuracy and completeness of primary industry levies and charges revenue and receivables, in light of the complexity involved in estimating agricultural production on which the revenue is based, and the self-assessment nature of collections;
- arrangements for the collection of biosecurity revenue and receivables, of which a significant portion is collected by the Australian Customs and Border Protection Service on behalf of the department;
- levy disbursement processes, given the value and legislative complexities associated with payments to relevant industry service bodies and research and development corporations;
- the accounting treatments and collectability of farm finance loans and drought assistance packages to eligible farmers through agreements with State and Territory governments, given the significant amounts involved; and
- the valuation of assets under the new fair value accounting standard, which involves changes to the definition of fair value and additional disclosure requirements.

5.19 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of Agriculture's financial statements.

Audit results

5.20 The ANAO has completed its interim audit coverage of the areas of audit focus relating to primary industry levies and charges, and levy disbursement processes.

5.21 The other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.22 The following table summarises the status of audit issues reported by the ANAO in 2013–14 and 2012–13.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	0	0	1	1
L1	0	0	0	0
Total	0	0	1	1

New audit issue

Monitoring of privileged user access

5.23 Agriculture is responsible for the collection of primary industry levies and charges in addition to the payment of levy disbursements to relevant industry service bodies and research and development corporations. These processes are managed through the department's levy management system.

5.24 During the 2013–14 interim audit phase, the ANAO identified that privileged users could by-pass controls designed to ensure appropriate segregation of duties within the levy management system, and appropriate monitoring controls in relation to privileged users were not in place.

5.25 The absence of the monitoring controls over privileged users increases the risk of unauthorised or fraudulent transactions being processed, potentially compromising the integrity of financial data within the levy management system.

5.26 Agriculture advised that controls were being strengthened in relation to privileged user access. The ANAO will review the action taken by Agriculture during the final phase of the 2013–14 audit.

5.27 No other significant or moderate audit issues have been raised by the ANAO as a result of the audit coverage of the areas of audit focus during the 2013–14 interim audit phase. Further, the 2012–13 audit did not identify any new significant or moderate audit issues.

Conclusion

5.28 Based on the audit coverage during the 2013–14 interim audit phase, and except for the audit finding relating to privileged user access referred to above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Attorney-General's Portfolio

Attorney-General's Department

5.29 The Attorney-General's Department (AGD) is the central policy and coordinating department of the Attorney-General's portfolio. AGD contributes to the Australian Government's commitment to a just and secure society, and a creative Australia, through the maintenance and improvement of Australia's law and justice framework and its national security and emergency management system, and support for cultural programs.

5.30 As a result of the Machinery of Government (MoG) changes of 18 September 2013, responsibility for the Arts was transferred to AGD from the former Department of Regional Australia, Local Government, Arts and Sports (DRALGAS). The primary focus of the functions transferred is to promote participation in Australia's arts and culture, and includes the operations of Artbank.

5.31 AGD's business operations include:

- supporting the Attorney-General as the First Law Officer of the Commonwealth;
- adapting law and law enforcement in the digital economy;
- promoting equity and efficiency to improve access to justice;
- protecting people's rights;
- promoting participation in, and access to, Australia's arts and culture through developing and supporting cultural expression;
- combating serious and organised crime and corruption; and
- protecting national security and building resilient communities.

5.32 The key characteristics of AGD's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the diverse nature and significant value of grant programs administered by the department;
- the financial reporting of transactions undertaken in relation to the Royal Commission into Institutional Responses to Child Sexual Abuse; and

- the governance and reporting arrangements relating to the administration of personal benefit payments made by the Department of Human Services on behalf of AGD, in the event of natural disasters.

5.33 In the light of these characteristics and the ANAO's understanding of the operations of AGD, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.34 The following table sets out AGD's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.35 AGD's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	257.5	218.4		
Revenue from government	230.7	198.4		
Deficit attributable to the Australian Government	(26.8)	(20.0)		
Total own-source income			18.3	24.1
Total expenses			998.9	620.0
Administered deficit			(980.7)	(595.9)
Total assets	210.2	183.7	8 632.3	426.4
Total liabilities	89.0	82.6	46.6	23.0
Total equity	121.2	101.1		
Net assets			8 585.7	403.5

AGD's estimated average staffing level for 2013–14 is 1 552 (2012–13: 1 316). The estimated average staffing level for 2013–14 includes 290 staff for the Royal Commission into Institutional Responses to Child Sexual Abuse, the Royal Commission into the Home Insulation Program, the Royal Commission into Trade Union Governance and Corruption, the Defence Abuse Response Taskforce, and special security events.

Governance arrangements

5.36 AGD has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of its business objectives. These arrangements support AGD's financial reporting

requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.37 The key elements of AGD's corporate governance arrangements include:

- a strategic plan that provides an overview of AGD's strategic priorities and goals, including AGD's planning and performance framework;
- an Executive Board that meets regularly to consider key strategic matters of corporate importance and sets AGD's strategic direction. The Board comprises the Secretary and Deputy Secretaries;
- an audit and risk management committee that meets every two months and is chaired by an external member. The committee is responsible for overseeing the department's approach to risk management, including AGD's overall control framework and internal audit function;
- an internal audit function that plans and conducts audits based on risk assessments of departmental activities and direction from the audit and risk management committee;
- a risk management framework and risk management plan that addresses a broad range of operational risks; and
- a fraud control plan that is updated and reviewed in line with the Commonwealth Fraud Control Guidelines.

Areas of audit focus

5.38 In the light of the ANAO's understanding of AGD's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on AGD's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the transfer of funding, functions and staff from the former DRALGAS as a result of the MoG changes of 18 September 2013, given the extent of the changes and their impact on the department and its accounts;
- grant financial management arrangements, given grant expenditure is a major component of AGD's administered accounts, and is maintained

in a decentralised grants management system which involves multiple and varied practices;

- reporting of expenditure for the Royal Commission into Institutional Responses to Child Sexual Abuse, given the additional disclosure in the financial statements and an increased level of stakeholder scrutiny;
- reporting of revenue and unearned revenue, given that AGD generates significant own source revenue from a number of different sources such as: for services performed on behalf of other agencies including for the Department of Defence in relation to the Defence Abuse Response Taskforce; background checking services associated with the Aviation Security Identification Card, Maritime Security Identification Card and National Health Security; and national security training; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution.

5.39 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of AGD's financial statements.

Audit results

5.40 The ANAO has commenced work in relation to the areas of identified audit focus. Work in relation to these areas will be completed as part of the 2013–14 final audit phase.

5.41 Audit coverage of the key areas of audit focus completed during the 2013–14 interim audit phase has identified one new moderate issue that is outlined below.

5.42 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	0	0	1	1
L1	1	(1)	0	0
Total	1	(1)	1	1

New audit issue

IT network user access management

5.43 During the 2013–14 interim audit phase, the ANAO identified a number of weaknesses in AGD's management of user access to the AGD IT network. The system access rights of a number of employees whose employment had ceased had not been deactivated. In addition, a robust process for logging and monitoring privileged user access to the IT network has not been implemented. These issues increased the risk of unauthorised access compromising the integrity of the data maintained in the various IT applications supporting the financial information.

5.44 The department has advised that controls are being strengthened to improve the management of user access. The ANAO will review the action taken by AGD during the 2013–14 final audit phase.

Resolved legislative compliance issue

Potential breaches of section 83 of the Constitution

5.45 The notes to AGD's 2012–13 financial statements referred to payments totalling \$312 855 made under the *Social Security Act 1991* and *Social Security (Administration) Act 1999* potentially in breach of section 83 of the Constitution.

5.46 On 28 May 2013, the *Financial Framework Legislation Amendment Act (No. 2) 2013* received Royal Assent. This Act included amendments to the *Social Security Act 1991* in relation to payments made under the Australian Government Disaster Recovery Payment scheme. These amendments established a recoverable payments framework to deal with those instances where an error occurred in relation to the payment which prior to the amendment would have been unauthorised. As a result of these amendments, the risk of future payments breaching section 83 is considered to be low and this issue is now resolved.

Conclusion

5.47 Based on the audit coverage during the 2013–14 interim audit phase, and except for the audit finding relating to IT network user access management referred to above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Communications Portfolio

Department of Communications

5.48 The Department of Communications (Communications), formerly the Department of Broadband, Communications and the Digital Economy⁴⁹, aims to develop a sustainable and internationally competitive broadband, broadcasting and communications sector through policy development and program delivery, which promotes the digital economy for all Australians. In performing its functions, the department aims to support and encourage the development of communications infrastructure over which consumers can access a diversity of services that are competitively priced, widely available, provided on fair and just terms, and are reliable and innovative.

5.49 The key characteristics of Communications' business operations include:

- facilitating the rollout of, and transition to, fast, affordable and reliable broadband and communications infrastructure across Australia, including through the National Broadband Network;
- managing the transition to digital television by the end of 2013;
- supporting access to high-quality and diverse broadcasting services;
- spectrum management in relation to the relocation of commercial and national digital television services;
- promoting the benefits of the digital economy to all Australians and supporting safe and secure access;
- promoting an innovative, diverse and competitive communications market through effective regulation;
- improving services to regional, rural and remote Australia, including through the Satellite Phone Subsidy Scheme and the Indigenous Communications Program;
- supporting the development, application and innovative use of online technologies, including through funding to National ICT Australia;

49 The department's name changed as part of the Machinery of Government changes of 18 September 2013.

- supporting and protecting the interests of consumers through funding of the Australian Communications Consumer Action Network, implementing measures to support the Government's Cybersafety Plan and measures relating to cybersecurity; and
- providing strategic policy advice on spectrum, telephone numbers and internet addresses.

5.50 The key characteristics of the department's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- a legislative environment that is subject to ongoing change;
- significant administered activities including programs such as the Digital Television Switchover, Regional Backbone Blackspots and the National Broadband Network;
- significant administered grants and subsidies expenses; and
- the reporting of significant administered assets relating to Australian Government investments in portfolio entities.

5.51 In the light of these characteristics and the ANAO's understanding of the operations of the department, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.52 The following table sets out the estimated 2013–14 and actual 2012–13 key financial balances for the department. These balances assist in understanding the scale of the financial operations of the department.

5.53 Communications' key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	112.5	118.7		
Revenue from government	105.8	113.2		
Deficit attributable to the Australian Government	(6.7)	(5.6)		
Total own-source income			144.2	245.7
Total expenses			1 526.5	1 627.3
Administered deficit			(1 382.3)	(1 381.6)
Total assets	42.2	105.5	8 895.2	7 018.9
Total liabilities	34.7	41.0	25.1	99.6
Total equity	7.5	64.6		
Net assets			8 870.1	6 919.3

Communication's estimated average staffing level for 2013–14 is 530 (2012–13: 643).

Governance arrangements

5.54 The department has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the department's business objectives. These arrangements support the department's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.55 The key elements of the department's corporate governance arrangements include:

- an executive management group, chaired by the Secretary, that meets fortnightly and addresses strategic issues, monitors the department's financial and non-financial performance, oversees the operational performance of divisions, and contributes to the development of the department's policies and procedures;
- a performance reporting committee, chaired by the Secretary, that meets six times a year and oversees the risk management of each of the department's major departmental programs and administered expense items;

- an audit committee that meets at least five times a year and has a focus on internal controls, internal and external audit activity, the management of risks, the review of financial reports, fraud control, and regulatory compliance;
- a financial statements sub-committee of the audit committee that meets at least four times a year and assists with the review of the department's financial statements and other related financial matters as requested by the audit committee;
- an internal audit function that undertakes risk-based audit coverage of the department's activities;
- fraud control and risk management plans that are regularly monitored and updated; and
- an annual Certificate of Compliance regime which forms a key part of the department's corporate governance and compliance framework.

Areas of audit focus

5.56 In the light of the ANAO's understanding of the department's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- valuation of administered investments in portfolio entities which involves the use of complex forecasting models;
- the valuation of the assets related to the Regional Backbone Blackspots program, which are reflected as an administered asset in the department's financial statements;
- presentation and disclosure of large administered contingent liabilities and commitments. This is due to the complex nature of the contracts associated with the National Broadband Network; and
- administered grants and subsidies expenses which represent a significant portion of total administered expenses.

5.57 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of the department's financial statements.

Audit results

5.58 The ANAO has completed its 2013–14 interim audit coverage to assess the effectiveness of internal controls in the areas which had been identified as significant to the financial statements, including administered grants and subsidies.

5.59 The other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.60 No significant or moderate audit issues have been raised by the ANAO as a result of the audit coverage of the areas of audit focus completed during the 2013–14 interim audit phase. Further, the 2012–13 audit did not identify any new significant or moderate audit issues.

Conclusion

5.61 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Defence Portfolio

Department of Defence

5.62 The primary role of the Department of Defence (Defence) is to protect and advance Australia's strategic interests through the provision of appropriately prepared, equipped and supported armed forces. To achieve this, Defence prepares for and conducts military operations and other tasks directed by the Government.

5.63 Defence's business operations include:

- maintaining the capacity to support current commitments and provide strategic response options to the Government to meet the range of potential future security contingencies, including working collaboratively with Australia's neighbours and the broader international defence community, and contributing to coalition operations in support of Australia's national interests;
- undertaking a range of military operations at the Government's direction to ensure the defence of Australia and its national interests. The Australian Defence Force's military operations and other tasks contribute to the achievement of the Government's strategic objectives, contributing to the security of the immediate neighbourhood and supporting wider interests; and
- providing emergency and non-emergency assistance to the Government and the Australian community in non-combat related roles. These responsibilities may include emergency assistance, search and rescue, disaster recovery, surveillance, security or non-emergency law enforcement roles, and be directed by the Government or requested by other civil authorities, government departments or agencies.

5.64 The key characteristics of Defence's business operations that shaped the ANAO's 2013–14 planned financial statements audit coverage include:

- a multifaceted and diversified business structure that has a significant geographical spread both nationally and overseas, and is governed by an operational tempo that requires the capability to deploy resources efficiently;

- the magnitude, complexity and dispersed nature of Defence's operations which comprise inventory and asset management, storage and distribution, significant property estate management, technology research and development and project management in specialised fields such as warfare;
- accounting for the return or destruction of inventory and assets from the Solomon Islands and Afghanistan;
- the complex arrangements between Defence and the Defence Materiel Organisation (DMO) in relation to shared services, maintenance, acquisition, construction, and modification of equipment and systems;
- long term and multifaceted strategic reform activities that affect business and control processes, including changes in accountability and responsibility; and
- the aggregation of financial reporting information due to the variety of information technology systems that operate independently of each other, together with the significant estimation required for the calculation of a number of balances.

5.65 In the light of these characteristics and the ANAO's understanding of the operations of Defence, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as high.

Key financial balances

5.66 The following table sets out Defence's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.67 Defence's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	24 517.0	22 427.4		
Revenue from government	24 517.0	22 707.9		
Surplus attributable to the Australian Government	0.0	294.7		
Total own-source income			1 461.4	1 358.4
Total expenses			5 199.9	5 870.7
Administered deficit			(3 738.5)	(4 512.2)
Total assets	73 312.2	71 868.8	2 952.6	3 092.7
Total liabilities	6 042.5	6 119.7	56 520.9	68 181.8
Total equity	67 269.7	65 749.1		
Net liabilities			(53 568.3)	(65 089.1)

Defence's estimated average staffing level for 2013–14 is 92 209 (2012–13: 93 459).

Governance arrangements

5.68 Defence has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the department's business objectives. These arrangements support Defence's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.69 The key elements of Defence's corporate governance arrangements include:

- a unique structure that reflects individual responsibilities and accountabilities of the Secretary and the Chief of the Defence Force (CDF) for joint delivery of Defence's outcomes. Under this structure the Secretary and CDF are guided by a joint Ministerial directive detailing the expectations of the Minister;
- the Defence Committee, chaired by the Secretary. This committee meets on a monthly basis and considers the most significant Defence enterprise policy and management issues and sets Defence's performance outcomes through an enterprise management framework, including the annual planning process;

- the Secretary and CDF Advisory Committee (SCAC) is the pre-eminent direction setting and decision-making committee for the week-to-week management of the department. The standing members of the SCAC are the Secretary and the CDF who jointly chair the committee. All other participants at SCAC meetings are co-opted as required by the Chairs;
- the Chiefs of Service Committee, which is chaired by the CDF, provides military advice to assist the CDF to discharge his responsibilities in command of the Defence Force and as principal military adviser to the Government;
- a governance committee framework, including the Defence Audit and Risk Committee (DARC), the Defence Capability and Investment Committee, and the Service Delivery Reform Committee;
- a fraud control framework. This framework includes the fraud control plan (FCP), which is the responsibility of the Inspector-General within the internal audit branch. Divisional fraud control officers are responsible for implementing the FCP, and the fraud investigation branch assess and investigate allegations of fraud; and
- an internal audit function, which performs a range of internal audits across Defence and reports findings to the DARC and the Defence Executive.

Areas of audit focus

5.70 In the light of the ANAO's understanding of Defence's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on Defence's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- internal controls which may be affected by budgetary pressures, the Defence reform agenda, the government's efficiency program and changes stemming from the Defence Shared Services program,⁵⁰ in

⁵⁰ The Defence Shared Services program is an intra-departmental program which provides greater flexibility of planning and implementation and an ability to perform a more closely coordinated roll out of shared services.

particular, the realignment of control and assurance processes relating to financial services across Defence's business groups and DMO;

- the accounting for, and valuation of, specialist military equipment (SME). This class of assets is material to Defence's financial statements and the assessment of asset values involves a high level of judgement and technical expertise. The valuation of SME assets also involves the accurate and complete recording of operational and capitalised expenditure associated with specialist military assets under construction (AUC). The financial and operational management of AUC is dispersed across a wide variety of projects that have complex multi-year contractual arrangements and project management requirements;
- inventory and asset management due to the material nature of the inventory and asset balances and issues noted in prior years. These issues relate to errors in the recording of the underlying financial transactions that require ongoing adjustments to the inventory and asset balances; and
- legislative compliance, particularly focusing on Special Appropriations and special accounts which are governed by complex reporting requirements.

5.71 In addition, the ANAO will continue to undertake audit coverage in areas previously identified as significant to the financial statements including:

- the complex estimations involved in calculating a number of balances in Defence's financial statements, including provisions for decommissioning of SME, military superannuation, and decontamination and restoration in relation to a large number of Defence sites nationally and overseas;
- the compilation and reporting of extensive commitments and contingencies that are managed in a devolved environment;
- management of explosive ordnance, due to the sensitive and material nature of these assets;
- general asset management due to the material nature of the general asset balances, the high volume of purchases and capital works, the devolved location of the assets and related management activities and the susceptibility of the asset balances to large variations;

- the calculation and reporting of both civilian and military employee expenditure and entitlements that are highly dependent on complex and devolved human resource management systems; and
- IT general and application controls for key systems that support the preparation of Defence's financial statements.

Audit results

5.72 The ANAO's interim audit coverage to date has included a review of ongoing remediation activities relating to the quality of data in the Military Integrated Logistics Information System (MILIS), with a focus on the newly developed MILIS Data Quality Framework.

5.73 Other interim audit coverage included Defence's purchasing expenditure, general assets and cash management, and the testing of IT general and specific application controls for key financial and business systems. The other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.74 Two new moderate audit issues were identified concerning the management of privileged user access in the financial management information system (ROMAN) and IT general controls environment. Further details on these issues are provided below.

5.75 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	8	0	2	10
L1	1	0	0	1
Total	9	0	2	11

Outstanding audit issues

Military Integrated Logistics Information System (MILIS)

5.76 A moderate audit issue relating to MILIS data quality remains outstanding. Previous ANAO audits had identified errors in MILIS data resulting from system defects and processing errors. Defence had advised that implementation of a Data Quality Framework to manage the issue was continuing, and was due to be completed by 30 June 2014.

5.77 Defence's remediation program consists of a number of key activities including:

- assignment of responsibilities for MILIS data quality;
- development of benchmarks to monitor MILIS data quality;
- establishment of mechanisms for monitoring these benchmarks; and
- assessing the financial impact of system defects and the processing of associated adjustments to the financial statements at year end.

5.78 The ANAO will monitor the Data Quality Framework and test its operation during the 2013–14 final audit phase.

Asset management

5.79 Four moderate audit issues relating to the application of Defence's asset impairment policy, integrity of data in the ROMAN and MILIS fixed asset registers and Military Support Items (MSI) reporting processes, also remain outstanding.

5.80 In 2012–13, the ANAO identified a number of issues in relation to the requirement to conduct an annual impairment assessment. These include:

- inconsistent application of the assessment to general assets, (such as buildings, plant and equipment) and MSI that are recorded in MILIS; and
- instances where an asset's condition or discontinued use was not appropriately considered.

5.81 The other issues relate to the integrity of data recorded in the ROMAN and MILIS fixed asset registers and MSI reporting. The audit issues identified included:

- assets remaining on the ROMAN fixed asset register after demolition;

- newly constructed assets not recorded on the ROMAN fixed asset register;
- errors in the value of MSI assets recorded in MILIS;
- errors in the useful life of MSI assets entered in MILIS for new construction projects;
- results from remediation activities not processed in a timely manner; and
- poor quality and unavailability of evidence to support transactions processed in MILIS.

5.82 During 2013–14, Defence advised that it had addressed these audit issues by:

- remediating all identified instances where the assets had not been recorded in ROMAN or MILIS;
- strengthening its stocktaking program including timely processing of adjustments in the ROMAN fixed asset register;
- updating the asset capitalisation processes for MSI assets and introducing the Asset Capitalisation Tool, which incorporates validation checks over asset capitalisation;
- monitoring known data integrity issues and assessing their financial impact on the MSI asset balance; and
- revising the impairment assessment process for both general and MSI assets.

5.83 Nevertheless, the ANAO's testing as part of the 2013–14 interim audit phase identified that:

- newly constructed assets were not recorded in the ROMAN fixed assets register and details of assets that had been demolished remained in the register; and
- some asset values were not adjusted to reflect their condition.

5.84 The ANAO will review the progress of Defence's remediation activities for MSI assets during the final phase of the 2013–14 audit.

Liquidated damages

5.85 A moderate issue relating to the accounting for assets and services received as a result of the negotiated settlement of contract disputes remained outstanding.

Internal control and financial reporting

5.86 Special accounts are established for specific purposes and have conditions that must be met prior to payments being made. The ANAO's review of Defence's special accounts as part of the 2012–13 audit identified deficiencies in the retention of key documentation supporting payments out of certain special accounts. Payments were identified where there was a risk that they did not comply with the required conditions for payment.

5.87 Defence advised that it had: reviewed payment conditions governing special accounts; obtained legal advice on the authority to make payments where the relevant documents had not been retained; and promulgated policies relating to the conditions that should be met prior to payments being made. The ANAO will review special account transactions as part of the 2013–14 final audit phase.

Human resource management

5.88 A moderate audit issue relating to the management of civilian employee expenses and provisions remains outstanding. Defence requires civilian employees to:

- record their time and attendance in a spreadsheet; and
- have all leave approved and processed in the human resources management information system, PMKeyS.

5.89 During the final phase of the 2012–13 audit, the ANAO identified a number of discrepancies between employee attendance records and PMKeyS. There was also inconsistent application of, and non-compliance with, policies governing the approval of employee attendance.

5.90 In 2013–14, Defence advised that it had: emphasised the importance of authorising and maintaining timesheets; addressed identified variances in employee records; implemented a quality control program for leave liabilities; and was examining IT system options to link timesheets to PMKeys.

5.91 The ANAO will review the quality control program and the other remediation actions taken by Defence during the final phase of the 2013–14 audit.

New moderate audit issues

Privileged user access

5.92 The ANAO identified two new moderate audit issues in relation to weaknesses in the management of privileged security users to ROMAN and the IT general control environment. These weaknesses included:

- the absence of approval documentation;
- inadequate password control for a privileged user;
- privileged user access not being removed when a business need was no longer required;
- inadequate documentation of the review of user access; and
- the failure to monitor privileged user access.

5.93 The ANAO will undertake additional audit procedures, including a review of access performed in key risk areas, to gain assurance that information disclosed in the financial statements is not materially misstated.

Unresolved legislative compliance issue

Potential breaches of section 83 of the Constitution

5.94 The notes to Defence's 2012–13 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation. During 2012–13, the risk of payments from special accounts being in breach of section 83 was assessed by Defence as low.

5.95 Defence has undertaken to continue to monitor its section 83 compliance across all legislation for which it is administratively responsible.

5.96 In 2012–13, advice was received that indicated under certain circumstances payments for long service leave, goods and services tax and payments made under determinations of the Remuneration Tribunal would result in section 83 breaches. Defence advised that it intends to undertake a risk assessment in 2013–14 to determine the level of risk of non-compliance in

the circumstances mentioned. This issue will be reviewed as part of the final phase of the 2013–14 audit.

Conclusion

5.97 Based on the audit coverage during the 2013–14 interim audit phase, and except for the audit findings referred to at paragraphs 5.76 to 5.93 above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative compliance issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Defence Materiel Organisation

5.98 The Defence Materiel Organisation (DMO) is the primary service delivery agency responsible for the effective support of Australian Defence Force operations through the acquisition of equipment and supplies, sustainment of the Australian Defence Force, and the deployment of specialist staff. DMO also provides industry and procurement policy advice to Defence and the Australian Government.

5.99 DMO has an integrated Australian Defence Force, Australian Public Service and contract workforce of over 6 606 people in over 70 locations within Australia and overseas. It budgets for a break even operating result that reflects DMO's funding model whereby it is funded for the activities performed. These activities are principally determined by objectives set by the Australian Government, Defence policies and the operational requirements of the Australian Defence Force.

5.100 DMO receives the majority of its funding from Defence, operating under a number of purchase-provider arrangements. The funding arrangements are formalised in agreements covering key operational areas including acquisition, sustainment, military workforce and shared services. DMO also receives an appropriation for its operating expenses, including its workforce.

5.101 In 2013–14, expenditure on acquisition activities is expected to increase from \$4.0 billion to \$4.3 billion. This increase in acquisition expenditure is in line with the increase in the value of projects to be delivered to Defence by DMO in 2013–14, following increases in the Defence Approved Major Capital

Investment Program. Expenditure for sustainment activities is expected to increase from \$5.1 billion to \$5.6 billion due to new sustainment arrangements to support capabilities now in use by Defence.

5.102 The key characteristics of DMO's business operations that shaped the ANAO's 2013–14 planned financial statements audit coverage include:

- domestic and international developments, such as, the reduction in Defence spending and its effect on the military supply chain; and DMO's ability to deliver targeted budget outcomes in a tighter fiscal environment;
- the number of significant financial statement balances and a complex financial statements process that involves collating data from numerous business systems and processes in a number of locations nationally;
- DMO's diversified corporate and project management IT applications that operate in a number of locations nationally and overseas;
- the number of financial and human resource business processes managed by Defence and are utilised by DMO;
- the complex arrangements between DMO and Defence in relation to shared services arrangements, maintenance, acquisition, construction, and modification of equipment and systems; and
- an increase in sustainment activities resulting from the increased number of new Defence capabilities moving into the sustainment phase in 2013–14.

5.103 In the light of these characteristics and the ANAO's understanding of the operations of DMO, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.104 The following table sets out DMO's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of DMO.

5.105 DMO's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	872.4	878.5		
Revenue from government	872.4	911.1		
Surplus attributable to the Australian Government	0.0	32.6		
Total own-source income			0.3	0.3
Total expenses			0.0	0.0
Administered surplus			0.3	0.3
Total assets	2 210.4	2 511.6	2.1	2.1
Total liabilities	1 807.7	2 108.9	0.0	0.0
Total equity	402.7	402.6		
Net assets	402.7	402.7	2.1	2.1

DMO's estimated average staffing level for 2013–14 is 6 606 (2012–13: 7 220).

Governance arrangements

5.106 DMO has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of DMO's business objectives. These arrangements support DMO's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.107 The key elements of DMO's corporate governance arrangements include:

- an Executive Committee, chaired by the chief executive, to oversight decision making and strategic direction of DMO. The Executive Committee meets monthly;
- a Materiel Audit and Risk Committee (MARC). The MARC is comprised of four independent members and formally meets up to eight times per year. The MARC works in conjunction with the Defence Audit and Risk Committee (DARC) to oversee matters of shared importance to DMO and Defence. The Chair of the MARC is a member of the DARC;

- an internal audit function that is responsible for providing an independent, objective and systematic evaluation of risk management, the control framework, compliance and governance within DMO. Individual internal audit activities are mainly delivered by an external provider in accordance with a program that is managed by the Chief Audit Executive;
- a Projects of Concern Unit that monitors projects that encounter significant and unanticipated issues. The unit is responsible for devising strategies to address the issues, to examine and report on performance remediation and advise the chief executive and Government;
- regular management reports to the chief executive that detail the status of the delivery of Defence acquisition and sustainment activities. These reports are also provided to Defence and central agencies;
- a fraud control plan (FCP) that outlines how DMO will prevent, detect and respond to fraud. The FCP aligns with the Commonwealth Fraud Control Guidelines and is endorsed by the MARC and the chief executive. Consistent with Government policy that fraud control plans should be updated as risks emerge, DMO is reviewing its risks and related assurance activities underpinning the FCP;
- a high level enterprise risk assessment and management framework that identifies the key business risks and drivers; and
- a range of boards that monitor and report on key areas of accountability and risk within DMO, including:
 - Gate Review Assurance Boards for all major capital acquisition projects that conduct formal project reviews for selected key project milestones with the aim of assuring a project's status and prospects of achieving the capability required; and
 - Project Manager Stakeholder Groups that regularly review the status and progress of major acquisition projects.

Areas of audit focus

5.108 In the light of the ANAO's understanding of DMO's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on DMO's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the accounting for, and disclosure of, assets and revenues associated with liquidated damages or other compensation payable to or by Defence under DMO managed contracts. These assets and revenues comprise a range of benefits that may be delivered to Defence and DMO over multiple years and include receipt of goods-in-kind, offset of future sustainment service costs and/or cash settlements;
- the accounting for, and recording of, cost of goods sold and repairs and overhaul expenses, which involves a large number of transactions and a high level of complexity in terms of contractual arrangements and project management requirements, given the wide variety of agreements involved;
- the accounting for, and disclosure of, prepayments which are complex in nature, derived from a decentralised manual recording process and subject to material fluctuations as projects and contracts change;
- the accounting for, and the reporting of, monies owed by Defence to DMO, which involves a range of stakeholders across both Defence and DMO and comprises multiple calculations and compilations; and
- the aggregation of financial information from different operational areas, systems and processes. This includes financial statement disclosures that involve aggregation of data and information from several sources.

Audit results

5.109 The ANAO's 2013–14 interim audit phase has focused on DMO's control environment and has included site visits to a number of regional program offices to assess whether controls in regional areas are operating effectively.

5.110 The other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.111 To date, audit coverage of the key areas of audit focus has not identified any new significant or moderate audit issues.

5.112 The following table summarises the status of audit issues reported by the ANAO in 2013–14 and 2012–13.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	1	0	0	1
L1	0	0	0	0
Total	1	0	0	1

Outstanding audit issue

Bureau service arrangements between Defence and DMO

5.113 Defence manages a number of IT systems and business processes on behalf of DMO. These systems and processes form an integral part of DMO's internal control framework to support the preparation of its financial statements.

5.114 The ANAO has previously reported that the existing shared service agreements, or other formal agreements, do not provide mechanisms that assist DMO to obtain the necessary assurance over the effectiveness of key controls and assurance activities performed by Defence. The ANAO considers that these arrangements should include control and monitoring activities that allow DMO to obtain assurance from Defence of the effectiveness and adequacy of controls over these IT Systems and business processes.

5.115 In March 2014 DMO provided the ANAO with a risk assessment, by financial account balance, that maps to specific controls and assurance activities performed by either DMO or Defence.

5.116 Testing the effectiveness of specific assurance activities and controls included in DMO's risk assessment has commenced as part of the 2013–14 interim audit phase and will be finalised during the final audit phase.

Conclusion

5.117 Based on the audit coverage during the 2013–14 interim audit phase, and except for the audit finding relating to bureau service arrangements between Defence and DMO referred to above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Department of Veterans' Affairs

5.118 The Department of Veterans' Affairs (DVA) is the primary service delivery agency responsible for developing and implementing programs that assist the veteran and defence force communities. DVA also provides administrative support to the Repatriation Commission and the Military Rehabilitation and Compensation Commission.

5.119 DVA's business operations include:

- maintaining and enhancing the financial wellbeing and self-sufficiency of eligible persons and their dependants through access to income support, compensation, and other support services, including advice and information about entitlements;
- maintaining and enhancing the physical wellbeing and quality of life of eligible persons and their dependants through health and other care services that promote early intervention, prevention and treatment, including advice and information about health service entitlements; and
- acknowledging and commemorating those who served Australia and its allies in wars, conflicts and peace operations through promoting recognition of service and sacrifice, preservation of Australia's wartime heritage, and official commemorations.

5.120 The key characteristics of DVA's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- a legislative environment incorporating complex rules for the provision of benefits to veterans and defence personnel;
- the diverse range of entitlements administered by DVA, and the reliance placed on voluntary disclosure of information by recipients;
- a complex IT environment, including a number of legacy systems used to process on a regular basis a significant number of high volume, low value transactions; and
- extensive contractual arrangements with service providers, institutions, and State and Territory Governments.

5.121 In the light of these characteristics and the ANAO's understanding of the operations of DVA, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.122 The following table sets out DVA's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.123 DVA's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	315.2	304.4		
Revenue from government	288.6	285.2		
Deficit attributable to the Australian Government	(26.6)	(19.2)		
Total own-source income			9.5	9.0
Total expenses			12 116.2	11 703.0
Administered deficit			(12 106.7)	(11 694.0)
Total assets	216.5	219.6	1 428.6	1 396.0
Total liabilities	127.1	129.7	5 419.8	5 351.0
Total equity	89.3	89.8		
Net liabilities			(3 991.2)	(3 955.0)

DVA's estimated average staffing level for 2013–14 is 1 920 (2012–13: 1 928).

Governance arrangements

5.124 DVA has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the department's business objectives. These arrangements support DVA's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.125 The key elements of DVA's corporate governance arrangements include:

- a strategic plan that sets out DVA's focus and direction as well as the risks and challenges facing DVA. To assess progress against the

priorities identified in the corporate plan, DVA has a monthly reporting process, which includes financial, operational and strategic analysis;

- an executive management board that meets monthly to determine and evaluate progress on the agreed strategic directions of DVA. The group is supported by sub-committees that assess the overall performance of DVA's operations through a variety of reporting mechanisms;
- a financial reporting framework that involves monitoring the performance and financial management of key business areas and the preparation and monitoring of monthly financial reports;
- an information and communication technology strategic plan aimed at developing the future DVA business model and programs and corresponding IT requirements;
- a governance committee framework, including an audit and risk committee that provides independent assurance and assistance in relation to all matters relating to risk management, the control and compliance framework and external accountability. The committee also has a monitoring role in relation to the progress of internal audit and the financial statements preparation process;
- a quality and management assurance strategy covering all major payment streams across the department;
- an internal audit function that develops an internal audit strategy, undertakes risk profiling across DVA and conducts an internal audit program that addresses business and financial risks;
- a fraud risk assessment every two years and a framework for incorporating risk management into DVA's broader management and business processes; and
- mechanisms to facilitate internal and external assurances around financial integrity, including the effectiveness of internal controls that impact on the financial statements and the Secretary's annual Certificate of Compliance.

Areas of audit focus

5.126 In the light of the ANAO's understanding of DVA's operating environment and governance arrangements, that includes its financial

reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that are significant to DVA's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the significant amount of personal benefit and health care transactions being processed by complex and ageing information systems;
- the contractual arrangements relating to the reimbursement of payments to State and Territory Hospitals;
- the quality and management assurance strategy relating to payments for income support and rehabilitation and compensation for veterans and their dependants;
- the complexity of assumptions and calculations underpinning the actuarial assessment of the military compensation provision;
- IT general and application controls as they relate to the financial statements; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, initially reported in the 2011–12 financial statements.

5.127 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of DVA's financial statements.

Audit results

5.128 At the date of this report, the ANAO has commenced the review of administered activities in relation to audit coverage of DVA's 2013–14 management assurance strategy over payments for income support and rehabilitation and compensation expenditure. As legal compliance is integral to these activities, the implementation of measures designed to address the risk of breaches of section 83 of the Constitution have also been examined.

5.129 As part of the 2013–14 final audit phase, the above work will be concluded in conjunction with the audit coverage of the military compensation provision, and other areas of audit focus.

5.130 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	2	0	0	2
L1	2	0	0	2
Total	4	0	0	4

Unresolved audit issues

Management of user access

5.131 From 2011–12, the ANAO has reported issues about the number of users that had inadequate segregation of duties within key payment systems, some of whom also held privileged access to the DVA quality assurance application.

5.132 As part of the 2013–14 interim audit phase, the ANAO identified that the number of users with these segregation of duties conflicts had been reduced to an acceptable level, and their work performed on the systems was being logged. However, there was still no monitoring of that work to ensure that privileged user access to relevant systems was being used appropriately. As a result, there is an increased risk of unauthorised actions by privileged users not being identified.

Quality assurance framework

5.133 DVA has a quality assurance (QA) framework that is designed to provide assurance over the correctness of administrative decisions, the achievement of policy and program outcomes, and the completeness and accuracy of financial statement reporting.

5.134 During the 2011–12 and 2012–13 financial statements audits, a number of weaknesses were identified in the QA framework relating to income support and rehabilitation and compensation QA programs including a lack of financial quantification of identified errors. As remedial work was in progress at the time of the 2013–14 interim audit phase to address these issues, the ANAO will review the status of this work as part of its 2013–14 final audit phase.

Unresolved legislative compliance issues

Management of waivers

5.135 The 2011–12 and 2012–13 financial statement audits identified instances where debts had been waived under provisions of the *Veterans' Entitlements Act 1986* (VE Act) without a Determination by the Repatriation Commission. The VE Act requires all waivers to have such a determination, which serves as a control for the waiving of debts.

5.136 DVA has commenced an internal audit of the management of waivers. At the time of this report, the audit was in progress. The report will be reviewed by the ANAO during the final phase of the 2013–14 audit.

Actual and potential breaches of section 83 of the Constitution

5.137 The notes to DVA's 2012–13 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

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

5.139 This issue will be reviewed as part of the final phase of the 2013–14 audit.

5.140 A performance audit of DVA's Administration of Residential Care Payments is expected to be tabled in the near future. Any actual or potential breaches of section 83 of the Constitution identified as a result of this audit will be assessed during the 2013–14 final audit phase.

Conclusion

5.141 Audit coverage during the 2013–14 interim audit phase has included IT general and application controls. Except for the audit findings relating to management of user access and the quality assurance framework referred to above, the key IT internal controls that support the preparation of the financial statements were operating effectively. The effective operation of key controls for the full financial year and the legislative issues referred to above will be assessed as part of the 2013–14 final audit phase. This will be done in conjunction with additional audit testing of the focus areas referred to in paragraph 5.126 above.

Education Portfolio

Department of Education

5.142 The Department of Education (Education) was established as a result of the Administrative Arrangements Order (AAO) of 18 September 2013. The department assumed responsibility for functions relating to education undertaken by the former Department of Education, Employment and Workplace Relations (DEEWR)⁵¹ and the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education⁵².

5.143 The department provides policy advice and administers programs to achieve the Government's objectives in relation to education.

5.144 Education's business operations include:

- improving access to quality services that support early childhood learning and care for children through a national quality framework; agreed national standards; investment in infrastructure; and support for parents, carers, services and the workforce;
- improving the level of learning and literacy, numeracy and educational attainment for school students, through funding for quality teaching and learning environments, workplace learning and career advice; and
- promoting growth in economic productivity and social wellbeing through access to quality higher education, international education and international quality research.

5.145 The key characteristics of Education's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the complexity of integrating and accounting for functions transferred from the former DEEWR as a result of the Machinery of Government changes of 18 September 2013, including the establishment of a shared services centre (SSC) with the Department of Employment (Employment);
- the significance and diversity of administered activities, including child care related personal benefits, a large number of diverse grant programs,

51 The Department of Education, Employment and Workplace Relations (DEEWR) was abolished by the AAO of 18 September 2013.

52 The AAO of 18 September 2013 renamed the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education the Department of Industry.

the Higher Education Loan Program (HELP) and unfunded university superannuation. The HELP is the Commonwealth's largest non-taxation receivable;

- the reliance on data from third parties to support payments, including those relating to child care related personal benefits and university superannuation liabilities;
- the valuation of receivables relating to HELP and the provision for unfunded university superannuation, which are subject to a number of complex valuation issues; and
- a relatively complex financial statement process that involves using data from a number of business systems and other agencies.

5.146 In the light of these characteristics and the ANAO's understanding of the operations of the department, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.147 The following table sets out Education's estimated 2013–14 key financial balances for the department. These balances assist in understanding the scale of the financial operations of the department.

5.148 Education's key financial balances are:

Key financial balances*	Departmental Estimated (\$m) 2013–14	Administered Estimated (\$m) 2013–14
Net cost of services	216.3	
Revenue from government	195.2	
Deficit attributable to the Australian Government	(21.1)	
Total own-source income		995.8
Total expenses		23 298.3
Administered deficit		(22 302.5)
Total assets	185.1	28 146.2
Total liabilities	86.0	7 987.7
Total equity	99.1	
Net assets		20 158.5

Education's estimated average staffing level for 2013–14 is 1 417.

* Education was created as a new agency on 18 September 2013 and therefore there are no comparative financial balances for 2012–13.

Governance arrangements

5.149 Education has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of its business objectives. These arrangements support the department's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.150 The key elements of the department's corporate governance arrangements include:

- an Executive Board that meets regularly and addresses strategic issues, monitors the department's financial performance, and oversees the operational performance of groups and programs;
- a governance committee framework, including an audit committee. The audit committee meets at least quarterly and focuses attention on the effectiveness and probity of audit activities including risk assessment and management;
- a structured system of internal control;
- an internal audit function that provides a risk based audit coverage of Education's activities;
- mechanisms to facilitate internal and external assurances in relation to financial integrity, including the effectiveness of internal controls that may impact on the financial statements and the Secretary's annual Certificate of Compliance;
- a framework for incorporating risk management and the consideration of fraud risk into the department's broader management and business planning processes; and
- a financial reporting framework that involves the monitoring of the financial management of key business areas and the preparation and monitoring of monthly financial reports.

5.151 At the time of the 2013–14 interim audit coverage, the departments of Education and Employment were establishing a SSC for the provision of IT and corporate services to both departments and a number of other agencies. It is proposed that the SSC will be resourced by staff of both departments with oversight by a chief executive officer and a governance board, comprising the Secretaries of the two departments and representatives of the Australian Public

Service Commission and the Department of Finance. Until the establishment of the SSC, both departments are operating under interim shared service arrangements that involve a shared control environment relating to the IT systems and corporate services functions.

Areas of audit focus

5.152 In the light of the ANAO's understanding of the department's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- compliance activities and assurance processes underpinning child care related personal benefit payments that rely on correct disclosure of personal circumstances by a diverse number of recipients;
- the actuarial valuation of the HELP receivable due to the complexity involved in projecting future payments and/or non-repayment of loans;
- the actuarial valuation of the provision for grants relating to unfunded superannuation commitments for Australian universities. These estimates are complex due to calculation timings and different actuarial assumptions used for each relevant state;
- the financial management of grants, as the management of grants is dispersed across a wide variety of programs and different business systems;
- legislative compliance, particularly the ongoing implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the former DEEWR's 2012–13 financial statements; and
- the transitional arrangements in place relating to the establishment of the department, the transfer and integration of functions from the former DEEWR and the Department of Industry, and the formation of a shared services centre with Employment. As mentioned at paragraph 5.151 above, the establishment of shared service arrangements has resulted in a shared control environment between Education and Employment,

therefore a coordinated audit approach has been adopted for the financial statement audits of Employment and Education.

5.153 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of the department's financial statements.

DEEWR financial statements 1 July to 18 September 2013

5.154 Financial statements for the period 1 July to 18 September 2013, representing DEEWR's financial position and performance prior to that department's abolition, were being prepared at the time of the preparation of this report. Education will prepare financial statements for the period 19 September 2013 to 30 June 2014. The ANAO has commenced its audit coverage of both sets of financial statements and the results will be included in the report *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2014* to be tabled in December 2014.

Audit results

5.155 The ANAO's interim audit phase has focused on those elements of the control environment of the former DEEWR that remain relevant to the preparation of financial statements of Education for the period 19 September 2013 to 30 June 2014.

5.156 The implementation of the transitional arrangements has involved Education managing a range of issues associated with the transfer and integration of functions from the former DEEWR. These issues include:

- the preparation of financial statements at 18 September 2013 for the former DEEWR;
- the establishment of the SSC, including the finalisation of governance and financial reporting arrangements; and
- the implementation of changes to the business and support systems, including the financial management information system, to accommodate revised arrangements.

5.157 Audit coverage to date has focused on gaining an understanding of the progress by both departments in implementing the revised arrangements particularly the matters referred to in paragraph 5.152 above.

5.158 The ANAO has commenced a review of the compliance approach and assurance processes relating to child care personal benefits and grants management processes.

5.159 To date, audit coverage of these areas of audit focus has not identified any new significant or moderate audit issues. The remaining areas of audit focus relate to work that will be undertaken as part of the 2013–14 final audit phase.

5.160 The following table summarises the status of audit issues reported by the ANAO in 2013–14 and 2012–13.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase) ⁵³	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	1	0	0	1
L1	1	0	0	1
Total	2	0	0	2

Outstanding audit issue

Child care compliance framework

5.161 In 2012–13, the ANAO identified that the former DEEWR had changed its approach to undertaking compliance activities with the aim of more effectively utilising resources. The change in approach involved a reduction in the number of child care service provider inspections, compensated by an increase in the level of other monitoring activities, including data analysis of child care service provider claims.

5.162 The ANAO's review of the compliance and other monitoring activities undertaken by the former DEEWR identified that while the number of child care service provider inspections had reduced, the former DEEWR had not fully implemented the other monitoring activities to compensate for this reduction. In addition, not all child care service provider inspections had been undertaken in a consistent manner, as required by the compliance framework.

⁵³ The closing position represents audit issues raised that relate to functions transferred to the Department of Education from the former Department of Education, Employment and Workplace Relations.

5.163 In 2013–14, Education assumed responsibility for the compliance framework and implemented a change in the approach for monitoring the compliance of child care service providers, moving from child care service provider inspections to parent confirmation of their child’s attendance. These confirmations are conducted throughout the year and involve seeking confirmation from parents that the child care services received for their child matches that reported by the child care service provider. Supplementing this approach, the department also undertakes other monitoring activities, referred to above.

5.164 The ANAO will assess the implementation of the change in the department’s compliance approach as part of the 2013–14 final audit phase.

Unresolved legislative compliance issue

Potential breaches of section 83 of the Constitution

5.165 In 2012–13, the former DEEWR reported potential breaches of section 83 of the Constitution for payments made under certain legislation, including the *Schools Assistance Act 2008*, which is now administered by Education.

5.166 In addition, the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education reported actual breaches of section 83 of the Constitution relating to payments made under the *Higher Education Support Act 2003*, which is also now administered by Education.

5.167 Education is continuing to monitor its level of section 83 compliance across all legislation for which it is now administratively responsible. Where possible, amendments to legislation will continue to be progressed by the department.

5.168 The ANAO will review progress in addressing this issue as part of the 2013–14 final audit phase.

Conclusion

5.169 In line with the coordinated audit approach, referred to in paragraph 5.151 above, audit coverage during the 2013–14 interim audit phase has included aspects of the shared control environment relating to IT systems. Based on the work completed, IT internal controls that support the preparation of the financial statements were operating effectively. The remainder of the ANAO audit coverage will be completed as part of the 2013–14 final audit phase.

Employment Portfolio

Department of Employment

5.170 The Department of Employment (Employment) was created as a result of the Administrative Arrangements Order changes on 18 September 2013. As a result of these changes, responsibility for all employment and workplace relations functions managed by the former Department of Education, Employment and Workplace Relations (DEEWR), with the exception of those relating to disability and indigenous programs, were transferred to the department. Responsibility for disability and indigenous programs were transferred from DEEWR to the Department of Social Services and the Department of the Prime Minister and Cabinet, respectively.

5.171 The department has primary responsibility for the delivery of the Government's agenda on employment and workplace relations. The work of the department assists employers to meet their workforce needs, supports jobseekers to participate in the workforce and gain employment, and enables employers and employees to achieve safe, productive and fair workplaces.

5.172 Employment's business operations include:

- the fostering of a productive and competitive labour market through employment policies and programs that assist job seekers into work, meet employer needs and increase Australia's workforce participation; and
- facilitation of jobs growth through policies that promote fair, productive and safe workplaces.

5.173 The key characteristics of Employment's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the complexity of integrating and accounting for functions transferred from the former DEEWR as a result of the MoG changes of 18 September 2013, including the establishment of a shared services centre with the Department of Education (Education); and
- reliance on data from third parties to support employment services.

5.174 In the light of these characteristics and the ANAO's understanding of the operations of the department, the ANAO has assessed, for the purposes of

planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.175 The following table sets out the estimated 2013–14 key financial balances for the department. These balances assist in understanding the scale of the financial operations of the department.

5.176 Employment's key financial balances are:

Key financial balances *	Departmental Estimated (\$m) 2013–14	Administered Estimated (\$m) 2013–14
Net cost of services	276.5	
Revenue from government	247.9	
Deficit attributable to the Australian Government	(28.6)	
Total own-source income		149.1
Total expenses		1 728.9
Administered deficit		(1 579.8)
Total assets	232.0	46.1
Total liabilities	96.6	2 872.3
Total equity	135.4	
Net liabilities		(2 826.2)

Employment's estimated average staffing level for 2013–14 is 1 627.

* Employment was created as a new agency on 18 September 2013 and therefore there are no comparative financial balances for 2012–13.

Governance arrangements

5.177 The department has implemented governance arrangements, a financial reporting regime and an internal control system, following its establishment on 18 September 2013, designed to enable the achievement of its business objectives. These arrangements support Employment's financial reporting requirements, the effectiveness and efficiency of its operations and compliance with applicable legislative requirements.

5.178 The key elements of Employment's corporate governance arrangements include:

- an executive management group that meets regularly and addresses strategic issues, monitors Employment's financial performance, and oversees the operational performance of groups and programs;
- an audit committee that meets at least quarterly and focuses attention on the effectiveness and probity of audit activities including risk assessment and management;
- a structured system of internal control based on those previously in DEEWR;
- an internal audit function providing a risk based audit coverage of the department's activities;
- mechanisms to facilitate internal and external assurances in relation to financial integrity, including the effectiveness of internal controls that may impact on the financial statements and the Secretary's annual Certificate of Compliance;
- reliance on the former DEEWR's framework for incorporating risk management into the broader management and business planning processes, including the development and maintenance of a fraud control plan; and
- a financial reporting framework that involves the monitoring of the performance and financial management of key business areas and the preparation and monitoring of monthly financial reports.

5.179 At the time of the 2013–14 interim audit coverage, the departments of Employment and Education were establishing a shared services centre (SSC) for the provision of IT and corporate services to both departments and a number of other agencies. Brief details relating to this initiative are at paragraph 5.151 above.

Areas of audit focus

5.180 In the light of the ANAO's understanding of Employment's operating environment and governance arrangements, which includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on

Employment's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the transitional arrangements in place relating to the establishment of the department, the transfer and integration of functions from the former DEEWR, and the formation of a shared services centre with Education. As mentioned at paragraph 5.151 above, the establishment of shared service arrangements has resulted in a shared control environment between Education and Employment, and therefore a coordinated audit approach has been adopted for the financial statement audits of Employment and Education; and
- the employment services programs as they rely on self-assessment by contract providers and involve complex contract management arrangements.

5.181 As an integral part of the interim audit phase, the ANAO reviews the IT general and application controls for key systems that support the preparation of Employment's financial statements.

DEEWR financial statements 1 July 2013 to 18 September 2013

5.182 As referred to at paragraph 5.154 above, financial statements for the period 1 July to 18 September 2013, representing DEEWR's financial position and performance prior to that department's abolition, were being prepared at the time of the preparation of this report. Employment will prepare financial statements for the period 19 September 2013 to 30 June 2014. The ANAO has commenced its audit coverage of both sets of financial statements and the results will be included in the report *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2014* to be tabled in December 2014.

Audit results

5.183 The ANAO's interim audit phase has focused on those elements of the shared service arrangements referred to in paragraph 5.151 that remain relevant to preparation of Employment's financial statements for the period 19 September 2013 to 30 June 2014.

5.184 The implementation of the transitional arrangements has involved Employment managing a range of issues associated with the transfer and integration of functions from the former DEEWR. These issues include:

- the preparation of financial statements at 18 September 2013 for the former DEEWR;
- the establishment of the SSC, including the finalisation of governance and financial reporting arrangements; and
- the implementation of changes to the business and support systems, including the financial management information system, to accommodate revised arrangements.

5.185 Audit coverage to date has included aspects of the shared control environment relating to IT general and application controls and corporate services functions and has also involved obtaining an understanding of both departments implementation of the revised arrangements, particularly the matters referred to in paragraph 5.184 above.

5.186 The audit of the employment services programs will be completed as part of the 2013–14 final audit phase.

5.187 No significant or moderate audit issues have been raised by the ANAO as a result of audit coverage during the 2013–14 interim audit phase.

Conclusion

5.188 In line with the coordinated audit approach being taken, referred to in paragraph 5.151 above, audit coverage during the 2013–14 interim audit phase has included aspects of the shared control environment relating to IT systems. Based on the work completed, IT internal controls that support the preparation of the financial statements were operating effectively.

5.189 In view of the timing of the resolution of the matters referred to in paragraph 5.184 above, the remainder of the ANAO audit coverage will be completed as part of the 2013–14 final audit phase.

Environment Portfolio

Department of the Environment

5.190 The Department of the Environment (Environment), formerly known as the Department of Sustainability, Environment, Water, Population and Communities⁵⁴ supports the four pillars of the Australian Government's Plan for a Cleaner Environment – Clean Air, Clean Land, Clean Water and Heritage Protection. This Plan forms a guiding framework for water reform, environmental regulation, supporting Australia's interests in Antarctica, natural resource management, biodiversity conservation and action on climate change.

5.191 Environment's business operations in 2013–14 included:

- conserving and protecting Australia's terrestrial and marine biodiversity and ecosystems, through supporting research, developing information, supporting natural resource management, and establishing and managing Commonwealth protected areas;
- improving the sustainability of Australia's population, communities and environment through the coordination and development of sustainable population and communities' policies, and the reduction and regulation of waste, pollutants and hazardous substances;
- advancing Australia's strategic, scientific, environmental and economic interests in the Antarctic by protecting, administering and researching the Antarctic region;
- developing strategies in relation to climate change including wise water use, securing water supplies and improving the health of rivers, waterways and freshwater ecosystems by supporting research, and reforming the management and use of water resources;
- increasing protection, awareness and appreciation of Australia's environment and heritage through regulating matters of national environmental significance and the identification, conservation and celebration of natural, indigenous and historic places of national and World Heritage significance;

⁵⁴ The department became the Department of the Environment and assumed responsibility for a number of additional functions as part of the MoG changes on 18 September 2013.

- protecting and restoring environmental assets through the management and use of water assets held by the Commonwealth; and
- developing strategies for reducing Australia's greenhouse gas emissions, adapting to the impacts of climate change, and contributing to the negotiation of an effective global solution to climate change, through the development and implementation of a national response to climate change.

5.192 The key characteristics of the department's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- significant administered asset balances, particularly the Australian Government's investments in water assets, reported in Environment's financial statements;
- the significant and diverse grant programs administered by the department;
- the ongoing management of Australia's Antarctic bases, including management's estimate of the cost to restore the bases; and
- the accounting for a carbon price equivalent on synthetic greenhouse gases, including the completeness and accuracy of revenue collections.

5.193 In the light of these characteristics and the ANAO's understanding of the operations of the department, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.194 The following table sets out the estimated 2013–14 and actual 2012–13 key financial balances for the department. These balances assist in understanding the scale of the financial operations of the department.

5.195 Environment's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	542.8	478.9		
Revenue from government	462.6	434.9		
Deficit attributable to the Australian Government	(80.2)	(44.0)		
Total own-source income			336.4	161.8
Total expenses			771.2	968.2
Administered deficit			(434.8)	(806.4)
Total assets	504.5	498.4	3 229.1	2 993.1
Total liabilities	539.3	529.9	30.2	30.2
Total equity	(34.8)	(31.5)		
Net assets			3 198.9	2 962.9

Environment's estimated average staffing level for 2013–14 is 2 177 (2012–13: 2 260).

Governance arrangements

5.196 Environment has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the department's business objectives. These arrangements support the department's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.197 The key elements of Environment's corporate governance arrangements include:

- a strategic plan that provides an overview of the department's strategic priorities and goals, including the department's planning and performance framework;

- a management board, which comprises the Secretary and Deputy Secretaries, that meets regularly to evaluate Environment's strategic direction, financial planning and operational results;
- an audit committee that includes three independent members including the chair. The audit committee meets regularly and focuses on risk management, the control environment, a review of financial reports and the department's compliance with laws and regulations;
- a framework for incorporating risk management into the broader management and business processes including the development of a fraud control plan; and
- an internal audit function that plans and conducts audits based on a risk assessment of departmental activities.

Areas of audit focus

5.198 In the light of the ANAO's understanding of the department's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on Environment's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the methodology used by the department to value the water assets it holds on behalf of the Commonwealth;
- the model adopted by the department to estimate its obligation to restore the Antarctic bases, particularly the appropriateness of assumptions used and accuracy of complex calculations; and
- the completeness and accuracy of significant revenue collections associated with the carbon price equivalent on the importation and manufacturing of synthetic greenhouse gases.

5.199 The ANAO will continue to provide audit coverage on the financial management and reporting of grants. This area had previously been identified as being significant in terms of the department's financial statements due to the significant amount of grant expenditure incurred by the department.

5.200 As part of the AAO changes of 18 September 2013, the department assumed responsibility for the climate change function from the former

Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education and an Indigenous program was transferred to the Department of the Prime Minister and Cabinet. These changes were managed through the implementation of a project plan which encompassed the integration and transfer of functions, staff and related financial reporting balances from and to the department. The department has integrated these functions into its financial and governance framework.

5.201 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of Environment's financial statements.

Audit results

5.202 The ANAO has completed its interim audit coverage to assess the effectiveness of internal controls in the areas which had been identified as significant to the financial statements, including administered grant payments.

5.203 The other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.204 No significant or moderate audit issues have been raised by the ANAO as a result of the audit coverage of the areas of audit focus completed during the 2013–14 interim audit phase. Further, the 2012–13 audit did not identify any new significant or moderate audit issues.

Conclusion

5.205 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Finance Portfolio

Department of Finance

5.206 The Department of Finance (Finance) assists and advises the Government across a variety of policy and program areas, including expenditure and financial management and the operations of government. Services delivered by Finance include assisting the Government to make informed decisions on government finances and regulation making through: budgetary management and advice; transparent financial reporting; and implementation of a robust financial framework.

5.207 The Administrative Arrangements Order (AAO) of 18 September 2013 transferred responsibility for the deregulation function from Finance to the Department of the Prime Minister and Cabinet.

5.208 Finance's business operations include improving government administration and operations through policies, systems and advice on:

- procurement;
- Commonwealth non-defence domestic property management and construction;
- making online government services more accessible;
- Government enterprises;
- the Nation Building Funds (NBF);
- general insurance and risk management; and
- the application of information and communications technology.

5.209 Finance also provides support for Parliamentarians, organisations and others with entitlements as approved by government, through the delivery of entitlements and targeted assistance.

5.210 The key characteristics of Finance's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- a number of financial statement balances that require significant judgement, or the use of specialists, to estimate;
- a complex financial statement process that involves aggregating data from a number of business systems and other agencies; and

- numerous arrangements with service providers that affect key financial statement balances.

5.211 In the light of these characteristics and the ANAO's understanding of the operations of Finance, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.212 The following table sets out Finance's 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.213 Finance's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	314.0	206.3		
Revenue from government	269.4	274.4		
Income tax expense	4.0	5.5		
Surplus (Deficit) attributable to the Australian Government	(48.6)	62.6		
Total own-source income			2 027.9	3 123.7
Total expenses			10 757.3	11 059.2
Administered deficit			(8 729.4)	(7 935.6)
Total assets	2 516.9	2 434.7	14 214.6	16 563.1
Total liabilities	456.3	446.5	100 593.2	125 504.3
Total equity	2 060.6	1 988.2		
Net liabilities			(86 378.6)	(108 941.3)

Finance's estimated average staffing level for 2013–14 is 1 395 (2012–13: 1 488).

Governance arrangements

5.214 Finance has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the department's business objectives. These arrangements support Finance's financial reporting requirements, the effectiveness and

efficiency of its operations, and compliance with applicable legislative requirements.

5.215 The key elements of Finance's corporate governance arrangements include:

- a monthly executive board meeting that discusses strategic matters and operations management and considers new policies and projects;
- an audit committee, chaired by an independent member, that meets at least quarterly and focuses on governance, risk management, internal controls, compliance management, financial reporting and ANAO activities;
- a financial statements sub-committee to assist the audit committee with reviewing the department's financial statements, Certificate of Compliance and related financial matters;
- an IT governance sub-committee to provide assurance and advice to the executive board on whether effective and appropriate procedures, controls and decision making processes are in place to support the department's Information and Communication Technology (ICT) strategic capability, operational capacity and regulatory conformance;
- an internal audit function providing an internal audit strategy and plan that addresses key business and financial risks and aims to assist line areas meet their key objectives;
- mechanisms to facilitate internal and external assurances around financial integrity, including the effectiveness of internal controls that impact on the financial statements and the annual certificate of compliance process;
- a comprehensive risk management process, both at an organisational and discrete activity level, that includes an assessment of inherent and control risks, identification of the controls in place to address these risks, and an understanding of the residual risks that remain and how these can be managed to an acceptable level;
- a financial reporting framework that involves the monitoring of the performance and financial management of key business areas and the preparation and monitoring of monthly financial reports; and

- a fraud risk assessment process, involving input from each business group in Finance with fraud oversight roles, collated into a fraud control plan that includes risk mitigation strategies.

Areas of audit focus

5.216 In the light of the ANAO's understanding of Finance's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on Finance's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the complexity of the assumptions and calculations underpinning the actuarial assessment of the public sector unfunded superannuation liability;
- accounting for the major claims and complex assumptions underpinning the valuation of the outstanding claims under the Australian Government's self-managed general insurance fund (Comcover);
- the complexity of the assumptions underpinning the valuation of NBF investments;
- the complexity of the valuation methodology and calculations underpinning administered investments held by the Australian Government;
- the consistency of the valuation methods and assumptions applied to the numerous properties in Finance's property portfolio including the disclosures and effects of the first time application of accounting standard, AASB 13 *Fair Value Measurement*;
- the control regime in relation to entitlements paid to Parliamentarians and their staff due to the complexity of these entitlements; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, reported in the 2012–13 financial statements.

5.217 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of Finance's financial statements.

Audit results

5.218 To date audit coverage of the key areas of audit focus has not identified any new significant or moderate audit issues.

5.219 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	1	0	0	1
L1	1	0	0	1
Total	2	0	0	2

Outstanding audit issue

Quality review of the Intergovernmental Communications Network valuation

5.220 The ANAO's examination of the valuation of the Intergovernmental Communications Network (ICON) in 2012–13 identified that a number of assumptions and information used in the calculation of the value included in the first draft of the financial statements were either not correct or had no supporting information. This revaluation had approximately doubled the value of ICON compared to 2011–12. Following the ANAO review, a revised valuation of approximately \$52 million was reported in the 2012–13 financial statements. Finance advised the ANAO that it intended to undertake a quality review of the ICON valuation in 2013–14. The ANAO will review Finance's quality review processes and the valuation during the 2013–14 final audit phase.

Unresolved legislative compliance issue

Actual and potential breaches of section 83 of the Constitution

5.221 A risk assessment and subsequent analysis undertaken by Finance in 2012–13 identified breaches of section 83 in relation to payments under the

Judges Pensions Act 1968, Parliamentary Entitlements Act 1990 and the Long Service Leave (Commonwealth Employee) Act 1976. In 2012–13 amendments were made to the *Judges Pension Act 1968* as part of the *Financial Framework Legislative Amendment Act No. 2 2013* that are designed to reduce the risk of future judges' pension payments being made in breach of section 83 to low.

5.222 During 2013–14, Finance advised that it intended to undertake a risk assessment of payments for long service leave and goods and services tax and payments made under determinations of the Remuneration Tribunal, to determine the risk of payments being made in breach of section 83 of the Constitution.

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

5.224 The risk assessment for 2013–14 has commenced and any actual or potential breaches identified in relation to the 2013–14 year will be reported in the 2013–14 financial statements. The ANAO will review the results of this assessment as part of the final audit phase.

Conclusion

5.225 Based on the audit coverage during the 2013–14 interim audit phase, and pending the resolution of the audit finding relating to the quality review of the Intergovernmental Communications Network valuation referred to above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Future Fund Management Agency and the Board of Guardians

5.226 The Future Fund Management Agency (FFMA) was established by the *Future Fund Act 2006* to support and advise the Future Fund Board of Guardians (Board) in its task of investing the assets of the Future Fund.

5.227 FFMA's business operations include:

- continued development and implementation of an investment strategy for the Future Fund and the three Nation Building Funds – the Building

Australia Fund, the Education Investment Fund and the Health and Hospitals Fund, agreed by the Board and consistent with the investment mandate from Government;

- investing the assets of the Future Fund and the three Nation Building Funds in accordance with the relevant investment strategies; and
- the goal of maximising of returns earned on contributions to the Future Fund over the long term, in line with the investment mandate.

5.228 The key characteristics of FFMA's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- complexities associated with the valuation of different investment instruments;
- the use of external service providers to support the investment management function; and
- a complex organisational structure involving a number of subsidiaries, used as special purpose investment vehicles, and associated tax implications.

5.229 In the light of these characteristics and the ANAO's understanding of the operations of FFMA, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.230 The following table sets out FFMA's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of FFMA.

5.231 FFMA's key financial balances⁵⁵ are:

Key financial balances	Estimated (\$m) 2013–14	Actual (\$m) 2012–13
Total income	11 318.5	12 564.4
Total expenses	682.4	666.7
Surplus attributable to the Australian Government	10 636.1	11 897.6
Total assets	99 848.5	94 893.7
Total liabilities	408.1	6 089.4
Total equity	99 440.4	88 804.3

FFMA's estimated average staffing level for 2013–14 is 89 (2012–13: 91).

Governance arrangements

5.232 FFMA has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of its business objectives. These arrangements are designed to support the FFMA's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.233 The key elements of FFMA's corporate governance arrangements include:

- a strategic asset allocation that provides an overview of the Board's investment plan;
- meetings of the Board at least ten times per year;
- a governance framework, including an audit and risk committee, conflicts committee and a remunerations and nominations committee;
- mechanisms to facilitate internal and external assurances in respect of financial integrity, including the effectiveness of internal controls that impact on financial records;
- the use of a risk and control matrix to support the FFMA in monitoring the key risks of the organisation;

⁵⁵ The Future Fund presents its financial statements in a format consistent with that used in the funds management industry and the funding of the FFMA is drawn from the investment special account. For 2013–14 this funding is estimated to be \$47 million.

- a financial reporting framework that involves the monitoring of the performance and financial management of key business areas including the preparation of monthly financial reports; and
- significant operational controls that reside with the outsourced custodian. These controls are subject to an independent bi-annual internal controls audit which tests that the controls are appropriately designed and are operating effectively.

Areas of audit focus

5.234 In the light of the ANAO's understanding of FFMA's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on FFMA's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the valuation of investments from the perspectives of governance, financial accuracy and regulatory oversight;
- a compliance function that reinforces internal assurance procedures;
- the processes for monitoring external service providers, including the custodian;
- group consolidation and tax implications relating to wholly owned subsidiaries; and
- the management of new investments and liquidity requirements given that FFMA funds have been fully invested.

5.235 As an integral part of the 2013–14 interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of the FFMA's financial statements.

Audit results

5.236 No significant or moderate audit issues have been raised by the ANAO as a result of the audit coverage of the areas of audit focus during the 2013–14 interim audit phase. Further, the 2012–13 audit did not identify any new significant or moderate audit issues.

Conclusion

5.237 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Foreign Affairs and Trade Portfolio

Department of Foreign Affairs and Trade

5.238 The Department of Foreign Affairs and Trade's (DFAT) role is to advance Australia's national interest and the security and prosperity of Australian's, and promote prosperity, through reducing poverty and enhancing stability with a particular focus on our region, the Indian Ocean Asia Pacific.

5.239 As a result of the Administrative Arrangements Order (AAO) of 18 September 2013, the Australian Agency for International Development (AusAID) was abolished and responsibility for international development was transferred to DFAT from 1 November 2013.

5.240 The AAO also transferred responsibility for international climate change negotiations and international tourism policy from the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education to DFAT.

5.241 In addition to the newly acquired functions referred to above, DFAT's business operations include:

- the advancement of Australia's international strategic, security and economic interests through bilateral, regional and multilateral engagement on Australian Government foreign and trade policy priorities;
- the protection and welfare of Australians abroad and access to secure international travel documentation through timely and responsive travel advice, and consular and passport services in Australia and overseas; and
- a secure Australian Government presence overseas through the provision of security services and information and communications technology infrastructure, and the management of the Australian Government's overseas owned estate.

5.242 The key characteristics of DFAT's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the integration of AusAID functions into DFAT as a result of the Machinery of Government changes referred to above;

- the geographical spread of operations;
- the complex and diverse nature of DFAT's IT environment including the use of multiple IT systems at overseas posts and business continuity and disaster recovery planning in critical overseas locations; and
- the reliance on external service providers for key operations and financial information. Under service level arrangements with DFAT, these service providers undertake revenue collection services for passport applications and provide a range of property, financial and facilities management services for the overseas estate.

5.243 In the light of these characteristics and the ANAO's understanding of the operations of DFAT, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.244 The following table sets out DFAT's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.245 DFAT's key financial balances are:

Key financial balances	Departmental			Administered		
	Estimated	Actual	AusAID*	Estimated	Actual	AusAID*
	(\$m)	(\$m)	Actual	(\$m)	(\$m)	Actual
	2013–14	2012–13	(\$m) 2012–13	2013–14	2012–13	(\$m) 2012–13
Net cost of services	1 259.3	934.1	325.4			
Revenue from government	1 189.6	885.7	316.8			
Deficit attributable to the Australian Government	(69.7)	(48.4)	(8.6)			
Total own-source income				470.7	631.7	267.5
Total expenses				3 637.7	278.3	4 259.1
Administered surplus/(deficit)				(3 167.0)	146.4	(3 991.6)
Total assets	3 628.7	3 442.0	168.4	4 500.7	219.5	1 647.7
Total liabilities	379.1	286.3	91.1	2 577.0	60.3	1 647.2
Total equity	3 249.6	3 155.7	77.2			
Net assets				1 923.7	159.3	0.5

DFAT's estimated average staffing level for 2013–14 is 6 175 (this includes 2 296 locally engaged staff at overseas posts).

* AusAID and DFAT 2012–13 balances are disclosed separately in the Portfolio Budget Statements and will be separately disclosed in the 2013–14 financial statements.

Governance arrangements

5.246 DFAT has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the department's business objectives. These arrangements support DFAT's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.247 The key elements of DFAT's corporate governance arrangements include:

- an Executive Committee that oversees the operational performance of divisions and posts, reviews departmental wide issues, monitors financial performance and considers reports prepared and referred by other management committees;
- a governance committee framework including an audit and risk committee and a financial statement sub-committee (established in

May 2014). The audit and risk committee meets at least quarterly and has a focus on the efficiency, effectiveness and probity of activities including risk assessment and management, internal audit planning and results, fraud control and ANAO audit activities;

- a risk management framework and plan that identifies and assists in the management of risk at the strategic, business and project levels, and also at specific locations overseas;
- a fraud risk assessment that is undertaken in line with the Commonwealth Fraud Control Guidelines; and
- an internal audit strategy and plan that aligns with the department's risk assessment and management priorities.

Areas of audit focus

5.248 In the light of the ANAO's understanding of DFAT's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on DFAT's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the integration of AusAID into DFAT, due to the complexities relating to the integration of IT systems and accounting processes and the associated year-end financial statement consolidation;
- revenue generated from passport operations. A significant proportion of the passport revenue collection function is outsourced to the Australian Postal Corporation;
- the completeness of departmental revenue for rental accommodation and services provided to other Government agencies at overseas posts, due to the significance of this item to DFAT's financial statements;
- valuation of the Australian Government's overseas property due to the significance of the balance to the financial statements and the judgements and estimates used to derive the balance;
- valuation, accounting and reporting disclosures associated with loans and subscriptions and multilateral liabilities due to the complexities

associated with estimating likely recoverability of the loans, and the estimation process to value the fair value of liabilities at reporting date;

- grant accounting and contract management, due to the significance of the balance to the financial statements and the diverse range of administered grant payments to international, United Nations and Commonwealth organisations; and
- overseas post operations, as a significant component of DFAT's departmental financial statements relate to financial operations performed at overseas locations.

5.249 The ANAO will continue to provide audit coverage of the following areas which have previously been identified as being significant to the financial statements:

- the accounting treatment and disclosure of the transactions in the National Interest Account (NIA) that are reported by the Commonwealth where the recovery of loans made by the Australian Government to overseas governments is considered less than probable. The NIA reports transactions undertaken by the Export Finance and Insurance Corporation, once the Minister determines they are in the national interest;
- executive remuneration due to the geographical spread and diversity of allowances paid to overseas posted executives;
- appropriation and outcomes reporting note disclosures due to the complexity of these items; and
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2012–13 financial statements.

5.250 As part of the 2013–14 interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of DFAT's financial statements, including the financial management and human resource management information systems, the passport issue and controls system, and DFAT's grant management system.

Audit results

5.251 The ANAO's interim audit phase coverage to date has included a review of the controls relating to passport revenue collections, the recording of departmental revenues and grants processing.

5.252 In relation to the integration of AusAID into DFAT, the department has established a taskforce to oversee the integration. A number of working groups have been created to oversee integration at the operational level and includes a Finance Working Group (FWG) chaired by the Chief Financial Officer. The FWG is supported by a number of sub-committees responsible for key financial processes, namely IT systems integration, financial reporting, internal and external budgets, financial framework compliance, bank and cash management, taxation and travel.

5.253 The taskforce is responsible for managing the processes to integrate key corporate documents, including the Strategic Plan, Fraud Control Plan and Risk Management Plan. The integration of key finance documents, such as the Chief Executive Instructions and delegations and authorisations has commenced and is scheduled to be completed by 30 June 2014.

5.254 The ANAO is monitoring the department's progress in integrating AusAID into DFAT, particularly in relation to those aspects that have implications for the 2013–14 financial statements.

5.255 The valuations of the overseas property portfolio, loans and subscriptions and multilateral liabilities, and the finalisation of the integration aspects associated with the preparation of the 2013–14 financial statements will be reviewed as part of the final phase of the 2013–14 audit.

5.256 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	0	0	1	1
L1	0	0	1	1
Total	0	0	2	2

New audit issue

Monitoring of user access controls

5.257 During the 2013–14 interim audit phase, the ANAO reviewed access controls for the financial management information system (FMIS) and the human resource management information system (HRMIS). Users with high level access to IT systems are able to edit and change data within systems and by-pass the controls designed to ensure appropriate segregation of duties. As such, these high levels of access require effective management, including monitoring of access activity. The ANAO identified that for the period July 2013 to March 2014, a number of users had been granted database administration access and privileged access to the FMIS and HRMIS that was inconsistent with their responsibilities. In addition, the activities associated with their access were not logged. As a result, no monitoring of access activity by these users was able to be undertaken. In the absence of these controls, there is an increased risk of inappropriate system access and unauthorised changes being made to systems data during the abovementioned period.

5.258 The ANAO confirmed that the department had reviewed access arrangements and removed inappropriate arrangements from March 2014. At the time of the 2013–14 interim audit phase, DFAT advised that it was reviewing activities undertaken in the system during the period referred to above and was implementing improved monitoring arrangements. The ANAO will review progress on this issue during the 2013–14 final audit phase.

New legislative compliance issue

Breach of section 12 of the FMA Act

5.259 The department has a Memorandum of Understanding with the Australian Postal Corporation (the Corporation) to receive and process passport applications on DFAT's behalf. At the end of March 2014,

approximately \$245 million in passport revenue had been collected by the Corporation. The ANAO reviewed the contractual arrangements between DFAT and the Corporation associated with the processing of passport applications, and collection and handling of passport fees. The ANAO identified that DFAT did not have a current signed authorisation allowing the Corporation to collect fees, as required by section 12 of the *Financial Management and Accountability Act 1997*. This provision provides that agencies cannot enter into an arrangement for the receipt, custody or payment of public money by a third party, unless written authorisation has been given. The department has advised it now has a signed authorisation. The ANAO will review progress on this issue during the 2013–14 final audit phase.

Conclusion

5.260 Based on the audit coverage during the 2013–14 interim audit phase, and except for the audit finding relating to the monitoring of user access controls referred to above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative compliance issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Health Portfolio

Department of Health

5.261 The role of the Department of Health (Health) is to work towards achieving a health care system that meets the health care needs of all Australians, consistent with government policies and legislative requirements. As part of the Administrative Arrangements Order of 18 September 2013, the department assumed its current name with the transfer of Outcome 4: *Aged Care and Population Ageing* to the Department of Social Services. In addition, a number of indigenous specific programs and functions were transferred to the Department of the Prime Minister and Cabinet and responsibility for sport and recreation policy transferred to the department from the former Department of Regional Australia, Local Government, Arts and Sport.

5.262 Health's business operations include:

- policy development and working closely with third parties to deliver services in relation to population health; pharmaceutical services; medical services; primary care; rural health; hearing services; Indigenous health; private health; health system capacity and quality; mental health; health workforce capacity; acute care; and biosecurity and emergency response;
- institutional reforms negotiated with state and territory governments under the National Health Reform Agreement;
- reform of dental care to address the long waiting lists for public dental services and boost the dental workforce, particularly in rural and remote areas; and
- provision of improved opportunities for community participation in sport and recreation, investment in sports infrastructure as well as the coordination of Commonwealth involvement in major sporting events.

5.263 The key characteristics of Health's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- a complex operating environment that involves working with multiple government jurisdictions and agencies, and a range of other stakeholders;

- the significant size of administered payments, which include high volume and complex Medicare, pharmaceutical and other health related benefits processed by the Department of Human Services on behalf of Health, and significant grant payments;
- a complex funding model and extensive appropriations disclosure; and
- the consolidation of the Therapeutic Goods Administration in Health's financial statements.

5.264 In the light of these characteristics and the ANAO's understanding of the operations of Health, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.265 The following table sets out Health's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.266 Health's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	615.3	676.9		
Revenue from government	575.6	624.8		
Deficit attributable to the Australian Government	(39.7)	(52.1)		
Total own-source income			1 332.8	1 943.1
Total expenses			45 501.4	51 210.0
Administered deficit			(44 168.6)	(49 266.9)
Total assets	343.7	499.9	962.0	1 030.1
Total liabilities	228.7	325.0	2 693.8	2 894.0
Total equity	115.0	174.9		
Net liabilities			(1 731.8)	(1 863.9)

Health's estimated average staffing level for 2013–14 is 3 423 (2012–13: 4 706).

Governance arrangements

5.267 Health has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of its business objectives. These arrangements support the department's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.268 The key elements of Health's corporate governance arrangements include:

- an Executive Committee, chaired by the Secretary, that is responsible for the management and oversight of all major department policy, financial and operational decision making;
- a governance committee framework including an audit committee that includes three independent members, one of whom is the Chair, meets at least quarterly and provides advice and assistance on risk, control and compliance frameworks;
- an internal audit function that has primary responsibility for promoting and improving corporate governance within the department and operates under the direction of the Secretary and the audit committee;
- a risk management framework including Chief Executive Instructions, Procedural Rules, a Risk Management Policy and an Enterprise Risk Management Plan;
- a fraud control plan that is monitored and reviewed on a cyclical basis in line with the Commonwealth Fraud Control Guidelines;
- a Certificate of Compliance regime that incorporates semi-annual control self-assessments, that forms a key part of the department's corporate governance and compliance framework; and
- governance arrangements with the Department of Human Services to manage the relationship between the two agencies in relation to significant administered payments.

Areas of audit focus

5.269 In the light of the ANAO's understanding of Health's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach

identifies particular areas of audit focus that have the potential to impact on Health's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the Machinery of Government changes of 18 September 2013 that have a significant impact on the department due to the transfer of major personal benefit activity and indigenous programs including the related resources and infrastructure;
- the high volume and complex administered health related benefits processed by the Department of Human Services on behalf of the department;
- the presentation and disclosure of the appropriations and special accounts managed by the department that cover 15 Outcomes;
- the diverse range of administered grant payments to the States and Territories, other service providers and program recipients;
- a complex valuation methodology used to estimate the Government's liability under the medical indemnity program;
- the management, accounting and disclosure of the National Medical Stockpile for slow moving and expired inventory; and
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2012–13 financial statements.

5.270 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of Health's financial statements.

Audit results

5.271 The ANAO's interim audit phase has included an assessment of the controls relating to grant payments, particularly those made under National Partnership Agreements administered by the department. The audit coverage included a review of management controls for health care payments processed by the Department of Human Services on behalf of the department.

5.272 The ANAO will complete audit coverage of areas of audit focus including valuation of the Government's liability under the medical indemnity program and reporting of appropriations during the 2013–14 final audit phase.

5.273 No significant or moderate audit issues have been raised by the ANAO as a result of the audit coverage of the areas of audit focus completed. There were no significant or moderate audit issues in 2012–13.

5.274 An issue relating to actual and potential breaches of section 83 of the Constitution identified in 2012–13 discussed at paragraphs 5.275 to 5.277 below remains unresolved.

Unresolved legislative compliance issue

Actual and potential breaches of section 83 of the Constitution

5.275 The 2012–13 financial statements reported actual breaches of section 83 of the Constitution relating to payments made under the *Health Insurance Act 1973*. The department also reported potential breaches in relation to payments made under the *Private Health Insurance Act 2007*, the *National Health Act 1953* and the *Aged Care Act 1997*.

5.276 During 2013–14, the department continued to review and determine the risk of payments being made in breach of section 83 of the Constitution from special appropriations, as well as in respect of payments made under the *Remuneration Tribunal Act 1973*, *Long Service Leave (Commonwealth Employees) Act 1976* and *A New Tax System (Goods and Services) Act 1999*.

5.277 The department has developed an approach to reduce the risk of section 83 breaches that involves:

- ongoing review of new legislation and payment processes in relation to special appropriations;
- ongoing reviews of the department's programs through internal audit reviews and various compliance activities; and
- obtaining assurance from the Department of Human Services over the error rates in relation to the payments made on behalf of the department.

5.278 The ANAO's 2013–14 financial statement audit coverage will continue to monitor and assess the department's processes to identify any payments that are not in accordance with the conditions set out in relevant legislation.

Conclusion

5.279 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative compliance issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Immigration and Border Protection Portfolio

Department of Immigration and Border Protection

5.280 The Department of Immigration and Border Protection (Immigration)⁵⁶ is responsible for the delivery of a range of programs and services for the purpose of building Australia's future through the managed entry and settlement of people into Australia.

5.281 The Administrative Arrangements Order of 18 September 2013 resulted in a number of functions that had been the responsibility of the former Department of Immigration and Citizenship moving to other portfolios. The functions that transferred were:

- arrangements for the settlement of migrants and humanitarian entrants, and multicultural affairs, which have transferred to the Department of Social Services; and
- migrant adult education, now the responsibility of the Department of Employment.

5.282 Immigration's responsibilities include:

- contributing to Australia's future through managed migration;
- protecting refugees and contributing to humanitarian policy internationally;
- contributing to Australia's security through border management and traveller facilitation;
- making fair and reasonable decisions for people entering or leaving Australia, ensuring compliance with Australia's immigration laws and integrity in decision making; and
- promoting Australian citizenship.

5.283 The key characteristics of Immigration's operations that shape the ANAO's 2013–14 financial statement audit include the:

⁵⁶ The department's name changed as part of the Machinery of Government changes of 18 September 2013 from the Department of Immigration and Citizenship to the Department of Immigration and Border Protection.

- accounting for the offshore processing centres on Nauru and Manus Island;
- large number of significant third-party contracts for the delivery of Immigration services, particularly in relation to detention facility construction and operations;
- decentralised processing of visa application charge revenue across Immigration's Australian and overseas offices, supported by the introduction of online visa application processing. This process is supported by multiple IT systems and Service Level Agreements with other agencies, including the Department of Foreign Affairs and Trade, and the Australian Trade Commission;
- increase in the number of visa and citizenship applications and revenue, as a result of increases in both application fees and the number of places in the migration program; and
- appropriation funding model that includes variable funding provided under a work load and a demand driven agreement with the Department of Finance.

5.284 In the light of these characteristics and the ANAO's understanding of the operations of the department, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.285 Immigration's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	1 583.3	1 520.9		
Revenue from government	1 458.9	1 429.6		
Deficit attributable to the Australian Government	(124.4)	(91.2)		
Total own-source income			1 661.0	1 212.7
Total expenses			2 946.5	2 379.6
Administered deficit			(1 285.5)	(1 166.9)
Total assets	787.8	826.4	1 829.3	1 173.9
Total liabilities	402.4	430.8	468.0	432.8
Total equity	385.4	395.5		
Net assets			1 361.3	741.1

Immigration's estimated average staffing level for 2013–14 is 9 304 (2012–13: 9 055).

Governance arrangements

5.286 Immigration has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the department's business objectives. These arrangements support Immigration's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.287 The key elements of Immigration's governance arrangements include:

- an executive resource and finance committee, which assists the Secretary in setting corporate priorities and determining the standards by which success in achieving its priorities are measured;
- a corporate leadership group which focuses on key strategic topics and the communication of key messages;
- governance committees with oversight of particular risk areas in Immigration, including fraud, integrity and security, people management, systems, performance management, and values and standards;

- an audit committee that focuses on matters relating to risk management, internal audit, external audit and financial reporting;
- a financial statement sub-committee of the audit committee that meets regularly, focussing on financial statement issues, risks and deliverables;
- a fraud control plan that is updated and reviewed in line with the Commonwealth Fraud Control Guidelines; and
- an internal audit function that delivers a strategic risk-based internal audit plan designed to assist line areas meet their key objectives through a combination of performance and compliance based audits.

5.288 Immigration has a monthly financial reporting process that provides reports to the executive and divisions for review and analysis. The reports include a summary of the key financial issues to be considered by management, actual versus budgeted departmental revenue and expenditure by division, projected operating results, expenditure against capital budgets and a cash impact statement.

Areas of audit focus

5.289 In the light of the ANAO's understanding of Immigration's operating environment and governance arrangements, including its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on Immigration's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- visa revenue, which is a significant component of administered revenue, exceeding \$1 billion in 2012–13. Visa revenue is collected at a number of locations including both domestic and international offices, and by third parties under service agreement arrangements and is supported by a number of IT systems;
- appropriation revenue, which is adjusted based on a number of variables assessed under a funding model. A new funding model agreement with the Department of Finance has been implemented in 2013–14;
- accounting for employee entitlements as Immigration have staff located both in Australia and in various international posts, including locally engaged staff;

- reporting of overseas posts transactions which are material to the financial statements and managed under third party arrangements through a service level agreement with the Department of Foreign Affairs and Trade; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2012–13 financial statements.

5.290 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of Immigration’s financial statements.

Audit results

5.291 The ANAO’s interim audit phase coverage to date has included a review of the controls relevant to Immigration’s assets, visa revenue, and administered capital and operating expenses. The remaining areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.292 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	0	0	1	1
L1	2	0	0	2
Total	2	0	1	3

New audit issue

Management of IT user access

5.293 During the 2013–14 interim audit phase, the ANAO noted a number of weaknesses in the management of user access to Immigration’s IT network and financial management information system (FMIS). The ANAO identified a number of users with privileged user access whose access was not correctly adjusted when they transferred responsibilities or deactivated when they left the department. In addition, system access rights of a number of employees

had not been deactivated following their cessation of employment. These issues increased the risk of unauthorised access to the IT network and the FMIS compromising the integrity of the data maintained in the various IT applications used to process the financial information. The department reviewed access records and advised that no inappropriate activity was identified and that controls were being strengthened to improve the monitoring of user access. The ANAO will review the action taken by Immigration during the 2013–14 final audit phase.

Unresolved legislative compliance issues

Non-compliance with banking requirements

5.294 In 2012–13, the ANAO identified non-compliance with section 11 of the *Financial Management and Accountability Act 1997* (FMA Act). This section provides that public money must not be deposited in an account other than an official account, unless otherwise authorised. The 2012–13 audit identified that an overseas post had arrangements with post offices for the purchase of money orders for the purposes of paying for visa applications. These monies were held in a foreign bank account, in contravention of section 11 of the FMA Act. The monies were subsequently matched with visa applications and banked into the department's official bank account.

5.295 During the 2013–14 interim audit phase, the department advised that its review into the arrangements for the receipt and custody of public money at the overseas post was still in progress. The ANAO will review progress in addressing this issue during the 2013–14 final audit phase.

Actual breaches of section 83 of the Constitution

5.296 The notes to Immigration's 2012–13 financial statements referred to actual breaches of section 83 of the Constitution relating to overpayments made under the *Migration Act 1958* and the *Long Service Leave (Commonwealth Employees) Act 1976*. The 2012–13 auditor's report included a report on other legal and regulatory requirements referring to these breaches.

5.297 The department undertook to complete a risk assessment and perform testing in 2013–14 to identify potential breaches of section 83 of the Constitution and, if required, implement controls to reduce the risk of breaches in future years.

5.298 During the 2013–14 interim audit phase, Immigration advised that the risk assessment and testing were in progress.

5.299 The ANAO will review the outcome of Immigration's risk assessment and associated testing during the 2013–14 final audit phase.

Conclusion

5.300 Based on the audit coverage during the 2013–14 interim audit phase, and except for the audit finding relating to management of IT user access referred to above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative issues referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Australian Customs and Border Protection Service

5.301 The role of the Australian Customs and Border Protection Service (ACBPS) is to protect the safety, security and commercial interests of Australians by delivering effective border protection. In this role, the ACBPS's core functions are to target and prevent criminality whilst fostering legitimate travel and trade and collecting border revenue and trade statistics. The collection of border-related revenue includes customs duty, the passenger movement charge and the assessment and collection of Goods and Services Tax (GST), the Wine Equalisation Tax and the Luxury Car Tax on imported goods on behalf of the Australian Taxation Office (ATO). The Tourist Refund Scheme is also managed by the ACBPS on behalf of the ATO.

5.302 The Government has decided that from 1 July 2015 the Australian Border Force will come into existence as a single operational frontline border protection agency undertaking a range of operations and tasks including daily border control operations; investigations, compliance and enforcement activities; and immigration detention and removal tasks. The Australian Border Force will be positioned within the Department of Immigration and Border Protection, performing corporate, regulatory, and policy functions.

5.303 ACBPS' business operations include:

- managing border risks through intelligence-led interventions that enable targeted inspection and examination of people and goods at the border, while streamlining border processes for legitimate trade and travel;

- supporting collaborative cross-agency civil maritime security activities including intelligence analysis, coordinated surveillance and on-water response, and working ahead of the border with international partners to provide controls for maritime security threats;
- partnering with law enforcement agencies to address risks and vulnerabilities at the border through joint operations and sharing of intelligence;
- developing and coordinating border management policies, in conjunction with partner agencies, to deliver Australia's customs, trade and industry policy;
- supporting an open economy by ensuring compliance with the rules of trade so that competition occurs on a level playing field and the benefits of competition flow through to the Australian economy;
- maintaining border-related revenue collection capabilities and assessing, reporting and collecting border-related revenue, including the application of refunds, concessions and exceptions;
- undertaking an effective risk-based compliance programme, utilising pre- and post-clearance monitoring and intervention activities to promote observance of Australian border laws as they relate to revenue reporting and payment obligations; and
- effectively administering the Tourist Refund Scheme.

5.304 The key characteristics of ACBPS' business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the self-assessment regime that underpins customs duty administration and the complexity of the IT infrastructure that facilitates the collection of duty and other border related revenue;
- the significant amount of customs duty and GST revenue collected;
- the complexity of ACBPS' enterprise agreement, in particular the number of available staff allowances that are payable subject to complex eligibility criteria;
- the significant amount of capital expenditure to construct specialised assets, including the Cape Class vessels that will progressively replace

the Bay Class vessels and the ACV Thaiyak vessel which is being constructed to replace the Long Term Ashmore Capability; and

- ACBPS' progress in addressing the prior year's moderate audit finding relating to the management of identified defects in the human resources management information system (HRMIS).

5.305 In the light of these characteristics and the ANAO's understanding of the operations of ACBPS, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.306 The following table sets out the estimated 2013–14 and actual 2012–13 key financial balances for ACBPS. These balances assist in understanding the scale of the financial operations of the agency.

5.307 ACBPS' key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	1 094.9	1 065.0		
Revenue from government	999.4	951.3		
Deficit attributable to the Australian Government	(95.5)	(113.7)		
Total own-source income			10 114.3	9 103.2
Total expenses			3.4	6.7
Administered surplus			10 110.9	9 096.5
Total assets	834.0	800.5	238.1	235.8
Total liabilities	307.3	307.3	13.8	13.7
Total equity	526.7	493.2		
Net assets			224.3	222.1

ACBPS's estimated average staffing level for 2013–14 is 5 000 (2012–13: 5 118).

Governance arrangements

5.308 ACBPS has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of its business objectives. These arrangements support the

ACBPS' financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.309 The key elements of ACBPS' corporate governance arrangements include:

- the *Blue Print for Reform 2013–18* that outlines the future structure and direction of the ACBPS;
- a risk management framework that has a whole of agency focus and connects the strategic, operational and tactical levels of risk management;
- the preparation of a corporate plan that directs the development of divisional and branch business plans;
- a practice statement framework that is used to define and implement the agency's national policies;
- a fraud control and corruption prevention framework that includes strategies for fraud and corruption preparedness, prevention, detection and resolution;
- monthly executive meetings at which performance is evaluated, complemented by a bi-annual meeting of senior executives from central and regional offices to discuss strategic management issues and future directions;
- an audit committee, with two independent members, that meets at least quarterly and focuses on internal audit and risk management issues;
- an internal audit function that has a planned risk based audit coverage of ACBPS' activities, including the management of IT systems; and
- an Integrity and Professional Standards Branch (I&PS) that is responsible for managing fraud control and anti-corruption arrangements. The I&PS Branch includes a Special Integrity Advisor who reports directly to the chief executive officer and is responsible for managing the investigation of complex and serious cases of misconduct, including those undertaken jointly with the Australian Commission for Law Enforcement and Integrity (ACLEI).

Areas of audit focus

5.310 In the light of the ANAO's understanding of ACBPS' operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on ACBPS's financial statements. Areas highlighted for specific audit coverage in 2013–14 include:

- the accuracy and completeness of customs duty collections and refunds in light of the self-assessment regime in relation to customs duty, and the complexity of the related IT infrastructure;
- the accuracy of employee benefits due to the complexity of the enterprise agreement and the progress in addressing the moderate audit finding relating to the management of defects in the HRMIS;
- the accuracy of ACBPS' assets register, in particular assets under construction, due to the moderately complex nature of assets to be capitalised in 2013–14, such as the Cape Class vessels and the Long Term Ashmore Capability; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2012–13 financial statements.

5.311 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of the ACBPS' financial statements.

Audit results

5.312 The ANAO's interim audit phase coverage has included a review of key controls over the collection of customs duty. This included a review of compliance work undertaken by the ACBPS' Compliance Assurance Branch and IT application controls. The 2013–14 interim audit phase also included a review of the ACBPS' progress in addressing the moderate audit finding relating to the management of defects in the HRMIS. The work undertaken identified that significant progress has been made in remediating the issue.

5.313 The ANAO also reviewed key controls over the ACBPS' asset management process, including a review of significant projects recognised as

assets under construction. A review of the ACBPS' measures to address the risk of a breach of section 83 of the Constitution has also been undertaken.

5.314 Completed audit coverage of the key areas of audit focus has not identified any new significant or moderate audit issues.

5.315 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	1	(1)*	0	0
L1	1	0	0	1
Total	2	(1)	0	1

* The issue relating to the management of defects on the HRMIS has been reclassified to a category C finding.

Resolved audit issue

HRMIS system management – management of defects

5.316 The ACBPS implemented a new HRMIS in June 2011 with a high number of defects and a significant number of processing and compensating administrative procedures. The ACBPS has implemented processes to address the on-going management of defects, including the development of system and change release management procedures.

5.317 The ACBPS has progressively addressed outstanding defects using a risk based approach. At the time of the 2013–14 interim audit phase, the ACBPS had addressed a significant number of outstanding defects and had implemented a plan to address the remaining defects. Due to the remediation work undertaken, this issue has been reclassified as a category C finding.

Unresolved legislative compliance issue

Actual and potential breaches of section 83 of the Constitution

5.318 The ACBPS' 2012–13 financial statements referred to breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation. The breaches totalled:

- \$844 270 in relation to customs duty payments made under section 28 of the FMA Act. These payments were incorrectly refunded in breach of certain conditions of the special appropriation;
- \$20 130 in relation to payments made under section 20 of the FMA Act, which provides the authority for the Finance Minister to establish special accounts. The payments were incorrectly refunded security deposits, in breach of certain conditions of the special account; and
- \$360 in relation to payments made under the *Long Service Leave (Commonwealth Employees) Act 1976*.

5.319 All payments made under section 28 of the FMA Act and the *Long Service Leave (Commonwealth Employees) Act 1976* were subsequently recovered. The ACBPS do not expect to recover payments made under section 20 of the FMA Act.

5.320 The ACBPS undertook to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. The ACBPS will also continue to progress legislative amendments and system changes where appropriate. The results of these actions will be reviewed as part of the final phase of the 2013–14 audit.

Conclusion

5.321 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative compliance issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Industry Portfolio

Department of Industry

5.322 The Department of Industry (Industry) consolidates the Australian Government's efforts to drive economic growth, productivity and competitiveness by bringing together industry, energy, resources, science and skills.

5.323 As a result of the Machinery of Government changes of 18 September 2013, resources and energy functions of the former Department of Resources, Energy and Tourism transferred to the department. The Adult Migrant English Program was also transferred from the former Department of Immigration and Citizenship, as was the Anti-Dumping Authority from the Customs and Border Protection Service.

5.324 The MoG changes also resulted in the transfer of eight functions from Industry to a number of other Australian Government entities. The functions transferred covered a broad spectrum of government initiatives including tertiary education, carbon pricing and markets, international climate change, indigenous education, and student support.

5.325 The department's business operations include contribution to the growth and development of globally competitive industries through:

- developing the skills of the Australian workforce and enhancing workplace productivity;
- supporting science and innovation, and promoting the growth of industries;
- encouraging private sector investment and creating new jobs; and
- improving regulation and reducing the burden and costs on business, including energy costs.

5.326 The key characteristics of Industry's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the complexity of integrating and accounting for functions transferred to and from the department as a result of the MoG changes of

18 September 2013, in particular those related to the former Department of Resources, Energy and Tourism⁵⁷;

- the department's reliance on other entities, including the Department of Education, responsible for the processing of transactions and the maintenance of IT platforms in relation to Industry functions; and
- the number and complexity of activities administered by the department, with the number and extent of programs changing as a result of government initiatives.

5.327 In the light of these characteristics and the ANAO's understanding of the operations of Industry, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.328 The following table sets out Industry's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

57 The Department of Resources, Energy and Tourism was abolished as part of the MoG changes of 18 September 2013.

5.329 Industry's key financial balances are:

Key financial balances	Departmental			Administered		
	Estimated	Actual	DRET*	Estimated	Actual	DRET*
	(\$m) 2013–14	(\$m) 2012–13	Actual (\$m) 2012–13	(\$m) 2013–14	(\$m) 2012–13	Actual (\$m) 2012–13
Net cost of services	643.6	539.5	117.2			
Revenue from government	592.5	503.3	116.7			
Deficit attributable to the Australian Government	(51.1)	(36.2)	(0.5)			
Total own-source income				1 986.6	1 604.4	2 007.4
Total expenses				7 551.1	17 169.0	472.1
Administered surplus/(deficit)				(5 564.5)	(15 564.6)	1 535.3
Total assets	523.7	531.3	82.8	4 312.5	28 514.2	876.4
Total liabilities	276.9	226.5	57.9	276.4	7 035.3	53.6
Total equity	246.8	304.8	24.9			
Net assets				4 036.1	21 478.9	822.8

Industry's estimated average staffing level for 2013–14 is 3 715 (2012–13: 3 963).

* The former DIICSRTE and DRET 2012–13 balances are disclosed separately in the Portfolio Budget Statements and will be separately disclosed in the 2013–14 financial statements.

Governance arrangements

5.330 The department has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of its business objectives. These arrangements support the department's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.331 The key elements of Industry's corporate governance arrangements include:

- a strategic plan providing an overview of the department's future directions, supported by lower-level divisional business plans;
- an Executive Board and other governance committees that meet regularly to discuss key aspects of the department's activities, including program management and financial performance;
- a structured framework for incorporating risk management into broader management and business processes, including the monitoring

and management of risk at the enterprise, divisional and activity level, and the development and maintenance of a fraud control plan;

- a dedicated Audit and Fraud Branch responsible for monitoring, and responding to, the department's obligations under the Commonwealth Fraud Control Guidelines, including the prevention, detection and response to allegations of fraud affecting the department;
- a Risk and Audit Committee that meets at least quarterly, and focuses on the enhancement of the control framework and risk management arrangements to improve the objectivity and reliability of externally published financial and other information;
- an internal audit function that addresses key business and financial risks and aims to assist line areas meet their key objectives; and
- a financial reporting framework that involves the monitoring of the performance and financial management of key business areas and the preparation and monitoring of monthly financial reports.

Areas of audit focus

5.332 In the light of the ANAO's understanding of Industry's operating environment and governance arrangements, which includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on Industry's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the transitional arrangements in place relating to the transfer of functions to and from Industry following the MoG changes referred to above, including those related to the integration of resource and energy functions from the former Department of Resources, Energy and Tourism;
- the valuation of the Australian Government's investment in the Snowy Hydro Limited, recognised as an administered investment in Industry's financial statements, in light of the complexity and the significance of the investment in the financial statements; and

- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education's 2012–13 financial statements⁵⁸.

5.333 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of Industry's financial statements.

Audit results

5.334 The 2013–14 interim audit phase has focused on Industry's control environment and an initial assessment of the impact of the 18 September 2013 MoG changes on those areas relevant to the preparation of the department's financial statements. This has included consideration of a broad range of issues including: the integration of transferred staff and information systems; the harmonisation of operational and accounting policies and procedures; and transitional and ongoing arrangements with other agencies for the provision of agreed services. The accounting for the 18 September 2013 MoG changes will be completed and reviewed as part of the 2013–14 final audit phase.

5.335 The other areas of audit focus will also be completed as part of the 2013–14 final audit phase.

5.336 Audit coverage of the key areas of audit focus during the 2013–14 interim audit phase has not identified any new significant or moderate audit issues.

5.337 An issue relating to actual and potential breaches of section 83 of the Constitution reported in the 2012–13 financial statements, discussed at paragraph 5.338 to 5.341, remains unresolved.

Unresolved legislative compliance issue

Actual and potential breaches of section 83 of the Constitution

5.338 The former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education's (DIICCSRTE) 2012–13 financial statements reported two actual breaches of section 83 of the Constitution,

⁵⁸ The Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education was renamed the Department of Industry as a result of the 18 September 2013 MoG changes.

relating to payments made from the *Higher Education Support Act 2003* and the *Nation-building Funds Act 2008*. The department also reported potential breaches in relation to all payments made from the *Social Security Act 1991* and the *Social Security (Administration) Act 1991* (Social Security Acts).

5.339 Both actual breaches were considered by DIICCS RTE to be administrative errors and not the result of a systemic deficiency in program policy or controls. The potential breaches relating to the Social Security Acts were a result of the scale and complexity embedded in the legislation and the difficulties associated with investigating whether individual payments complied with legislative requirements. The department was of the view that there were comprehensive administrative processes and controls in place to identify and recover overpayments related to the Social Security Acts.

5.340 Responsibility for administering the Social Security Acts and the *Higher Education Support Act 2003* was transferred to the Department of Social Services and the Department of Education, respectively, as part of the 18 September 2013 MoG changes. Nevertheless, Industry will be required to report any potential or actual breaches which may have occurred between 1 July 2013 and 18 September 2013 in the department's 2013–14 financial statements.

5.341 At the time of the preparation of this report, Industry was finalising its review in relation to payments made under legislation transferred as a result of the MoG changes, including reviewing the continued appropriateness of the department's previous risk assessments relating to other special appropriations, special accounts and annual appropriations which fund statutory payments.

5.342 In addition, advice was received in 2012–13 that indicated in certain circumstances payments for long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal could be in breach of section 83. The department has undertaken to perform a risk assessment and review of payments for long service leave, goods and services tax and those made under determinations of the Remuneration Tribunal which may result in potential or actual breaches of section 83 in 2013–14. The results of the department's assessment will be reviewed as part of the 2013–14 final audit phase.

Conclusion

5.343 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative compliance issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Infrastructure and Regional Development Portfolio

Department of Infrastructure and Regional Development

5.344 The Department of Infrastructure and Regional Development provides policy advice, targeted research, and a range of programs that include investment in infrastructure, transport security, surface transport, road safety, air transport, regional development, local government and services to territories. The department also provides resources to assist the Office of the Inspector of Transport Security, Infrastructure Australia, and the International Air Services Commission in the performance of their functions.

5.345 Under the Administrative Arrangements Order of 18 September 2013, the former Department of Infrastructure and Transport was renamed the Department of Infrastructure and Regional Development (Infrastructure). Functions of the abolished Department of Regional Australia, Local Government, Arts and Sport (DRALGAS) relating to regional development, local government and services to territories were also transferred to Infrastructure.

5.346 Infrastructure's responsibilities include:

- improving infrastructure across Australia through investment in, and coordination of, transport and other infrastructure;
- providing an efficient, sustainable, competitive, safe and secure transport system for all transport users through regulation, financial assistance and safety investigations;
- strengthening the sustainability, capacity and diversity of regional economies including through facilitating local partnerships between all levels of government and local communities, and providing grants and financial assistance; and
- supporting governance arrangements in the Australian territories through the maintenance and improvement of the overarching legislative framework and services for territories.

5.347 The key characteristics of Infrastructure's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the large number and complexity of the grant and subsidy programs administered; and
- the significant administered asset balances reported in respect of the Australian Government's investment in portfolio entities.

5.348 In the light of these characteristics and the ANAO's understanding of Infrastructure's operations, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as low.

Key financial balances

5.349 The following table sets out Infrastructure's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.350 Infrastructure's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	242.1	186.8		
Revenue from government	231.1	180.7		
Deficit attributable to the Australian Government	(11.0)	(6.1)		
Total own-source income			1 555.0	1 266.2
Total expenses			3 776.9	1 997.8
Administered deficit			(2 221.9)	(731.6)
Total assets	141.7	128.0	5 282.8	4 561.9
Total liabilities	78.2	68.9	48.3	25.3
Total equity	63.5	59.1		
Net assets			5 234.5	4 536.6

Infrastructure's estimated average staffing level for 2013–14 is 1 110 (2012–13: 991).

Governance arrangements

5.351 Infrastructure has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of its business objectives. These arrangements support Infrastructure's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.352 The key elements of Infrastructure's corporate governance arrangements include:

- an executive management group that meets weekly, addresses strategic issues, monitors Infrastructure's financial performance and oversees the operational performance of divisions;
- a governance committee framework, including an audit committee that meets regularly and focuses attention on internal control, management of risks, review of financial reports, control of public monies and regulatory compliance;
- an internal audit function that addresses key business and financial risks and contributes to meeting Infrastructure's key objectives;
- a fraud control plan that is in line with the Commonwealth Fraud Control Guidelines;
- a Certificate of Compliance regime which forms a key part of Infrastructure's corporate governance and compliance framework;
- a framework for incorporating risk management into Infrastructure's broader management and business processes; and
- a financial reporting framework that involves monitoring the performance and financial management of key business areas, and the preparation and monitoring of monthly financial reports.

Areas of audit focus

5.353 In the light of the ANAO's understanding of Infrastructure's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on

Infrastructure's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the accounting, and appropriate disclosure, of assets and liabilities transferred from DRALGAS as a result of the MoG changes referred to above;
- the accounting for the disposal of any potential surplus leased space following the MoG changes;
- the financial management and reporting of grant and subsidy programs which represent a significant portion of the department's administered expenses;
- the valuation of administered investments, given they represent some 98 per cent of Infrastructure's total administered assets;
- the valuation of assets under AASB 13 *Fair Value Measurement*, which involves changes to the definition of fair value and significant additional disclosure requirements; and
- Infrastructure's quality assurance review process relating to the financial statements.

5.354 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of Infrastructure's financial statements.

Audit results

5.355 The ANAO's interim audit activity has focussed on the accounting for the assets and liabilities transferred from DRALGAS as a result of the MoG changes; the financial management and reporting of grant and subsidy programs, and IT general and application controls as they relate to the financial statements.

5.356 The other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.357 No significant or moderate audit issues have been raised by the ANAO as a result of the audit coverage of the areas of audit focus completed during the 2013–14 interim audit phase. The 2012–13 audit did not identify any new significant or moderate audit issues.

Conclusion

5.358 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Prime Minister and Cabinet Portfolio

Department of the Prime Minister and Cabinet

5.359 The main functions of the Department of the Prime Minister and Cabinet (PM&C) are to provide policy advice and support to the Prime Minister, the Cabinet, Portfolio Ministers and Parliamentary Secretaries, in order to achieve a coordinated and innovative approach to the development and implementation of government policies.

5.360 As a result of the Administrative Arrangements Orders (AAO) of 18 September 2013 and 12 December 2013, PM&C assumed responsibilities for policy coordination in relation to:

- deregulation, which was transferred to PM&C from the Department of Finance;
- women's policy, which was transferred to PM&C from the Department of Social Services; and
- the majority of government-wide Indigenous functions that were transferred from other departments including Attorney-General's, Communications, Education, Employment, Environment, Health, Industry and Social Services.

5.361 In addition, 10 Indigenous agencies from the Social Services Portfolio were transferred to the PM&C portfolio.

5.362 PM&C's business operations include:

- providing policy advice and support to the Prime Minister and the Cabinet in managing the business of government and the provision of secretariat support for meetings of Cabinet, its committees and the Federal Executive Council;
- the provision of policy advice relating to: major domestic, international and national security policy; women's policies and programs; the Group of Twenty (G20) agenda⁵⁹; and deregulation;

⁵⁹ The G20 is a forum of 20 of the world's most significant developed and emerging economies for international economic cooperation. Australia is the host nation for the G20 forum in 2014.

- monitoring the implementation and delivery of Australian Government decisions, policies and priorities, and facilitating government administration, intergovernmental relations and communications with State and Territory governments;
- providing advice and support on Commonwealth Aboriginal and Torres Strait Islander policy to the Minister for Indigenous Affairs and implementing policies, programs and legislation; and
- working closely with other Australian Government departments to implement the Government's policies, programs and legislation to ensure programs and services deliver benefits to Indigenous Australians.

5.363 The key characteristics of PM&C's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the governance, business processes and accounting for the functions, staff and related financial reporting of transactions and balances transferred to and from PM&C as a result of the MoG changes referred to above;
- the establishment and operation of bureau service arrangements with the Departments of Human Services, Social Services, Education and Employment, for facilities management and other corporate services, and the provision of IT systems and support; and
- the overall effectiveness of PM&C's internal controls during the implementation of the MoG changes.

5.364 In the light of these characteristics and the ANAO's understanding of the operations of PM&C, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.365 The following table sets out PM&C's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.366 PM&C's key financial balances are:

Key financial balances*	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	363.4	128.6		
Revenue from government	356.0	121.0		
Deficit attributable to the Australian Government	(7.4)	(7.6)		
Total own-source income			0.0	0.1
Total expenses			896.7	15.9
Administered deficit			(896.7)	(15.8)
Total assets	81.9	59.8	3.5	3.0
Total liabilities	77.7	39.7	24.1	13.9
Total equity	4.2	20.1		
Net assets			(20.6)	(10.9)

PM&C's estimated average staffing level for 2013–14 is 1 720 (2012–13: 698).

* PM&C's portfolio budget statements 2014–15 indicate that 2013–14 figures are not for the full year, only from the time the accounts were transferred to PM&C. The losing agencies will be reporting on the 2013–14 figures.

Governance arrangements

5.367 Prior to the abovementioned MoG changes, the department had implemented governance arrangements, including a financial reporting regime and an internal control system designed to enable the achievement of PM&C's business objectives. These arrangements supported PM&C's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.368 Elements of PM&C's governance arrangements are subject to review as a result of the MoG changes to ensure that the department has appropriate arrangements in place for current departmental operations. For the transitional period, this included the establishment of a taskforce and associated working groups to oversee the transition, implementation and integration of functions, staff and related financial reporting balances transferred to PM&C.

5.369 Key elements of PM&C's existing corporate governance arrangements include:

- an executive group comprising the Secretary and Associate and Deputy Secretaries. The group considers strategic issues that impact on PM&C and also monitors the department's performance and budget in delivering the department's outcomes;
- a senior management group that meets regularly to discuss key business issues for PM&C, including business priorities and key commitments. The group comprises the executive group and division heads;
- an audit committee that is chaired by the Deputy Secretary, Governance and meets quarterly. The audit committee is responsible for overseeing the department's approach to risk management, including PM&C's overall control framework;
- a financial statements sub-committee of the audit committee that provides advice regarding the preparation and certification of the financial statements;
- an internal audit function that plans and conducts audits based on risk assessments of departmental activities and direction from the audit committee;
- a risk management framework and plan that identifies and assists in the management of risk at the strategic, business and project level; and
- a fraud policy statement and fraud control plan that is updated and reviewed in line with Commonwealth Fraud Control Guidelines.

Areas of audit focus

5.370 In light of the ANAO's understanding of PM&C's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on PM&C's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the transfer of appropriations and the accounting for the transactions and balances transferred to PM&C as a result of MoG changes;

- legislative compliance with statutory and other legal requirements, including constitutional requirements, relevant to special appropriations and special accounts;
- the effectiveness of internal controls designed to ensure the operation and management of bureau service arrangements with the Departments of Human Services, Social Services, Education and Employment are in accordance with arrangements with those agencies;
- control activities and financial reporting arrangements in respect of large grant programs administered by PM&C;
- human resources management, including the valuation of employee liabilities; and
- the valuation of administered investments.

5.371 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of PM&C's financial statements.

Audit results

5.372 The ANAO has commenced its review of internal controls relevant to the preparation of PM&C's financial statements. Audit coverage in relation to the responsibilities transferred to PM&C, including the bureau or shared service arrangements, opening balances transferred from other agencies, and financial reporting arrangements in respect of PM&C's grant programs, will be finalised as part of the 2013–14 final audit phase.

5.373 To date, audit coverage of the key areas of audit focus has identified two new moderate audit issues, which are outlined below.

5.374 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	0	0	2	2
L1	1*	0	0	1
Total	1	0	2	3

* Transferred from the former FaHCSIA as a result of the Machinery of Government changes on 18 September 2013.

New audit issues

Management of IT user accounts

5.375 During 2013–14 the ANAO identified weaknesses in PM&C's management of user access to their IT network, including that:

- system access rights for a number of privileged and other users had not been deactivated following their cessation of employment; and
- duplicate user accounts had been created, increasing the risk that controls designed to ensure segregation of duties could be bypassed.

5.376 These weaknesses increase the risk of unauthorised access to PM&C's IT systems, and potentially compromises the integrity of the data maintained within them. PM&C has advised that processes had commenced to address this issue. The ANAO will review the actions undertaken by PM&C during the 2013–14 final audit phase.

Web-based email access

5.377 During 2013–14 the ANAO identified that system users had access to personal web-based emails via the PM&C network, contrary to the requirements of the Australian Government Information Security Manual.

5.378 Access to personal web-based emails increases the IT security risk where there are insufficient malicious web content filtering controls in place. PM&C has advised that access to web-based email has been restricted, with access on an exceptions basis only. The actions undertaken by PM&C, including risk assessments performed and waivers provided, will also be reviewed by the ANAO during the 2013–14 final audit phase.

Unresolved legislative compliance issue

Actual breaches of section 83 of the Constitution

5.379 During 2012–13, the former department of Family, Housing, Community Service and Indigenous Affairs (FaHCSIA) undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it was administratively responsible. The risk assessment and subsequent analysis identified the following actual breaches:

- three payments totalling \$335 770 made under section 64(3) of the *Aboriginal Land Rights (Northern Territory) Act 1976*⁶⁰; and
- three payments totalling \$83 under a Remuneration Tribunal determination from the Aboriginal Benefits Accounts (ABA).

5.380 PM&C has undertaken to continue to monitor the risk of section 83 non-compliance across all legislation for which it is now administratively responsible. Where possible, amendments to legislation will be progressed with the aim of reducing the risk of future section 83 breaches.

5.381 The ANAO will review progress in addressing this issue as part of the 2013–14 final audit phase.

Conclusion

5.382 Based on the audit coverage during the 2013–14 interim audit phase, and except for the audit findings relating to IT user accounts and personal web-based email access referred to above, the key internal controls that support the preparation of the financial statements were operating effectively. The accounting implications of the MoG changes, referred to in paragraph 5.372 above, and the legislative compliance issue referred to above, will be assessed in conjunction with an assessment of the effective operation of controls for the full financial year and additional audit testing during the 2013–14 final audit phase.

60 Payments are required to be made out of the ABA to Aboriginal land councils based on royalties received by the Northern Territory Government from mining companies. Where, subsequent to the payment of royalties to the Northern Territory Government, mining companies determine that they overestimated the royalties due, payments already made from the ABA that are higher than the revised royalty amount are in breach of section 83 of the Constitution.

Social Services Portfolio

Department of Social Services

5.383 The role of the Department of Social Services (DSS) is to provide social policy advice to the Australian Government and deliver the Australian Government's social policy agenda. DSS aims to improve the lifetime wellbeing of people and families in Australia by responding to need across people's lives, encouraging independence and participation, and supporting a cohesive society.

5.384 The AAO of 18 September 2013 renamed the then Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) the Department of Social Services. DSS has policy responsibility for: social security; families and communities; ageing and aged care; housing; and disability and carers.

5.385 DSS' business operations include:

- payments to individuals: DSS makes a range of payments to individuals including the age pension, the disability support pension and the family tax benefit (FTB) through the Department of Human Services (DHS) and other agencies;
- working with the states and territories: DSS works with the states and territories to achieve outcomes in their areas of responsibility including housing, disability services, concessions and the welfare of children, aged care services and multicultural affairs;
- payments for community services: DSS funds community-based organisations to deliver a range of local services, including family relationship services, emergency relief and supported employment for people with a disability;
- aged care and population ageing: DSS is responsible for access to quality and affordable aged care and carer support services for older people through subsidies, grants and industry assistance and regulation of the aged care sector; and
- policy development, leadership, advice and coordination: DSS supports its Ministers in their policy roles by providing advice on social policy,

building the evidence base for decisions and their subsequent implementation.

5.386 The key characteristics of DSS' business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- significant changes in DSS' operations due to the additional responsibilities transferred to the department in September 2013, and DSS' reliance on information obtained from other agencies in respect of some of these new functions;
- reliance on other government agencies to deliver personal benefit payments reported in DSS' financial statements that are based on complex legislative requirements;
- DSS' reliance on third parties to provide information that is critical to support payments made for personal benefits, subsidies and grants;
- a complex Information Technology (IT) environment, that has been further impacted by the changes in responsibilities following the MoG changes referred to above;
- significant judgements involved in estimating material financial statement balances, such as the Family Tax Benefit provision; and
- the large number and value of grant programs administered by DSS using different business systems.

5.387 In the light of these characteristics and the ANAO's understanding of the operations of DSS, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.388 The following table sets out DSS' estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.389 DSS' key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	694.1	599.8		
Revenue from government	633.1	549.1		
Deficit attributable to the Australian Government	(61.0)	(50.6)		
Total own-source income			171.3	322.7
Total expenses			112 299.3	82 667.4
Administered deficit			(112 128.1)	(82 344.7)
Total assets	410.3	392.9	6 547.8	5 543.9
Total liabilities	192.5	174.2	8 906.5	9 459.5
Total equity	217.8	218.7		
Net liabilities			(2 358.7)	(3 915.6)

DSS' estimated average staffing level for 2013–14 is 3 467 (2012–13: 2 920).

Governance arrangements

5.390 The department has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of DSS' business objectives. These arrangements support DSS' financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.391 The key elements of DSS' corporate governance arrangements include:

- an Executive Management Group (EMG) that meets fortnightly. The EMG takes an active interest in the financial operations of DSS and receives monthly detailed reports from the Chief Finance Officer;
- a committee framework, including the Assurance, Audit and Risk Committee (AARC). The AARC meets at least quarterly and focuses attention on risk management and the effectiveness of the control environment, particularly in relation to financial systems, accounting processes and related controls. A financial statements sub-committee, comprising an independent AARC member, the CFO and selected DSS Branch Managers, monitors and reviews DSS' financial reporting timetable and requirements;

- an Assurance Branch that undertakes risk-based audit coverage of DSS' activities;
- a risk management framework that promotes a coordinated risk management regime, and a risk management toolkit that encourages staff to apply risk management principles. DSS has recently initiated a project to review its approach to risk management with a view to strengthening the department's risk management framework; and
- a fraud risk assessment process and fraud control plan. DSS is progressively updating its fraud risk assessments following the 18 September 2013 MoG changes.

Areas of audit focus

5.392 In the light of the ANAO's understanding of DSS' operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on DSS' financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- DSS' controls over personal benefit payments, as it has ultimate responsibility for the administration, funding and reporting of personal benefit payments and related debts that are processed by DHS under a Bilateral Management Arrangement. In relation to the assessment and payment of many personal benefits, DSS and DHS primarily rely on voluntary disclosure of information by customers;
- the valuation of personal benefit related asset and liability balances due to the significance of actuarial estimates and judgements involved in the complex valuation process;
- aged care subsidy payments that are based on the information provided by a large number of aged care providers and use complex IT systems managed by DHS;
- the financial management of grants, including the adequacy of documentation to support grant acquittals. DSS administers a large number of grant payments to State and Territory Governments, other service providers and program recipients using different business systems; and

- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the former FaHCSIA's 2012–13 financial statements.

5.393 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of DSS' financial statements.

Audit results

5.394 The ANAO has substantially completed its interim audit phase coverage to assess the effectiveness of internal controls in those areas of audit focus that have the potential to impact on DSS' financial statements, including audit coverage of IT application controls and grants accounting.

5.395 Audit coverage on these and other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.396 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	0	0	2	2
L1	1	0	0	1
Total	1	0	2	3

New audit issues

IT security management

5.397 During the interim phase of the 2013–14 audit, the ANAO reviewed user access management and network security controls that are primary mechanisms designed to protect financial information and information systems from unauthorised access, use and modification. The ANAO's review of user access identified duplicate user accounts and users no longer employed by DSS who still had access to the DSS IT network. These weaknesses increase the risk of unauthorised system changes that could compromise the confidentiality, integrity and completeness of financial information.

FMIS and HRMIS user access controls

5.398 During the 2013–14 interim audit phase, the ANAO reviewed access controls for the financial management information system (FMIS) and the human resource management information system (HRMIS) and identified that there was a risk that unauthorised changes could be made without being detected. The ANAO identified users whose database administration access and privileged access to the FMIS and HRMIS was not being logged and/or monitored. Users with that high level of access to IT systems were able to edit and change data within systems and by-pass the controls designed to ensure appropriate segregation of duties. A reduced level of oversight and control over managing, logging, and effective monitoring of privileged user activities increases the risk of inappropriate system access and activity that in turn may affect the integrity of financial information.

Unresolved legislative compliance issue

Potential breaches of section 83 of the Constitution

5.399 During 2012–13, the former FaHCSIA undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it was administratively responsible. The risk assessment and subsequent analysis identified actual breaches for payments made from the Aboriginals Benefit Account (ABA) under section 64(3) of the *Aboriginal Land Rights (Northern Territory) Act 1976* and potential breaches for certain personal benefit payments made pursuant to:

- *A New Tax System (Family Assistance) Act 1999* and *A New Tax System (Family Assistance) (Administration) Act 1999*;
- *Paid Parental Leave Act 2010*; and
- *Social Security Act 1991* and *Social Security (Administration) Act 1999*.

5.400 These actual and potential breaches were reported in FaHCSIA's 2012–13 financial statements. The 2012–13 auditor's report included a report on other legal and regulatory requirements referring to the actual and potential breaches.

5.401 Following the MoG changes in September 2013, responsibility for the ABA was transferred to the Department of the Prime Minister and Cabinet, and DSS assumed responsibility for ageing and aged care and other functions from a number of departments. Responsibility for the resolution of the

unresolved legislative compliance issue relating to the ABA also transferred. DSS has undertaken to continue to monitor the risk of section 83 non-compliance across all legislation for which it is administratively responsible. The assessment for 2013–14 has commenced and any actual or potential breaches identified will be reported in the 2013–14 financial statements. The ANAO will review progress in addressing this issue as part of the 2013–14 final audit phase.

Conclusion

5.402 Based on the audit coverage during the 2013–14 interim audit phase, and except for the audit findings relating to IT security management and FMIS and HRMIS user access controls referred to above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative compliance issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Department of Human Services

5.403 The Department of Human Services (Human Services) provides policy advice on service delivery matters to government aimed at ensuring effective, innovative and efficient implementation of government service delivery. Human Services also delivers a range of payments and services to the Australian community including:

- Centrelink payments and services for retirees, the unemployed, families, carers, parents, students, people with disabilities, Indigenous Australians, and people from diverse cultural and linguistic backgrounds, and provision of services at times of major change, including disaster recovery payments;
- Aged Care payments to services funded under the *Aged Care Act 1997* including residential care, home care and flexible care services;
- Medicare services and payments that support the health of Australians such as Medicare, the Pharmaceutical Benefits Scheme, Private Health Insurance Rebate, the Australian Childhood Immunisation Register, the National Bowel Cancer Screening Register and the Australian Organ Donor Register; and

- Child Support services for separated parents to provide the financial and emotional support necessary for their children's wellbeing.

5.404 Human Services was included in the Social Services portfolio under the Administrative Arrangements Order of 18 September 2013. The department is the responsibility of the Minister for Human Services and administered by the Secretary of Human Services.

5.405 The key characteristics of the department's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- reliance on voluntary disclosures of information by customers in relation to the assessment and payment of personal benefits;
- the complexity of the IT environment to support significant business operations, including developing and managing internal systems for personal benefit payments;
- management of agreements and arrangement with policy departments and agencies relating to service delivery responsibilities;
- the quality assurance mechanisms implemented by the department to gain assurance over the accuracy of personal benefit payments; and
- child support arrangements, particularly in relation to child support assessments and payments that are subject to complex legislative requirements.

5.406 In the light of these characteristics and the ANAO's understanding of the operations of the department, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.407 The following table sets out Human Services' estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.408 Human Services' key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	4 210.7	4 172.0		
Revenue from government	3 964.2	3 908.4		
Deficit attributable to the Australian Government	(246.5)	(263.6)		
Total own-source income			1 520.6	1 529.4
Total expenses			1 515.5	1 523.3
Administered surplus			5.1	6.1
Total assets	1 728.1	1 854.5	796.5	766.1
Total liabilities	1 261.3	1 292.1	801.9	762.1
Total equity	466.8	562.4		
Net assets/(liabilities)			(5.4)	4.0

Human Services' estimated average staffing level for 2013–14 is 29 989 (2012–13: 32 048).

Governance arrangements

5.409 The department has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of its business objectives. These arrangements support its financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.410 The key elements of the department's corporate governance arrangements include:

- a strategic planning and performance framework focusing on priorities and the effective use of the department's resources;
- a governance committee structure comprising an Executive Committee chaired by the Secretary and eight supporting governance committees, including an audit committee, to provide oversight of the delivery and monitoring of the department's outcomes;
- an organisation structure providing lines of accountability and responsibility to enhance the department's compliance and decision making processes;

- an established risk management framework and plan that identifies and assists the management of risks at various levels of the department;
- an internal audit function reporting to the Secretary and the audit committee on the risk based audit coverage of the department's activities; and
- an extensive fraud control and investigations framework which includes strategies for fraud prevention, detection and resolution.

Areas of audit focus

5.411 In the light of the ANAO's understanding of Human Services' operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the assessment of the internal control environment, including the IT infrastructure supporting the programs and related payments delivered by the department that are complex in nature, are of substantial value and are delivered on behalf of a number of other agencies;
- intangible assets, particularly software, due to the complexities associated with the valuation and measurement of these assets and the significance of the carrying value of the assets in the financial statements;
- child support transactions, specifically focusing on complexities associated with IT system controls, as well as the valuation methodology used to determine child support debts that the department may not be able to collect from the paying parent;
- the progress in addressing the moderate audit finding in 2012–13 relating to the incomplete financial information on the withholding of overpayments from social welfare payments made to the customers that was sourced from the department's general ledger and provided to other agencies; and
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2012–13 financial statements.

5.412 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of the department's financial statements.

Audit Results

5.413 The ANAO's interim audit phase coverage has included verification of key controls surrounding social welfare and health care payment processes managed in the central office and state offices. The audit coverage also included confirmation of controls over processing of child support transactions and the method for identifying and recording intangible assets.

5.414 Other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.415 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Status of audit issues raised by the ANAO

Category	Closing position (at the end of the 2012–13 final audit phase)	Resolved findings (at the time of the 2013–14 interim audit phase)	New findings (during the 2013–14 interim audit phase)	Closing position (at the end of the 2013–14 interim audit phase)
A	0	0	0	0
B	1	0	2	3
L1	1	0	0	1
Total	2	0	2	4

Outstanding audit issue

Withholding of overpayments from social welfare payments made to customers

5.416 The department makes social welfare payments to customers in excess of \$140 billion a year on behalf of a number of other Australian Government agencies. In some instances, overpayments may be made to customers due to changes in the customer's circumstances not being reported to the department in a timely manner or the payments are based on estimation of the customer's income that can only be confirmed after submission of a tax return. One method of collection of the overpayments is to withhold an agreed amount from future social welfare payments. The department provides details of social welfare payments, overpayments, cash recoveries and amounts withheld to relevant agencies for reporting in their respective financial statements.

5.417 During the 2012–13 final audit phase, the ANAO reported that the above-mentioned financial information that is sourced from the department's general ledger and provided to relevant agencies was incomplete. This was primarily due to the incorrect mapping of transactions and the lack of a reconciliation between the payment system and the general ledger. These weaknesses led to incorrect reporting of the details of social welfare payments in the 2011–12 and 2012–13 financial statements of relevant agencies. The department acknowledged these weaknesses and commenced remedial action, in consultation with the Department of Finance and other responsible agencies.

5.418 During the 2013–14 interim audit phase, the ANAO reviewed the reconciliation controls designed to ensure completeness of the data provided to relevant agencies. The department is continuing its investigation to clear prior year unreconciled balances. The ANAO will review the results of this activity at the 2013–14 final audit phase.

New moderate audit issues

Development and implementation of an Aged Care Management and Payment System

5.419 The department commenced replacing its legacy systems for the social welfare and health care payments during 2013–14. In October 2013, the department introduced a new Aged Care Management and Payment System to process subsidy payments to aged care service providers on behalf of the Department of Social Services.

5.420 During the 2013–14 interim audit phase, the ANAO became aware that the department had detected defects during the development, testing and implementation phases of this system which are being progressively addressed. These defects related to controls over user acceptance testing, change management approval processes and incident management, and resulted in a number of incorrect payments being made to aged care service providers. The ANAO also identified an unreconciled balance of \$6.3 million between the amount of aged care payments recorded in the new system and the amount recorded in the general ledger. These issues reduce the integrity of aged care subsidy payments recorded in the department's general ledger and the amounts reported to the Department of Social Services for inclusion in that department's financial statements.

5.421 The department had promptly identified the above issues and commenced corrective action, including informing relevant stakeholders of the progress being made to resolve the issues. The department is addressing this

issue by manually assessing and rectifying the incorrect payments to the aged care service providers affected. In addition, the department has advised that system changes will be implemented to correctly process future aged care subsidy payments. During the 2013–14 final audit phase, the ANAO will undertake additional audit procedures to gain assurance that these payments are correctly calculated and reported in the financial statements.

Management of privileged access of database administrators

5.422 Database administrators have privileged access to financial system and its supporting database which can be used to bypass security controls and make changes either to system settings or directly to the data in the system.

5.423 During the 2013–14 interim audit phase, the ANAO identified that the department was not meeting the mandatory requirements of the Australian Government Information Security Manual with regard to the logging and monitoring of system access by database administrators. The ANAO identified that the activities of several database administrators with privileged user access to the department's production data were not logged and monitored. In addition, some users were provided with privileged access when this level of access was not required.

5.424 The ANAO considers that inadequate monitoring of the activities of users with privileged access increases the risk that inappropriate activities will not be detected that could result in unauthorised changes to financial data. The department acknowledged the finding, and advised that prompt action has taken place; formal procedures for monitoring and review of administrative access in the financial system database are being developed and will be implemented by 30 June 2014. The ANAO will review the action taken by the department during the 2013–14 final audit phase.

Unresolved legislative compliance issue

Actual and potential breaches of section 83 of the Constitution

5.425 In previous years the department undertook reviews to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriation and special accounts for which it is responsible. The department identified a number of actual breaches of section 83 in the payments from the special accounts that were reported in the department's 2011–12 and 2012–13 financial statements.

5.426 During 2013–14, the department continued to review the risk of payments being made in breach of section 83 of the Constitution from special accounts, as well as in relation to payments made under the *Remuneration Tribunal Act 1973*, *Long Service Leave Act 1976* and *A New Tax System (Goods and Services) Act 1999*.

5.427 The ANAO's 2013–14 audit coverage will continue to monitor and assess the department's processes for identifying any payments that may be a breach or potential breach of section 83.

Conclusion

5.428 Based on the audit coverage during the 2013–14 interim audit phase, and, except for the audit findings referred to in paragraphs 5.416 to 5.424 above, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative compliance issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Treasury Portfolio

Department of the Treasury

5.429 The Department of the Treasury (the Treasury) is the primary advisory body to the Australian Government on economic policy and development. The Treasury develops and implements policies to improve the wellbeing of the Australian people, by achieving strong, sustainable economic growth, through the provision of advice to the Australian Government and the efficient administration of federal financial relations.

5.430 The Treasury's business operations include:

- supporting a sound macroeconomic environment through monitoring and assessing economic conditions and prospects, both in Australia and internationally;
- providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy, and labour market issues;
- providing advice on budget policy issues, trends in Commonwealth revenue and major fiscal and financial aggregates, major expenditure programs, taxation policy, retirement income, Commonwealth-State financial policy and actuarial services;
- addressing effective taxation and retirement income arrangements through the provision of advice, and assisting in the formulation and implementation of government taxation and retirement income policies and legislation, as well as providing information on material changes to taxation revenue forecasts and projections; and
- providing advice on policy processes and reforms that promote a secure financial system and sound corporate practices, removing impediments to competition in product and services markets and safeguarding the public interest in matters such as consumer protection and foreign investment.

5.431 The key characteristics of the Treasury's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the Council of Australian Governments (COAG) federal financial relations framework reflected in the *Federal Financial Relations Act 2009*. Under this framework, individual agencies have responsibility for monitoring the performance of programs and advising the Treasury of details of amounts payable to the States and Territories under National Partnerships;
- the complexity of the legislation for which the Treasury is responsible and the risk of non compliance with relevant aspects of the Commonwealth's financial framework;
- the Treasury's responsibility for monitoring the guarantees of deposits and wholesale funding and the temporary and voluntary guarantees over State and Territory Government borrowings that were first given following the global financial crisis. From 31 March 2010 no new wholesale funding arrangements have been entered into and, from 31 December 2010, the Australian Government guarantee of State and Territory borrowings closed to new issuance of guaranteed liability; and
- the Treasury's responsibility for managing investments in overseas financial institutions.

5.432 In the light of these characteristics and the ANAO's understanding of the operations of the Treasury, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.433 The following table sets out the Treasury's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the department.

5.434 The Treasury's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	176.7	185.3		
Revenue from government	168.5	174.6		
Deficit attributable to the Australian Government	(8.2)	(10.7)		
Total own-source income			4 938.8	3 089.2
Total expenses			94 096.7	81 436.6
Administered deficit			(89 157.9)	(78 347.3)
Total assets	91.7	90.9	29 662.2	18 339.8
Total liabilities	57.5	53.8	12 609.9	15 224.5
Total equity	34.2	37.0		
Net assets			17 052.3	3 115.3

The Treasury's estimated average staffing level for 2013–14 is 899 (2012–13: 886).

Governance arrangements

5.435 The Treasury has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the Treasury's business objectives. These arrangements support the department's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.436 The key elements of the Treasury's corporate governance arrangements include:

- an Executive Board that meets at least monthly and is responsible for high level policy issues relating to the Treasury's strategic leadership and management;
- a committee framework including an audit committee that meets at least six times a year and focuses attention on corporate governance, internal audit, external audit, fraud and risks faced by the Treasury;
- a comprehensive and coordinated framework for incorporating risk management into broader management and business processes;

- an internal assurance function that has a planned risk based coverage of the Treasury's activities; and
- a periodic fraud risk assessment undertaken in line with the Commonwealth Fraud Control Guidelines.

Areas of audit focus

5.437 In the light of the ANAO's understanding of the Treasury's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the Treasury's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the recognition and measurement of grant payments under the federal financial relations framework, as reflected in the *Federal Financial Relations Act 2009*, due to the Treasury's reliance on information provided by third parties, particularly other agencies;
- the methodology used to estimate the provision for the Natural Disaster Relief and Recovery Arrangements (NDRRA) due to the complex estimation process; and
- compliance with relevant aspects of the Commonwealth's financial framework and the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2012–13 financial statements.

5.438 The ANAO will continue to provide audit coverage of the following areas which have previously been identified as significant to the financial statements:

- the Treasury's administration of the guarantees of deposits and wholesale funding and the temporary and voluntary guarantees over State and Territory Government borrowings; and
- the valuation of the Treasury's financial investment in international financial institutions, due to the continuing volatility experienced in overseas markets.

5.439 As an integral part of the 2013–14 interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support

the preparation of the Treasury's financial statements, including the financial management and human resource management information systems and the financial payment management system used to process grant payment information provided by individual agencies.

Audit results

5.440 The ANAO's interim audit phase coverage has reviewed the controls relating to grant processing, including controls over the assessment of grant eligibility and grant payments. A general discussion of National Partnership payments to State and Territory governments is at paragraphs 3.30 to 3.43 in chapter 3 of this report.

5.441 The valuation of the NDRRA provision and legislative compliance will be reviewed as part of the final phase of the 2013–14 audit.

5.442 Audit coverage of the key areas of audit focus has not identified any new significant or moderate audit issues. No significant or moderate audit issues were identified in 2012–13.

5.443 A potential legislative breach relating to section 83 of the Constitution identified in 2012–13 and discussed at paragraphs 5.443 to 5.447 below, remains unresolved.

Unresolved legislative compliance issue

Potential breaches of section 83 of the Constitution

5.444 During 2012–13, the Treasury sought advice in respect of payments made to State and Territory Governments where National Partnership agreements contained specific terms and conditions that need to be met prior to a payment being made. Section 7(2) of the *COAG Reform Fund Act 2008* requires that financial assistance is provided (and therefore that monies are debited from the COAG Reform Fund Special Account) in accordance with terms and conditions contained within the written agreements between the States and Territories and the Commonwealth. The advice confirmed that where monies were paid from the special account and terms and conditions had not been met, the payment could be a breach of section 83 of the Constitution due to the specific wording of the COAG Reform Fund Special Account.

5.445 The 2012–13 financial statements in Note 29 referred to the risk of potential breaches of section 83 in relation to terms and conditions not being met under National Partnership agreements.

5.446 The Treasury has completed a review of its control framework over payments to State and Territory Governments and has committed to completing a risk assessment of each National Partnership agreement to assess whether the controls are appropriate for the risk profile. The risk assessment is expected to be completed by 30 June 2014.

5.447 The risk assessment process is expected to assist the Treasury to design and implement controls that will reduce the incidence of overpayments, and as a result, reduce the risk of a breach of section 83 of the Constitution to low.

5.448 The ANAO will review the Treasury's risk assessment during the 2013–14 final audit phase.

Conclusion

5.449 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year and the legislative compliance issue referred to above, will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Australian Office of Financial Management

5.450 The Australian Office of Financial Management (AOFM) is responsible for managing Australian Government debt and financial assets. AOFM issues treasury bonds, treasury indexed bonds and treasury notes, manages the Australian Government's cash balances and invests in financial assets. Historically, treasury bonds have been issued to maintain liquid and efficient bond and bond futures markets, reflecting the important role that these markets play in the Australian financial system.

5.451 AOFM's business operations include:

- funding the Australian Government's budget, to the extent required, through the issuance of Australian Government debt;
- managing the Australian Government's daily cash balances through short term borrowings and investments;
- undertaking investments in financial assets in accordance with government policy objectives;
- managing its portfolio of debt and financial assets cost effectively, subject to acceptable risk; and
- supporting the efficient operation of Australia's financial system.

5.452 The key characteristics of AOFM's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- the volume of investment activity of financial assets and issuance of financial liabilities, that are material to both the agency and the Consolidated Financial Statements;
- a continuation of the issuance of treasury indexed bonds to meet the Government's funding requirements; and
- material and complex financial assets and liabilities and their associated fair value assessment.

5.453 In the light of these characteristics and the ANAO's understanding of the operations of AOFM, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as moderate.

Key financial balances

5.454 The following table sets out AOFM's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the agency.

5.455 AOFM's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual (\$m) 2012–13
Net cost of services	10.5	8.9		
Revenue from government	11.5	11.4		
Surplus attributable to the Australian Government	1.0	2.5		
Total own-source income			1 060.8	1 121.5
Total expenses			13 453.7	12 237.3
Administered surplus/ (deficit)*			(10 158.0)	273.0
Total assets	27.6	29.6	35 679.0	31 450.3
Total liabilities	2.5	2.4	346 651.8	285 755.0
Total equity	25.1	27.2		
Net liabilities			(310 972.8)	(254 304.7)

AOFM's estimated average staffing level for 2013–14 is 42 (2012–13: 40).

* The administered surplus/deficit does not reflect net re-measurements and gains/losses of \$2 234.9m (2012–13: \$11 388.9m).

Governance arrangements

5.456 AOFM has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of the agency's business objectives. These arrangements support AOFM's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.457 The key elements of AOFM's corporate governance arrangements include:

- an advisory board accountable to the Secretary of the Department of the Treasury that meets quarterly and provides general counsel and guidance on debt management policy, operational strategy and the performance of AOFM;

- a governance committee framework, including an audit committee which focuses attention on internal and external audit; fraud control and the statutory financial statements. Other committees include:
 - an Executive Group that coordinates the overall management of the agency, including the consideration of strategic issues; coordination of priorities, financial management, organisational arrangements and resource management;
 - an asset and liability committee that advises the Chief Executive Officer on operational debt policy and financial management issues; and
 - an Information Technology Steering Committee that oversees current and planned information technology projects and operations.
- an internal audit function that provides a risk based coverage of AOFM's activities;
- a framework for incorporating risk management into AOFM's broader management and business processes; and
- a financial reporting framework that involves the monitoring of the performance and financial management of key business areas and the preparation and monitoring of monthly financial reports.

Areas of audit focus

5.458 In the light of the ANAO's understanding of AOFM's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on AOFM's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the fair value measurement of financial assets and liability securities in view of their complexity;
- financial instrument presentation and disclosures, including the impact of AASB 7 *Financial Instruments: Disclosures* fair-value hierarchy and changes to AASB 139 *Financial Instruments: Recognition and Measurement*; and

- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution.

5.459 The ANAO will continue to provide audit coverage of the following areas which have previously been identified as having a significant impact on the financial statements:

- the control environment and the establishment of adequate controls to enable compliance with aspects of relevant financial management legislation;
- AOFM's management and control framework around the issuance of debt instruments including treasury bonds, treasury indexed bonds and treasury notes; and
- internal assurance activities, including the Certificate of Compliance process, and fraud prevention activities.

5.460 As an integral part of the interim audit phase, the ANAO also reviews the IT general and application controls for key systems that support the preparation of AOFM's financial statements.

Audit results

5.461 The accounting for financial instruments and fair value measurements, including the presentation and disclosures in the financial statements, will be reviewed as part of the 2013–14 final audit phase.

5.462 No significant or moderate audit issues have been raised by the ANAO as a result of the audit coverage of the areas of audit focus completed during the 2013–14 interim audit phase. Further, the 2012–13 audit did not identify any new significant or moderate audit issues.

Conclusion

5.463 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.

Australian Taxation Office

5.464 The Australian Taxation Office (ATO) is the Australian Government's main revenue collection agency. In 2013–14, the ATO is expected to raise \$346.7 billion in revenue, representing approximately 92 per cent of the Australian Government's revenue.

5.465 The ATO's responsibilities include:

- administration of Australia's taxation, excise and superannuation systems that help fund public goods and services giving effect to economic and social policy and secure retirement income for Australians;
- protecting Australia's revenue system by deterring, detecting and dealing with those who have not complied with their taxation obligations;
- supporting delivery of government benefits to the community including private health insurance, family assistance and fuel grants schemes;
- providing cross agency support by exchanging information, data matching, paying of taxation refunds to other agencies in respect of debts owing to the Commonwealth, and supporting whole-of-government initiatives in taxation law enforcement;
- maintaining the Australian Business Register that makes it easier for businesses and all levels of government to interact;
- the provision of valuation services to the government sector through the Australian Valuation Office (AVO) up until 30 June 2014 when operations of the AVO will be discontinued; and
- registering charities, public benevolent institutions and not-for-profit organisations for Commonwealth purposes through the Australian Charities and Not-for-profits Commission.

5.466 The key characteristics of the ATO's business operations that shaped the ANAO's 2013–14 planned financial statement audit coverage include:

- a self-assessment regime for the collection of taxation revenues;

- a complex financial statement preparation process that involves using data from a number of business systems and the calculation of estimates for balances of a number of financial statement items;
- valuation of the taxation receivables, particularly the estimation of the collectability of outstanding tax debts; and
- extensive IT-based business systems and associated processes.

5.467 In the light of these characteristics and the ANAO's understanding of the operations of the ATO, the ANAO has assessed, for the purposes of planning the audit coverage for 2013–14, the risk of a material misstatement as high. As a result of this assessment, the ANAO undertakes additional audit procedures focussed on the significant audit risks relating to the financial statements of the ATO.

Key financial balances

5.468 The following table sets out ATO's estimated 2013–14 and actual 2012–13 key financial balances. These balances assist in understanding the scale of the financial operations of the agency.

5.469 ATO's key financial balances are:

Key financial balances	Departmental Estimated (\$m) 2013–14	Departmental Actual (\$m) 2012–13	Administered Estimated (\$m) 2013–14	Administered Actual* (\$m) 2012–13
Net cost of services	3 497.9	3 351.7		
Revenue from government	3 330.9	3 248.1		
Deficit attributable to the Australian Government	(167.0)	(103.9)		
Total own-source income			332 019.0	320 988.0
Total expenses			16 892.8	17 487.3
Administered surplus			315 126.2	303 501.7
Total assets	1 398.3	1 349.7	31 424.5	29 272.4
Total liabilities	1 297.7	1 228.1	8 567.1	9 137.0
Total equity	100.6	121.6		
Net assets			22 857.4	20 135.4

ATO's estimated average staffing level for 2013–14 is 21 397 (2012–13: 21 514).

* Minor variations to the balances in the financial statements are the result of rounding.

Governance arrangements

5.470 The ATO has implemented governance arrangements, a financial reporting regime and an internal control system designed to enable the achievement of ATO's business objectives. These arrangements support the ATO's financial reporting requirements, the effectiveness and efficiency of its operations, and compliance with applicable legislative requirements.

5.471 The key elements of ATO's corporate governance arrangements include:

- a strategic statement and plan that provide an overview of ATO's directions for the future, including corporate outcomes and performance measures. This includes the development of a '2020 vision' that seeks to enhance and reduce the interaction between the ATO and the taxpayer through strategic initiatives that improve tax and superannuation systems;
- a well-defined structure of governance committees and forums that includes an executive committee, an audit and risk committee and an annual plenary governance forum;
- the role of the audit and risk committee includes: reviewing the risk management framework, internal audit plan and reports, and financial reports; overseeing the process for developing fraud control plans and their implementation; and reviewing the effectiveness of legislative compliance arrangements;
- an internal audit function, which provides an internal audit strategy and plan that addresses key business and financial risks and aims to assist line areas to meet their key objectives;
- a framework for incorporating risk management into the ATO's broader management and business processes;
- a fraud control and corruption plan that includes risk assessments across products and processes, and a dynamic fraud control implementation regime; and
- a financial reporting framework that involves the monitoring of the performance and financial management of key business areas and the preparation and monitoring of monthly financial reports.

Areas of audit focus

5.472 In the light of the ANAO's understanding of ATO's operating environment and governance arrangements, that includes its financial reporting regime and system of internal control, the ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on ATO's financial statements. Areas highlighted for specific audit coverage in 2013–14 are:

- the compliance programs in relation to the collection of taxation revenues, especially the ATO's risk management approach to compliance activities in a self-assessment and voluntary compliance regime;
- complex estimation and allocation processes associated with the reporting of taxation revenue, that involve the application of significant judgement and specialist knowledge;
- processes for estimating the impact of tax debt collectability on the amount included as taxation receivable balance at year end;
- processes for recording Higher Education Loan Program receivables and collections on behalf of the Department of Education; and
- the ATO's reliance on IT business systems and associated processes, particularly in relation to system interfaces.

5.473 The ANAO will continue to provide audit coverage over areas that support ATO's operations and are significant to the financial statements, specifically accounting processes related to employees, suppliers, asset management and executive remuneration.

5.474 As an integral part of the interim audit phase, the ANAO also reviews the IT general controls over key systems and application controls for the financial management information system that support the preparation of ATO's financial statements.

Audit results

5.475 The ANAO's interim audit phase has focussed on ATO's control environment and aspects of collection and reporting of taxation revenue.

5.476 Audit coverage of the other areas of audit focus will be completed as part of the 2013–14 final audit phase.

5.477 No significant or moderate audit issues have been raised by the ANAO as a result of the audit coverage of the areas of audit focus during the 2013–14 interim audit phase. Further, 2012–13 audit did not identify any new significant or moderate audit issues.

Conclusion

5.478 Based on the audit coverage during the 2013–14 interim audit phase, the key internal controls that support the preparation of the financial statements were operating effectively. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2013–14 final audit phase.



Ian McPhee
Auditor-General

Canberra ACT
19 June 2014

Appendices

Appendix 1: Agencies covered by this report⁶¹

Department of Agriculture

Attorney-General's Department

Department of Communications

Department of Defence

Defence Materiel Organisation

Department of Veterans' Affairs

Department of Education

Department of Employment

Department of the Environment

Department of Finance

The Future Fund Management Agency and the Board of Guardians

Department of Foreign Affairs and Trade

Department of Health

Department of Immigration and Border Protection

Australian Customs and Border Protection Service

Department of Industry

Department of Infrastructure and Regional Development

Department of the Prime Minister and Cabinet

Department of Social Services

Department of Human Services

Department of the Treasury

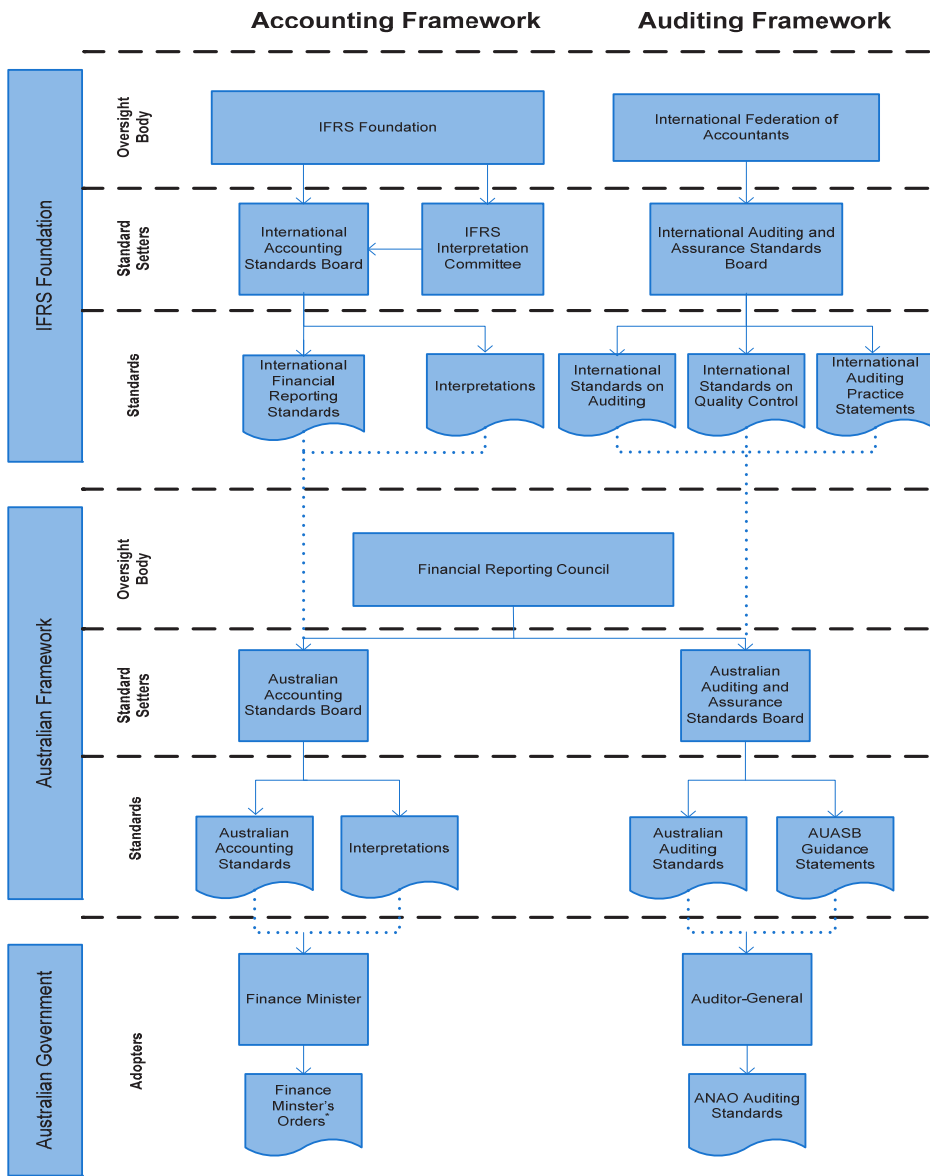
Australian Office of Financial Management

Australian Taxation Office

61 Agencies are grouped by portfolio.

Appendix 2: The Accounting and Auditing Standards Frameworks

The figure below depicts the standard setting framework, for financial reporting and auditing, in the Australian Government context.



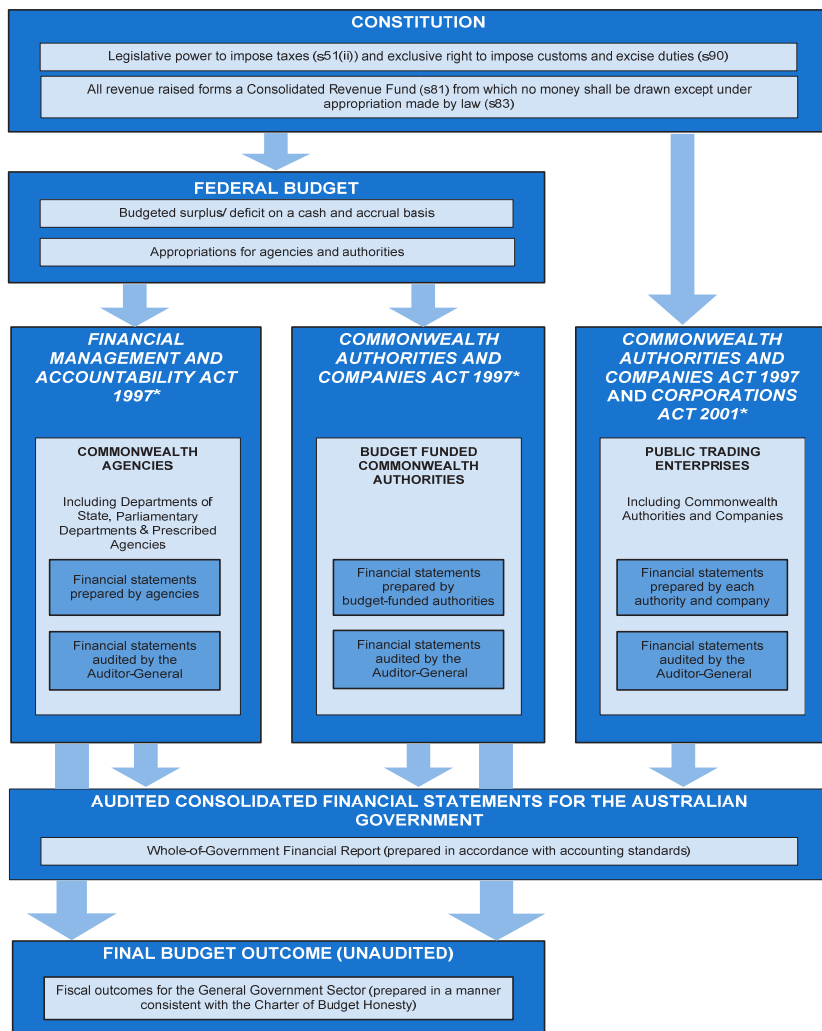
* Finance Minister's Orders apply to financial reporting by most Australian Government entities for 2013–14. In future years, financial reporting by these entities will be governed by the *Public Governance, Performance and Accountability Act 2013* and the rules made under this Act.

Source: ANAO.

Appendix 3: The Financial Reporting Framework

Key elements of the Australian Government's financial reporting framework are outlined in the diagram below. An overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework and the audit approach for the financial statements of these entities is also described below.

Key Elements of the Financial Reporting Framework



* Australian Government entities, other than Corporations Act companies, will prepare and report their 2013–14 financial statements in accordance with the requirements of the FMA Act or the CAC Act. Except for the provisions in the FMA Act relating to supplementary powers to make commitments to spend public money, these two Acts will be replaced by the PGPA Act from 2014–15.

Source: ANAO.

ANAO Audit Report No.44 2013–14

Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014

Australian Government Reporting Entities

Commonwealth Government of Australia

Section 55 of the FMA Act requires the Finance Minister to prepare annual financial statements for the Commonwealth Government of Australia. These financial statements are a general purpose financial report consolidating the financial activities and financial position of all agencies, authorities and other entities controlled by the Commonwealth Government.

Australian Government agencies

Australian Government agencies, comprising departments of state, parliamentary departments and prescribed agencies, are subject to the provisions of the FMA Act.

The FMA Act prescribes the FMOs as the applicable financial reporting framework for agencies. The FMOs include a requirement that the financial statements comply with the AASs issued by the AASB.

Commonwealth authorities and subsidiaries

Commonwealth authorities are bodies corporate that hold money on their own account and have been created by the Parliament to perform specific functions. Commonwealth authorities operate under their own enabling legislation and also must comply with relevant provisions of the CAC Act.

The CAC Act prescribes the FMOs as the applicable financial reporting framework for Commonwealth authorities. The financial reporting framework applicable to subsidiaries of Commonwealth authorities depends on the nature of the subsidiary.

Commonwealth companies and subsidiaries

Commonwealth companies are companies that are controlled by the Australian Government through majority share holdings or voting rights, or via control over the composition of the company's board. Commonwealth companies operate and prepare financial statements under the Corporations Act.

The applicable financial reporting framework for Commonwealth companies is the Corporations Act, including the AASs and the Corporations Regulations.

The financial reporting framework applicable to subsidiaries of Commonwealth companies depends on the nature of the subsidiary.

Other bodies

The ANAO also audits the financial statements of other bodies under 'by arrangement' provisions in section 20 of the *Auditor-General Act 1997*. These bodies consist primarily of trusts or joint ventures entered into by Commonwealth bodies.

Audit of Australian Government entity financial statements

Audit scope

The chief executives of agencies, and the directors of authorities and companies, are responsible for the preparation and presentation of the financial statements and for maintaining records, internal controls, procedures and processes that support the preparation of those statements. The ANAO's independent audits of financial statements are undertaken to form an opinion whether the financial statements are free from material misstatement.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards (ASAs), to provide reasonable assurance as to whether the financial statements are free of material misstatement.

Audit procedures include examination of the entity's records and its internal control, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements is considered in order to design audit procedures that are appropriate in the circumstances. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include detailed testing of systems and internal controls.

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. An audit conducted in accordance with ASAs is designed to provide

reasonable assurance that the financial statements, taken as a whole, is free from material misstatement, whether due to fraud or error. The fact that an audit is carried out may act as a deterrent to fraud. However, the auditor is not responsible for the prevention of fraud and error.

The auditor's report on financial statements

The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements give a true and fair view of the entity's financial position, the results of its financial operations and its cash flows in accordance with the applicable financial reporting framework.

If the auditor is not satisfied that the financial statements are true and fair, the auditor's opinion is modified, with the reasons being indicated.

The auditor's report on the financial statements will include the auditor's opinion and may include an 'emphasis of matter' or 'other matters' paragraphs. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements.

Form of auditor's opinion

An auditor's opinion is described as 'unmodified' when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

An auditor's opinion may be 'modified' in one of three ways.

- A 'modified opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. A 'modified opinion' is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence, concludes that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
- A 'disclaimer of opinion' is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.
- An 'adverse opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements

individually or in aggregate, are both material and pervasive to the financial statements.

Emphasis of matter

An 'emphasis of matter' paragraph is included in the auditor's report when the auditor considers it necessary to draw to users' attention a matter presented in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. The auditor's opinion is not modified in respect of the matter emphasised. The circumstances in which an emphasis of matter is used include:

- when material uncertainty exists relating to an event or condition that may cast significant doubt on an entity's ability to continue as a going concern;
- when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared; and
- when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.⁶²

Other matters

The auditor's report on the financial statements may also include a reference to 'other matters'. This allows the auditor to communicate a matter other than a matter that is presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Report on other legal and regulatory requirements

The auditor's report on the financial statements may also include a report on other legal and regulatory requirements. This report covers matters that the Auditor-General is required by law to report on in conjunction with the financial statements audit that do not affect the truth and fairness of the financial statements.

62 Under the ASAs, the Auditor-General is required to include an emphasis of matter where a special purpose framework is adopted. Auditor's reports which include this mandatory requirement have not been included in this report.

For example, section 57 of the FMA Act requires that, where the Auditor-General is of the opinion that a chief executive has contravened section 48⁶³ of the FMA Act, the Auditor-General must state in the auditor's report, the particulars of the contravention.

A report on other legal and regulatory requirements may also be used to draw attention to other legislative issues such as issues relating to agencies' compliance with section 83 of the Constitution.

63 Section 48 of the FMA Act requires the chief executive to keep proper accounts and records.

Series Titles

ANAO Audit Report No.1 2013–14

Design and Implementation of the Liveable Cities Program

Department of Infrastructure and Transport

ANAO Audit Report No.2 2013–14

Administration of the Agreements for the Management, Operation and Funding of the Mersey Community Hospital

Department of Health and Ageing

Department of Health and Human Services, Tasmania

Tasmanian Health Organisation – North West

ANAO Audit Report No.3 2013–14

AIR 8000 Phase 2 — C-27J Spartan Battlefield Airlift Aircraft

Department of Defence

ANAO Audit Report No.4 2013–14

Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2012 Compliance)

Across Agencies

ANAO Audit Report No.5 2013–14

Administration of the Taxation of Personal Services Income

Australian Taxation Office

ANAO Audit Report No.6 2013–14

Capability Development Reform

Department of Defence

ANAO Audit Report No.7 2013–14

Agency Management of Arrangements to Meet Australia's International Obligations

Across Agencies

ANAO Audit Report No.8 2013–14

The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland

Department of Infrastructure and Regional Development

ANAO Audit Report No.44 2013–14

Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014

ANAO Audit Report No.9 2013–14

Determination and Collection of Financial Industry Levies

Australian Prudential Regulation Authority

Department of the Treasury

ANAO Audit Report No.10 2013–14

Torres Strait Regional Authority — Service Delivery

Torres Strait Regional Authority

ANAO Audit Report No.11 2013–14

Delivery of the Filling the Research Gap under the Carbon Farming Futures Program

Department of Agriculture

ANAO Report No.12 2013–14

2012–13 Major Projects Report

Defence Materiel Organisation

ANAO Audit Report No.13 2013–14

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013

Across Agencies

ANAO Audit Report No.14 2013–14

Explosive Ordnance and Weapons Security Incident Reporting

Department of Defence

ANAO Audit Report No.15 2013–14

The Indigenous Land Corporation's Administration of the Land Acquisition Program

Indigenous Land Corporation

ANAO Audit Report No.16 2013–14

Administration of the Smart Grid, Smart City Program

Department of the Environment

Department of Industry

ANAO Audit Report No.17 2013–14

Administration of the Strengthening Basin Communities Program

Department of the Environment

ANAO Audit Report No.18 2013–14

Administration of the Improving Water Information Program
Bureau of Meteorology

ANAO Audit Report No.19 2013–14

Management of Complaints and Other Feedback
Australian Taxation Office

ANAO Audit Report No.20 2013–14

Management of the Central Movement Alert List: Follow-on Audit
Department of Immigration and Border Protection

ANAO Report No.21 2013–14

Pilot Project to Audit Key Performance Indicators

ANAO Audit Report No.22 2013–14

Air Warfare Destroyer Program
Department of Defence
Defence Materiel Organisation

ANAO Audit Report No.23 2013–14

Policing at Australian International Airports
Australian Federal Police

ANAO Audit Report No.24 2013–14

Emergency Defence Assistance to the Civil Community
Department of Defence

ANAO Audit Report No.25 2013–14

Management of the Building Better Regional Cities Program
Department of Social Services
Department of the Environment

ANAO Audit Report No.26 2013–14

Medicare Compliance Audits
Department of Human Services

ANAO Audit Report No.27 2013–14

Integrity of Medicare Customer Data
Department of Human Services

ANAO Audit Report No.44 2013–14

Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014

ANAO Audit Report No.28 2013–14

Review of Child Support Objections

Department of Human Services

Department of Social Services

ANAO Audit Report No.29 2013–14

Regulation of Commonwealth Radiation and Nuclear Activities

Australian Radiation Protection and Nuclear Safety Agency

ANAO Audit Report No.30 2013–14

Administering the Code of Good Manufacturing Practice for Prescription Medicines

Department of Health

ANAO Audit Report No.31 2013–14

The Australian Electoral Commission's Storage and Transport of Completed Ballot Papers at the September 2013 Federal General Election

Australian Electoral Commission

ANAO Audit Report No.32 2013–14

Delivery of the Hearing Community Service Obligation

Department of Health

Department of Human Services

Australian Hearing Services

ANAO Audit Report No.33 2013–14

Indigenous Employment in Australian Government Entities

Across Agencies

ANAO Audit Report No.34 2013–14

Implementation of ANAO Performance Audit Recommendations

Department of Agriculture

Department of Human Services

ANAO Audit Report No.35 2013–14

Managing Compliance of High Wealth Individuals

Australian Taxation Office

ANAO Audit Report No.36 2013–14

The Administration of the Parliamentary Budget Office
Parliamentary Budget Office

ANAO Audit Report No.37 2013–14

Management of Services Delivered by Job Services Australia
Department of Employment

ANAO Audit Report No.38 2013–14

Establishment and Administration of the National Offshore Petroleum Safety and Environmental Management Authority
National Offshore Petroleum Safety and Environmental Management Authority

ANAO Audit Report No.39 2013–14

Compliance Effectiveness Methodology
Australian Taxation Office

ANAO Audit Report No.40 2013–14

Trials of Intensive Service Delivery
Department of Human Services

ANAO Audit Report No.41 2013–14

Commercialisation Australia Program
Department of Industry

ANAO Audit Report No.42 2013–14

Screening of International Mail
Department of Agriculture
Australian Customs and Border Protection Service

ANAO Audit Report No.43 2013–14

Managing Compliance with EPBC Act Conditions of Approval
Department of the Environment

ANAO Audit Report No.44 2013–14

Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014
Across Agencies

ANAO Audit Report No.44 2013–14

Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014

Better Practice Guides

The following Better Practice Guides are available on the ANAO website:

Administering Regulation	June 2014
Implementing Better Practice Grants Administration	Dec. 2013
Human Resource Management Information Systems: Risks and controls	June 2013
Preparation of Financial Statements by Public Sector Entities	June 2013
Public Sector Internal Audit: An investment in assurance and business improvement	Sept. 2012
Public Sector Environmental Management: Reducing the environmental impacts of public sector operations	Apr. 2012
Developing and Managing Contracts: Getting the right outcome, achieving value for money	Feb. 2012
Public Sector Audit Committees: Independent assurance and advice for chief executives and boards	Aug. 2011
Fraud Control in Australian Government Entities	Mar. 2011
Strategic and Operational Management of Assets by Public Sector Entities: Delivering agreed outcomes through an efficient and optimal asset base	Sept. 2010
Planning and Approving Projects – an Executive Perspective: Setting the foundation for results	June 2010
Innovation in the Public Sector: Enabling better performance, driving new directions	Dec. 2009
SAP ECC 6.0: Security and control	June 2009
Business Continuity Management: Building resilience in public sector entities	June 2009
Developing and Managing Internal Budgets	June 2008
Agency Management of Parliamentary Workflow	May 2008
Fairness and Transparency in Purchasing Decisions: Probity in Australian Government procurement	Aug. 2007
Implementation of Programme and Policy Initiatives: Making implementation matter	Oct. 2006

