

**Audits of the Financial Statements of Australian
Government Entities for the Period Ended
30 June 2019**

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Canberra ACT
17 December 2019

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken the audits of the financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely

A handwritten signature in black ink, which appears to read 'Grant Hehir', is positioned below the 'Yours sincerely' text.

Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT 2600

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 statements 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.

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

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Executive summary

1. The ANAO publishes an Annual Audit Work Program (AAWP) which reflects the audit strategy and deliverables for the forward year. The purpose of the AAWP is to inform the Parliament, the public and government sector entities of the planned audit coverage for the Australian Government sector by way of financial statements audits, performance audits and other assurance activities. As set out in the AAWP, the ANAO prepares two reports annually that, drawing on information collected during audits, provide insights at a point in time to the financial statements risks, governance arrangements and internal control frameworks of Commonwealth entities. These reports provide Parliament with an independent examination of the financial accounting and reporting of public sector entities.
2. These reports explain how entities' internal control frameworks are critical to executing an efficient and effective audit and underpin an entity's capacity to transparently discharge its duties and obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Deficiencies identified during audits, that pose either a significant or moderate risk to an entity's ability to prepare financial statements free from material misstatement, are reported.
3. This report presents the final results of the 2018–19 audits of the Consolidated Financial Statements (CFS) and 247 Australian Government entities. It complements Auditor-General Report No.46 2018–19 *Interim Report on Key Financial Controls of Major Entities* which focused on the interim results of the audits of 26 entities.

The Consolidated Financial Statements

4. The CFS presents the whole of government and the general government sector financial statements. The 2018–19 CFS were signed by the Minister for Finance on 14 November 2019 and an unmodified auditor's report was issued on 14 November 2019.

Financial audit results and other matters

Quality and timeliness of financial statements preparation

5. The ANAO issued 240 unmodified auditors' reports, including the CFS, as at 29 November 2019. A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting.
6. The ANAO noted an increase in findings relating to processes supporting financial statements preparation; reduced delivery of draft financial statements in line with entity financial statements project plans; and an increase in the number of audit differences reported to entities in 2018–19 compared to 2017–18. These observations indicate a reduction in the quality of the financial statements preparation processes and a need to enhance quality assurance frameworks over the financial statements process.

Timeliness of financial reporting

7. The financial statements were finalised and auditor's reports issued for 82 per cent of entities within three months of the financial year end. On average it took entities an additional 39 days to table their annual reports in Parliament. Seventy-six per cent of entities, that are

required to table an annual report in Parliament, tabled prior to the date the portfolio's Senate supplementary budget estimates hearing commenced. Twenty per cent of entities tabled after the hearing date which includes three per cent of entities that had not tabled an annual report as at 29 November 2019.

Key audit matter reporting

8. The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* for the 26 entities included in Auditor-General Report No.46 and the Australian Government's CFS. In 2018–19 a total of 60 key audit matters (KAM) were included across the 26 entities and five KAM were included in the CFS auditor's report.

Financial sustainability

9. An assessment of an entity's financial sustainability can provide an indication of financial management issues or signal a risk that the entity will require additional government funding. Our analysis concluded that the financial sustainability of the majority of entities was not at risk.

Summary of audit findings

10. A total of 184 findings were reported to entities as a result of the 2018–19 financial statements audits. These comprised three significant, 21 moderate and 160 minor findings. Three significant legislative breaches were also reported during 2018–19.

11. The highest number of significant and moderate findings continue to be in the categories of:

- compliance and quality assurance frameworks supporting program payments and financial reporting; and
- management of IT security and user access, in particular the management of privileged users.

Human resources shared services

12. A review of the provision of human resource (HR) functions across the Commonwealth noted that there is a variety of HR service models adopted and entities have adapted arrangements specific to organisational requirements. Overall, there is an opportunity to strengthen governance arrangements by incorporating greater detail in agreements relating to HR services. It is recommended that agreements clearly articulate roles and responsibilities and require service providers to issue formal certifications improving an entity's understanding of control effectiveness and unmitigated risks. In addition in the absence of available benchmarking data, it is difficult for entities to determine what efficiencies have been gained from engaging in shared services arrangements.

Executive remuneration reporting

13. Following an amendment to the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) in April 2019, Commonwealth entities were required to include additional disclosure on executive remuneration in their 2018–19 annual report. While some variances were noted between the key management personnel disclosures in the financial statements and those in the annual report, all entities have included the additional disclosures.

Reporting and auditing frameworks

Changes to the Australian public sector reporting framework

14. Major changes in accounting standards are applicable in 2019–20 with the implementation of revised standards for revenue and leases. Early engagement in planning for these standards will provide entities with more options for transitioning, time to review and potentially renegotiate underlying contracts and agreements and time to organise and implement necessary financial management information system (FMIS) changes.

15. The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* has made a number of recommendations to the Minister for Finance including, for example, bringing forward the date for the tabling of annual reports, removing duplication and improving linkages between accountability documents, and increasing disclosures around remuneration paid to executives and highly paid staff. In response, the Minister for Finance amended the *Public Governance, Performance and Accountability Rule 2014* (the Rule) to require Commonwealth entities to make remuneration disclosures for key management personnel, senior executives and other highly paid staff in annual reports. The Minister for Finance also amended the Rule to require Commonwealth entities and companies to publish annual reports online.

Cost of this report

16. The cost to the ANAO of producing this report is approximately \$470,000.

1. The Consolidated Financial Statements

Chapter coverage

This chapter outlines the results of the audit of the Consolidated Financial Statements of the Australian Government, which includes the Whole of Government and the General Government Sector financial statements for the year ended 30 June 2019, and the Australian Government's financial results for 2018–19.

The chapter includes an analysis of how financing through equity investments and concessional loans impacts the Australian Government's financial results and provides a summary of those entities established to provide financing arrangements.

Audit results

The 2018–19 Consolidated Financial Statements were signed by the Minister for Finance on 14 November 2019 and the Auditor-General's unmodified auditor's report was issued on 14 November 2019.

Background

1.1 Government accountability and transparency is supported by the preparation and audit of the Australian Government's Consolidated Financial Statements (CFS). The CFS and the associated financial analysis provide information to assist users in assessing the financial performance and position of the Australian Government. The CFS is prepared by the Department of Finance (Finance) and issued by the Minister for Finance.

1.2 The CFS presents the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector (GGS) financial statements. The 2018–19 CFS is prepared in accordance with section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the requirements of the Australian Accounting Standards, including AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

1.3 AASB 1049 requires, with limited exceptions, the principles and rules in the Australian Bureau of Statistics' Government Finance Statistics (GFS) Manual to be applied where compliance with the GFS Manual would not conflict with Australian Accounting Standards.

Key areas of financial statements risk

1.4 The ANAO's 2018–19 audit approach identified key areas of financial statements risk that had the potential to impact the CFS.

Table 1.1: Key areas of financial statements risk

Relevant financial statement item ^(a)	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Income Taxation revenue \$455.9 billion Australian Taxation Office	Completeness and accuracy of taxation revenue KAM	Higher	<ul style="list-style-type: none"> • completeness, relevance and accuracy of source data; • complex estimation processes, involving significant judgement and specialist knowledge; and • volatility in economic conditions increases the uncertainty of factors used in estimating taxation revenue. 	No significant or moderate audit findings identified.
Superannuation liabilities ^(b) \$416.0 billion Department of Defence Department of Finance	Valuation of superannuation liabilities KAM	Higher	<ul style="list-style-type: none"> • completeness and accuracy of data provided to the actuary; and • complexity of the calculation and the nature of the economic and demographic assumptions used in valuing the liabilities. 	No significant or moderate audit findings identified.
Advances paid \$63.9 billion Other receivables and accrued revenue \$53.2 billion Numerous entities	Valuation of loans and receivables KAM	Moderate	<ul style="list-style-type: none"> • complexity and uncertainty in estimating fair value, including recoverability and impairment; and • sensitivity of these balances to changes in assumptions. 	No significant or moderate audit findings identified.
Investments, loans and placements: Collective investments \$76.6 billion Future Fund Management Agency Department of Finance	Valuation of financial assets KAM	Moderate	<ul style="list-style-type: none"> • inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments; and • complexity of valuation techniques and assumptions required in determining fair value. 	No significant or moderate audit findings identified.
Property, plant and equipment \$61.3 billion Numerous entities Specialist	Valuation of non-financial assets KAM	Moderate	<ul style="list-style-type: none"> • differences in accounting policies applied by Government businesses compared to those applied in the preparation of the CFS; 	No significant or moderate audit findings identified.

Relevant financial statement item ^(a)	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Military Equipment (SME) \$66.6 billion Department of Defence			<ul style="list-style-type: none"> complex valuation process and judgement involved in valuing assets such as the NBN network; and high degree of management judgement due to the highly specialised nature of the SME, including judgements required to determine appropriate useful lives and assess the financial impact of indicators of impairment. 	Refer to the Department of Defence's detailed results in Chapter 4.

Note a: Figures presented in Table 1.1 may differ from the financial statements of individual entities as a result of: eliminations and adjustments at the CFS level; or where the entities identified contribute a majority to the balance of the financial statement line item.

Note b: These are the main government entities responsible for administration and reporting of Australian Government superannuation liabilities. Liabilities also include schemes managed by other entities, such as the Australian Postal Corporation.

Source: ANAO 2018–19 audit results, and the CFS for the year ended 30 June 2019.

Audit results

1.5 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits of the CFS.

Australian Government's financial outcome for 2018–19

Operating result

1.6 The following key financial measures were reported for 2018–19:

- net operating balance was a surplus of \$3.3 billion (2017–18: deficit of \$8.4 billion);
- operating result was a deficit of \$39.3 billion (2017–18: deficit of \$4.1 billion); and
- comprehensive result (change in net worth) was a total decrease in net worth of \$126.9 billion compared to a decrease of \$26.1 billion in 2017–18.

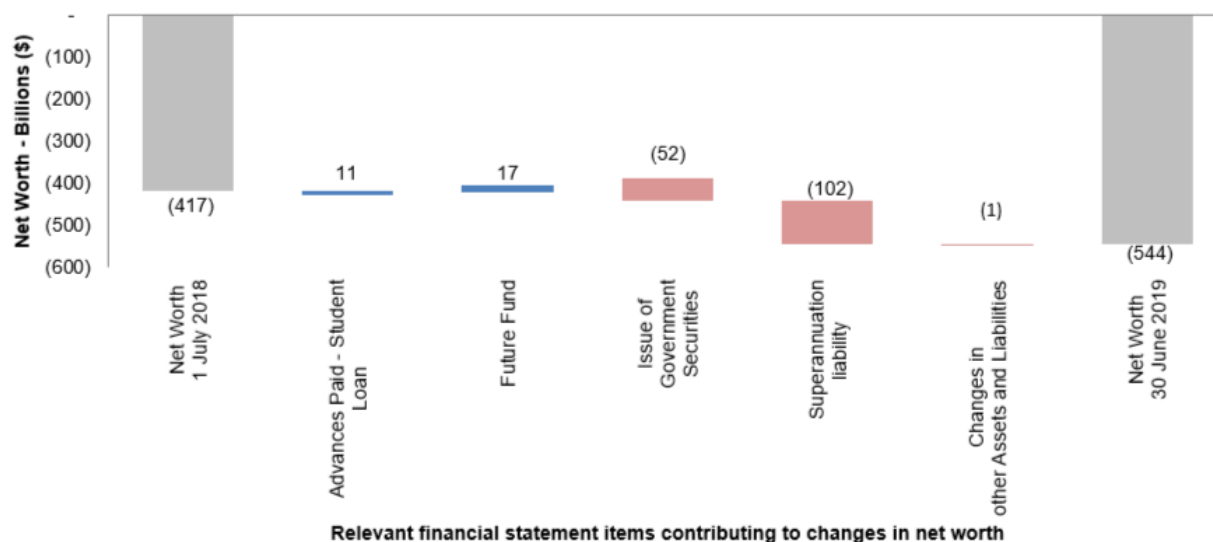
1.7 The net operating balance has returned to surplus due to revenue growth (8.6%), driven by taxation revenue, exceeding growth in expenses (6%). The larger deficit in the operating result is due to increased losses on revaluation of Government securities, with lower discount rates having a significant impact on valuations.

1.8 The comprehensive result (change in net worth) deficit increased, this increase is predominantly driven by the valuation adjustment on superannuation liabilities, with a valuation adjustment of \$92.6 billion in 2018–19 compared to an adjustment of \$25.3 billion in 2017–18. The movement in the valuation of the superannuation liability is largely due to movements in discount rates and is further discussed at paragraph 1.14 – 1.20.

Net worth

1.9 The Australian Government's net worth has changed from a net asset deficiency of \$417.7 billion in 2017–18 to a deficiency of \$544.6 billion in 2018–19. Figure 1.1 provides an analysis of the movement in net worth from 1 July 2018 to 30 June 2019.

Figure 1.1: Total changes in the Australian Government's net worth in 2018–19



Source: ANAO analysis of 2018–19 CFS.

1.10 Table 1.2 provides commentary on the main contributors to the change in net worth of the Australian Government identified in Figure 1.1.

Table 1.2: Explanation of key movements in net worth

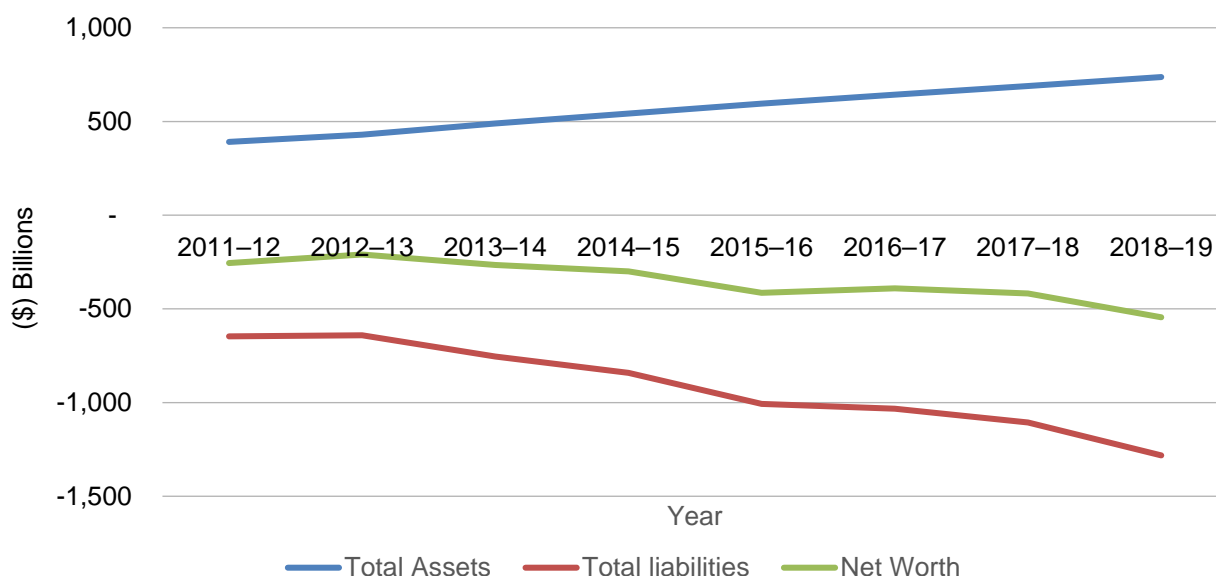
Relevant financial statement item	Primary reason for movement in net worth
Movement in Advances paid – Student loans	<p>The Higher Education Loan Program (HELP) provides loans for student tuition that are repayable to the Commonwealth when the student reaches a prescribed level of personal income. The loans are paid to the relevant university.</p> <p>The increase in loans is largely due to \$6.6 billion in new loans provided in 2018–19, of which \$1.2 billion has been adjusted as the debts are not expected to be repaid. Other large movements include repayment of loans and fair value adjustments of \$4.6 billion as a result of revaluations of loans with discount rates falling below CPI and thus increasing the fair value of the loans.</p>
Increase in Future Fund	<p>Future Fund delivered a return of \$16.7 billion in 2018–19, all returns of Future Fund have been re-invested and will continue to be re-invested until 2027.</p>
Issue of Government securities	<p>The Australian Office of Financial Management, on behalf of the Australian Government, undertakes debt management activities including the issuance of Government securities, such as, Treasury Bonds and Treasury Indexed Bonds.</p> <p>Government securities increased by \$51.5 billion. This is driven by the issuance of new Treasury Bonds of \$50.2 billion and a market value adjustment of \$41.1 billion. These are offset by debts repurchased (\$23.1 billion) and the maturity of securities during the year (\$22.8 billion).</p>

Relevant financial statement item	Primary reason for movement in net worth
Superannuation liability	<p>The Australian Government's defined benefit superannuation liabilities increased by \$102.1 billion mainly due to actuarial revaluation losses of \$92.6 billion due largely to the change in the discount rate applied to determine the fair value of the liability.</p> <p>The liability is sensitive to discount rate movements. The discount rates are based on the effective yield of government bonds rates of the relevant superannuation fund. The long-term government bond rate decreased from between 2.7 and 3.1 percent at 30 June 2018 to between 1.3 and 1.9 per cent at 30 June 2019, thus driving up the superannuation liability.</p>
Changes in other assets and liabilities	<p>Significant movements in assets and liabilities that impacted on net worth, were an:</p> <ul style="list-style-type: none"> • increase of approximately \$15.0 billion in assets, predominantly driven by infrastructure assets for significant development such as NBN Co. • increase of \$6.3 billion in Other employee liabilities, this increase is predominantly due to the increase in Military Compensation liabilities (\$6 billion) driven by an increase in the number of claims as well as average payment per claim. • increase of \$4.5 billion in the liability for Australian currency on issue recognised by the RBA. • increase of \$7.2 billion in Other provisions, this comprises of increases in claims within ATO and DVA.

Source: ANAO analysis of 2018–19 CFS.

1.11 Figure 1.2 illustrates the total liabilities and assets of the Australian Government since 2012–13. Two significant components that impact the Australian Government's total liabilities and total assets are the issue of Government securities, and the value of defined benefit superannuation liabilities. These components are discussed in more detail below.

Figure 1.2: Australian Government's total assets, total liabilities and net worth

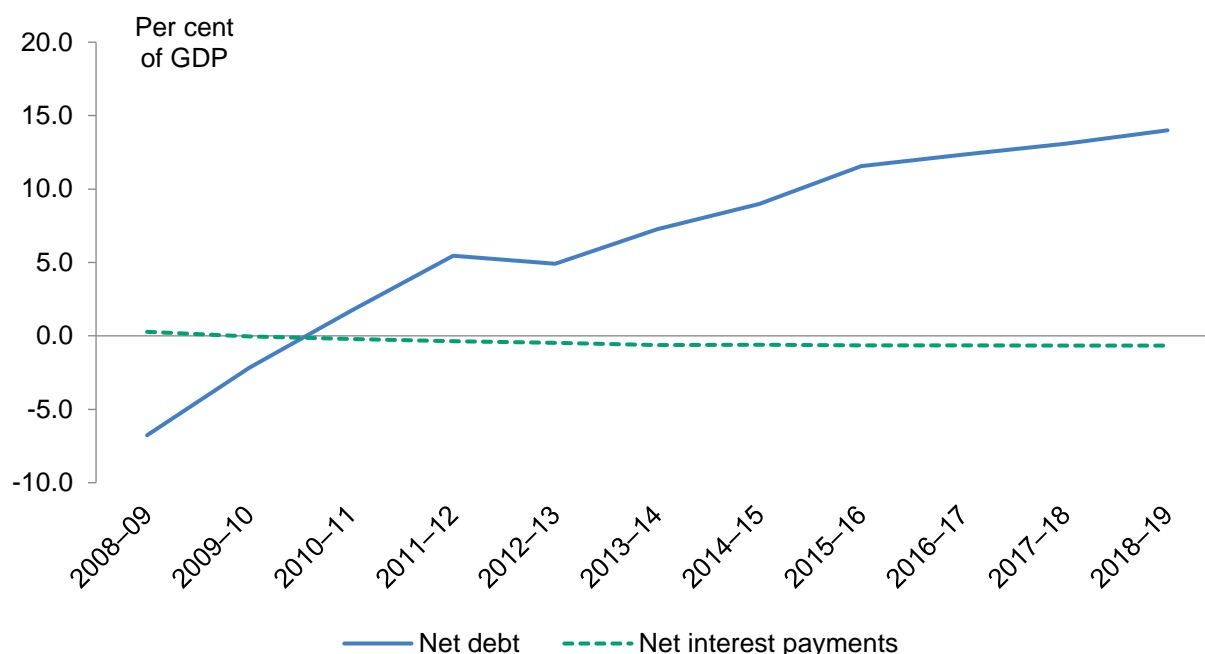


Source: ANAO analysis of 2018–19 CFS.

Government securities

1.12 There has been a steady growth in net debt as a percentage of GDP. Figure 1.3 illustrates the change in the indicators of the net financial position of the Australian Government since 2008–09 as a per cent of GDP.

Figure 1.3: Australian Government net financial position (per cent of GDP)



Source: ANAO analysis of 2018–19 CFS.

1.13 The level of net debt held in Government Securities has grown by \$51.6 billion during the year. The growth in net debt has led to increases in net interest payments from \$12.2 billion in 2017–18 to \$14.2 billion in 2018–19. The low interest rate environment continues to keep the level of increases in net interest payments low, as the level of net debt increases.

Superannuation liabilities

1.14 The Australian Government has superannuation liabilities arising from obligations to employees for defined benefit superannuation schemes. Note 10C of the CFS provides information on the nature of these schemes. The total superannuation liability for these schemes was \$416 billion as at 30 June 2019 (\$314 billion as at 30 June 2018). The significant balances of the reported liability relate to the following schemes that are closed to new members:

- Commonwealth Superannuation Scheme (\$95.5 billion);
- Public Sector Superannuation Scheme (\$134.3 billion);
- Military Superannuation Benefits Scheme (\$125.7 billion); and
- Defence Force Retirement and Death Benefits Scheme (\$55.5 billion).

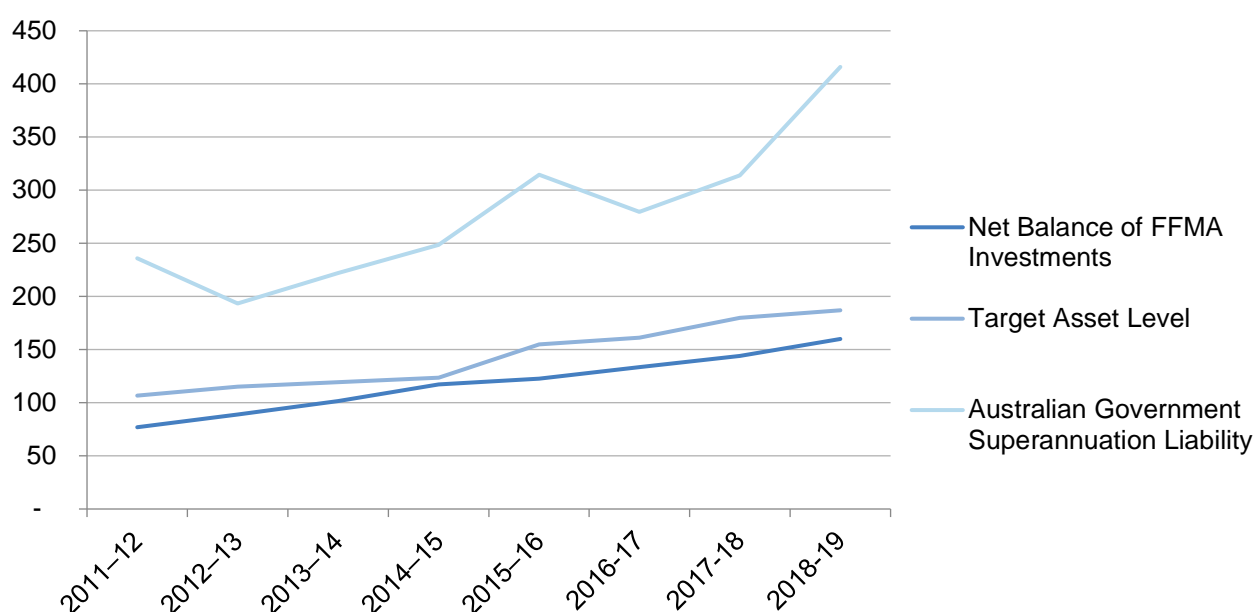
1.15 The primary reason for the increase in the liability is the fall in the discount rate; between 30 June 2018 and 30 June 2019. The long term nature of the superannuation liability means that small changes to the discount rate can have a large impact on the liability.

1.16 The Future Fund was established by the *Future Fund Act 2006* to strengthen the Australian Government's long-term financial position through the acquisition of financial assets and investments to assist in the discharge of the Australian Government's superannuation liabilities.

1.17 The Future Fund Board of Guardians (the Board) is responsible for deciding how to invest the assets of the Future Fund through balancing the risk aspects of each investment mandate to maximise returns.

1.18 Figure 1.4 provides an overview of the balances of the Australian Government superannuation liabilities, the net investment balance of the Future Fund and the target asset level (TAL) from 2011–12 to 2018–19.

Figure 1.4: Total value of Australian Government superannuation liabilities and Future Fund investments; and the target asset level



Source: ANAO analysis of 2018–19 CFS.

1.19 The TAL represents the best estimate of the assets required, together with investment earnings on those assets, that would be sufficient to meet the future unfunded superannuation benefit payments. As such, the discount rate used to calculate the present value of future payments for TAL purposes represents the expected investment return on Future Fund assets. The Australian Government Superannuation liability included in Figure 1.4 reflects the present value of future unfunded superannuation benefits payments discounted using the Commonwealth bond rate, in accordance with Australian Accounting Standards.

1.20 Figure 1.4 shows that the 2018–19 estimate of the TAL is \$186.9 billion¹, which is above the current Future Fund net asset balance of \$162.5 billion. The *Future Fund Act 2006* permits drawdowns, to fund superannuation payments, from 1 July 2020 or when the balance of the Future Fund equals or exceeds the TAL. However, in 2017, the Government announced it would delay drawdowns from the Future Fund until at least 2026–27.

¹ Designated Actuary's Report: Target Asset Level Declaration of 6 July 2018.

Government Financing through Loans and Equity

Investments for policy purposes

1.21 The Australian Government reports on a number of fiscal aggregates including net operating balance and underlying cash. These aggregates exclude cash or accounting movements that are of an investment or financing nature, in particular, investments made for policy purposes and the fair value losses on these investments.

1.22 A number of investments made for policy purposes have elements of economic and social benefits in addition to providing commercial returns. There may be some benefits in segregating the commercial and non-commercial portions of the investments to better reflect the implications on key fiscal aggregates. If this approach was adopted, and where this would be consistent with accounting standards, the non-commercial portion would be reflected as an expense and impact these fiscal aggregates.

1.23 Two key items included in investments made for policy purposes are investments in public corporations and concessional loans.

Investment in public corporations (General Government Sector)

1.24 The Government has increased its investments in Commonwealth controlled entities. Consistent with reporting requirements, these investments do not impact net operating balance or underlying cash, as described in paragraph 1.21 above.

1.25 The majority of these investments are in entities that provide a positive real return to the Commonwealth and are therefore classified as equity injections.² The impact of the operations are not reflected in underlying cash unless dividends are received from the entities. The ongoing valuations of these entities are reflected in the net worth. If the valuation of these entities deteriorates (for example as a result of accumulating losses or the valuation of future cash flows associated with assets procured through equity injections being less than their purchase costs), the deterioration in the position will be reflected in the General Government Sector's net worth but not impact on the underlying cash even if the deterioration was a predictable result of a non-commercial policy decision. Table 1.3 shows investments made in Commonwealth entities where the equity contributed is greater than \$300 million (excluding Snowy Hydro Limited which was purchased from the NSW and Victorian State Governments).

Table 1.3: Commonwealth Entities contributed equity, net assets and GGS fair value

Entity	Contributed Equity \$000	Net assets \$000	Fair value (GGS) \$000
NBN	29,500,000	7,337,000	8,684,000
WSA Co Pty Ltd	594,037	62,079 ^(a)	449,579 ^(a)
Australian Rail Track Corporation ^(b)	3,118,361	3,313,912	3,313,912

2 Department of Finance, *Finance Advice Paper*, July 2018, available from <https://www.finance.gov.au/sites/default/files/2019-10/advice-paper-general-principles-for-recognition-of-expenditure.pdf> [accessed on 29 November 2019].

Entity	Contributed Equity \$000	Net assets \$000	Fair value (GGS) \$000
Australian Naval Infrastructure Pty Ltd	867,673	844,539	844,100
Australian Postal Corporation	400,000	2,313,100	2,224,649
Moorebank Intermodal Company	380,733	242,212	248,136

Source: ANAO analysis of 2018–19 CFS and entity financial statements.

Note a: The differential in these values is due to the land transferred held under finance lease by WSA Co Pty at nil value. The land has a value for GGS purposes.

Note b: Included as significant contributions are due in coming years.

Concessional loans

1.26 There has been a continual growth in loans provided by Government, with a large proportion of these loans being concessional. Concessional loans are loans provided on favourable terms, for example, the interest rate may be below the current market rate for loans of similar risk.

1.27 The Higher Education Loan Program (HELP) is the largest Australian Government concessional loan program which is recorded by the Department of Education but is managed by the Australian Taxation Office.

1.28 HELP provides financial assistance to students to remove up-front cost barriers to tertiary education through income contingent loans. These loans are indexed to CPI and repayments are linked to the ability to pay based on income thresholds.

1.29 When HELP loans are issued, they are recorded as an asset for accounting purposes at the amount the Government expects to be repaid. The amount not expected to be repaid is classified under 'Other economic flows' in the Operating Statement. Other economic flows mainly include revaluations of asset and liabilities. Under AASB 1049, other economic flows are included in some, but not all, fiscal aggregates reported in the CFS. In particular, they are not included in net operating balance and underlying cash. HELP loan amounts not expected to be repaid are not required by the Accounting Standards to be included in these two key fiscal aggregates.

1.30 The amounts not expected to be repaid (due to being income contingent) on new student loans each financial year since 2014–15 are provided in Table 1.4.

Table 1.4: Amounts not expected to be repaid on new HELP loans

	2014–15 (\$b)	2015–16 (\$b)	2016–17 (\$b)	2017–18 (\$b)	2018–19 (\$b)
Debts not to be repaid (new loans)	(1.4)	(2.0)	(1.9)	(1.3)	(1.2)

Source: Australian Government Actuary reports.

1.31 The policy of making HELP and other student loans income contingent has a significant cost to the Australian Government. The fair value of student loans at 30 June 2019 was \$51.7 billion compared to the value of the loans made of \$63.7 billion. The main difference between the value of loans made and the fair value is the \$15.7 billion impairment adjustment due to credit

risk, offset by an increase in as a result of the yield curve movement based on 2018–19 actuarial assessment.³ The \$15.7 billion reflects the accumulated cost to the Government of the making the loans and is not being reflected in the key fiscal aggregates of underlying cash and net operating balance.

1.32 VET Fee HELP has been transferred from the Department of Education to the Department of Employment, Skills, Small and Family Business, therefore management of HELP debts going forward will be split between the two Departments.

1.33 Since 2016–17, three new corporate Commonwealth entities have been established with the purpose of issuing concessional loans. These are in addition to the HELP loans managed by the Australian Taxation Office and other key Commonwealth entities providing loans and debt management being:

- Export Finance Australia (EFA) (formerly Export Finance Investment Corporation) was established in its current form as a separate Commonwealth Entity in 1991. EFA has well-recognised expertise and a track record in providing and managing a significant loan portfolio in pursuit of its objectives to support Australian based companies seeking to grow internationally and overseas infrastructure development.
- Australian Office of Financial Management (AOFM) was established in 1999 and undertakes debt management activities including the issuance of Government securities, such as, Treasury Bonds and Treasury Indexed Bonds. AOFM has extensive experience in the issuance, management and administration of debt

1.34 The new entities are the National Housing Financing and Investment Corporation (NHFIC), established 30 June 2018, the Regional Investment Corporation (RIC) established 8 March 2018 and the Northern Australia Infrastructure Facility (NAIF) established 1 July 2016. NHFIC provides finance to the community housing sector and has leveraged the expertise of Export Finance Australia which provides loan management services and other administrative support to NHFIC. In the year ended 30 June 2019, NHFIC raised \$315 million through a bond issue to fund the significant portion of the loans issued. NHFIC reports the loan transactions in its financial statements and is exposed to the counterparty risks.

1.35 In contrast the NAIF and the RIC do not report loan balances and the primary objective of these entities is to assess loans for infrastructure projects and farm business loans which the Departments of Industry, Innovation and Science and Agriculture respectively enter into. The loans are reported in these departments' financial statements. Due to the structure of the arrangements with each department, neither NAIF nor RIC is exposed to the counterparty risk arising from the loans. The RIC engages Bendigo Bank as a third party provider to provide loan management services. The NAIF utilises the services of Export Finance Australia to provide back office administrative support and expertise.

1.36 Since inception, as at 30 June 2019, these entities have either issued or recommended loans as set out in Table 1.5 below.

3 Australian Government Actuary Report: Reporting for Help Receivable for 2018–19

Table 1.5: Loan transactions during 2018–19

Entity	Number of loans	Summary of loan transactions 2018–19
Northern Australia Infrastructure Facility	6	six loans total \$478.5 million, nil drawn down in 2018–19. \$38.2 million was drawn down for loans approved in 2017–18
National Housing Finance Investment Commission	9	total loan commitments of \$472 million of which \$308 million was settled before 30 June 2019
Regional Investment Corporation	166	\$155 million of loans to Australian farmers. As at 30 June 2019, \$27.6 million had been paid to farm businesses.

Source: ANAO analysis provided by entities and 2018–19 annual reports.

1.37 There is a significant overhead cost associated with establishing and maintaining a commonwealth entity irrespective of the size of that entity. For the period ended 30 June 2019, the reported number of staff, Key Management Personnel (KMP) and board members for each of the entities discussed above is set out in Table 1.6 including the total employee expenses cost and reported cost of KMP.

Table 1.6: 2018–19 summary of expenditure relating to employees, KMP and board members

Entity	Total FTE	Total Employee Expenses (\$'000)	No. of KMP	No. of Board members ^(a)	Total KMP remuneration (\$'000)
Australian Office of Financial Management	37	7,017.0	1	does not have a board	455.0
Export Finance Australia	97.7	19,500.0	14	8	3,293.5
Northern Australia Infrastructure Facility	25	7,202.0	10	7	1,627.1
National Housing Finance Investment Commission	15	2,910.0	8	7	782.3
Regional Investment Corporation	16	1,686.7	7	5	570.4

Note a: Board members are included in the number of KMP.

Source: ANAO analysis of 2018–19 annual reports.

1.38 In 2018–19, the North Queensland Livestock Recovery Agency (NQLIRA), a non-corporate Commonwealth entity, was established to provide strategic leadership and co-ordination of the

Commonwealth's recovery and reconstruction efforts in the area of north, far north and western Queensland affected by heavy rainfall and widespread flooding in early 2019.

1.39 For the 2018–19 reporting period, NQLIRA was in the establishment phase. Nevertheless it has actively consulted with the RIC (and Department of Agriculture) on the establishment of RIC's AgRebuild loan (North Qld flood) product, and with Queensland Rural and Industry Development Authority on the establishment and administration under the National Partnership Agreement of the Commonwealth's \$300 million restocking, replanting and on-farm infrastructure grant program. Going forward it will also be providing concessional loans through approved deposit-taking institutions.

1.40 Noting that there is significant expertise involved in the assessment and ongoing management of loans, there is an opportunity for government to draw on existing expertise and structures to provide these services as new initiatives are identified. The arrangements entered into by the above entities, indicate that opportunities have been utilised to draw on existing expertise and structures to provide back office and administrative support.

Table 1.7: Definitions of terms used

Name	Definition
Net operating balance	This is calculated as income from transactions minus expenses from transactions. It is equivalent to the change in net worth arising from transactions.
Operating result	Income less expenses, excluding the components of other comprehensive income. Also known as 'profit and loss'.
Other economic flows	Changes in the volume or value of an asset or liability that do not result from transactions (e.g. revaluations).
Comprehensive result	Total change in net worth before transactions with owners in their capacity as owners. Also known as 'total change in net worth'.
Fiscal balance	The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Also known as net lending/ (borrowing).
Net worth	Assets less liabilities and shares/contributed capital.
Net debt	Net debt is equal to gross debt minus the stock position in financial assets corresponding to debt instruments.
Net financial worth	Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.
Government securities	All securities issued by the Australian Government at tenders conducted by the AOFM. They comprise Treasury bonds, Treasury notes, Treasury indexed bonds and, previously, Treasury adjustable rate bonds.

Name	Definition
Investments for policy purposes	Acquisitions of financial assets for policy purposes are distinguished from investments by the underlying government motivation for acquiring the assets. Where assets are acquired for the purpose of implementing or promoting government policy (e.g. loans to assist industry development), the acquisition of the assets is treated as being for policy purposes. Acquisition of financial assets for policy purposes includes government policies encouraging the development of certain industries or assisting citizens affected by natural disaster.
Cash surplus/ deficit	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less the value of assets acquired under finance leases and similar arrangements.
Underlying cash balance	Net cash receipts from operations (excluding net Future Fund earnings), less net capital investment (including by finance lease).

Source: Australian Bureau of Statistics (2015). Australian System of Government Finance Statistics: Concepts, Sources and Methods; AASB 101 Preparation of Financial Statements, paragraph 5 and 7; AASB 1049 Whole of Government and General Government Sector Financial Reporting, Appendix A; and Reserve Bank of Australia (2017). Glossary RBA. [online] Available at: <<https://www.rba.gov.au/glossary/>> [Accessed 15 Nov. 2018].

2. Financial audit results and other matters

Chapter coverage

This chapter provides:

- a summary of the 2018–19 auditors' reports issued by the ANAO;
- a summary of observations regarding entities' internal control environments;
- an analysis of the quality and timeliness of financial statements preparation;
- an analysis of the timeliness of entities' financial reporting;
- a summary of the reporting of Key Audit Matters;
- an analysis of the financial sustainability of material entities;
- a review of executive remuneration reporting;
- an analysis of arrangements for human resource; and
- a summary of findings identified during the course of the 2018–19 financial statements audits of entities.

Conclusion

The ANAO issued 240 unmodified auditors' reports, including the Australian Government's Consolidated Financial Statements (CFS), as at 29 November 2019. A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting. Sixty-nine per cent of entities delivered financial statements in line with an agreed timetable.

The ANAO noted an increase in findings related to processes supporting financial statements preparation; reduced delivery of draft financial statements in line with entity financial statements project plans; and an increase in the number of audit differences reported to entities in 2018–19 compared to 2017–18. These observations indicate a reduction in the quality of the financial statements preparation processes and a need to enhance quality assurance frameworks over the financial statements process.

The financial statements were finalised and auditor's reports issued for 82 per cent of entities within three months of the financial year end. On average it took entities an additional 39 days to table their annual reports in Parliament. Seventy-six per cent of entities that are required to table an annual report in Parliament, tabled prior to the date of the portfolio's Senate supplementary budget estimates hearing commenced. Twenty per cent of entities tabled after the hearing date which includes three per cent of entities that had not tabled an annual report as at 29 November 2019.

The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* for the 26 entities included in Auditor-General Report No.46 *Interim Report on Key Financial Controls of Major Entities* and the CFS. In 2018–19 a total of 60 key audit matters (KAM) were included across the 26 entities and five KAM were included in the CFS auditor's report.

The PGPA rule was amended to require additional remuneration disclosures in annual reports for key management personnel, senior executives and other highly paid staff. While some variances

were noted between the key management personnel disclosures in the financial statements and those in the annual report, all entities have included the additional disclosures.

A review of the provision of human resource (HR) functions across the Commonwealth noted that there is a variety of HR service models adopted and entities have adapted arrangements specific to organisational requirements. Overall, there is an opportunity to strengthen governance arrangements by incorporating greater detail in agreements relating to HR services. It is recommended that agreements clearly articulate roles and responsibilities and require service providers to issue formal certifications, improving an entity's understanding of control effectiveness and unmitigated risks. In addition in the absence of available benchmarking data, it is difficult for entities to determine what efficiencies have been gained from engaging in shared services arrangements.

An analysis of the operating results and balance sheet positions for material entities concluded that the financial sustainability for the majority of those entities was not at risk. Nevertheless, there would be benefit in the Government developing performance targets or benchmarks. This would enable an entity to assess its own financial sustainability against agreed parameters over time, and against like entities.

The ANAO reported three significant, 21 moderate and 160 minor audit findings to entities at the completion of the final audits. Three significant legislative breach were also reported during 2018–19. The highest number of significant and moderate findings continue to be in the categories of:

- compliance and quality assurance frameworks supporting program payments and financial reporting; and
- management of IT security and user access, in particular the management of privileged users.

Introduction

2.1 The Auditor-General is required to complete the financial statements audits of all Australian Government entities and controlled subsidiaries on an annual basis.⁴ This chapter summarises the results of the 2018–19 financial statements audits and provides commentary on specific topics which relate to the governance and administration of entities.

Summary of 2018–19 auditors' reports

2.2 A comparison of the number and type of auditors' reports issued by the Auditor-General and his delegates in 2017–18 and 2018–19 (as at 29 November 2019), including the CFS is included at Table 2.1. Additional detail relating to the financial reporting frameworks applicable to the Australian Government and the form and content of auditors' reports is outlined in appendices 3 and 4.

4 The Norfolk Island Health and Residential Aged Care Service (NIHRACS) is deemed to be Commonwealth controlled and is reported by the Department of Infrastructure, Transport, Cities and Regional Development as an administered investment. NIHRACS is a body corporate with perpetual succession under the *Norfolk Island Health and Residential Aged Care Act 1985*, a Norfolk Island continued law under section 16A of the *Norfolk Island Act 1979 (Cth)*. The *Public Governance, Performance and Accountability Act 2013* does not apply to NIHRACS as a result the Auditor-General is not appointed as the auditor under the NIHRACS enabling legislation. Norfolk Island Legislation also does not require the ANAO to act as the auditor. The ANAO undertakes the audit as an audit by arrangement under the *Auditor-General Act 1997*.

Table 2.1: Summary of auditors' reports issued and outstanding^a

Auditor's report	2018–19	2017–18
Unmodified	240	240
Included an emphasis of matter	1	3
Included a Report on other legal and regulatory requirements	0	0
Modified	0	0
Auditors' reports issued	240^(a)	240
Not yet issued	8 ^(b)	1 ^(c)
Total number of financial statements audits	248^(d)	241

Note a: This table provides a summary of the results as at 29 November 2019.

Note b: As at 29 November 2019 the financial statements had not been finalised for the following entities: Gagudju Crocodile Hotel Trust; Gagudju Lodge Cooida Trust; IBA Tourism Asset Management Pty Ltd; Kakadu Tourism (GCH) Pty Ltd; Kakadu Tourism (GLC) Pty Ltd; Northam Solar Project Partnership; Northern Land Council; and Tjapukai Aboriginal Cultural Park Partnership.

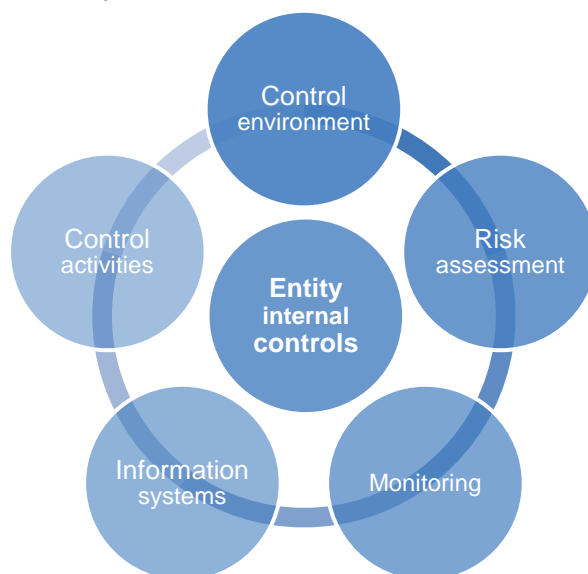
Note c: As at 30 November 2018 IBA Tourism Asset Management Pty Ltd had not finalised the 2017–18 financial statements.

Note d: Subsequent to the 30 June 2019 it was identified that the National Land Council has two subsidiaries which are required to be audited by the ANAO for the year ended 2018–19 and prior year(s). These entities are the North Australia Aboriginal Corporation and the Northern Australian Aboriginal Charitable Trust. As at 29 November 2019, the 2018–19 and prior year audit(s) have not yet commenced, and are not included in the analysis provided by this report.

Source: 2017–18 and 2018–19 ANAO auditors' reports.

Internal control environment

2.3 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 elements of an entity's internal controls supporting the preparation of financial statements. This approach provides a basis for designing and implementing responses to the assessed risk of material misstatement. Figure 2.1 outlines these elements.

Figure 2.1: Elements of entity internal controls

Source: ASA 315 *Identifying and assessing the risk of material misstatement through understanding the entity and its environment*, paragraph A58.

2.4 In assessing the effectiveness of an entity's control environment that supports the preparation of financial statements, the ANAO examines aspects of entities' governance structures. The ANAO considers whether management has established frameworks and processes that promote positive attitudes, awareness and actions concerning the entity's internal controls and the importance of these to the entity. The main elements reviewed include: governance structures relevant to the preparation of the financial statements; audit committee and assurance arrangements; and systems of authorisation, recording and procedures.

2.5 An effective internal control framework provides a level of assurance that entities are able to prepare financial statements that are free from material misstatement.

2.6 For the majority of entities, at the completion of the final audits, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that are free from material misstatement. For 16 entities⁵, except for particular finding/s outlined in chapter 4, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement. For the Australian Digital Health Agency; the Department of Defence; and the Northern Land Council a number of findings were identified which reduced the level of confidence that could be placed on key elements of internal control and that financial statements can be prepared free from material misstatement.

Quality and timeliness of financial statements preparation

2.7 The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. In the public sector, the users of financial statements include the Parliament, Ministers, and the community. 'The objectives of a financial statements audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, or government policy requirements may result in additional objectives'.⁶

2.8 The ANAO applies these objectives in undertaking financial statements audits and considers areas that may give rise to risks of non-compliance with mandatory reporting requirements or risks relating to effectiveness of internal control when planning and performing the audit. Financial statements preparation is often a complex task, involving compliance with a large number of requirements established by Australian accounting standards and the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (the FRRs).

2.9 In order to provide relevant and reliable financial information to the users, entities should prepare quality financial statements in a timely manner to support meeting legislative reporting obligations including tabling of annual reports. The preparation of quality financial statements

5 Australian Broadcasting Corporation; Australian Federal Police; Australian Nuclear Science and Technology Organisation; Bureau of Meteorology; Clean Energy Regulator; Defence Housing Australia; Departments of: Agriculture; Communications and the Arts; Education; Employment, Skills, Small and Family Business; Health; and Home Affairs; Director of National Parks; Moorebank Intermodal Company Limited; National Disability Insurance Agency; and National Health and Medical Research Council.

6 Auditing Standard (ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*: paragraph A 73.

will be evidenced by adherence to a well-defined financial statements preparation timetable with minimal adjustments required to the financial statements throughout the audit process.

2.10 Each year the ANAO reports on the quality of financial statements preparation to entities. Where findings are raised relating to weaknesses in controls and processes supporting financial statements preparation they are incorporated within the compliance and quality assurance category in the audit findings section of this chapter. A review of the findings relating to weaknesses in processes supporting financial statements preparation has been performed across the last four years.

2.11 At the completion of the 2018–19 financial statements audit, the ANAO reported one significant, four moderate and 14 minor findings relating to processes supporting financial statements preparation. This is an increase from the prior year (2017–18: nil significant, two moderate and eight minor findings) and represents the highest number of findings related to the quality of financial statements preparation in the past four years. The significant finding in 2018–19 was reported to the Australian Digital Health Agency and was the only significant finding in this category reported over the last four years. Further details of this finding have been outlined in chapter 4 paragraphs 4.10.33– 4.10.35.

2.12 In addition to the audit findings raised, commentary was included in the final management letters for a further 10 entities indicating that there were opportunities to improve financial reporting practices. In total, the ANAO reported to 28 entities findings or commentary relating to weaknesses in processes supporting financial statements preparation.⁷

2.13 In 2018–19, the ANAO assessed the timeliness and quality of financial statements preparation, the results of which are consistent with the increase in the number of financial statements preparation findings reported. Timeliness in preparation was assessed by comparing the date of delivery of the financial statements to agreed timeframes. The timeframe was established by entities and agreed with audit teams for the delivery of financial statements.

2.14 Timeliness in financial statements preparation declined compared to the prior year. Delivery of financial statements in line with the agreed timeframes was achieved by 69 per cent of entities (2017–18: 82 per cent), with a further 18 per cent (2017–18: nine per cent) delivered within one week. The remaining 13 per cent (2017–18: nine per cent) provided their financial statements within 13 days on average of the agreed timeframe (2017–18: 14 days).

2.15 The quality of financial statements preparation was assessed by considering the number of audit differences identified. Throughout the financial statements audit process, audit differences, other than those considered trivial, are collated. Entities are encouraged to adjust all audit differences. Where adjusted and unadjusted audit differences⁸ have been identified, details have been included in the relevant portfolio section of chapter 4.

2.16 The total number of audit differences in 2018–19 (adjusted and unadjusted) increased by seven per cent from 2017–18. There was a significant increase in the number of unadjusted audit differences in 2018–19 with 120 unadjusted audit differences reported (2017–18: 89). Of these

7 Two minor findings were reported to one entity.

8 Audit differences are reported in the following two categories: adjusted audit differences are those misstatements that are corrected in the signed financial statements; and unadjusted audit differences are those that have not been corrected.

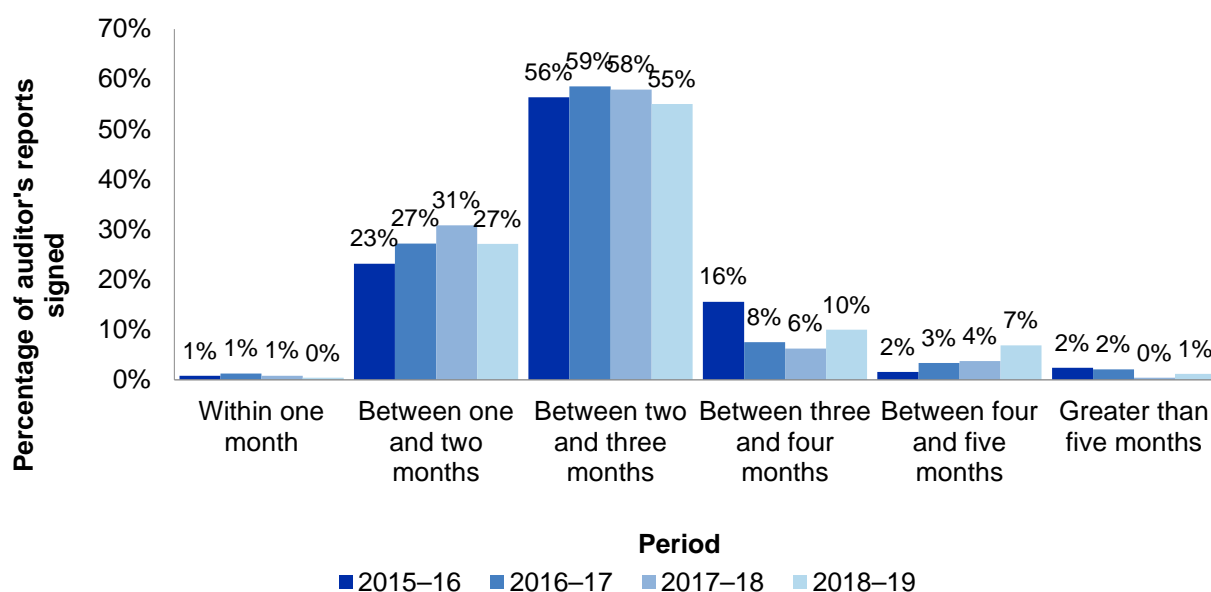
unadjusted differences, 52 related to material entities (2017–18: 51). The unadjusted differences, individually and in aggregate, did not result in a material misstatement to the financial statements of the audited entities.

2.17 The decrease in timeliness, increase in audit differences and increase in findings indicate a reduction in the quality of financial statements preparation processes for a number of entities in 2018–19. The ANAO recommends that entities bring renewed focus to their quality assurance frameworks, to ensure that significant accounting policies, and estimates underpinning financial statements are reviewed as early as possible in the preparation process. In their governance role, audit committees are encouraged to actively support management through the critical evaluation of position papers and holding entities to account for delivering on agreed timetables. In addition, the provision of a detailed variance would support the committee’s review of financial statements at year-end.

Timeliness of financial reporting

2.18 The finalisation of financial statements preparation and audit is marked by the signing of financial statements and associated auditor's report.

Figure 2.2: Timeframes for financial statements signing from the end of financial year^(a)



Source: ANAO data.

Note a: In 2018–19, the financial statements and auditor’s report for Note Printing Australia was signed in July 2019 and is included within one month category.

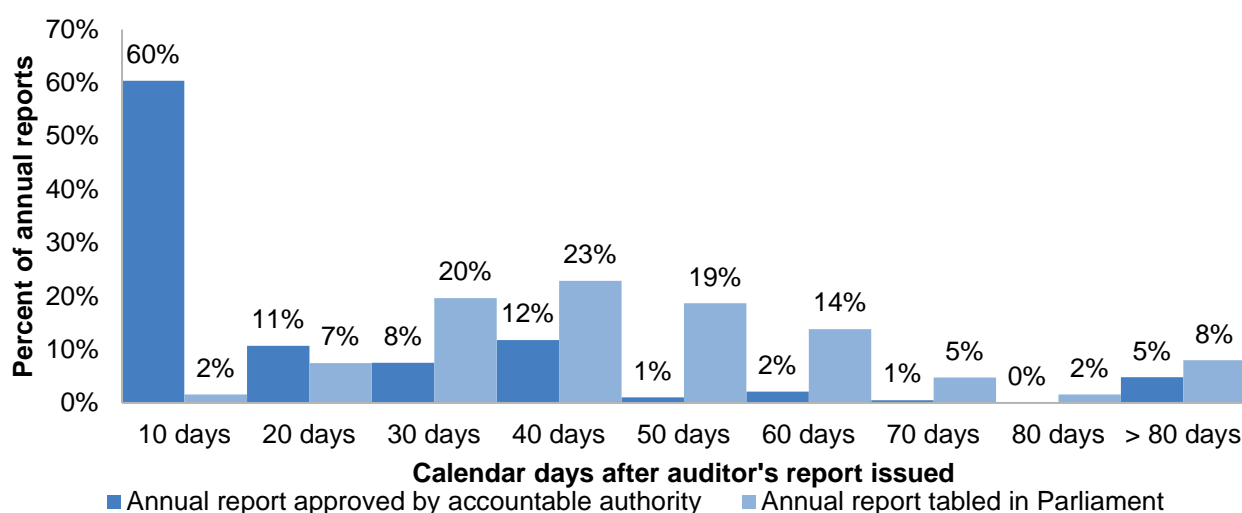
2.19 Figure 2.2 shows there has been a reduction in the percentage of financial statements signed and the issue of the associated auditor’s reports within two months of the reporting year end (2018–19: 27 per cent compared to 2017–18: 32 per cent). Eighty-two per cent of financial statements were signed and associated auditor’s report issued within three months of year-end (2017–18: 90 per cent). The ANAO issued 95 per cent (2017–18: 99 per cent) of auditor’s reports within two business days of the signing of the financial statements by the accountable authority.

2.20 Annual reports inform the Parliament, the community and other stakeholders about the performance of entities. The publication of the annual report containing the audited financial

statements is a key means to meet accountability and legislative obligations. Of the 248 mandated financial statements audits, 187 are required to present annual reports to the responsible minister for tabling in the Parliament.

2.21 Annual reports are approved by the entity's accountable authority before being provided to the Minister and tabled in Parliament. The PGPA Act section 43(4) states that annual reports are to be provided to the relevant Minister by the 15th day of the fourth month after the end of the reporting period. The Public Governance, Performance and Accountability (PGPA) review⁹ proposed earlier tabling of annual reports. If this is introduced entities may need to bring forward the preparation of financial statements.

Figure 2.3: Timeframe for tabling annual reports from issuance of auditor's report



Source: ANAO analysis.

2.22 Figure 2.3 shows the time in days between the issue of the auditor's report to the:

- approval of the annual report by the accountable authority; and
- tabling of the annual report in Parliament.

2.23 The analysis shows, that accountable authorities approved 60 per cent (2017–18: 54 per cent) of annual reports within 10 days of the issue of the auditor's report with an average of 12 days (2017–18: 15 days). The average days between the accountable authority's approval of the annual report and tabling in Parliament was 28 days (2017–18: 28 days).

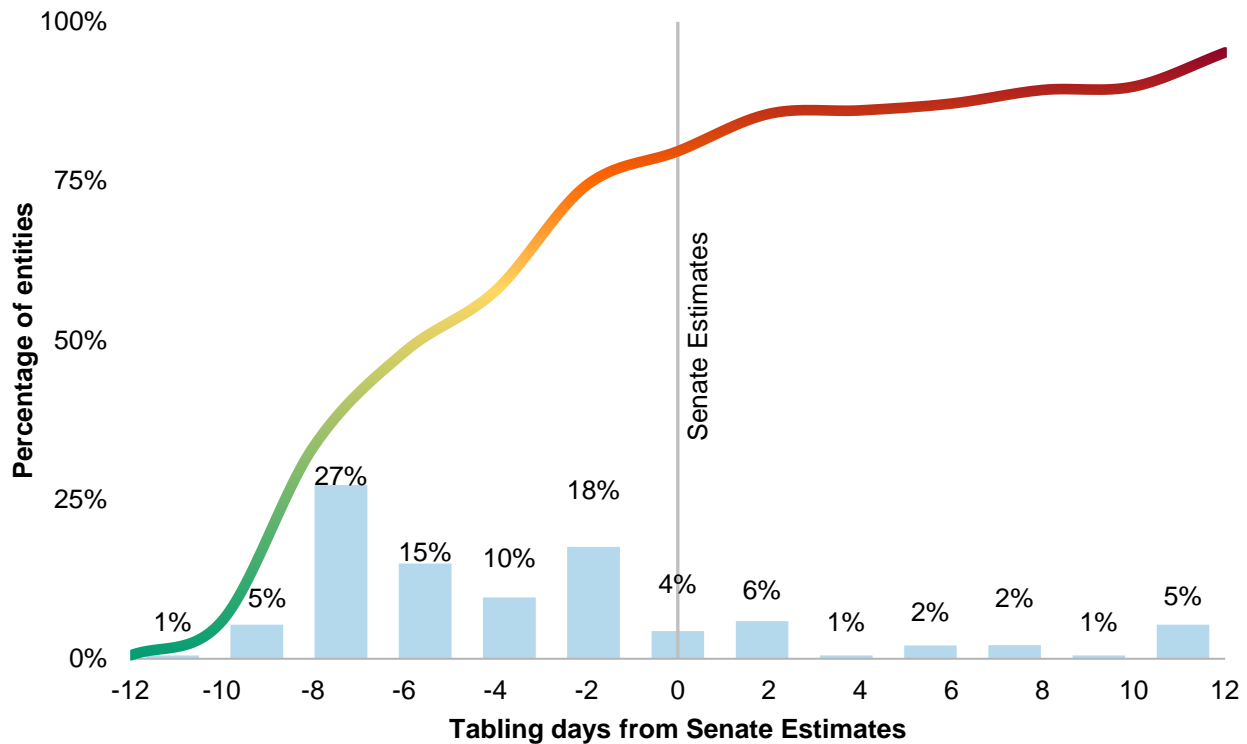
2.24 Twenty-nine per cent of entities tabled within 30 calendar days from the issue of the auditor's report (2017–18: 28 per cent). The tabling of annual reports in Parliament occurred on average 39 days (2017–18: 43 days) after the auditor's report was issued. There are 9 entities that are expected to table an annual report which have not tabled the report as at 29 November 2019.

2.25 Annual reports should be tabled in Parliament early enough to allow sufficient time for review before Senate supplementary budget estimates hearings. The Resource Management Guide 135 *Annual report for non-corporate Commonwealth entities* (RMG 135) section 18

⁹ *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, September 2018.

indicates that it is best practice for annual reports to be tabled before supplementary budget estimates hearings if they occur before 31 October.

Figure 2.4: Annual report tabling date in relation to Senate supplementary budget estimates hearing ^(a)



Source: ANAO analysis.

Note a: The remaining three per cent relates to annual reports yet to be tabled in Parliament

2.26 Figure 2.4 shows that, in line with best practice, 76 per cent (2017–18: 64 per cent) of annual reports were tabled before the date of the relevant supplementary budget estimates hearing date. A further four per cent tabled on the date of the portfolio’s hearing (2017–18: five per cent). There were three material entities (2017–18: 13) across three portfolios which tabled annual reports after the portfolio’s Senate supplementary budget estimate hearing date as listed in Table 2.2. The National Capital Authority did not table its annual report prior to its portfolio’s Senate estimates date in either 2018–19 or 2017–18. The remaining entities reported in the table below, for 2017–18, tabled prior to the portfolio’s Senate estimates hearing dates.

Table 2.2: Annual Reports tabled after the portfolio's Senate supplementary budget estimate hearing for material entities

Reporting Entity	Date auditor's report issued	Approval of annual report ^(a)	Annual report tabling date	Senate estimates date ^(b)
Health portfolio				
Department of Health	23 Aug 19	27 Sept 19	24 Oct 19	23 Oct 19
Industry, Innovation and Science portfolio				
Australian Nuclear Science and Technology Organisation	15 Oct 19	1 Nov 19	19 Nov 19	24 Oct 19
Infrastructure, Transport, Cities and Regional Development portfolio				
National Capital Authority	3 Sept 19	10 Oct 19	7 Nov 19	21 Oct 19

Note a: The date of the accountable authority's approval of the annual report is taken as either the date on the transmittal letter or the date the board approved the annual report.

Note b: This date is the first appearance for the portfolio at the 2019–20 Supplementary budget estimates hearing.

Key audit matters

2.27 *ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report* (ASA 701) has been applicable from 2016–17. While ASA 701 only requires KAM reporting for listed entities, the Auditor-General considers including KAM to be good practice for financial statements auditing. The Auditor-General adopted the inclusion of KAM in 2016–17 and this has continued, as appropriate, in 2018–19 for the 26 entities included in Auditor-General Report No.46 *Interim Report on Key Financial Controls of Major Entities* and also in the CFS from 2017–18.

2.28 The entities for which KAM are included in addition to the CFS are:

- Australian Office of Financial Management;
- Australian Postal Corporation;
- Australian Taxation Office;
- Departments of: Agriculture; Communications and the Arts; Defence; Education; Employment, Skills, Small and Family Business; the Environment and Energy; Finance; Foreign Affairs and Trade; Health; Home Affairs; Industry, Innovation and Science; Infrastructure, Transport, Cities and Regional Development; Parliamentary Services; the Prime Minister and the Cabinet; Social Services; the Treasury; and Veterans' Affairs;
- Future Fund Management Agency and the Board of Guardians;
- National Disability Insurance Agency;
- NBN Co Limited;
- Reserve Bank of Australia; and
- Services Australia.

The audit of the Attorney-General's Department, did not give rise to any KAM being included in its auditor's report. Further details regarding each of these entities' individual KAM are provided in chapter 4 of this report.

2.29 The purpose of communicating KAM is to provide greater transparency about the audit that was performed. Communicating KAM helps users of financial statements better understand those matters that, in the auditor's professional judgement, were of the most significance in the audit of the financial statements. The audit opinion is made for the financial statements as a whole. Accordingly, the description of KAM does not provide a separate conclusion on the matter being described, nor does it imply that the matter has been appropriately resolved in forming the overall opinion.

2.30 In 2018–19, a total of 60 KAM were reported across the 26 entities. The number of KAM per entity ranged from one to four. A number of factors were considered in determining KAM including reliance on third parties for data and balances that are underpinned by significant judgements and assumptions.

2.31 The majority of KAM in 2018–19 related to the valuation assertion for assets and liabilities such as:

- loans and other receivables;
- property plant and equipment;
- investments;
- intangibles;
- provisions; and
- concessional loans.

2.32 Other KAM included completeness and accuracy of revenue and expenses for benefits payments and other payments. The ANAO also included KAM in the auditor's report for the CFS. There were five KAM identified which have been reported in Table 1.1.

2.33 Auditors' reports are made public through inclusion in Commonwealth entities' and Commonwealth companies' annual reports. Through the use of KAM, the ANAO is able to draw the reader's attention to those matters, which in our professional judgement, were of the most significance in the audit of the financial report of the current period. While KAM, do not of themselves, provide a separate opinion on items in the financial report, the auditor's report includes a summary of how the key audit matter was addressed.

Financial sustainability

2.34 Integral to an audit is an understanding of an entity and its environment, including an entity's financial sustainability. Financial sustainability measures the ability of an entity to manage its financial resources so it can meet present and future spending commitments. This can provide an indication of financial management issues or can point to an increased risk that entities may require additional government funding.

2.35 The Joint Committee of Public Accounts and Audit (JCPAA) has conducted two recent inquiries into the ANAO's reports to parliament in relation to financial statements.¹⁰ In the first report the committee recommended that:

the Department of Finance, in consultation with the ANAO work to develop appropriate and robust performance targets and benchmarks, which can be publicly reported, to enable Commonwealth entities to assess their own financial sustainability against agreed parameters over time and against like entities.¹¹

2.36 The second JCPAA report recommended that:

the Australian National Audit Office consider reporting back to the Committee on how the rollout of digitised annual reports by the Department of Finance might assist in the development of performance targets or benchmarks to enable Commonwealth entities to assess their own financial sustainability against agreed parameters over time and against like entities.

2.37 The Department of Finance (Finance) has set up a portal¹² for capturing and reporting annual reports for all Commonwealth entities and companies. This portal allows information to be captured and tagged to enable users to compare and contrast financial results and mandatory annual reporting requirements across all entities. Finance included four financial ratios on the Transparency portal which are listed below. The four ratios and definitions as applied by Finance are:

- The Total Liabilities to Total Assets ratio indicates the level of ownership of the entity's assets, but can also be used to gain an understanding of the entity's net equity.
- The Financial Assets to Total Liabilities ratio indicates the extent to which an entity's liabilities can be covered by its financial assets.
- The Current Ratio shows whether an entity's assets expected to be recovered in no more than 12 months are greater than its liabilities that are expected to be settled in no more than 12 months (consistent with the *Public Governance Performance and Accountability (Financial Reporting) Rule 2015*). It is a liquidity ratio that indicates whether the entity is likely to be able to pay its short term liabilities as they fall due.
- The Capital Turnover Ratio indicates whether an entity is replacing its assets at a sustainable rate. That is, whether new or replacement assets are being purchased at a greater rate than they are being used.¹³

2.38 In the absence of government guidance, the ANAO has developed parameters based on generally accepted concepts of financial sustainability and applied these to the operating results and balance sheets of the 63¹⁴ material entities. The balance sheet ratios analysed below are consistent with the first two ratios developed by Finance as outlined above.

10 The Joint Committee of Public Accounts and Audit Report 463: *Commonwealth Financial Statements – Inquiry based on Auditor-General's report 33 (2016–17)* and The Joint Committee of Public Accounts and Audit Report 477: *Commonwealth Financial Statements – Second Report, and Foreign Investment in Real Estate – Inquiries*. based on Auditor-General's Reports 24 and 48 (2017–18).

11 The Joint Committee of Public Accounts and Audit Report 463: *Commonwealth Financial Statements – Inquiry based on Auditor-General's report 33 (2016–17)* paragraph 2.36.

12 Transparency portal available from www.transparency.gov.au [accessed 28 October 2019].

13 Transparency portal available from <https://www.transparency.gov.au/financial-ratios> [accessed 28 October 2019].

14 On 2 March 2019, the North Queensland Livestock Industry Agency was established as a material government agency, however, as at 30 June 2019 all expenditure incurred to establish the agency were funded from the Department of Prime Minister and Cabinet, for this reason they have not been included in this analysis.

2.39 The ANAO has performed an analysis of operating results consistent with parameters used in prior years. These parameters¹⁵ are described in Table 2.3 and Table 2.4 below. In calculating the ratios a number of adjustments have been made to inputs to achieve a more meaningful indicator as noted below.

Analysis of operating results

2.40 The responsibilities of Australian Government entities are established by legislation, or determined by government, and include responsibilities for functions such as policy development, regulatory oversight and/or service delivery. In performing these responsibilities, entities are expected to manage the public resources made available to them efficiently and effectively.

2.41 A key measure of an entity's financial management is its operating result for the year. Although the operating result is not the sole measure of performance of a public sector entity, a history of large deficits or surpluses in a not-for-profit Commonwealth entity could suggest the need for additional or refocused funding, elimination of non-value adding costs, and/or improved financial management.

2.42 Similarly, in the case of for-profit entities and those with quasi-commercial operations, there is an expectation that financial management focuses on meeting expected returns.¹⁶ As a result, any entity in this category averaging a large deficit should be considered more closely.

2.43 Against this background, the ANAO analysed the operating results of all material entities over a five year period: 2014–15 to 2018–19. This analysis is based on reported surpluses or deficits after adjusting for unfunded expenses¹⁷, where relevant, highlighting the full cost of operations. Of the 63 entities considered in this analysis, 39 are not-for-profit and 24 are for-profit or not-for-profit entities which have quasi-commercial operations or departmental functions operating on a for-profit basis.

2.44 For the purposes of this analysis, material entities are grouped into three operating result categories as outlined in Table 2.3 below.

15 These parameters have been applied to entity operations classified as departmental. It excludes items not under the control of entities that are classified as administered items.

16 In the context of for-profit Commonwealth entities, the equivalent term for a surplus is profit and for a deficit is loss.

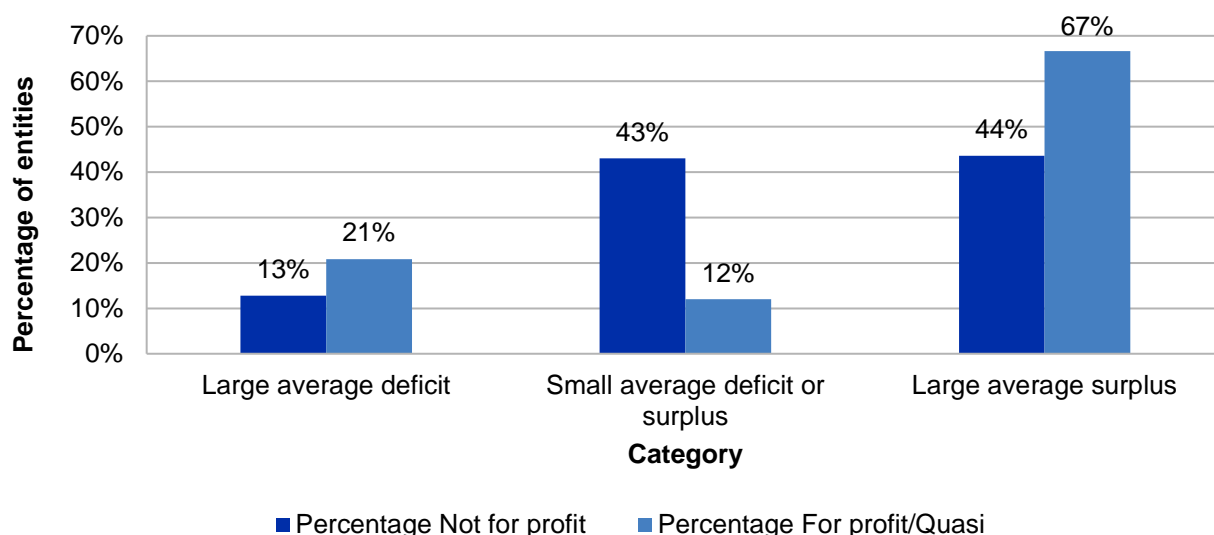
17 The Government provides funding for non-operating costs (for example, replacement and capitalised maintenance of existing departmental assets) to non-corporate Commonwealth entities via departmental capital budgets, funded through equity. Corporate Commonwealth entities continue to be funded for depreciation, amortisation and make-good expenses except for entities designated as Collection Institutions which are not funded for depreciation on heritage and cultural assets.

Table 2.3: Operating result category

Category	Parameters
Large average deficits	An entity's average deficit for the past five years is greater than one per cent of total expenses.
Small average deficits or surpluses	An entity's average deficit or surplus for the past five years is less than one percent of total expenses.
Large average surpluses	An entity's average surplus for the past five years is greater than one per cent of total expenses.

Source: ANAO developed parameters.

2.45 Figure 2.5 demonstrates 43 per cent (2017–18: 49 per cent) of material not-for-profit entities were classified as achieving small average deficits or surpluses and managing within their breakeven mandate. Sixty-seven per cent (2017–18: 73 per cent) of for-profit/quasi-commercial entities recorded large average surpluses.

Figure 2.5: Operating result analysis

Source: ANAO analysis of material entities' operating results.

2.46 Twenty-one per cent (2017–18: 18 per cent) of for-profit/quasi and 13 per cent (2017–18: 11 per cent) of not-for-profit entities have averaged large deficits and 44 per cent (2017–18: 40 per cent) of not-for-profit entities have averaged large surpluses. The following discussion focuses on the common drivers for these entities' large average surpluses and large average deficits.

Large average deficit

2.47 For the period 2014–15 to 2018–19 the following for-profit entities recorded large average deficits: Moorebank Intermodal Company Limited; NBN Co Limited; Australian Naval

Infrastructure Pty Ltd, and WSA Co Ltd. All four entities are in the build phase of large infrastructure projects, requiring significant investment which has led to the operating losses.¹⁸

2.48 Five not-for-profit entities being the Australian Broadcasting Corporation, Australian Federal Police, Australian Security Intelligence Organisation, Department of Industry, Innovation and Science, and the National Capital Authority also recorded a large average deficit during the period.

2.49 The large average deficits of the Australian Federal Police¹⁹ and the Australian Security Intelligence Organisation²⁰ were mainly related to the impact of the valuation of employee provisions as a result of a decrease in the rate used to calculate the employee provisions in 2018–19.

2.50 Consistent with 2017–18, the large average deficit of the Department of Industry, Innovation and Science is related to the 2017–18 budget announcement where the Department of Industry, Innovation and Science transferred the Australian Astronomical Observatory functions to the Australian National University and Macquarie University resulting in significant asset write-offs, as part of the '*Maintaining Australia's Optical Astronomy Capability*' measure.

2.51 One off factors that occurred in a prior year, and resulted in a significant deficit in that year have continued to have an effect on the five year average up to 2018–19 for two entities. In 2017–18, the operating result of the Australian Broadcasting Corporation was affected by the initial recognition of a building maintenance provision of \$30.7 million as a result of a Building Code of Australia Fire Safety Standards review. The operating loss in 2017–18 for the National Capital Authority, largely related to works on the National Police Memorial, where insurance funds were received (and recognised in the financial statements) in 2015–16 but the majority of the work was undertaken in 2017–18.

Large average surpluses

2.52 As outlined in Figure 2.5, 44 per cent of material not-for-profit entities reported average surpluses of more than one per cent of total expenses over the period of analysis (2017–18: 40 per cent). The following discussion focuses on the common drivers for these entities' large average surpluses.

2.53 Cultural institutions represented a quarter of the entities in the large average surplus category.²¹ The receipt of goods or donations for no or nominal consideration and bequests of cash are factors impacting the average surplus. Cultural institutions frequently receive gifts of heritage and/or cultural items for their collections. The accounting recognition of these items results in revenue being recorded in the period they are received without a corresponding expense. The outcome is that the receiving entity records a significant surplus in those years, affecting the average over the longer term.

18 This is consistent with the period 2013–14 to 2017–18 as reported in the Auditor General Report 19 2018–19 *Audits of the Financial Statements of Australian Government Entities for the period ended 30 June 2018*, p.32.

19 For further details refer to the Australian Federal Police section in chapter 4 paragraph 4.11.29.

20 Australian Security Intelligence Organisation, Annual Report 2018–19, Canberra, p.61.

21 Cultural institutions falling into this category were: Australian War Memorial; National Archives of Australia; National Gallery of Australia; and the National Library of Australia.

2.54 The Department of Communications and the Arts' operating result was impacted by the transfer of a leasehold fit-out asset from the Department of Industry, Innovation and Science on 1 July 2017, which resulted in an amount being recorded in revenue (in 2017–18), without a corresponding expense. This has impacted the average operating result over the longer term.

2.55 Changes to Administrative Arrangement Orders (AAO) can significantly impact the operating result of an entity in any year, including the periods immediately following the changes. The large average surpluses of two entities: the Australian Signals Directorate; and the Department of Infrastructure, Transport, Cities and Regional Development are the direct result of changes to the AAO in either the current or prior years. For these entities the timing of the AAO changes and the transfer of funding associated with those functions did not align with the related expenditure.

2.56 The timing of events or project milestones may also affect the operating result of an entity in a particular year. This has been a factor impacting the average operating result of the Australian Research Council and Services Australia. These entities have recognised significant surpluses over the period due to the timing and recognition of revenue due to events or project milestones not aligning with the related expenditure.

2.57 A number of factors have contributed to the Department of Agriculture's significant surplus over the four year period which has included an increase in revenue for biosecurity related cost recovery activities.²² The department operates a number of cost recovery arrangements across the biosecurity, export certification and other business services areas. The department maintains a separate industry reserve for each cost recovered program.²³

2.58 The Australian Office of Financial Management has reported, in each of its last five annual reports that its surpluses over the past five years are largely due to incurring lower than anticipated operating expenses.²⁴

2.59 The transition of participants to the National Disability Insurance Scheme and the utilisation of supports has impacted the operating result of the National Disability Insurance Agency over the period. There has been a slower phasing in of participants than anticipated and lower utilisation of funds by participants which has resulted in expenses incurred for 2017–18 and 2018–19 being less than budgeted.²⁵

2.60 In 2017–18, the Australian Securities and Investments Commission recorded an annual surplus of seven per cent driven mainly by court cost recoveries arising from settlements with the Australia and New Zealand Bank and National Australia Bank over unconscionable conduct²⁶ in respect of the Bank Bill Swap Rate. This one off event continues to result in a large average surplus in 2018–19 of greater than one per cent. Similarly, in 2017–18 the Bureau of Meteorology recorded a surplus in relation to the accounting treatment of the initial recognition of heritage

22 Auditor-General report No 38 (2018–19) *Application of cost recovery principles*.

23 Department of Agriculture and Water Resources, Annual Report 2017–18, Agriculture, Canberra, p. 164; Department of Agriculture and Water Resources, Annual Report 2018–19, Agriculture, Canberra, p. 161.

24 Australian Office of Financial Management, Annual Report 2014–15, p. 40; Annual Report 2015–16, p. 131; Annual Report 2016–17, p. 119; Annual Report 2017–18, p. 121; Annual Report 2018–19, p. 127, Canberra.

25 National Disability Insurance Agency, Annual Report 2017–18, p. 58; Annual Report 2018–19, p.84, NDIA, Geelong.

26 Australian Securities and Investments Commission, Annual Report 2017–18, ASIC, Sydney, p. 4.

assets and plant and equipment assets relating to the Bureau of Meteorology's National Meteorological Library collection. Again this one off transaction continues to have a residual effect resulting in a large average surplus.

2.61 The Department of Social Services has moved from the small average deficit or surplus category in 2017–18, to the large average surplus category in 2018–19. This surplus is related to resources received free of charge in 2018–19 (\$17.1 million) for the Aged Care Gateway IT systems application development services work completed by the Department of Health during the 2018–19 financial year.²⁷

2.62 The National Health Medical Research Council significant surplus was a result of the increase in rendering of services revenue relating to the Medical Research Future Fund in 2017–18 and 2018–19. The Australian Government created the \$20 billion Medical Research Future Fund in the 2014–15 budget to inject significant funds into the health and medical research sector to transform the health of Australians.²⁸

Balance sheet analysis

2.63 All entities are expected to actively manage their underlying financial position, maintain asset levels to support their operations and ensure that sufficient funds will be available to meet liabilities as they fall due.

2.64 The ANAO analysed the balance sheet positions of material Australian Government entities as at 30 June 2019. While it is necessary to have regard to the public sector context, the following two measures are generally accepted indicators of the soundness of entities' balance sheets and are consistent with the ratios published by Finance.

- Liquidity: the extent to which an entity's liabilities are covered by cash or other financial assets. An entity where liabilities significantly exceed its financial assets may need a future injection of cash from government to meet those liabilities.
- Gearing: the extent to which an entity's total assets are funded by debt rather than equity. An entity with high gearing may be running down its asset base which could indicate the need for a future capital injection from government.

2.65 Material entities have been grouped into the following categories:

27 This is further outlined in chapter four.

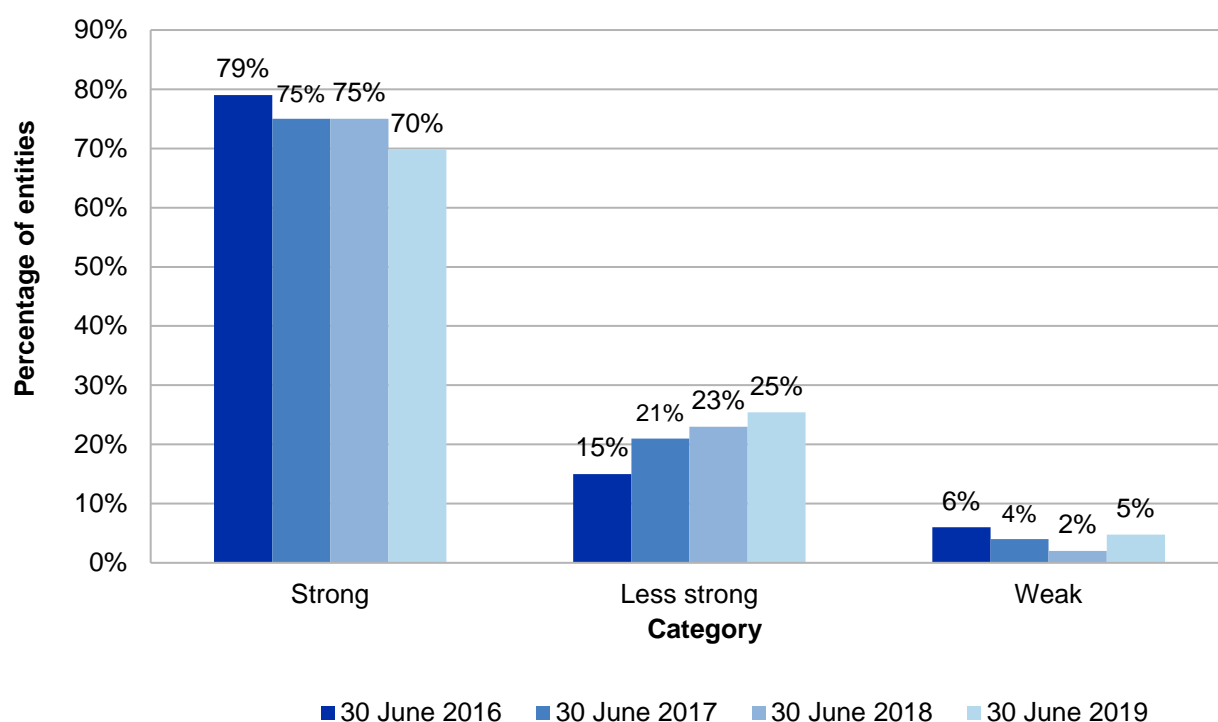
28 Department of Health *How does the MRFF funding work?*, <https://www.health.gov.au/initiatives-and-programs/medical-research-future-fund/about-the-mrff/how-does-mrff-funding-work> [accessed 14 October 2019]

Table 2.4: Balance sheet categories

Category	Parameters
Strong	Entities where financial assets were at least 50 per cent of total liabilities and where total liabilities were less than 75 per cent of total assets. These entities have the strongest balance sheets.
Less strong	Entities where financial assets were less than 50 per cent of total liabilities OR where total liabilities were greater than 75 per cent of total assets. These entities had weaker balance sheets, either in liquidity or gearing terms.
Weak	Entities where financial assets were less than 50 per cent of total liabilities AND where total liabilities were greater than 75 per cent of total assets. These entities are the most likely to need additional funding in the future.

Source: ANAO analysis.

2.66 Figure 2.6 presents the number of entities in each balance sheet category from 2015–16 to 2018–19.

Figure 2.6: Balance sheet analysis

Source: ANAO analysis of entity balance sheets.

2.67 Seventy per cent (2017–18: 75 per cent) of material entities had strong balance sheets in 2018–19. This indicates that there has been a deterioration in the balance sheet positions of material entities in 2018–19.

2.68 The entities with weak balance sheets are those whose operations are dependent on government policy and on continued funding by the Parliament. On this basis, and provided that appropriate attention is given to liquidity issues in the future, these entities are not at high risk of experiencing liquidity problems. From the period 2015–16 to 2018–19, ratios for the Australian Taxation Office (ATO); Department of the Environment and Energy; and NBN Co Limited indicated a weak balance sheet position.

2.69 Consistent to the prior year, the ATO fell into the weak balance sheet category. In 2018–19, the slight decrease in total liabilities was offset by a large decrease in total assets, predominantly due to a decrease of \$100.0 million in appropriation receivable.

2.70 The Department of the Environment and Energy balance sheet position continues to be impacted by the unfunded provision for restoration obligations in the Antarctic. In 2017–18, the department reported a less strong balance sheet and this was due to increases in asset values as a result of the department’s revaluation of non-financial assets. The revaluation surplus, coupled with equity injection funding by the Government to build a new science and resupply icebreaker ship for Antarctic operations, also resulted in an improvement to the gearing ratio in 2017–18. The department’s operations in 2018–19 were consistent with 2017–18, however without the positive impact of the one off events that improved the gearing ratio in 2017–18, the balance sheet position has moved from less strong to weak.

2.71 NBN Co Limited is funded through a combination of equity and debt funding to construct the national broadband network. NBN Co Limited commenced draw down on the loan facility towards the end of 2017–18 with an additional \$8 billion drawn from the loan facility during 2018–19. This has resulted in a weakened balance sheet with an increase in the debt to equity funding mix. The balance sheet position of NBN Co reflects the current stage of business maturity with significant upfront investment in the roll out of the network and customer activations prior to the Company becoming cash flow positive. The Company is forecast to become cash flow positive during 2022–23.

Executive remuneration

2.72 Following an amendment to the PGPA Rule in April 2019, Commonwealth entities were required to include additional disclosure on executive remuneration in their 2018–19 annual reports. The Department of Finance released two resource management guides that provide additional guidance to Commonwealth entities and companies.²⁹

2.73 The annual reports of Commonwealth entities are required to include additional remuneration disclosures for three staffing categories: key management personnel (KMP); senior executives and other highly paid staff. Commonwealth companies are only required to include information in relation to KMP.

2.74 The financial statements of all entities were already required to include disclosures on the total remuneration paid to KMP. The amendments to the PGPA Rule increased the transparency of these disclosures requiring KMP to be individually named and details of the remuneration to be outlined in a format prescribed in the PGPA Rule. In addition, entities were also required to report the average senior executives and other highly paid staff remuneration by band. The RMG 138 provides a definition for each category as outlined below:

Key Management Personnel (KMP) are defined consistent with the definition provided in AASB 124 *Related Party Disclosures*³⁰; KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or

29 Resource Management Guide No. 138 (RMG 138) *Commonwealth entities Executive Remuneration Reporting Guide for Annual Reports* and Resource Management Guide No. 139 *Commonwealth companies Executive Remuneration Reporting Guide for Annual Reports* (RMG 139).

30 Australian Accounting Standards Board 124 *Related Party Disclosures* (AASB 124) section 9.

otherwise) of that entity. Commonwealth entities in preparing their annual financial statements would have decided which persons meet the definition of KMP and there should be consistency in reporting of the remuneration of KMP in an entity's annual report;³¹

Senior Executives are Officials of a Commonwealth entity who are any of the following and who are not KMP.

(a) an official with a classification in Groups 9 to 11 of the table in Schedule 1 to the Public Service Classification Rules 2000; or

(b) an official with a position equivalent to an official covered by paragraph (a). For corporate Commonwealth entities that do not employ staff under the Public Service Act 1999, this would include an official other than a KMP who is responsible for making decisions, or having substantial input into decisions, that affect the operations of an entity; and

(c) an officer of the Australian Defence Force with a rank equivalent to a classification covered by paragraph (a). This would include Commodores, Brigadiers, and Air Commodores, and all officers of a higher rank.³²

Other Highly Paid Staff are Officials of a Commonwealth entity:

(a) who are neither KMP nor senior executives; and

(b) whose total remuneration exceeds the threshold remuneration amount for the reporting period.

2.75 The ANAO has audited the KMP note included in the financial statements and performed an assessment to confirm that the additional annual report disclosures were consistent with the financial statements. As the additional disclosures are not included in the financial statements the ANAO is not required to perform audit procedures over these additional remuneration disclosures. There are a number of entities for which the ANAO performs financial statements audits which are not required to report executive remuneration in their annual report. These include:

- subsidiaries of Corporate Commonwealth entities and Commonwealth companies which do not prepare annual reports, of which there are 54 entities;
- entities where the KMP are engaged in an honorary capacity or there are no KMP, of which there are four³³;
- High Court of Australia and the Australian National University and its three subsidiaries, which do not operate under the PGPA Act.

2.76 Excluding the above entities, there were 183 entities applying the executive reporting framework which included 16 Commonwealth companies and 167 Commonwealth entities. A number of entities have included additional disclosures to increase transparency in relation to the executive remuneration. In particular:

- the Department of Senate expanded the disclosures within the financial statements to include the disaggregated annual report tables for KMP, senior executives and other highly paid staff. As a result, audit procedures were performed over these disclosures; and

31 AASB 124 section 9.

32 <http://www.defence.gov.au/PayAndConditions/ADF/chapter-1/Part-4/default.asp> provides further details on Australian Defence Force equivalent rankings and classifications.

33 AAF Company; Royal Australian Air Force Welfare Recreational Company; Royal Australian Air Force Veterans' Residents Trust; and Royal Australian Navy Central Canteens Board, KMP are defined as the boards who are engaged on an honorary basis.

- a number of entities have included additional information within the footnotes of the table to explain unusual movements. For example the Departments of: Defence; Foreign Affairs and Trade; and Home Affairs have included additional information to explain unusually high remuneration driven by accommodation provided overseas and the associated fringe benefit tax implications.

2.77 As the format of the table included in the note is prescriptive, the ANAO noted that the footnotes had been utilised to enable the publication of annual reports within the Australian Government transparency portal, transparency.gov.au.

2.78 The ANAO observed that 32 entities have changed the number of KMP reported from 2017–18 compared to 2018–19. Three entities included additional KMP in their definition from the prior year. Twenty entities have reduced the number of KMP reported as a result of an organisational restructure and nine reduced the number of KMP following a reassessment of the role undertaken by each officer. The ANAO has reviewed each of the entities' assessment of KMP. The reassessment of KMP relating to these 32 entities has resulted in a net reduction of officers included in the KMP disclosures with an average reduction of six officers per entity.

2.79 As noted above, the ANAO performed a review³⁴ of the disclosures in the annual report compared to the financial statements and identified a number of instances where there were variances between the disclosures which are listed below.

- The Australian War Memorial has incorrectly excluded council members from its annual report KMP disclosures. The council members were, correctly included in the financial statements disclosure.
- The financial statements for the Australian Institute of Health and Welfare and Tourism Australia correctly disclosed KMP. The annual reports included some senior executives who were classified as KMP in the senior executives table rather than the KMP table. As a result, the salary was banded and average salary was reported rather than each individual's salary as required by the PGPA Rule.
- National Museum of Australia correctly disclosed KMP in its financial statements including council members. The council members were excluded from the KMP table in the annual report as they were considered below the reporting threshold. The rule does not establish a reporting threshold for KMP and requires the council members to be individually named in the annual report.

2.80 In addition, North Queensland Water Infrastructure Authority (NQWIA) had one KMP and correctly reported the KMP note within its financial statements that captures the total remuneration. NQWIA's annual report provided a link to the KMP note within its financial statements and noted that its remuneration policies were consistent with the Department of Infrastructure, Transport, Cities and Regional Development. The level of detail in the financial statements was not consistent with the annual report disclosure requirements.

2.81 With the exception of the variances noted above, entities have adopted the new disclosures resulting in increased transparency.

34 In performing the assessment over KMP disclosures differences from the interpretation of accounting standards and the PGPA Rule were not considered to result in non-compliance.

Human resource services arrangements

2.82 Entities may enter into a shared service arrangement for the delivery of back-office support services such as accounting, human resources (HR), information technology, legal, compliance, purchasing and security. The arrangement can allow a number of organisations to share operational tasks, avoid duplication and provide economies of scale.

2.83 As reported in the 2017–18 Agency Resourcing Budget Paper No. 4:

Since 2013, the Australian Government has implemented initiatives through the budget process such as the Smaller Government Agenda, Contestability, Operation Tetris and the Efficiency Dividends to generate efficiencies of approximately \$7.6 billion in savings.³⁵

The Government provided \$500 million from the Efficiency Dividend, announced in the 2016-17 Budget, to establish the Modernisation Fund. The Government has announced specific initiatives in the 2017-18 Budget, to allocate the Modernisation Fund to reforms that deliver quality government services at lower cost and use leading technology and collaborative approaches to address complex problems facing society.³⁶

2.84 In addition, the Australian Government through the Modernisation Fund aims to³⁷:

- accelerate the transition of agencies to shared corporate services arrangements;
- transition 60 agencies to consolidate their core transactional corporate services (financial and human resources) and associated back office informational technical systems into one of the six corporate service hubs; and
- by 30 June 2021 achieve around 97 per cent of the average staffing level, in scope for the shared and common services program, receiving services from one of the hubs.

2.85 The Department of Finance stated that from the benchmarking exercise that have been undertaken *‘to date, the progress of the Program has drawn attention to a lack of consistent data on the cost and quality of current corporate activities, and variation in costing methodologies used by agencies to evaluate their transactional services.’*³⁸ The Department of Finance has advised it is working with agencies to improve the benchmarking exercise and accuracy of data.

2.86 In view of the shared services agenda, the ANAO performed a review of HR service arrangements in place during the 2018–19 financial year. The review focused on the governance and control arrangements in place that provide assurance to entities receiving HR services.

2.87 There are three Commonwealth entities providing HR services by acting as delivery hubs offering services to entities outside their portfolios. These entities are the Departments of: Finance (through the Service Delivery Office (SDO)); Industry, Innovation and Science (Industry); and the National Museum of Australia.³⁹ The Department of the Treasury (the Treasury) provided

35 Agency Resourcing Budget Paper No. 4 2017–18, p.1 https://archive.budget.gov.au/2017-18/bp4/Budget2017-18_BP4.pdf

36 Agency Resourcing Budget Paper No. 4 2017–18, p.2 - https://archive.budget.gov.au/2017-18/bp4/Budget2017-18_BP4.pdf

37 Agency Resourcing Budget Paper No. 4 2017–18, p.3 - https://archive.budget.gov.au/2017-18/bp4/Budget2017-18_BP4.pdf

38 Department of Finance, Shared Service Program, Benchmarking <https://www.finance.gov.au/government/shared-services-program/benchmarking-shared-services-program>

39 As at the date of this report the National Museum of Australia provides HR services to Old Parliament House only, however, they have indicated that they intend to establish themselves as a service delivery hub to provide HR services to Commonwealth cultural institutions.

services during 2018–19 however, it has since reduced its offering to only provide services within the portfolio. In addition to the hubs, there are a number of other HR services arrangements across the Commonwealth.

2.88 Table 2.5 below provides a summary of the HR service arrangements currently in place across the Commonwealth.

Table 2.5: Commonwealth human resource services arrangements^(a)

Provider description	Number of entities providing HR services	Number of entities to whom they are providing services	Types of services
Established as a service delivery hub	3	23	<ul style="list-style-type: none"> • All processes related to the management of payroll • Related IT management services • Other Corporate functions
Provider is the portfolio agency	9 ^(b)	17	
Provider is a non Commonwealth entity or Company	4	16	
Provider is an entity outside the receiving entities portfolio	3	6	
Total	19	62	

Note a: This table and associated analysis excludes arrangements arising as either the result of a recent entity creation or where entities were transitioning between service providers from 1 July 2019.

Note b: Seven of these entities only provide to one entity within their portfolio.

Source: ANAO analysis.

2.89 The above table shows that as at the date of this report there are 15 Commonwealth providers of HR services and 46 entities who receive HR services from one of these providers. In addition, there are four contracted non Commonwealth entity or company providers who provide HR services to 16 Commonwealth entities. The entities that receive services from a contracted non Commonwealth entity or company have not been considered in this analysis.

2.90 Auditor-General Report No.25 2016–17 *The Shared Services Centre* reviewed the then Departments of: Education and Training; and Jobs and Small Business shared services governance arrangements with the Shared Delivery Office (SDO) (formerly the Shared Service Centre). This report made four recommendations, two of which are relevant to the establishment and ongoing management of shared service provider arrangements. These were:

- strengthening the role of the board and its sub-committees and improving the quality of information and communication provided to these boards; and
- putting in place transparent and sound processes for agreeing performance and cost parameters with clients and for monitoring and reporting the Shared Services Centre's performance against these parameters.

Governance Arrangements

2.91 For the purposes of assessing the effectiveness of HR services arrangements across entities and in light of the above recommendations, an analysis was undertaken to assess the

governance arrangements which support the various HR services structures across the Commonwealth. The ANAO's observations are outlined below.

- For all arrangements set out in Table 2.5, the providing entity had established a formal agreement with the receiving entity.
- Ten of the 15 provider agreements clearly document the roles and responsibilities of the provider and the receiving entities.⁴⁰
- Five entities have undertaken a risk assessment over services they provide, these are: National Museum of Australia; and the Departments of: Health; Industry; the Treasury; and Social Services. The risk assessment undertaken by the Departments of Health; did not specifically identify the risks associated with the delivery of shared services. Apart from the National Museum of Australia, these risk assessments did not cover risks arising from ongoing IT systems administration in any detail.
- A formal certification on the effectiveness of controls is prepared by eight of the Commonwealth providers: the Attorney-General's Department; the Departments of: the Environment and Energy, Health, Industry, and Social Services; Productivity Commission; Services Australia; and the SDO.
- Nine providing entities have established formal processes to communicate the results of relevant internal or external audits.⁴¹
- The National Museum of Australia; Departments of: Health, Industry, Social Services; Services Australia; and the SDO have a documented assurance framework over services provided which also address the three lines of defence.⁴²

2.92 For the purposes of preparing accurate financial statements, management of receiving entities should have an assurance framework in place that also addresses the three lines of defence, including the independent assessment of IT controls (where relevant). Of the 46 Commonwealth entities who receive HR services we observed that:

- fourteen entities receiving services from a hub and two entities receiving from other Commonwealth providers have undertaken a risk assessment over the services⁴³;
- fifteen entities have established an assurance framework over services provided under outsourced arrangements;
- thirty-seven entities advised that they had a clear understanding of what controls are implemented by the providing entity; and

40 These entities are: National Museum of Australia; the SDO; and Department of Industry Innovation and Science (HR service delivery hubs). Australian Human Rights Commission; Departments of: Health; the Environment and Energy; the Senate; and Social Services (portfolio entity providers). Productivity Commission; and Services Australia (provider is external to receiving entities portfolio).

41 These entities are the: Australian Human Rights Commission; National Museum of Australia; Departments of: Health, Industry, the Treasury, Social Services; Export Finance Australia; Services Australia; and the SDO.

42 The three lines of defence include: preventative controls that include policies and procedures which regulate and set the framework for use; management initiated assurance reviews to monitor compliance with the entity's frameworks; and independent assurance, such as internal audit.

43 The two entities who have undertaken a risk assessment over services provided who do not receive services from one of the service hubs are: Defence Service Homes Insurance Scheme; and the Department of Veterans' Affairs.

- twenty-four entities communicated that they receive reports which allow them to obtain sufficient IT system assurance over the security, availability and reliability of the payroll system and data relating to HR services provided. Seven entities⁴⁴ communicated that they did not receive such reports, while other entities using the same providers advised that they did. It is the responsibility of the receiver to ensure that they are getting sufficient information from the provider to enable them to obtain an appropriate level of assurance over IT systems and controls.

2.93 A clear understanding of the roles and responsibilities in relation to IT management services provides visibility over the IT controls on which reliance is placed. The ANAO reviewed whether agreements between providers and receivers explicitly addressed the supporting IT management services being provided under the arrangement. This analysis showed that:

- four entities⁴⁵ included services covering IT change management, user provisioning and data backups;
- Services Australia and the Fair Work Ombudsman and Registered Organisations Commission Entity included services covering IT change management and data backups; and
- the Department of the Treasury included services covering IT change management and user provisioning.

2.94 As a result of the analysis above, it has been noted that Commonwealth service delivery hubs are more explicit and detailed in the agreements they have in place with their receiving entities. A greater level of detail around governance arrangements will facilitate a shared understanding of the controls and mutual obligations of participating entities and as a result there is less likelihood of receiving entities failing to obtain sufficient management assurance over payroll transactions recorded in their financial statements.

Efficiencies

2.95 One of the reasons for the Australian Government establishing corporate shared service hubs is to generate efficiencies. Of the 46 Commonwealth entities included in this analysis, six⁴⁶ of the receiving entities have performed an analysis on costs either prior to or post implementation and three⁴⁷ of these entities have undertaken an analysis both pre and post implementation.

2.96 A key cost in the utilisation of shared services is the initial establishment costs requiring additional resources to be directed to: assessing service provider options; transferring data; and

44 Asbestos Safety and Eradication Agency; Australian Institute of Family Studies; Australian Office of Financial Management; Department of Communications and the Arts; Digital Transformation Agency; IP Australia; and Office of National Intelligence.

45 The entities are the SDO; and Department of Industry Innovation and Science (HR service delivery hubs); Department of Social Services (portfolio entity provider); Australian Human Rights Commission (provider is external to receiving entities portfolio).

46 Geoscience Australia; Inspector General of Taxation; Office of the Commonwealth Director of Public Prosecutions; Office of Parliamentary Counsel; Old Parliament House; and the Department of Communications and the Arts.

47 Defence Service Homes Insurance Scheme; Department of Veterans' Affairs; and Digital Transformation Agency.

establishing and embedding new policies, procedures and internal controls. Entities do not always receive additional funding for this activity. Of the Commonwealth entities that received services from more than one provider, since the decision to move to a HR service arrangement, on average they have changed providers twice. Entities have moved due to machinery of government arrangements or the HR providing entity making a decision to not continue to provide these services.

2.97 Old Parliament House (OPH) has had the largest number of HR services providers across the seven years since they were established. OPH recently moved from the Treasury to National Museum of Australia. The Treasury, as a service provider used software as a service (SaaS) arrangement⁴⁸, through which the HRMIS was hosted in the cloud. When OPH moved to the National Museum of Australia, they were able to transfer administrative access to the new HR provider without transferring data between systems as both providers utilised the same SaaS arrangement. As a result OPH was able to avoid the costs and risks associated with migrating data and establishing new system configuration settings. This example highlights the importance of careful planning around the IT systems architecture and configuration for shared services arrangements if efficiencies and savings are going to be fully realised.

2.98 The analysis indicates that there is variety of shared services arrangements across the Commonwealth as entities have adapted arrangements specific to organisational requirements. Overall, there is an opportunity to strengthen governance arrangements by incorporating greater detail in agreements relating to HR services. It is recommended that agreements clearly articulate roles and responsibilities, and require service providers to issue formal certifications improving the recipient entity's understanding of control effectiveness and unmitigated risks. In addition in the absence of available benchmarking data, it is difficult for entities to determine what efficiencies have been gained from engaging in shared services arrangements.

Audit findings

2.99 Audit findings are raised in response to the identification of a potential business or financial risk posed to an entity. Often these risks arise from deficiencies within an entity's internal control processes or frameworks. Weaknesses in internal controls increase the possibility that an entity will not prevent or detect a material misstatement in its financial statements in a timely manner. The ANAO rates audit findings according to the potential business or financial management risk posed to the entity. The rating scale is presented in Table 2.6. Definitions of each category of audit finding is available at <https://www.anao.gov.au/financial-statement-audit-information>.

48 Software as a service (SaaS) is a category of cloud computing, where a third-party provider hosts applications and makes them available to customers over the Internet.

Table 2.6: Audit findings rating scale

Rating	Description
Significant (A)	Issues that pose a significant business or financial management risk to the entity. These include issues that could result in a material misstatement of the entity's financial statements.
Moderate (B)	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.
Minor (C)	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.

Source: ANAO reporting policy.

2.100 A summary of findings identified for the period ended 30 June 2019 by category is presented in Table 2.7

Table 2.7: Audit findings by category for the period ended 30 June 2019

Category	Significant	Moderate	Minor	Main areas of weakness
IT control environment	–	10	63	<ul style="list-style-type: none"> security management, particularly, user access and monitoring of privileged users.
Compliance and quality assurance frameworks	2	6	21	<ul style="list-style-type: none"> appropriate quality assurance frameworks supporting financial reporting; and compliance frameworks addressing key business risks and program payments.
Accounting and control of non-financial assets	1	2	14	<ul style="list-style-type: none"> management of inventory balances; management and monitoring of assets under construction and capitalisation; and processes supporting the valuation and assessment of impairment of assets.
Revenue, receivables and cash management	–	–	17	<ul style="list-style-type: none"> recognition of revenue arising from multi-year contracts; and monitoring, management and review of bank accounts.
Human resources financial processes	–	3	26	<ul style="list-style-type: none"> quality assurance over externally provided services; and timely documentation and oversight of activities supporting payroll functions.
Purchases and payables management	–	–	8	<ul style="list-style-type: none"> authorisation and oversight of expenditure; and segregation of duties.
Other audit findings	–	–	11	<ul style="list-style-type: none"> management of delegations; and governance arrangements with third parties.
Total	3	21	160	

Source: ANAO compilation of findings.

2.101 In addition to the findings reported in Table 2.7 four legislative breaches were reported during 2018–19. Of these, three are significant and one non-significant. For further details in relation to the significant legislative breaches refer to paragraphs 2.133 – 2.135.

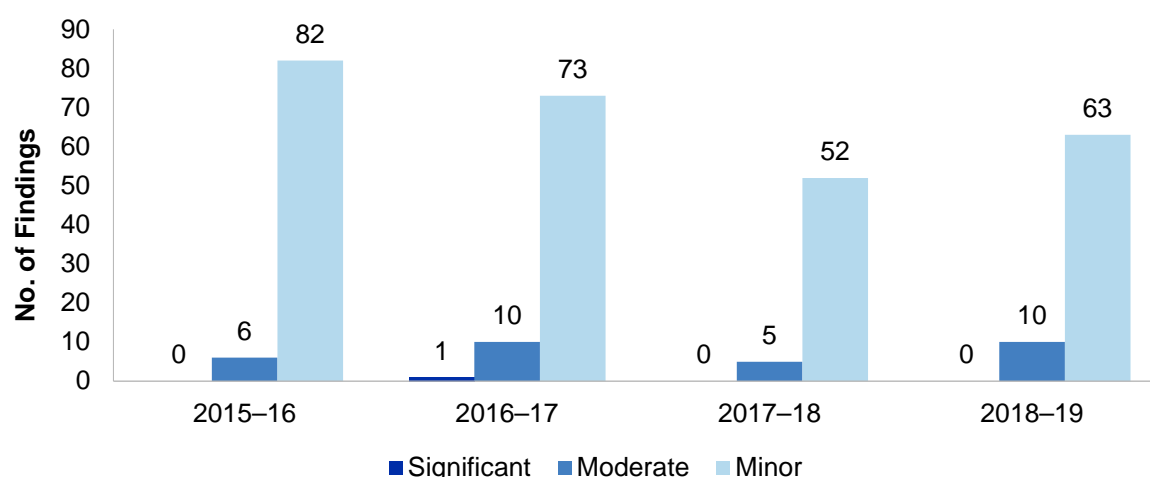
Information Technology control environment

2.102 The information technology (IT) control environment refers to the policies, procedures and controls that maintain the integrity of information and security of data in an entity. This includes:

- IT security management, which incorporates user access management, privileged user activity logging and monitoring as well as security configuration settings such as password controls; and
- IT change management and data centre and network operations, including management of backup and recovery processes.

The IT control environment is the environment in which applications run, and so it also supports the effective functioning of the application controls that may be relied on in the audit.

Figure 2.7: IT control environment audit findings 2015–16 to 2018–19



Source: ANAO data.

2.103 Eight new moderate findings were reported during 2018–19⁴⁹, of these one finding was resolved as part of the final audit phase.⁵⁰ Three moderate findings remained unresolved from prior years, two of these were first raised in 2016–17.⁵¹

49 Further details regarding the moderate findings can be found in the following entity's results section in chapter 4: Australian Broadcasting Corporation; Departments of: Agriculture; Defence; Education; Employment, Skills, Small and Family Business; and Health.

50 The moderate finding relating to the Department of Agriculture was resolved during the 2018–19 final audit. Details regarding this finding were first reported in Auditor-General Report No.46 2018–19 *Interim Report on Key Financial Controls of Major Entities*.

51 Further details regarding the unresolved moderate audit findings can be found in the following entity results section in chapter 4: Australian Federal Police; Clean Energy Regulator; and National Health and Medical Research Council.

2.104 Users with administrative privileges, commonly referred to as privileged users, are able to make significant changes to IT systems configuration and operations, bypass critical security settings and access sensitive information. To reduce the risks associated with this access, the Australian Government Information Security Manual (ISM) requires that privileged user access be appropriately restricted and when provided, that the access is logged, regularly reviewed and monitored. Six of the ten moderate findings relate to privileged user activity monitoring.

2.105 User access management includes the processes and procedures to ensure that only authorised users are granted access to systems and data, and that access is removed when it is no longer required. Three of the moderate findings relate to weaknesses in user access management.⁵²

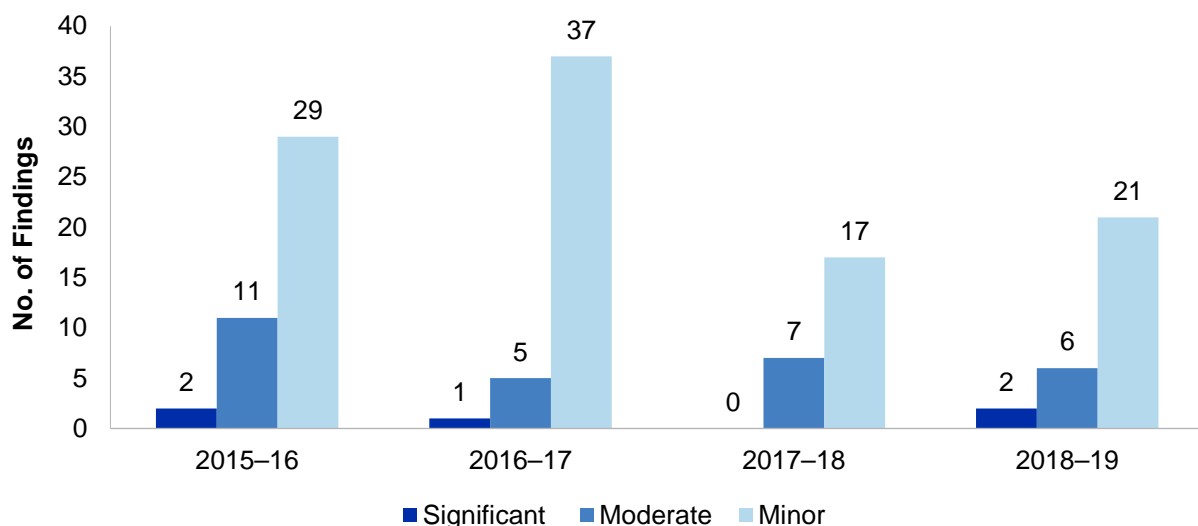
2.106 The final moderate finding relates to the management of IT changes in the Department of Agriculture and Water Resources. Refer to paragraphs 4.1.20– 4.1.21 for further details.

2.107 IT security remains the most common area of weakness in the IT control environment, with almost 70% of findings relating to this area, and 90% of the moderate findings. It continues to require sustained focus by entities to ensure that the risks of unauthorised changes to systems and data and unauthorised data leakage are appropriately managed.

Compliance and quality assurance frameworks

2.108 Entities rely on internal and external systems, parties and information in decision-making processes. The implementation of effective compliance and quality frameworks and processes provides assurance over the completeness and accuracy of the information and is integral to the preparation of financial statements that are free from material misstatement.

Figure 2.8: Compliance and quality assurance framework audit findings 2015–16 to 2018–19



Source: ANAO data.

52 For further details, please refer to the entities in chapter 4 for the Australian Broadcasting Corporation, the Australian Federal Police and the Department of Education.

2.109 There are two new significant audit findings reported in 2018–19 relating to:

- the Department of Home Affairs — non-compliance with the framework in place for visa and citizenship quality management which is designed to ensure the effective identification and management of emerging business risks relating to assessment and issuance of visas and citizenship⁵³; and
- Australian Digital Health Agency — control weaknesses in contract and supplier management and financial reporting processes resulted in material adjustments being identified by the ANAO and has highlighted weaknesses in the integrity of the financial reporting process. For further details refer to paragraphs 4.10.33– 4.10.35.

2.110 The six moderate findings shown in Figure 2.8 relate to weaknesses in quality assurance processes supporting financial statements preparation and risk management practices relating to loan facilities. There are two new moderate finding relating to the Department of Communication and the Arts and the Northern Land Council⁵⁴ and four unresolved moderate findings from prior years.⁵⁵ Of the unresolved findings, one has remained unresolved since 2016–17: *Streamlined Access to Scheme — Defined Programs* relating to the National Disability Insurance Agency.

2.111 Of the minor findings, 17 were raised in 2018–19. Two of the four minor findings raised in prior years have been unresolved for two years.

2.112 There has been a significant increase in financial statements preparation findings compared to the prior year. One significant, four moderate and 16 minor findings related to weaknesses in financial statements preparation processes.⁵⁶ (2018: two moderate; eight minor).

2.113 The increase in financial statements preparation findings is accompanied by an increase in the number of audit differences and a decrease in the timeliness of financial statements preparation in the current year. Further details can be found in paragraphs 2.7 – 2.17.

Accounting and control of non-financial assets

2.114 Entities control a diverse range of non-financial assets on behalf of the Commonwealth, including land and buildings, specialist military equipment, leasehold improvements, infrastructure, plant and equipment, inventories, and internally-developed software.

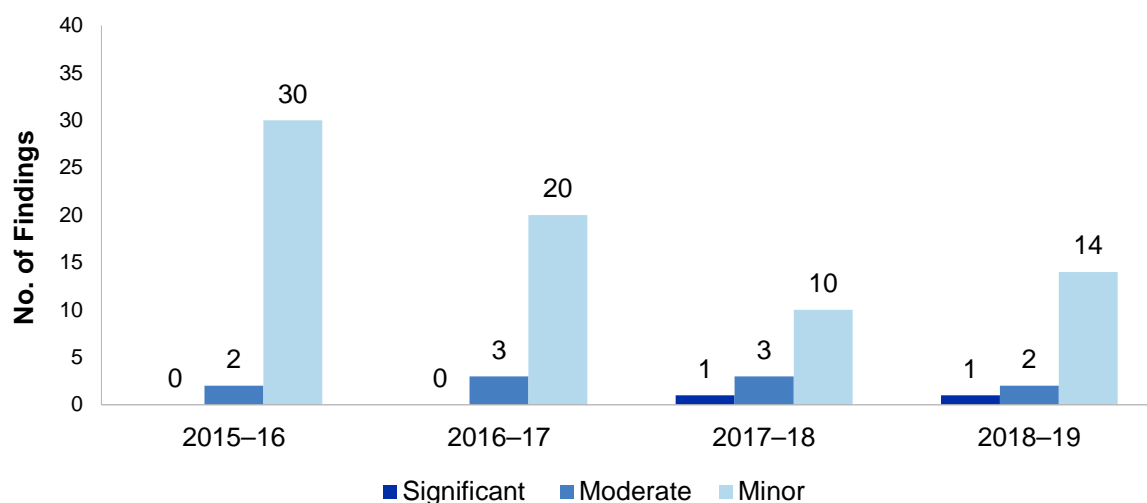
53 The Department of Home Affairs has agreed to the recommendations however it has disagreed with the rating of the finding. For further details refer to paragraphs 4.11.19 – 4.11.25.

54 For further details refer to Northern Land Council paragraphs 4.15.32 –4.15.35 and the Department of Communications and the Arts paragraphs 4.3.14 – 4.3.17.

55 For further details refer to chapter 4 for the following entities: Australian Nuclear Science and Technology Organisation (paragraphs 4.12.24– 4.12.25); Department of Communication and the Arts (paragraphs 4.3.18 – 4.3.21); Moorebank Intermodal Company Limited (paragraphs 4.13.45 – 4.13.46); and National Disability Insurance Agency (paragraphs 4.16.47 – 4.16.50).

56 For further details refer to paragraphs 2.7 – 2.17.

Figure 2.9: Accounting and control of non-financial assets audit findings 2015–16 to 2018–19



2.115 The significant audit finding was first reported in 2017–18 and relates to the Department of Defence’s management and monitoring of specialist military equipment and inventory balances. Defence has commenced remediation of this issue and will continue to refine the reconciliation processes in 2019–20. Refer to paragraphs 4.4.22 – 4.4.24 for further details.

2.116 One new moderate finding was reported in 2018–19 and relates to completeness and accuracy of Defence Housing Australia’s lease data. Refer to paragraphs 4.4.48 – 4.4.49 for further details. The moderate finding reported in 2016–17 to the Director of National Parks remains open.⁵⁷

2.117 Seven minor findings relate to weaknesses in asset capitalisation processes, demonstrating the need for entities to further develop processes for the management and accounting of assets under construction.

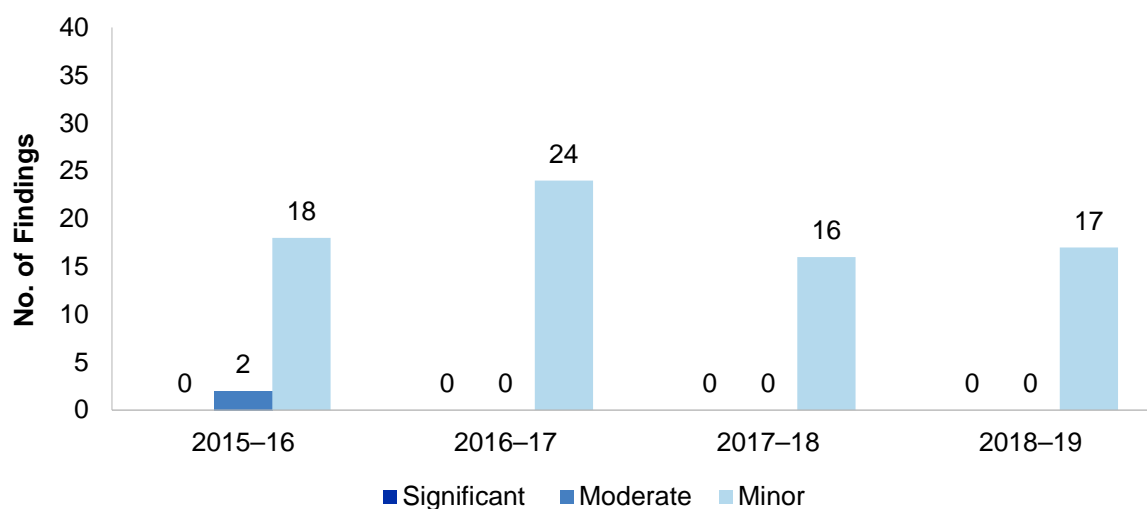
2.118 Other weaknesses in this category for 2018–19 relate to:

- valuation adjustments; assessments for impairment of assets and restoration obligations;
- data management and integrity;
- inventory management; and
- stocktake procedures.

Revenue, receivables and cash management

2.119 Revenue and receivables consist of Parliamentary appropriations, taxation revenue, customs and excise duties and administered levies. Commonwealth entities also generate revenue from the sale of goods and services and a range of other sources. Cash management involves the collection and receipt of public monies and the management of official bank accounts.

⁵⁷ Further details regarding the moderate finding can be found in the Director of National Park’s paragraphs 4.7.42 – 4.7.43.

Figure 2.10: Revenue, receivables and cash management audit findings 2015–16 to 2018–19

2.120 Consistent with the prior two years, there are no significant or moderate audit findings reported in this category. Fifteen minor findings are new in 2018–19. The remaining two minor findings have been outstanding for one year.

2.121 Ten of the open findings relate to cash management controls. Cash controls are core processes expected to be mature practices at every entity. The weaknesses in this category include:

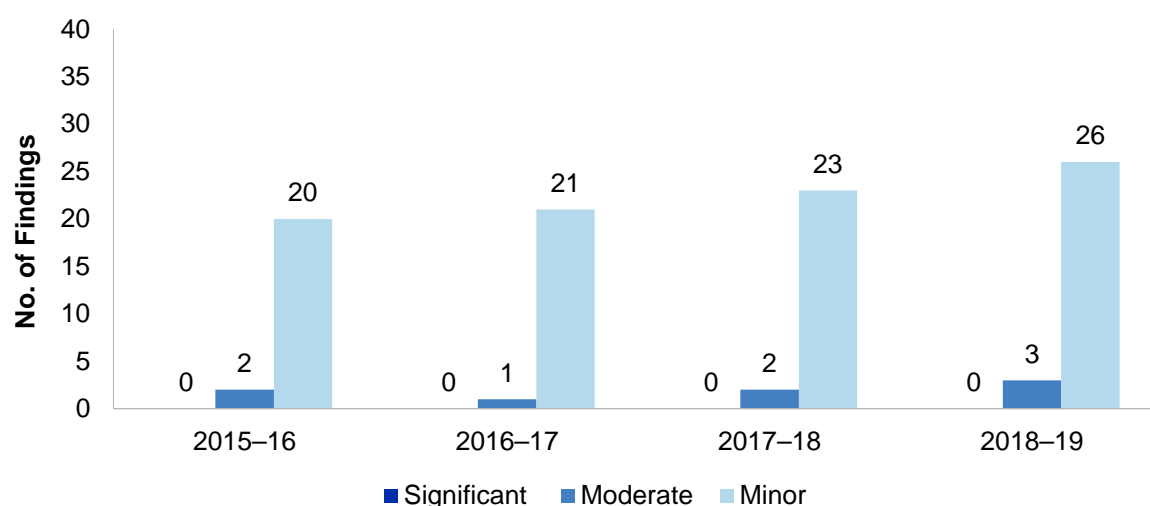
- timeliness and completeness of reconciliations;
- bank account withdrawal processes and the updating of account signatories; and
- processes supporting completeness and accuracy of reported revenue.

Human resource financial processes

2.122 Human resources encompass the day-to-day management and administration of employee entitlements and payroll functions. Employee benefits represent the most significant departmental expenditure for most Commonwealth entities, and the associated liability is subject to estimates and judgements in inputs.

2.123 Human resource transactions are high volume with both automated and manual processing. As a result, any control weaknesses can result in systematic errors increasing the risk of material misstatement.

Figure 2.11: Human resources financial processes audit findings 2015–16 to 2018–19



Source: ANAO data.

2.124 Two of the moderate audit findings open at the end of 2018–19 relate to weakness in quality assurance and controls over human resource processes resulting in the underpayment of superannuation on certain allowances.⁵⁸ In 2018–19, a number of entities also identified a possible exposure to liability for superannuation on allowances arising from a lack of clarity in employment contracts and enterprise agreements. The magnitude of the potential underpayments highlights the need for a strong control environment to prevent systemic errors.

2.125 The remaining moderate finding was previously classified as a minor audit finding and was upgraded due to issues that remained unaddressed from prior years.⁵⁹

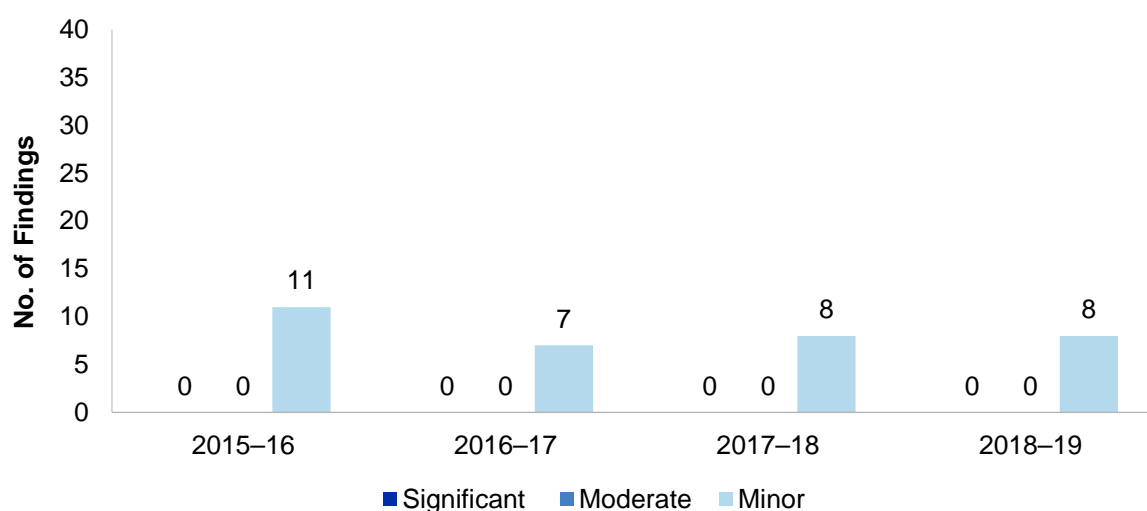
2.126 The increase in minor audit findings in 2018–19 related to weaknesses identified regarding commencements and terminations of employees and the monitoring of controls over payroll processing and reporting. Five minor findings have been unresolved for at least two years. Of these, two have been unresolved for more than three years.

Purchases and payables management

2.127 Purchases and payables are payments to, or due to, suppliers including contractor and consultancy expenses, lease payments and general administrative payments. These expenses typically comprise the second most significant departmental expenditure item of entities after employee benefits.

⁵⁸ Further details of the audit findings can be found in the Australian Federal Police (paragraphs 4.11.37 – 4.11.38) and Bureau of Meteorology (paragraphs 4.7.20 – 4.7.21).

⁵⁹ Further details regarding the moderate finding can be found in the Northern Land Council's paragraphs 4.15.36– 4.15.37.

Figure 2.12: Purchases and payables management audit findings 2015–16 to 2018–19

Source: ANAO data.

2.128 As illustrated by Figure 2.13, there are consistently no significant or moderate findings in this category, indicating that controls in this area are well established. Five of the minor audit findings in this category relate to weaknesses in the management and timely acquittal of credit cards.

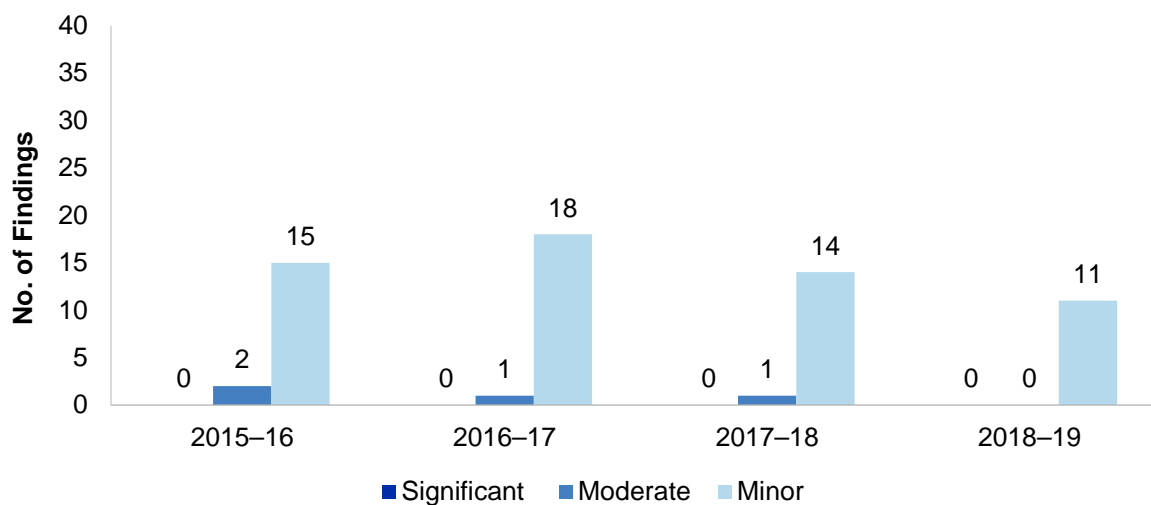
2.129 All eight minor audit findings unresolved at 2018–19 were raised during the current financial year. Common weaknesses in this category over the four year period between 2015–16 and 2018–19 are:

- procurement and contract management;
- processes supporting the authorisation of expenditure, including maintaining proper segregation of duties;
- accrual management; and
- maintenance of vendor records and payment controls.

Other audit findings

2.130 Other audit findings typically include items relating to the: management and implementation of service level agreements or memoranda of understanding; updating or maintaining key governance documentation; and findings regarding presentation and disclosure in the financial statements.

Figure 2.13: Other audit findings 2015–16 to 2018–19



Source: ANAO data.

2.131 The National Disability Insurance Agency moderate finding was first reported in 2016–17 and was downgraded to a minor audit finding during the final audit phase of 2018–19. Further details can be found in paragraphs 4.16.35 – 4.16.40.

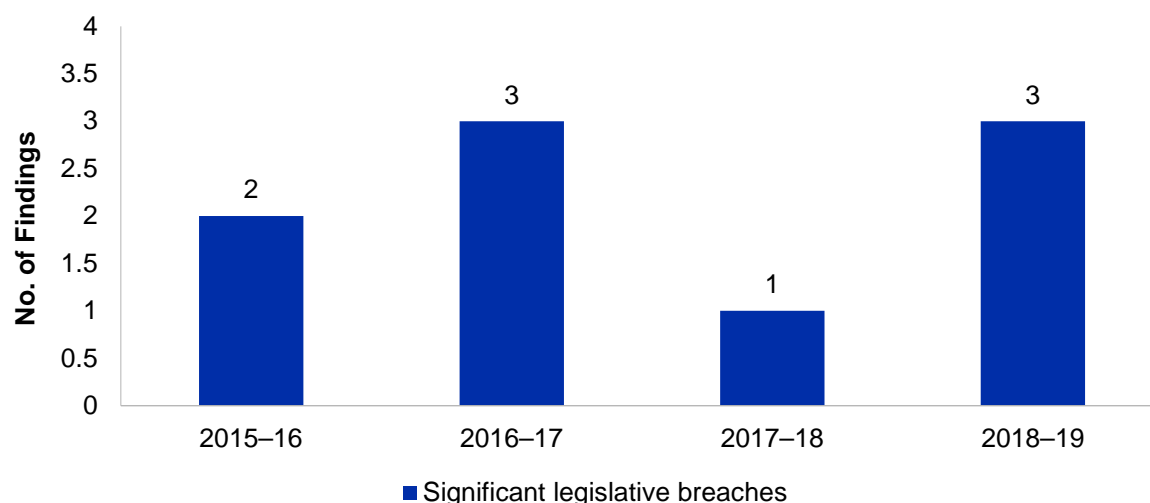
2.132 Nine of the minor findings were raised in 2018–19 are new and two remain unresolved from the prior year. The findings in this category related to weaknesses in:

- segregation of duties between processing and approving of manual journals;
- the formalisation of corporate documents including agreements with third parties and internal policies; and
- fraud risk assessments and reporting of fraud to those charged with governance.

Legislative Compliance

2.133 In accordance with ANAO policy⁶⁰, significant legislative breaches are reported to Parliament consistent with the reporting of significant and moderate audit findings. Significant legislative breach include: instances of significant potential or actual breaches of the Constitution; and instances of significant non-compliance with the entity's enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act.

⁶⁰ Definitions of each category of audit finding is available at <https://www.anao.gov.au/financial-statement-audit-information>.

Figure 2.14: Significant legislative breaches 2015–16 to 2018–19

Source: ANAO data.

2.134 There were two new significant breaches reported during 2018–19. The first relates to the Northern Land Council’s failure to fulfil its responsibilities for reporting its subsidiaries as required by the financial framework. The second relates to deficiencies in Wreck Bay Aboriginal Community Council’s record-keeping and governance arrangements.⁶¹

2.135 The unresolved significant breach was first raised in 2012–13 and related to the Northern Land Council’s non-compliance with the *Aboriginal Land Rights (Northern Territory) Act 1976*. This Act establishes the Council’s responsibilities for payments in relating to Aboriginal land, requiring payment of an amount equal to amounts received to, or for the benefit of, the traditional owners of the land, within six months after that amount is received through the royalty trust account. Instances of non-compliance continue to occur as not all of the funds in the Council’s royalty trust account had been reconciled and distributed to traditional owners, within the agreed timeframe. Further details regarding the Northern Land Council’s significant breaches can be found in chapter 4 (paragraphs 4.15.28 – 4.15.31 and 4.15.38 – 4.15.43).

⁶¹ For further details refer to the Wreck Bay Aboriginal Council in chapter 4 (paragraphs 4.15.45– 4.15.48).

3. Reporting and auditing frameworks

Chapter coverage

This chapter outlines recent and future changes to the public sector reporting framework and the Australian auditing framework relating to the auditor's report on financial statements. The chapter also outlines the ANAO's Data Analytics Strategy 2018–20.

Summary of developments

Major changes in accounting standards are applicable in 2019–20 with the implementation of revised standards for revenue and leases. Early engagement in planning for these standards will provide entities with more options for transitioning, time to review and potentially renegotiate underlying contracts and agreements and time to organise and implement necessary financial management information system (FMIS) changes.

The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* has made a number of recommendations to the Minister for Finance including, for example, bringing forward the date for the tabling of annual reports, removing duplication and improving linkages between accountability documents, and increasing disclosures around remuneration paid to executives and highly paid staff. In response, the Minister for Finance amended the *Public Governance, Performance and Accountability Rule 2014* (the Rule) to require Commonwealth entities to make remuneration disclosures for key management personnel, senior executives and other highly paid staff in annual reports. The Minister for Finance also amended the Rule to require Commonwealth entities and companies to publish annual reports online.

Introduction

3.1 The Australian Government's financial reporting framework is based, in large part, on standards made independently by the Australian Accounting Standards Board (AASB). The framework is designed to support decision-making by, and accountability to, the Parliament.

3.2 The AASB bases its accounting standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. As IFRS are designed primarily for use by private sector and for-profit organisations, the AASB amends the IFRS to reflect significant transactions and events that are particularly prevalent in 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.

3.3 The Finance Minister prescribes additional financial reporting requirements for Commonwealth entities. These are contained in the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (the FRR). The FRR is made under the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act).

3.4 The audits of the financial statements of Australian Government entities are conducted in accordance with the ANAO Auditing Standards, which are made by the Auditor-General under section 24 of the *Auditor-General Act 1997*. The ANAO Auditing Standards incorporate, by reference, the auditing standards made by the Australian Auditing and Assurance Standards Board (AUASB). The Australian Auditing and Assurance Standards Board bases its standards on

those made by the International Auditing and Assurance Standards Board, an independent standard setting board of the International Federation of Accountants.

3.5 The financial reporting and auditing frameworks that applied in 2019–20 are illustrated in Appendices 3 and 4 of this report.

Changes to the Australian public sector reporting framework

Changes in the financial framework

3.6 The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* (the PGPA Review), released in September 2018, made a number of recommendations, the responses to which will impact the presentation and preparation of financial statements. The PGPA Review mirrors recommendations made by the Joint Committee of Public Accounts and Audit (JCPAA) in 2017⁶² in response to the Auditor-General's report number 33 (2016–17) *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*.

3.7 The Department of Finance has undertaken a number of initiatives in response to the PGPA Review including the development of a 'Transparency Portal' for the publication and utilisation of annual reports, the preparation of a Financial Statements Better Practice Guide, and amendments to the PGPA Act in relation to reporting on executive and highly paid staff remuneration.

Transparency Portal

3.8 The Transparency Portal⁶³ (the Portal) is an online digital reporting tool for the publication and presentation of all Commonwealth company and Commonwealth entity annual reports. The Portal was opened for public use in March 2019.

3.9 The portal has the functionality to:

- provide a single point of access for all Commonwealth company and Commonwealth entity annual reports;
- support compliance with the Commonwealth financial reporting framework through the use of data sets based on the minimum financial reporting and disclosure requirements of the PGPA Act and Financial Reporting Rule;
- enable portal users to search for and compare financial statements data between entities and between years using viewer generated tables and graphs;
- perform financial ratio analysis with the portal currently providing users with ratios for total assets to total liabilities and financial asset to liabilities; and
- have entities upload corporate plans and portfolio budget statements.

3.10 In April 2019, the Finance Minister amended the PGPA Rule⁶⁴ to require all Commonwealth companies and Commonwealth entities to publish their 2018–19 annual reports

62 Joint Committee of Public Accounts and Audit, *Report 463: Commonwealth Financial Statements, Inquiry based on Auditor-General's report 33 (2016–17)*.

63 Transparency portal available from www.transparency.gov.au [accessed 28 October 2019].

64 *Public Governance, Performance and Accountability Amendment (Annual Reporting) Rules 2019* (4 April 2019).

on the Portal. The Rule does not require entities to upload corporate plans or portfolio budget statements.

Financial Statements Better Practice Guide

3.11 The Department of Finance has published a *Financial Statements Better Practice Guide*⁶⁵ as a practical resource to support staff in the financial statements preparation process. The guide includes draft timetables, compliance checklists, a range of administrative templates and practical guidance such as how to prepare an accounting position paper and what sort of information an auditor is likely to request.

Reporting of Executive Remuneration

3.12 The PGPA Review and JCPAA⁶⁶ recommended that increased disclosure of executive and highly paid staff remuneration would be beneficial to users of Commonwealth annual reports and allow for increased transparency.

3.13 In April 2019 the Minister for Finance amended the PGPA Rule⁶⁷ to require Commonwealth entities⁶⁸ to disclose in the annual report remuneration of:

- key management personnel;
- senior executive staff in aggregate by \$25,000 band starting from a threshold of \$0 to \$220,000; and
- other highly paid staff in aggregate by \$25,000 band starting from a threshold of \$220,000.

Performance framework

3.14 The PGPA Act provides the basis for the Commonwealth performance framework. Commonwealth entities are required to publish planned financial and non-financial performance information with the aim of providing more transparent and meaningful information to the Parliament and the public.

3.15 The PGPA review recommended the Finance Minister, in consultation with the JCPAA, should request that the Auditor-General pilot assurance audits of annual performance statements to trial an appropriate methodology for these audits.

3.16 On 21 August 2019, the Minister for Finance requested that the Auditor-General conduct a program of pilot assurance audits of annual performance statements of Commonwealth entities subject to the PGPA Act, in consultation with the JCPAA. The Auditor-General responded on 14 November 2019, agreeing to the request and proposing to conduct a pilot to audit the 2019–20 performance statements of three entities.⁶⁹

65 Department of Finance, *Financial Statements Better Practice Guide*, available at <https://www.finance.gov.au/financial-reporting-and-accounting-policy/financial-statements-better-practice-guide/> [accessed 10 March 2019].

66 Joint Committee of Public Accounts and Audit, *Report 463: Commonwealth Financial Statements, Inquiry based on Auditor-General's report 33 (2016–17)*.

67 *Public Governance, Performance and Accountability Amendment (Reporting Executive Remuneration) Rules 2019* (4 April 2019).

68 Commonwealth companies will continue to report as per Corporations Legislation requirements.

69 <https://www.anao.gov.au/work/request/performance-statements-audit-pilot-program> [accessed on 29 November 2019].

3.17 The ANAO completed three performance audits covering elements of 10 individual entity performance statements. The results are published in three Auditor General Reports: *Implementation of the Annual Performance Statements Requirements 2015–16*⁷⁰, *2016–17*⁷¹ and *2017–18*.⁷²

Changes to accounting standards

3.18 Public sector entities will need to prepare for a number of new standards for 2019–20. These new standards represent major revisions to existing standards for revenue and leases. The effort and time required to transition to these new standards should not be underestimated with preparers required to write new or revise existing accounting policies, and undertake a review of all the underlying contracts and in some instances consider amending contracts.

Revenue

3.19 The new revenue standard AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for financial years commencing on or after 1 January 2019 for not-for-profit entities, meaning it will impact most Commonwealth entities in the 2019–20 financial year.⁷³ AASB 15 applies to all exchange transactions and provides a consistent approach to revenue recognition. The principle underpinning AASB 15 is that revenue is earned when the customer receives the goods or services that have been promised under the contract. AASB 15 will impact entities where:

- funding is given to provide goods or services to a third party – the entity will recognise revenue when the goods or services are provided to the third party. Under standards currently in force, revenue is recognised when the money is received from the funding provider;
- funding agreements do not identify specific goods or services to be delivered over the term of the contract. Entities will recognise revenue up front unless contract completion is a deliverable; and
- both revenue and the related expense are deferred until the goods or services are delivered, entities with significant non-appropriation revenue are likely to see an impact on their balance sheet and operating result, particularly for long term projects with a significant delay between establishment and initial delivery.

3.20 The Department of Finance has issued a position paper *Implementation Options for AASB 1058 Income of Not-for-Profit Entities in conjunction with AASB 15 Revenue from Contracts with Customers*⁷⁴, which outlines the Commonwealth's position on options for the implementation of

70 Auditor General Report No.58 2016–17, *Implementation of the Annual Performance Statements Requirements 2015–16*.

71 Auditor General Report No.33 2017–18, *Implementation of the Annual Performance Statements Requirements 2016–17*.

72 Auditor General Report No.17 2018–19, *Implementation of the Annual Performance Statements Requirements 2017–18*.

73 For-profit entities will apply the requirements for financial years commencing on or after 1 January 2018.

74 Department of Finance, *Implementation Options for AASB 1058 Income of Not-for-Profit Entities in conjunction with AASB 15 Revenue from Contracts with Customers*, available from <https://www.finance.gov.au/resource-management/presentations-position-papers/> [accessed 10 March 2019].

AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058), in conjunction with AASB 15. This includes the position that entities are required to adopt a modified retrospective application on transition. As a consequence, AASB 15 is to be applied to all new and uncompleted contracts from the date of initial application and comparative information for the preceding periods is not required to be restated.

Leases

3.21 The revised leasing standard, AASB 16 *Leases* (AASB 16), is effective for financial years commencing on or after 1 January 2019; this means it will impact entities in the 2019–20 financial year. AASB 16 significantly increases the recognition and disclosure of leases by lessees with the majority of leases currently treated as operating leases recognised on the balance sheet. The net impact on the balance sheet is expected to be limited as the right-of-use asset and liability for future lease payments will be largely offsetting as the value of the right-of-use asset is based on the net present value of the future lease payments. In terms of profit or loss impact, rather than the current annual rent expense over the term of the lease, two expenses will be recognised – interest on the lease liability and amortisation of the right-of-use asset. The effect of AASB 16 is to ‘front-load’ the recognition of expense, rather than recognising it on a straight-line basis.

3.22 The adoption of AASB 16 is expected to be a time consuming task for those entities with significant numbers of operating leases. Entities will need to review all lease agreements to identify the individual right-of-use assets, unbundle any service arrangements and identify where the lease payments are significantly below market value. Lessees will also need to consider that AASB 16 requires entities to include known contingent rents on initial measurement of the asset and liability and subsequently remeasure the lease asset and liability as subsequent contingent rent events become known.

3.23 The Department of Finance have issued a position paper *Implementation Options for AASB 16 Leases*⁷⁵ which outlines the Commonwealth position on the options available for the implementation of AASB 16. This includes mandating the election to not reassess previous lease contracts under the new standard and the modified transition model under which the cumulative effect of application of the new standard is recognised in opening retained earnings.

Data Analytics Strategy 2018–20

3.24 Auditors in the private and public sectors are increasingly using data and analytics to better identify financial reporting, fraud and operational business risks, and tailor the audit approach to deliver more targeted risk-based audits. By using a data-enabled approach, audit outcomes are able to be improved through the automation of procedures and analysis of relationships between variables.

3.25 The ANAO released its Data Analytics Strategy 2018-20 in March 2018, looking at how data analytics can be used to enhance audit quality and efficiency. The need to remain responsive to key technology and data changes is critical to the delivery of our work to Parliament, specifically in understanding and analysing how government is utilising these ongoing advances. Adapting

⁷⁵ Department of Finance, *Implementation Options for AASB 16 Leases*, available from <https://www.finance.gov.au/resource-management/presentations-position-papers/> [accessed 10 March 2019]

and leveraging these changes will be critical to the ANAO continuing to meet its purpose, providing opportunities for the organisation to use data analytics to strengthen audit outcomes and present data in a more accessible way to the Parliament.

Process

3.26 Core to the Data Analytics Strategy is capability building. In 2018, ANAO was primarily focused on establishing its data analytics capabilities to explore possibilities and try new approaches. Through a number of pilot projects, the ANAO has been successful in capability building and proving concepts that can be embedded in the ANAO's audit methodologies.

3.27 In 2019, the focus has shifted to embedding data analytics to support financial statements audits and performance audits, including:

- Obtaining assurance with reduced efforts through data analytics solutions;
- Gaining a higher level of understanding and target testing based on population data;
- Automating processes with significant manual activities; and
- Developing solutions that are transferable across audits.

3.28 In applying a data analytics approach, the ANAO adopts work practices to ensure the best outcomes can be achieved for the individual audit, the Office as a whole and the entity being audited.

3.29 Below are a number of case studies from the 2018–19 financial statements audit program where data analytics has been used to enhance the audit outcome.

Case study 1: Provide assurance over entity's revenue

3.30 The ANAO used a data analytics approach to confirm the accuracy of an entity's revenue. This approach was taken because the complexity of the systems involved made a controls approach less effective and the quantum of data involved and complexity of business rules made sampling and manual testing time consuming and impractical.

3.31 The data analytics approach was designed for re-execution with minimal manual intervention. The ANAO's re-calculation provided assurance over the data integrity and accuracy of the revenue being reported in the financial statements.

Case study 2: Provide assurance over payroll completeness and accuracy

3.32 The ANAO used a data analytics approach to audit an entity's payroll expenses. This approach was taken because a controls approach was not practical due to weaknesses in the underlying control environment, and using data analytics was more efficient than manually testing the balances.

3.33 The ANAO obtained three years of HR data from the entity and developed a substantive analytical model to recalculate the payroll expenses. The ANAO's re-calculation of payroll expenses provided assurance over completeness and accuracy reported in the financial statements.

Case study 3: A shift to population data to inform the 2018–19 audit planning

The ANAO developed a series of dashboards for an audit team to inform its 2018–19 audit planning over the purchases and payables processes. Population data on expenses were obtained

from the entity and used to build a series of interactive dashboards for the audit team. These dashboards allowed the auditors to use filters and visualisations to quickly assess the risks. This work has embedded data analytics capabilities into the audit process and auditors can gain a higher level understanding based on population data. Audit teams have access to a tool that enables them to perform data-driven audit planning to build better entity understanding and identify risk areas for expenses. A standard and efficient data acquisition process has been set up between the ANAO and this entity to collect the updated data to refresh the dashboard reporting.

Future plan

3.34 The ANAO will:

- extend the existing data analytics solutions to an increasing number of audits;
- continue to develop high value data analytics solutions that are scalable, repeatable and transferable; and
- streamline and standardise data acquisition processes with entities.

4. Results of financial statements audits by portfolio

Chapter coverage

This chapter outlines the results of the audits of the 2018–19 financial statements of individual entities by portfolio based on arrangements existing at 30 June 2019.

The chapter also details:

- an overview of the portfolio and each material^{(a)(b)} entity's primary role in the portfolio:
 - a summary of financial performance that provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items and commentary regarding significant movements;
 - the number of audit differences reported to all entities within the portfolio;
 - key areas of financial statements risk and the factors contributing to those risks for all material entities (this includes identification of Key Audit Matters for relevant entities); and
 - the status of significant and moderate audit findings reported during 2018–19 and previous years for all entities.

Audit results

Three significant and 21 moderate audit findings were reported in 2018–19 (2017–18: one significant and 18 moderate), and three significant legislative breaches (2017–18: one).

Note a: Three subsidiary entities classified by the Department of Finance as material are not separately detailed in this chapter as the entities results are reflected in the commentary relating to the parent entity. These entities are: ANSTO Nuclear Medicine Pty Ltd (consolidated into Australian Nuclear Science and Technology Organisation; CSIRO General Partner Co Pty Ltd (consolidated into Commonwealth Scientific and Industrial Research Organisation); and Voyages Indigenous Tourism Australia (consolidated into Indigenous Land and Sea Corporation).

Note b: The North Queensland Livestock Industry Recovery Agency (NQLIRA) was established on 2 March 2019. NQLIRA is classified as a material entity for inclusion in the consolidated financial statements. For the purposes of this report NQLIRA has not been included in the Prime Minister and Cabinet portfolio chapter due its limited financial transactions in the 2018–19 financial year. An audit report was issued for NQLIRA in 2018–19.

Introduction

4.0.1 A central element of the ANAO's financial statements audit methodology, and the focus of the planning phase of the ANAO audits, is a sound understanding of an entity's environment and internal controls relevant to assessing the risk of material misstatement in the financial statements. This understanding informs the ANAO's audit approach, including the reliance that may be placed on entity systems to produce financial statements that are free from material misstatement. The interim phase of the audit assesses the operating effectiveness of controls. In the final audit phase the ANAO completes its assessment of the effectiveness of controls for the full year, substantively tests material balances and disclosures in the financial statements, and finalises its audit opinion on the entity's financial statements.

4.0.2 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

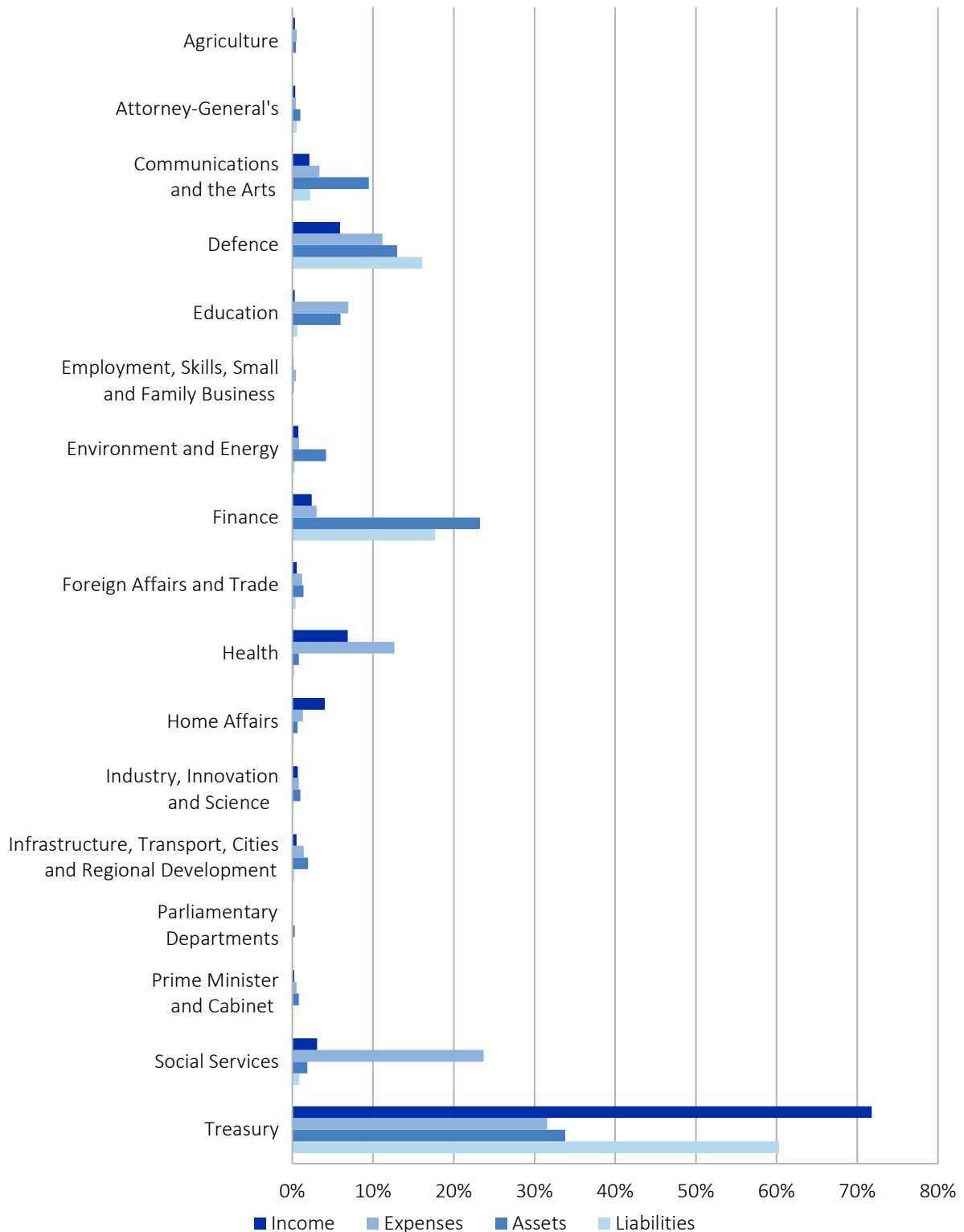
misstated. This low level of risk is accepted because it is too costly to perform an audit that is predicated on no level of risk. Specific audit procedures are performed to ensure that the risk accepted is low. These procedures include:

- 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.

4.0.3 Where a performance audit was tabled during 2018–19 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach will be discussed within the relevant portfolio section. The observations of performance audits tabled since 1 July 2019 and relevant to the financial management or administration of entities will inform the ANAO’s 2019–20 financial statements audits risk identification process.

4.0.4 Figure 4.0.1 provides each portfolio’s contribution, as a percentage of the Australian Government’s 2018–19 Consolidated Financial Statements (CFS).

Figure 4.0.1: Portfolio's contribution as a percentage of the Australian Government's 2018–19 Consolidated Financial Statements



Source: ANAO analysis of 2018–19 CFS.

4.0.5 This chapter reflects portfolio arrangements at 30 June 2019 as established by the May 2019 Administrative Arrangements Order and outlines the following information for each portfolio:

- an overview including:
 - an analysis of income, expenses, assets and liabilities contributed to the 2018–19 CFS; and
 - a table of the number of audit differences reported to entities in the portfolio;
- for each material entity within the portfolio:
 - the primary role of the entity;
 - a summary of financial performance that provides a comparison of the 2017–18 and 2018–19 key financial statement items and commentary regarding significant movements;
 - key areas of financial statements risk including those areas identified as key audit matters (KAM)⁷⁶; and
- the status of significant and moderate audit findings reported during 2018–19 and previous years for all entities.

4.0.6 Table 4.0.1 presents a summary of significant and moderate findings reported at 30 June 2019 and 30 June 2018 by portfolio and entity, including the number carried forward as unresolved from the previous year. The findings and associated recommendations were agreed by all entities with two exceptions relating to: the significant audit finding reported to the Department of Home Affairs; and the moderate audit findings reported to the Department of Education which were not agreed. Table 4.0.1 does not include significant legislative breaches. Three significant legislative breaches were reported in relation to the Northern Land Council (paragraphs 4.15.28 – 4.15.31 and 4.15.38 – 4.15.43) and Wreck Bay Aboriginal Community Council (paragraphs 4.15.45 – 4.15.48).

76 For further details on KAMS refer to Chapter 2 paragraphs 2.27 – 2.33.

Table 4.0.1: Significant and moderate audit findings by portfolio and entity

Portfolio	Entity	30 June 2019		30 June 2018	
		New findings ^(a)	Repeat/ unresolved findings ^(b)	New findings ^(a)	Repeat/ unresolved findings ^(b)
Agriculture	Department of Agriculture	1	–	–	–
Communications and the Arts	Department of Communication and the Arts	1	1	1	–
	Australian Broadcasting Corporation	1	–	–	–
Defence	Department of Defence	1	1	2	–
	Defence Housing Australia	1	–	–	–
Education	Department of Education	2	–	–	–
	Australian National University	–	–	2	–
Employment, Skills, Small and Family Business	Department of Employment, Skills, Small and Family Business	1	–	–	–
Environment and Energy	Bureau of Meteorology	1	–	–	–
	Clean Energy Regulator	–	1	1	–
	Director of National Parks	–	1	–	1
Health	Department of Health	1	–	–	–
	Australian Digital Health Agency	1	–	–	–
	National Health and Medical Research Council	–	1	–	1
Home Affairs	Department of Home Affairs	1	–	–	–
	Australian Federal Police	–	2	2	1
Industry, Innovation and Science	Department of Industry, Innovation and Science	–	–	1	–

Portfolio	Entity	30 June 2019		30 June 2018	
	Australian Nuclear Science and Technology Organisation	–	1	1	–
Infrastructure, Regional Development and Cities	Airservices Australia	–	–	–	1
	Moorebank Intermodal Company Limited	–	1	1	–
Prime Minister and Cabinet	Northern Land Council	2	–	–	–
Social Services	National Disability Insurance Agency	–	1	2	1
Treasury	Royal Australian Mint	–	–	1	–
Total		14	10	14	5

Note a: Minor findings identified previously and reclassified to a moderate or significant finding are considered new for the purposes of this table.

Note b: Repeat/unresolved findings are categorised as such if unresolved from a prior financial year. Findings transferred to another entity as a result of machinery of government changes which remain unresolved are treated as repeat findings for the purposes of this table.

Source: 2018–19 and 2017–18 ANAO correspondence.

4.1 Agriculture portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Agriculture	Yes	Moderate	✓	6 Sept 19	10 Sept 19	▲□

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

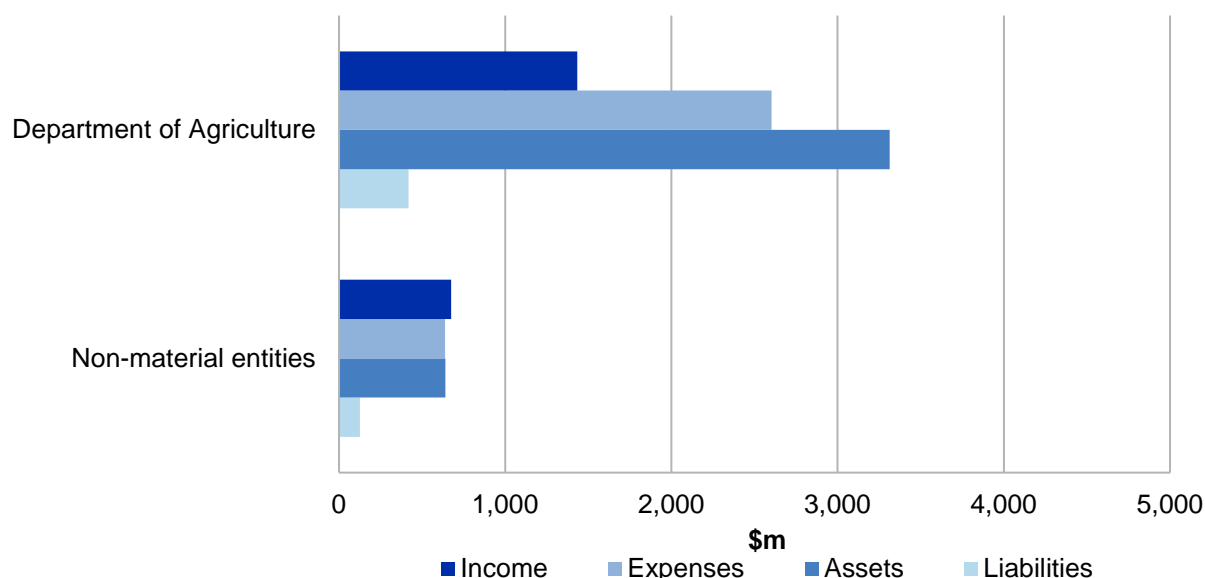
Portfolio overview

4.1.1 The Agriculture portfolio supports Australia's agricultural, fisheries, food, forestry and water resources industries. The portfolio is also responsible for Australia's animal and plant health status to maintain overseas markets and protect the economy and environment from the impact of exotic pests and diseases.

4.1.2 The Department of Agriculture is the lead entity in the portfolio, and is responsible for developing and implementing policies and programs on agricultural, fisheries, food and forestry industries; sustaining water resources; and managing biosecurity and imported food risk.

4.1.3 Figure 4.1.1 shows the Agriculture portfolio's income, expenses, assets and liabilities.

Figure 4.1.1: Agriculture portfolio's income, expenses assets and liabilities



Source: 2018–19 CFS.

4.1.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table

provides a summary of those audit differences that relate to entities within the Agriculture portfolio.

Table 4.1.1: The number of audit differences for entities in the Agriculture portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Australian Fisheries Management Authority	3	1	4	–	1	1
Australian Pesticides and Veterinary Medicines Authority	–	6	6	–	6	6
Fisheries Research and Development Corporation	–	–	–	–	1	1
Grains Research and Development Corporation	–	5	5	–	3	3
Murray-Darling Basin Authority	1	–	1	1	–	1
Regional Investment Corporation	2	10	12	–	2	2
Rural Industries Research and Development Corporation	–	–	–	–	7	7

Source: Audit differences reported to entities in the Agriculture Portfolio.

4.1.5 The following section provides a summary of the 2018–19 financial statements audit results for the Department of Agriculture.

Department of Agriculture

4.1.6 The Department of Agriculture (Agriculture) supports: the sustainability, profitability and competitiveness of Australia’s agricultural, fisheries, food and forestry industries; and the sustainable and productive management and use of rivers and water resources.

Summary of financial performance

4.1.7 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Agriculture, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.1.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(407.2)	(388.8)
Revenue from government	391.8	380.7
Surplus/deficit attributable to the Australian Government	(15.4)	(8.1)
Total other comprehensive income/(loss)	0	0
Total comprehensive loss attributable to the Australian Government	(15.4)	(8.1)
Total assets	355.7	335.4
Total liabilities	239.9	217.2
Total equity	115.8	118.2

Source: Agriculture's audited financial statements for the year ended 30 June 2019.

4.1.8 The net cost of services primarily increased due to higher employee expenses relating to the movement in the government bond rate used to discount employee provisions, and higher expenditure on contractors and rent. This was partially offset by an increase in own-source revenue and a reduction in grants expense. Own-source revenue increased due to higher than anticipated revenues from regulatory charging on import and export functions. The decrease in grants expense related to the Regional Investment Corporation, which was funded through an administered appropriation in 2018–19, compared to being funded through grants in 2017–18.

4.1.9 Total assets increased primarily due to an increase in internally developed intangibles for software projects which were completed during 2018–19. Total liabilities increased due to the movement in the government bond rate used to discount employee provisions.

Table 4.1.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	1,755.3	1,561.5
Total income	856.9	708.7
Net (cost of)/contribution by services	(898.4)	(852.8)
Total other comprehensive income/(loss)	110.6	33.2
Total comprehensive income/(loss)	(787.9)	(819.7)
Total assets administered on behalf of Government	2,956.9	2,582.4
Total liabilities administered on behalf of Government	178.0	107.5
Net assets	2,778.9	2,474.9

Source: Agriculture's audited financial statements for the year ended 30 June 2019.

4.1.10 Total expenses increased primarily due to additional farm household allowances paid to farm businesses affected by worsening drought conditions, and an increase in the value of water acquired under the Murray-Darling Basin Agreement. This was partially offset by a reduction in

grants expense relating to a delay in the roll out of the Murray-Darling Basin water infrastructure program.

4.1.11 The increase in total expenses relates to payments for water infrastructure projects. This results in a corresponding increase in total income where water recoveries are returned to the Commonwealth as an asset received free of charge.

4.1.12 Other comprehensive income and assets increased due to increases in the net assets of investments held in corporate Commonwealth entities within the Agriculture portfolio. In addition, total assets increased due to lower than expected payments out of the Water for the Environment special account. Cash is appropriated through the special account for water acquisitions under the Murray-Darling Basin Agreement.

4.1.13 Total liabilities increased due to higher levy payments and loans committed, but not paid, as at 30 June 2019.

Key areas of financial statements risk

4.1.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Agriculture's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.1.4, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.1.4: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental sale of goods and rendering of services revenue \$409.4 million	Accuracy and completeness of own-source revenue KAM	Higher	<ul style="list-style-type: none"> large range of revenue streams, collected across the country through multiple systems; complex cost recovery arrangements; collection of a significant portion of import revenues is performed by the Department of Home Affairs; and judgement involved in the calculation of the provision for doubtful debts.
Administered Levies, fees and charges \$564.1 million	Accuracy and completeness of primary industry levies, fees and charges revenue KAM	Higher	<ul style="list-style-type: none"> self-assessment nature of collections; and complexities involved in estimating the level of agricultural production on which revenue is based.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered loans (component of trade and other receivables) \$801.8 million	Valuation of loans to the state and territory governments KAM	Moderate	<ul style="list-style-type: none"> variation in loan terms across jurisdictions; potential changes in the accounting treatment for loans should they be deemed concessional in nature; the level of estimation involved in determining any potential impairment of loans; subsequent management of loans to farm businesses is undertaken by a third party (the state or territory government), under a service level agreement with Agriculture; and reliance on a third party who is responsible for entering into loan agreements with eligible farm businesses, the approval of recipients, and the ongoing monitoring and maintenance of the loans.
Administered assets recognised under jointly controlled arrangements \$664.9 million	Valuation of jointly controlled assets KAM	Moderate	<ul style="list-style-type: none"> jointly controlled assets are managed by a third party with limited oversight from joint owners; and the judgement involved in valuing the unique assets managed under the arrangement.
Administered personal benefits payments \$114.2 million	Eligibility of personal benefit payments	Moderate	<ul style="list-style-type: none"> susceptibility to fraudulent benefit claims; and eligibility for personal benefit payments paid by Services Australia on behalf of Agriculture under the Farm Household Allowance scheme is subject to the applicants meeting a number of complex legislative conditions.

Source: ANAO 2018–19 audit results, and Agriculture's audited financial statements for the year ended 30 June 2019.

Audit results

4.1.15 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.1.5: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	–	2 ^(a)	(1) ^(b)	1
Total	–	2	(1)	1

Note a: The moderate audit findings were first reported to Parliament in Auditor-General Report No.46 of 2018–19 *Interim Report on Key Financial Controls of Major Entities*.

Note b: The moderate audit finding relating to the monitoring and management of privileged user access was downgraded to a minor audit finding.

Source: ANAO 2018–19 audit results

4.1.16 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that Agriculture’s 2018–19 financial statements were not materially misstated.

Resolved moderate audit finding

Monitoring and management of privileged user access

4.1.17 The ANAO raised a moderate audit finding during the 2018–19 interim audit phase relating to weaknesses in the IT security control environment, including:

- a large number of active privileged user accounts and no formal monitoring controls over those accounts;
- a large number of privileged user accounts which had not been actively used during the financial year;
- a number of generic and superseded privileged user accounts which were still active. The Information Security Manual (ISM) requires that entities must restrict privileged access to unique and identifiable users; and
- three user accounts had passwords set to never expire which does not align with the ISM password management requirements.

4.1.18 During the final audit phase, the ANAO undertook additional testing and confirmed:

- a significant reduction in the number of privileged user accounts which have not been actively used during the financial year;
- the generic and superseded privileged user accounts had been disabled; and
- the three user accounts without password expiry identified had passwords configured in accordance with ISM requirements.

4.1.19 The ANAO identified that there remained findings relating to the logging and monitoring of privileged user access which Agriculture is continuing to address. As a result of the progress observed by the ANAO, this finding has been downgraded to a minor finding.

Unresolved moderate audit finding

Weaknesses in change management controls

4.1.20 During the 2018–19 interim audit phase the ANAO identified a number of weaknesses in change management controls, including:

- instances where there was no documented evidence demonstrating system changes had been tested in the production environment;
- no evidence of controls around configuration management. Configuration management controls are important as they help ensure that only approved and tested versions of software are implemented into the production environment;
- no evidence that a change migrated from the test environment to the production environment was performed by different users; and
- an increase to the percentage of changes implemented by the department using the emergency change procedures.

4.1.21 During the final phase of the audit, the ANAO noted that Agriculture had not fully implemented the ANAO recommendations. Progress in addressing this issue will be reviewed during the 2019–20 financial statements audit.

4.2 Attorney-General's portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Attorney-General's Department	Yes	Moderate	✓	22 Aug 19	27 Aug 19	Nil
Australian Law Reform Commission	No	Low	✓	9 Sep 19	9 Sep 19	□
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	Moderate	✓	17 Sep 19	17 Sep 19	Nil
Comcare	Yes	Moderate	✓	18 Sep 19	19 Sep 19	Nil
High Court of Australia	Yes	Low	✓	3 Sep 19	3 Sep 19	Nil
National Archives of Australia	Yes	Low	✓	3 Sep 19	3 Sep 19	Nil

✓: auditor's report not modified

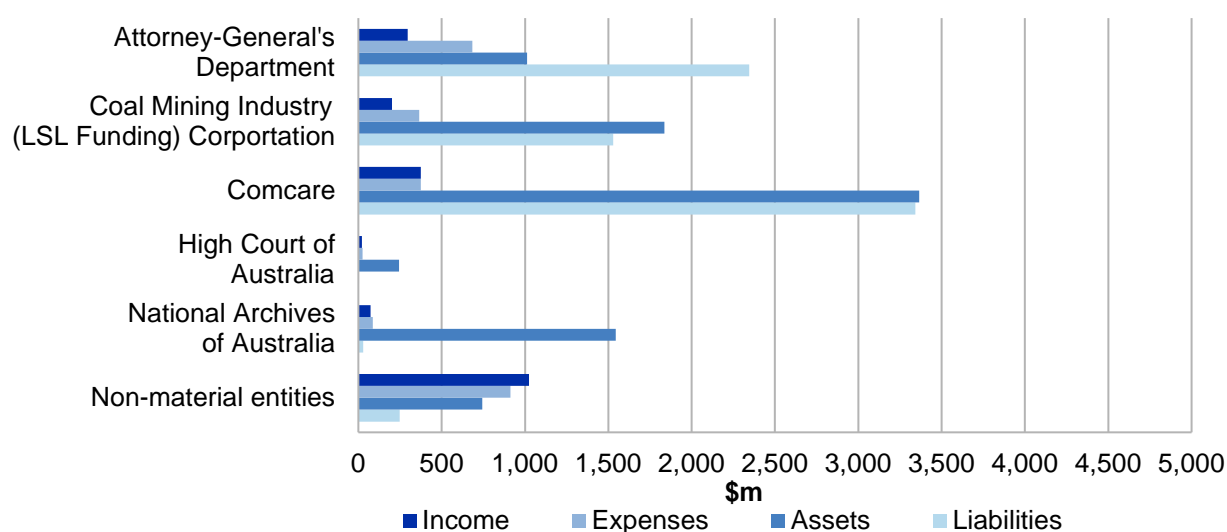
□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

Portfolio overview

4.2.1 The Attorney-General's portfolio covers a range of functions and policy areas, including family law and marriage; administrative and international law; protective security; privacy, and freedom of information; personal property securities; and native title. It also includes integrity oversight, international crime cooperation, criminal law policy, and support for Royal Commissions.

4.2.2 As a result of Administrative Arrangements Order (AAO) changes announced on 29 May 2019, the portfolio now includes additional responsibility for the industrial relations system, including work health and safety, rehabilitation and compensation which were previously from included in the portfolio of the Department of Employment, Skills, Small and Family Business (Employment), formerly the Department of Jobs and Small Business.

4.2.3 Figure 4.2.1 shows the Attorney-General's portfolio's income, expenses, assets and liabilities.

Figure 4.2.1: Attorney-General's portfolio's income, expenses, assets and liabilities

Source: 2018–19 CFS.

4.2.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Attorney-General's portfolio.

Table 4.2.1: The number of audit differences for entities in the Attorney-General's portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Attorney-General's Department	2	–	2	2	4	6
Administrative Appeals Tribunal	–	4	4	–	1	1
Australian Building and Construction Commission	–	–	–	1	1	2
Australian Financial Security Authority	–	1	1	–	–	–
Australian Human Rights Commission	–	1	1	–	2	2
Australian Law Reform Commission	1	3	4	–	1	1
Coal Mining Industry (Long Service Leave Funding) Corporation	2	–	2	2	–	2
Comcare	–	1	1	–	–	–

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Federal Court of Australia	1	1	2	–	1	1
Office of Parliamentary Counsel	1	–	1	–	1	1
Office of the Australian Information Commissioner	–	2	2	–	2	2
Office of the Commonwealth Ombudsman	2	1	3	–	–	–
Office of the Inspector-General of Intelligence and Security	–	3	3	–	–	–

Source: Audit differences reported to entities in the Attorney General's Portfolio.

4.2.5 The following sections provide a summary of the 2018–19 financial statements audit results for the AGD, other material entities and findings related to non-material entities in the portfolio.

Attorney-General's Department

4.2.6 The Attorney-General's Department (AGD) supports the Attorney-General in achieving a just and secure society through the maintenance and improvement of Australia's law, justice, security and integrity frameworks.

4.2.7 As a result of AAO changes announced on 29 May 2019, AGD gained responsibility for a number of industrial relations and work health and safety functions from the Department of Employment, Skills, Small and Family Business (Employment), formerly the Department of Jobs and Small Business.

Summary of financial performance

4.2.8 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by AGD, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.2: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(124.5)	(162.6)
Revenue from government	131.1	181.8
Income tax expense	(1.0)	(4.7)
Surplus attributable to the Australian Government	5.6	14.5
Total other comprehensive income/(loss)	–	6.0
Total comprehensive income attributable to the Australian Government	5.6	20.5
Total assets	224.1	245.1
Total liabilities	123.7	123.8
Total equity	100.4	121.3

Source: AGD's audited financial statements for the year ended 30 June 2019.

4.2.9 The decrease in net cost of services was principally due to a transfer of staff resulting in a decrease in employee benefit expenses of \$21.4 million. Staff transferred to the Department of Home Affairs and the Australian Signals Directorate (ASD) as a result of the transfer of the national and cyber security functions under the December 2017 AAO. Expenses and revenues from both government and external sources also decreased as a result of the transferred functions. There was also a transfer of net assets resulting from the AAO.

Table 4.2.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	413.2	426.2
Total income	20.2	26.2
Surplus/(deficit)	(393.0)	(400.0)
Total other comprehensive income/(loss)	(0.1)	49.5
Total comprehensive income/(loss) attributable to the Australian Government	(393.1)	(350.5)
Total assets administered on behalf of Government	788.4	412.1
Total liabilities administered on behalf of the Government	2,222.7	13.6
Net assets/(liabilities)	(1,434.3)	398.5

Source: AGD's audited financial statements for the year ended 30 June 2019.

4.2.10 The reduction in total expenses was mainly due to the completion of a number of Royal Commissions during the year resulting in lower employee benefits and associated expenses relating to accommodation, advertising, general office and ICT support and maintenance costs.

4.2.11 The increase in total assets principally relates to the recognition of the Commonwealth's investment in corporate entities in the portfolio, totalling \$347.0 million following the transfer of

the industrial relations functions under the May 2019 AAO. In addition, following this May 2019 AAO, amounts owing by debtors relating to the various industrial relations entities have been recognised by AGD including the Long Service Leave Coal industry collection levies for payment to the Coal Mining Industry (Long Service Leave Funding) Corporation and the Fair Entitlements Guarantee (FEG) levies, and the personal benefit recoveries under the FEG scheme.

4.2.12 The increase in total liabilities is mainly due to the recognition following the May 2019 AAO of the amount payable to Comcare by the Commonwealth for worker's compensation claims and management of asbestos related personal injury common law claims against the Commonwealth.

Key areas of financial statements risk

4.2.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of AGD's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.2.4. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.4: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental rendering of services \$145.3 million goods and services receivables (component of trade and other receivables \$47.8 million)	Accuracy of revenue, and the accuracy and completeness of trade receivables, from rendering of services	Moderate	<ul style="list-style-type: none"> Australian Government Solicitor (AGS) revenue from rendering of services is a significant component of the AGD's revenue; and the value and timing of revenue recognition is determined with reference to time recorded on various AGS matters, the completion and recovery of matters and the valuation of work-in-progress at year end was subject to management judgement.
Administered grant expenses \$284.5 million	Accuracy and occurrence of administered grants expenses	Moderate	<ul style="list-style-type: none"> AGD has a decentralised grants management system which encompasses multiple and varied practices; and a significant component of the grants expense is managed by the Department of Social Services.

Source: ANAO 2018–19 audit results, and AGD's audited financial statements for the year ended 30 June 2019.

Audit results

4.2.14 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Coal Mining Industry (Long Service Leave Funding) Corporation

4.2.15 The Coal Mining Industry (Long Service Leave Funding) Corporation (Coal LSL) collects levies from employers to fund long service leave payments made to employees in the Australian black coal mining industry. The levies collected are invested until the employee takes long service leave, at which point the employer makes a payment to the employee and seeks reimbursement from Coal LSL in accordance with legislative arrangements.

4.2.16 As a result of the AAO on 29 May 2019, Coal LSL transferred from Employment to the Attorney-General's portfolio.

Summary of financial performance

4.2.17 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by Coal LSL, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.5: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(237.0)	(76.4)
Revenue from government	134.5	149.1
Surplus/(deficit) attributable to the Australian Government	(102.5)	72.7
Total other comprehensive income/(loss)	–	0.0
Total comprehensive income/(loss) attributable to the Australian Government	(102.5)	72.7
Total assets	1,836.9	1,712.8
Total liabilities	1,528.9	1,302.4
Total equity	308.0	410.4

Source: Coal LSL's audited financial statements for the year ended 30 June 2019.

4.2.18 The increase in net cost of services is largely a result of the increase in the provision for long service leave reimbursements to meet Coal LSL's obligations to fund the long service leave of workers in the black coal industry. The value of this provision is determined using an actuarial method and is sensitive to changes in government bond rates, which are used to discount the provision.

4.2.19 Total assets increased due to a gain in the value of unit trust investments held by Coal LSL. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.2.20 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Coal LSL's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in

2018–19 are provided in Table 4.2.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Unit trusts \$1.7 billion	Valuation of investments	Higher	<ul style="list-style-type: none"> Coal LSL is continuing to increase its holdings of unlisted assets; and complexity surrounding the valuation of unlisted unit trusts warrant a higher degree of focus than listed equities and fixed interest investments.
Provisions \$1.3 billion	Valuation of provision for reimbursements	Higher	<ul style="list-style-type: none"> Coal LSL makes a provision for the expected reimbursement of employer's long service leave obligations, based on a complex methodology and estimation process.
Employee benefits expense \$7.4 million Employee provisions \$0.8 million Directors' remuneration and expenses \$0.2 million	In-housing of payroll	Moderate	<ul style="list-style-type: none"> in April 2019, Coal LSL completed a project to bring the previously outsourced payroll function back in-house; and the transition included a migration of existing employee information from the outsourced provider to an in-house solution, changes to processing procedures, functional controls and an increase in transaction activity within Coal LSL's accounts.

Source: ANAO 2018–19 audit results, and Coal LSL's audited financial statements for the year ended 30 June 2019.

Audit results

4.2.21 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Comcare

4.2.22 Comcare is responsible for the administration of an integrated safety, rehabilitation and compensation scheme for federal employers, employees and their representatives. Comcare aims to support participation and productivity nationally, through healthy and safe workplaces that minimise harm in the workplace. This also includes the management of a comprehensive workers compensation liability scheme and the Commonwealth common law liabilities for asbestos compensation.

4.2.23 As a result of the AAO on 29 May 2019, Comcare transferred from Employment to the Attorney-General's portfolio.

Summary of financial performance

4.2.24 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by Comcare, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.7: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m) ^(a)
Net (cost of)/contribution by services	56.3	297.6
Revenue from government	60.3	56.8
Return of surplus claims funding	(117.0)	(346.7)
Surplus/(deficit) attributable to the Australian Government	(0.4)	7.7
Total other comprehensive income/(loss)	0.5	–
Total comprehensive income/(loss) attributable to the Australian Government	0.4	7.7
Total assets	3,366.3	3,507.3
Total liabilities	3,343.3	3,484.4
Total equity	23.0	22.9

Note a: Comcare has had a prior year adjustment and Table 4.2.7 has been adjusted to reflect the changes.

Source: Comcare's audited financial statements for the year ended 30 June 2019.

4.2.25 The decrease in the net contribution by services was largely due to decreases of \$220.2 million in the movement of the workers' compensation claims provision and common law asbestos-related disease claims provision. The decrease in workers' compensation claims provision is \$107.8 million, largely due to the lower volume of claims. There were fewer actual workers' compensation claims than projected at the previous valuation for incapacity and medical payments. The increase in the common law asbestos-related disease claims provision is \$26.1 million. The primary driver of the increase is the changes in economic assumptions including inflation and discount rates impacting, on the actuarial valuation.

4.2.26 Comcare has arrangements for special appropriations funding for claims to be returned to the Commonwealth when it is surplus to Comcare's requirements, after third party recoveries. This is reflected in the decrease in the return of surplus claims funding above.

4.2.27 The reduction in assets was primarily due to a reduction in non-current appropriation receivable in relation to the reduction in the premium claims provision.

4.2.28 The reduction in total liabilities was mainly due to a decrease in the workers' compensation claims provision as a result of the current year valuation. The decreases in long-term continuance rates and changes to projections in actual incapacity and medical claims are the main drivers.

Key areas of financial statements risk

4.2.29 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Comcare's financial statements. The ANAO focused audit effort on those areas that are assessed as

having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.2.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Workers' compensation claims provision \$2,025.9 million common law asbestos related disease claims provision \$936.9 million workers' compensation claims expense \$209.9 million common law asbestos related disease claims expense. \$24.4 million	Valuation of workers' compensation and asbestos related disease claims provisions	Higher	<ul style="list-style-type: none"> complex nature of the valuation of the provisions, including: the use of actuarial valuation models; the reliance on the accuracy of underlying assumptions including claims frequency and size, discount factors and establishment of procedure through case law, judgements and data; and the inherent difficulties in reflecting macro-economic trends in the valuation model.
Workers' compensation premiums \$242.3 million fees and fines \$16.0 million	Accuracy of revenue collection and recognition	Moderate	<ul style="list-style-type: none"> complex nature of the legislative requirements due to the variety of criteria underpinning premium calculations.

Source: ANAO 2018–19 audit results, and Comcare's audited financial statements for the year ended 30 June 2019.

Audit results

4.2.30 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

High Court of Australia

4.2.31 The High Court of Australia (High Court) is responsible for interpreting and applying the law of Australia; deciding on cases of special federal significance, including challenges to the constitutional validity of laws; and hearing appeals, by special leave, from federal, state and territory courts.

Summary of financial performance

4.2.32 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the High Court, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.9: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(22.1)	(22.0)
Revenue from government	15.5	14.0
Surplus/(deficit) attributable to the Australian Government	(6.6)	(8.0)
Total other comprehensive income/(loss)	7.6	10.7
Total comprehensive income/(loss) attributable to the Australian Government	1.0	2.7
Total assets	244.1	236.4
Total liabilities	3.9	3.4
Total equity	240.2	233.0

Source: The High Court's audited financial statements for the year ended 30 June 2019.

4.2.33 The increase in total assets is attributable to the \$7.6 million upward revaluation of the High Court building and higher term deposits held at the end of 2018–19. The increase in the fair value of the building is reflected in other comprehensive income. Term deposits held at the end of 2018–19 predominately relate to funding for capital projects that are at the procurement or design stage. These projects are expected to be completed during 2019–20.

Table 4.2.10: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	–	–
Total income	2.2	2.0
Surplus/(deficit)	2.2	2.0
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	2.2	2.0
Total assets	0	0
Total liabilities	–	–
Total equity	0	0

Source: The High Court's audited financial statements for the year ended 30 June 2019.

4.2.34 The High Court's administered income relates to the Court's hearing and filing fees. The hearing and filing fees remained relatively stable between 2017–18 and 2018–19, reflecting normal business activities.

Key areas of financial statements risk

4.2.35 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the High Court's financial statements. The ANAO focused audit effort on those areas that are assessed

as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.2.11. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Land & buildings \$210.4 million Property, plant and equipment \$17.2 million	Valuation of land & buildings and property, plant and equipment	Moderate	<ul style="list-style-type: none"> valuation process involves judgements due to unique features of the High Court's land, building and property, plant and equipment assets, such as location, special purpose development and heritage listing.

Source: ANAO 2018–19 audit results, and High Court's audited financial statements for the year ended 30 June 2019.

Audit results

4.2.36 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

National Archives of Australia

4.2.37 The National Archives of Australia (the National Archives) has four main roles under the *Archives Act 1983*: to promote sound records management by Australian Government entities by providing and setting standards for the management of information and records; authorise the retention and disposal of records; preserve records of national archival value; and make material publicly available.

Summary of financial performance

4.2.38 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the National Archives, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.12: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(76.6)	(75.9)
Revenue from government	62.5	63.8
Surplus/(deficit) attributable to the Australian Government	(14.0)	(12.0)
Total other comprehensive income/(loss)	16.5	27.7
Total comprehensive income/(loss) attributable to the Australian Government	2.5	15.7
Total assets	1,545.1	1,534.9
Total liabilities	28.8	26.9
Total equity	1,516.3	1,508.0

Source: The National Archives' audited financial statements for the year ended 30 June 2019.

4.2.39 The decrease in other comprehensive income is attributed to the revaluation of property, plant and equipment and the re-estimation of make-good provisions in 2018–19. Total comprehensive income has also been affected by these changes resulting in a decrease. The increase in total assets is also a result of the revaluation of property, plant and equipment.

Key areas of financial statements risk

4.2.40 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the National Archives' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 4.2.13. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.2.13: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$1.5 billion	Valuation of the archival collection	Moderate	<ul style="list-style-type: none"> the complex and unique nature of the archival collection.

Source: ANAO 2018–19 audit results, and the National Archives' audited financial statements for the year ended 30 June 2019.

Audit results

4.2.41 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Comments on non-material entities

Australian Law Reform Commission

4.2.42 The Australian Law Reform Commission (ALRC) undertakes research and provides recommendations to reform the law on topics selected by the Attorney-General of Australia.

Resolved moderate audit finding

Processing and review of general journals

4.2.43 During the 2018–19 interim audit phase the ANAO identified that all ALRC general journals were processed by one individual and were not subject to an independent review process. The ALRC's monthly accounts were subject to informal monitoring but this was not evidenced as performed and did not involve the required level of review to ensure general journals processed were appropriate.

4.2.44 During the 2018–19 final audit phase the ALRC had implemented an appropriate review process whereby general journals were subject to an independent review that was appropriately documented. This audit finding is considered resolved.

4.3 Communications and the Arts portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Communications and the Arts	Yes	Moderate	✓	18 Sept 19	19 Sept 19	▲◆□
Australian Broadcasting Corporation	Yes	Moderate	✓	22 Aug 19	22 Aug 19	◆
Australian Communications and Media Authority	Yes	Low	✓	3 Sept 19	3 Sept 19	Nil
Australian Postal Corporation	Yes	Moderate	✓	21 Aug 19	21 Aug 19	Nil
National Gallery of Australia	Yes	Moderate	✓	26 Aug 19	27 Aug 19	Nil
National Library of Australia	Yes	Low	✓	9 Aug 19	14 Aug 19	Nil
NBN Co Limited	Yes	High	✓	8 Aug 19	8 Aug 19	Nil

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

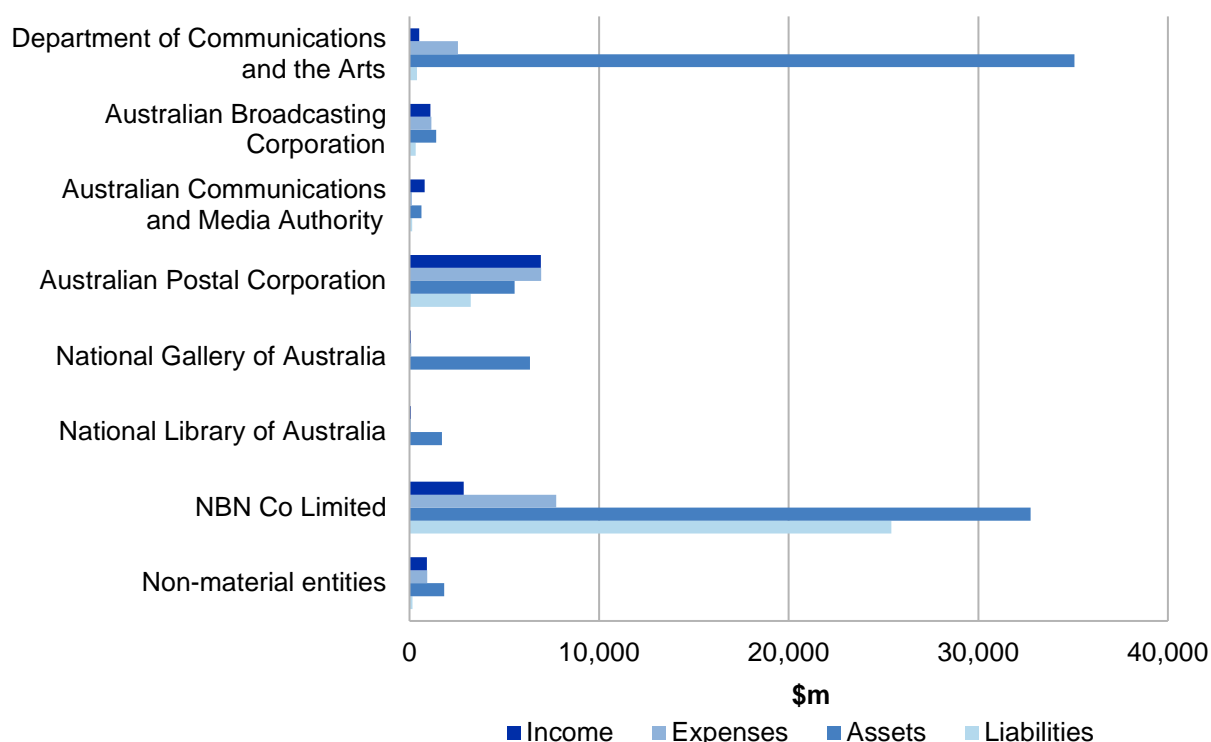
Portfolio overview

4.3.1 The Communications and the Arts portfolio is responsible for implementing government policy and programs with respect to digital technologies, communications services and public access to art and culture.

4.3.2 The Department of Communications and the Arts is the lead entity in the portfolio, with responsibilities including the promotion of an innovative and competitive communications sector, through policy development, advice and program delivery, to achieve the full potential of digital technologies and communications services. The department's role also includes support for participation in, and access to, Australia's arts and culture through developing and supporting cultural expression.

4.3.3 Figure 4.3.1 shows the Communication and the Arts portfolio's income, expenses, assets and liabilities.

Figure 4.3.1: Communications and the Arts portfolio's income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.3.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Communications and the Arts portfolio.

Table 4.3.1: The number of audit differences for entities in the Communications portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Communications and the Arts	2	1	3	1	5	6
Australia Business Arts Foundation Limited	1	–	1	–	1	1
Australian Broadcasting Corporation	1	–	1	2	–	2
Australian Communications and Media Authority	1	4	5	–	6	6
Australian Film, Television and Radio School	–	2	2	–	–	–

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Bundanon Trust	1	–	1	–	–	–
National Film and Sound Archive of Australia	2	1	3	–	–	–
National Gallery of Australia	–	–	–	–	3	3
National Library of Australia	–	2	2	–	–	–
National Museum of Australia	–	1	1	–	1	1
National Portrait Gallery of Australia	2	–	2	1	–	1
Old Parliament House	–	1	1	–	–	–
Special Broadcasting Service Corporation	1	–	1	1	1	2

Source: Audit differences reported to entities in the Communications Portfolio.

4.3.5 The following sections provide a summary of the 2018–19 financial statements audit results for the Department of Communications and the Arts, and other material entities.

Department of Communications and the Arts

4.3.6 The Department of Communications and the Arts (Communications) is responsible for policy development, advice and program delivery with respect to digital technologies, communications services and promoting access to, and participation in, art and culture.

Summary of financial performance

4.3.7 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the Communications, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(113.0)	(98.5)
Revenue from government	107.8	104.2
Surplus/(deficit) attributable to the Australian Government	(5.2)	5.7
Total other comprehensive income/(loss)	0.0	(0.4)
Total comprehensive income/(loss) attributable to the Australian Government	(5.2)	5.3
Total assets	93.0	92.4
Total liabilities	39.7	37.4
Total equity	53.3	55.0

Source: Communications' audited financial statements for the year ended 30 June 2019.

4.3.8 Net cost of services increased in 2018–19 due to a reduction in gains reported from 2017–18. Communications' main office relocated to new premises as part of the Commonwealth's Operation Tetrus resulting in a one off net gain of \$11.3 million on office fit-out being recognised during 2017–18. The fluctuations in other balances reflect normal business activities.

Table 4.3.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	2,439.0	2,458.6
Total income	407.2	163.2
Surplus/(deficit)	(2,031.8)	(2,295.4)
Total other comprehensive income/(loss)	(4,833.0)	(4,915.4)
Total comprehensive income/(loss)	(6,864.8)	(7,210.8)
Total assets administered on behalf of Government	34,983.5	32,271.8
Total liabilities administered on behalf of Government	360.7	390.5
Net assets	34,622.8	31,881.3

Source: Communications's audited financial statements for the year ended 30 June 2019.

4.3.9 The increase in income reflects the Commonwealth's funding of the national broadband network rollout through debt rather than capital since November 2017. This led to a \$282.1 million increase in interest being recognised in 2018–19. The outstanding loan balance of \$13.1 billion due at 30 June 2019 is net of interest.

4.3.10 Following valuation assessments in 2018–19, the value of the Commonwealth's investment in NBN Co Limited (NBN Co) decreased by \$4.6 billion. This reduction is offset by the \$7.5 billion increase in loan repayments due to the Commonwealth from NBN Co. The fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Communications' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.3.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 4.3.4: Key area of financial statements risk

Relevant financial statement item	Key areas of risk	Audit risk rating	Factors contribution to the risk assessment	Audit results
Administered trade and other receivables \$13.1 billion	Valuation and classification of the loan to NBN Co KAM	Higher	<ul style="list-style-type: none"> the significance of the balance; significant judgement involved in calculating expected credit losses including the recoverability of the loan based on cash flow forecasts, for which small changes in assumptions can result in material impacts on the estimated cash flows and rate of return; and loan terms and conditions have been renegotiated. 	Two moderate findings were reported at the conclusion of the 2018–19 audit. Documentation of significant estimates and judgements. Refer to paragraphs 4.3.14–4.3.17; and Risk management practices relating to NBN Co's loan facility. Refer to paragraphs 4.3.18 – 4.3.21
Administered investment - NBN Co - investment \$8.7 billion	Valuation of the Australian Government's investment in NBN Co KAM	Higher	<ul style="list-style-type: none"> the significance of the balance; significant judgement by management in determining the valuation methodology; and the valuation is subject to a high degree of judgement and complexity arising in the estimation of the significant costs of network construction and software development. 	One moderate audit finding was reported at the conclusion of the 2018–19 audit. Documentation of significant estimates and judgements. Refer to paragraphs 4.3.14 – 4.3.17.

Relevant financial statement item	Key areas of risk	Audit risk rating	Factors contribution to the risk assessment	Audit results
Administered investment - Australian Postal Corporation \$2.2 billion	Valuation of the Australian Government's investment in Australian Postal Corporation KAM	Higher	<ul style="list-style-type: none"> significant judgement used in developing key inputs, including projected cash flows, terminal value and weighted average cost of capital. 	No significant or moderate audit findings identified.
Administered Regional Backbone Blackspots Program (RBBP) assets (component of property, plant and equipment \$138.1 million)	Valuation of RBBP network infrastructure	Moderate	<ul style="list-style-type: none"> the specialised nature of RBBP assets and restrictions, increases the judgement applied in establishing a fair value. 	No significant or moderate audit findings identified.

Source: ANAO 2018–19 audit results, and Communications' audited financial statements for the year ended 30 June 2019.

Audit results

4.3.12 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.3.5: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	1	1	–	2
Total	1	1	–	2

Source: ANAO 2018–19 audit results.

4.3.13 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the Communications' 2018–19 financial statements were not materially misstated.

New moderate audit finding

Documentation of significant estimates and judgements

4.3.14 During the 2017–18 financial statements audit, the ANAO observed that Communications failed to adequately document consideration and application of Australian Accounting Standards when forming significant estimates and judgements, increasing the risk of management bias and material misstatement of the Communications' financial statements. This was reported as a minor audit finding at the conclusion of the 2017–18 financial statements audit.

4.3.15 Communications had committed to preparing accounting position papers and ensuring significant judgements and large, one-off transactions relating to the financial statements are

supported by appropriate evidence and analysis. Communications initially identified 11 position papers to be prepared to support the 2018–19 financial statements. At the conclusion of the audit only seven had been provided. The remaining four will be reviewed by ANAO once provided.

4.3.16 Communications did not adequately compile documentation to support the key assumptions underpinning significant judgement and estimates on the key audit matters of the:

- NBN Co Loan measurement and implementation of AASB 9 *Financial Instruments*;
- valuation of NBN Co; and
- NBN Co loan assessment for commercial terms versus concessional terms upon resettlement.

4.3.17 Initial position papers provided on the above areas did not adequately address the application of the relevant accounting standards, consideration of alternative assumptions or outcomes, justification for the assumptions used and management's basis for the ranges adopted. The completeness of papers and the untimely delivery by Communications on its documented accounting positions, increased the risk of material misstatements to the financial statements.

Unresolved moderate audit finding

Risk management practices relating to NBN Co's loan facility

4.3.18 The Commonwealth's loan agreement with NBN Co was renegotiated during 2018–19 and sets out the terms of the \$19.5 billion facility, including the applicable undertakings, restrictions and interest rate and a requirement that the principal amount borrowed is to be fully refinanced by 30 June 2024. The value of the loan drawn down as at 30 June 2019 was \$13.1 billion. The NBN Co's operating cash flows are forecast to be positive by 2020–21.

4.3.19 Communications had not established the practices necessary to manage the risks associated with the original loan facility. Communications was not able to provide evidence of:

- its evaluation and assessment in establishing the original loan, including suitability of the terms and conditions within the contract, other than the interest rate, and details of assessment undertaken to determine NBN Co's capacity to fully service the loan;
- a governance policy or a suitable framework for Communications' oversight, review and monitoring of NBN Co's compliance with the lending arrangements;
- ongoing monitoring of NBN Co's compliance with several aspects of the loan agreement; and
- an analysis to progressively assess NBN Co's capacity to fully repay the loan.

4.3.20 The failure to fully establish practices to manage the risks associated with this loan significantly increases the Commonwealth's risk of exposure to loss. The Commonwealth is the sole shareholder of NBN Co, therefore the recovery of any losses may need to be absorbed by the Commonwealth.

4.3.21 Communications has taken steps to address the weaknesses identified above. The ANAO has not been able to test the operating effectiveness of these processes due to the timing of implementation, being post 30 June 2019. The issue therefore remains unresolved and the ANAO, will assess the operating effectiveness of these new controls to support Communications

monitoring of NBN Co's credit risk and exposure in terms of the loan recoverability during the 2019–20 audit.

Australian Broadcasting Corporation

4.3.22 The Australian Broadcasting Corporation (ABC) is responsible for informing, educating, facilitating public debate and fostering the performing arts by providing innovative and comprehensive broadcasting services of a high standard to the nation.

Summary of financial performance

4.3.23 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the ABC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.6: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net cost of services	1,043.2	1,122.7
Revenue from government	1,045.9	1,043.7
Surplus/(deficit) attributable to the Australian Government	2.7	(79.0)
Total other comprehensive income/(loss)	35.6	7.8
Total comprehensive income/(loss) attributable to the Australian Government	38.3	(71.2)
Total assets	1,401.8	1,365.5
Total liabilities	330.1	332.1
Total equity	1,071.7	1,033.4

Source: ABC's audited financial statements for the year ended 30 June 2019.

4.3.24 The net cost of services decreased in 2018–19, due to an insurance recovery of \$43.2 million to address the cost of remedial works on the ABC's Ultimo building. This is related to a building maintenance provision of \$30.7 million recognised in 2017–18.

4.3.25 Total other comprehensive income increased in 2018–19 largely due to a revaluation of the ABC's Ultimo premises. The valuation also increased the 2018–19 total assets. All other movements are a result of normal business activities.

Key areas of financial statements risk

4.3.26 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the ABC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.3.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.7: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total assets land and buildings \$774.6 million	Valuation of land and buildings	Moderate	<ul style="list-style-type: none"> valuations are sensitive to changes in the assumptions used in the valuation models, and contain highly specialised components.
Total assets inventories \$113.6 million	Valuation of program inventory	Moderate	<ul style="list-style-type: none"> complexities can arise from capturing the actual costs of various internally developed programs; and assessment of whether program inventories are impaired is subject to judgement.
Total liabilities other provisions \$32.6 million	Valuation of building maintenance provision	Moderate	<ul style="list-style-type: none"> the judgement applied by management to determine the estimated costs of the maintenance works.
Total liabilities employee provisions \$22.9 million	Valuation of salaries and wages provision	Moderate	<ul style="list-style-type: none"> complexities associated with calculation of estimated historical entitlements for casual employees.

Source: ANAO 2018–19 audit results, and ABC's audited financial statements for the year ended 30 June 2019.

Audit results

4.3.27 The following table summarises the status of the audit finding reported by the ANAO in 2017–18 and 2018–19.

Table 4.3.8: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2018–19 audit results.

New moderate audit finding

Security management

4.3.28 Maintaining and supporting IT systems requires that some user accounts, both at a network and application level, have extensive access rights (privileged access). Privileged user access can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others.

4.3.29 The ANAO identified a number of weaknesses in the effectiveness of the ABC's management of privileged and general users and access controls, including:

- instances where network accounts which were no longer required were active;
- a lack of evidence to confirm the approval for modification of access rights for a number of users;
- instances where access to user accounts was not disabled in a timely manner and untimely review of user access; and
- non-compliance with minimum password parameters requirements of the ABC's Information Security Plan (ISP).

4.3.30 These weaknesses increase the risk that inappropriate activity will occur, including inadvertent or unapproved changes to system controls and configurations. Weak password settings increase the risk of unauthorised access to key financial systems, with the potential to compromise the confidentiality and integrity of financial and other sensitive data and circumvent key business controls.

4.3.31 The ANAO recommended that the ABC improve the controls supporting user access, particularly in relation to privileged accounts, and consider the ISP requirements and current business practices to ensure they are aligned appropriately. As a result of the moderate audit finding, the ANAO undertook additional procedures during the final audit phase to gain reasonable assurance that the ABC's 2018–19 financial statements were not materially misstated.

4.3.32 The ABC has advised it is undertaking action to address these weaknesses. The ANAO will assess the ABC's remediation activities as part of the 2019–20 audit.

Australian Communications and Media Authority

4.3.33 The Australian Communications and Media Authority (ACMA) is responsible for the regulation of broadcasting, radio communications (spectrum management), telecommunications and online content.

Summary of financial performance

4.3.34 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the ACMA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.9: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(102.1)	(95.9)
Revenue from government	90.2	82.1
Surplus/(deficit) attributable to the Australian Government	(11.9)	(13.8)
Total other comprehensive income/(loss)	(0.4)	–
Total comprehensive income/(loss) attributable to the Australian Government	(12.3)	(13.8)
Total assets	66.3	70.5
Total liabilities	28.6	27.9
Total equity	37.7	42.6

Source: ACMA's audited financial statements for the year ended 30 June 2019.

4.3.35 The increase in the net cost of services was attributable to an increase in employee benefit expenses resulting from an increase in pay rises and the number of full time employees. In addition there was a change in the government bond rate which affected the calculation of leave provisions at year end. Total assets decreased predominately due to an additional year of amortisation for intangible assets during 2018–19. The fluctuations in other balances reflect normal business activities.

Table 4.3.10: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	13.8	13.0
Total income	705.1	3,608.1
Surplus/(deficit) after income tax	691.3	3,595.1
Total comprehensive income/(loss)	691.3	3,595.1
Total assets administered on behalf of Government	563.5	939.9
Total liabilities administered on behalf of Government	108.9	130.7
Net assets/(liabilities)	454.6	809.2

Source: ACMA's audited financial statements for the year ended 30 June 2019.

4.3.36 In 2017–18, total income and assets mainly related to the revenue recognised from the sale of spectrum radio communication multi-year licences. There were no spectrum sales in the 2018–19 year.

4.3.37 The decrease in liabilities is due to the unwinding of revenue received in advance from multi-year spectrum licenses which was recorded as revenue received in advance in 2017–18.

Key areas of financial statements risk

4.3.38 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the ACMA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 4.3.11. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.3.11: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered income \$705.0 million receivables and accrued revenue \$563.5 million payables – unearned income \$108.9 million	Recognition and measurement of administered income, receivables and unearned income	Higher	<ul style="list-style-type: none">the significance of the balance; andapplication of professional judgement is required in determining when to recognise revenue, as spectrum management is technically complex and involves licensing, auctions and trading.

Source: ANAO 2018–19 audit results, and the ACMA's audited financial statements for the year ended 30 June 2019.

Audit results

4.3.39 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Australian Postal Corporation

4.3.40 The Australian Postal Corporation (Australia Post) is a government business enterprise responsible for operating post offices and distributing mail and parcels in Australia and internationally.

Summary of financial performance

4.3.41 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by Australia Post, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.12: Key financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total revenue and income	6,989.8	6,877.0
Total expenses	6,948.7	6,751.3
Profit/(loss) before income tax	41.1	125.7
Income tax benefits/(expenses)	(0.5)	8.5
Net profit/(loss) for the year	40.6	134.2
Total other comprehensive income/(loss)	(22.6)	190.8
Total comprehensive profit/(loss) for the year	18.0	325.0
Total assets	5,535.6	5,590.9
Total liabilities	3,222.5	3,224.2
Total equity	2,313.1	2,366.7

Source: Australia Post's audited financial statements for the year ended 30 June 2019.

4.3.42 Australia Post reported a decrease in total comprehensive income during 2018–19 which is reflective of increased sales of goods and services offset by a corresponding increase to employee and supplier expenses. The increase to total revenue and income is primarily driven by strong growth in domestic parcels, express services and international products (\$331.1 million). This continues to be partially offset by the decline in letters and mail volumes (\$183.5 million). Total expenses increased primarily due to an increase in supplier expenses and employee expenses. The increase in supplier expenses is in line with the increase in the volume of domestic parcel services and international products. The increase in employee expense is primarily due to increases in the annual salary rate and adverse bond rate impacts on leave and other entitlements.

4.3.43 The 2018–19 income tax expense in the current period has been impacted by tax offsets from financial transactions during the period such as non-assessable gains on sale of properties and shares (\$11.8 million).

4.3.44 The reduction in assets was primarily attributed to the sale of assets held for sale at 30 June 2018 (\$211.4 million) partially offset by additions to property plant and equipment assets in 2018–19 (\$159.6 million). The fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.45 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Australia Post's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.3.13, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.13: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Goods and services income unearned postage revenue \$84.2 million	Recognition of Revenue Cut off and accuracy of goods and services revenue and the valuation of unearned postage revenue KAM	Higher	<ul style="list-style-type: none"> the judgement and assumptions used to estimate the amount of revenue to be deferred for stamps sold but not yet used; the judgement required in the selection and application of accounting policies for new and diverse revenue stream; and the complexity of contracts and arrangements entered into where they include multiple performance obligations and volume targets which affects the contracted price.
Intangible assets goodwill \$518.1 million	Valuation and impairment of goodwill and indefinite life intangible assets KAM	Moderate	<ul style="list-style-type: none"> the estimation process is complex and judgemental and includes assumptions related to future cash flows and discount rates.
Net superannuation asset \$850.3 million	Valuation of the Australia Post Superannuation Scheme KAM	Moderate	<ul style="list-style-type: none"> the complexity of the valuation including the sensitivity of the economic and demographic assumptions supporting the calculation.

Source: ANAO 2018–19 audit results, and Australia Post's audited financial statements for the year ended 30 June 2019.

4.3.46 The performance audit report Auditor-General Report No.1 2019–20 *Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities* was tabled during 2019–20 and was relevant to the financial management or administration of Australia Post.

4.3.47 The audit objective was to assess the effectiveness of the management of cyber security risks by Australia Post, ASC Pty Ltd and the Reserve Bank of Australia. Australia Post was found to not effectively manage cyber security risks. The ANAO recommended that Australia Post should continue to implement its cyber security improvement program and key controls across all its critical assets to enable cyber risks to be within its tolerance level. In light of the findings the ANAO increased scrutiny over the key financial systems that Australia Post relies on to prepare the financial statements. There were no additional audit findings identified.

Audit results

4.3.48 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

National Gallery of Australia

4.3.49 The National Gallery of Australia (NGA) is responsible for developing and maintaining a national collection of works of art to exhibit or to make available for others to exhibit; and making the most advantageous use of the national collection in the national interest.

Summary of financial performance

4.3.50 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the NGA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.14: Key financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(55.7)	(40.4)
Revenue from government	45.0	30.8
Surplus/(deficit) attributable to the Australian Government	(10.7)	(9.6)
Total other comprehensive income/(loss)	–	7.2
Total comprehensive income/(loss) attributable to the Australian Government	(10.7)	(2.4)
Total assets	6,345.4	6,325.2
Total liabilities	12.4	10.3
Total equity	6,333.0	6,314.9

Source: NGA's audited financial statements for the year ended 30 June 2019.

4.3.51 The increase in net cost of services is primarily attributable to an increase in employee benefits expenses and a decrease in own-source revenue. The increase in employee expenses is due to a more conservative approach to the capitalisation of staff time associated with collection management activities, resulting in a greater proportion being expensed rather than capitalised. Own-source revenue was higher in 2017–18 due to the receipt of a one off funding from the portfolio department for building repairs.

4.3.52 Revenue from government was higher in 2018–19 due to additional funding provided on an ongoing basis from 2018–19 to allow the NGA to continue to safeguard and exhibit the national collection of artworks.

Key areas of financial statements risk

4.3.53 The ANAO completed appropriate audit procedures on all material items. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.3.15. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.15: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets \$5,979.8 million	Valuation of items in the heritage and cultural collection	Higher	<ul style="list-style-type: none"> judgement required in valuing iconic artwork through the use of observable market inputs; and the complexity of the valuation model applied to the general collection.
Buildings \$284.3 million	Valuation of buildings	Higher	<ul style="list-style-type: none"> judgement required in selecting the assumptions used in determining the fair value including assessing the impact of the building condition and specialised use.

Source: ANAO 2018–19 audit results, and NGA's audited financial statements for the year ended 30 June 2019.

Audit results

4.3.54 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

National Library of Australia

4.3.55 The National Library of Australia (the Library) is responsible for developing and maintaining a national collection of library material, including a comprehensive collection of material relating to Australia and the Australian people, and to make this material available to the public.

Summary of financial performance

4.3.56 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the Library, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.16: Key financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(61.3)	(58.3)
Revenue from government	54.6	52.7
Surplus/(deficit) attributable to the Australian Government	(6.7)	(5.6)
Total other comprehensive income/(loss)	0.3	1.1
Total comprehensive income/(loss) attributable to the Australian Government	(6.4)	(4.5)
Total assets	1,709.6	1,707.6
Total liabilities	14.5	15.7
Total equity	1,695.1	1,691.9

Source: The Library's audited financial statements for the year ended 30 June 2019.

4.3.57 The increase in net cost is mainly attributable to additional expenditure associated with the Cook and the Pacific Exhibition to commemorate the 250th anniversary of Captain James Cook's Pacific voyages and increase in contractor expenditure on major modernisation projects.

4.3.58 The increase in revenue is mainly due to additional appropriation funding received for the Captain James Cook exhibition. The fluctuations in other balances reflects normal business activities.

Key areas of financial statements risk

4.3.59 The ANAO completed appropriate audit procedures on all material items. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 4.3.17. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.3.17: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets \$1.3 billion	Valuation of the national collection	Higher	<ul style="list-style-type: none"> significant judgement and expertise required to assess the value of items in the collection, due to the unique nature of the collection assets and lack of a market of comparable assets.

Source: ANAO 2018–19 audit results, and the Library's audited financial statements for the year ended 30 June 2019.

Audit results

4.3.60 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

NBN Co Limited

4.3.61 The primary objective of NBN Co Limited (NBN Co) is to provide wholesale services to internet service providers. NBN Co is a government business enterprise incorporated under the *Corporations Act 2001*.

Summary of financial performance

4.3.62 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the NBN Co, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.18: Key financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total income	2,858.0	2,023.0
Total expenses	7,737.0	6,802.0
Profit/(Loss) before income tax	(4,879.0)	(4,779.0)
Income tax benefit/(expense)	1.0	(1.0)
Net Profit/(loss) for the year	(4,878.0)	(4,780.0)
Total other comprehensive gain/(loss)	3.0	(2.0)
Total comprehensive loss for the year	(4,875.0)	(4,782.0)
Total assets	32,757.0	28,203.0
Total liabilities	25,420.0	15,991.0
Total equity	7,337.0	12,212.0

Source: NBN Co's audited financial statements for the year ended 30 June 2019.

4.3.63 In 2018–19, NBN Co generated revenue and income of \$2.9 billion and reported a net loss of \$4.9 billion, after taxation. Revenue increased as the network continues to roll out with 1.5 million premises activated during the year.

4.3.64 As at 30 June 2019, NBN Co reported total assets of \$32.8 billion, an increase of \$4.6 billion compared with 2017–18, primarily due to an increase of \$4.5 billion in property, plant and equipment and intangibles as a result of capital expenditure. The key drivers of capital expenditure during the year related to design, construction and activation activities for the deployment of NBN Co's access technologies across Australia.

4.3.65 As at 30 June 2019, NBN Co reported total liabilities of \$25.4 billion, an increase of \$9.4 billion compared with 2017–18, primarily due to the additional \$7.6 billion loan draw down from the \$19.5 billion loan facility with the Commonwealth Government. The remaining \$1.8 billion is primarily attributable to additional finance leases entered into with telecommunication providers during the year.

4.3.66 As at 30 June 2019, the contributed equity of \$29.5 billion has been offset by accumulated losses of \$22.2 billion.

Key areas of financial statements risk

4.3.67 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of NBN Co's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.3.19, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.19: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$29.4 billion Intangibles \$2.1 billion	Valuation of network assets KAM (Valuation of property, plant and equipment and intangible assets - impairment) KAM (Accuracy and completeness of depreciation and amortisation expense)	Higher	<ul style="list-style-type: none"> accounting for the valuation of network assets is subject to a high degree of judgement and complexity arising in the estimation of the significant costs of network construction and software development.
Construction liabilities \$1.1 billion	Valuation of construction liabilities KAM (Valuation of construction liabilities estimates)	Higher	<ul style="list-style-type: none"> involvement of multiple delivery partners and the capitalisation of associated network assets based on the respective stage of completion at reporting date.
Subscriber costs \$1.9 billion Network assets \$29.3 billion Other financial liabilities \$8.6 billion	Accounting treatment of rights and obligations under significant contractual arrangements. KAM (Accounting treatment of rights and obligations under significant contractual arrangements)	Higher	<ul style="list-style-type: none"> the agreements include arrangements for the lease of infrastructure as well as the payment of subscriber costs; and these contracts are significant and complex in nature and represent a significant portion of the associated financial statements items.
Telecommunications revenue \$2.6 billion	Accounting for and reporting telecommunications revenue	Higher	<ul style="list-style-type: none"> revenue has increased significantly as the network continues to roll out with IT systems and controls continuing to evolve with scale.

Source: ANAO 2018–19 audit results, and NBN Co's audited financial statements for the year ended 30 June 2019.

Audit results

4.3.68 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

4.4 Defence portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Defence	Yes	High	✓	20 Sept 19	23 Sept 19	▲◆□
Australian Signals Directorate	Yes	Moderate	✓	23 Sept 19	23 Sept 19	Nil
Australian War Memorial	Yes	Low	✓	30 Aug 19	02 Sept 19	Nil
Defence Housing Australia	Yes	Moderate	✓	19 Sept 19	19 Sept 19	▲
Department of Veterans' Affairs	Yes	Moderate	✓	10 Sept 19	10 Sept 19	Nil

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

◆: new significant or moderate findings and/or legislative matters noted

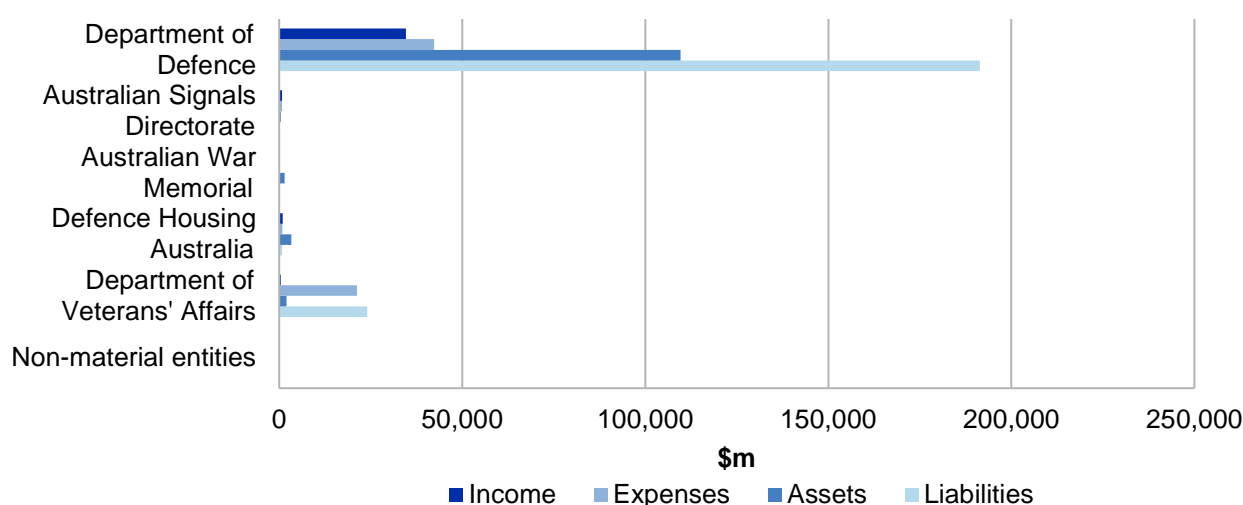
□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

Portfolio overview

4.4.1 The Defence portfolio includes a number of entities that together are responsible for the defence of Australia and its national interests. The material entities within the Defence portfolio are the Department of Defence (Defence), the Australian Signals Directorate (ASD), the Australian War Memorial (AWM), Defence Housing Australia (DHA) and the Department of Veterans' Affairs (DVA).

4.4.2 Defence includes the Australian Defence Force and is responsible for protecting and advancing Australia's strategic interests through the promotion of security and stability, the provision of military capabilities to defend Australia and its national interests, and the provision of support for the Australian community and civilian authorities as directed by the Australian Government.

4.4.3 Figure 4.4.1 shows the Defence Portfolio's income, expenses, assets and liabilities.

Figure 4.4.1: Defence portfolio's income, expenses, assets and liabilities

Source: 2018–19 CFS

4.4.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Defence portfolio.

Table 4.4.1: The number of audit differences for entities in the Defence portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Defence	12	10	22	8	12	20
Army and Air Force Canteen Service	1	–	1	2	–	2
Australian Military Forces Relief Trust Fund	–	2	2	–	–	–
Australian Signals Directorate	–	1	1	N/A	N/A	N/A
Australian Strategic Policy Institute	1	4	5	–	2	2
Australian War Memorial	–	–	–	–	1	1
Defence Housing Australia	2	–	2	1	–	1
– Defence Service Homes Insurance Scheme	–	–	–	–	1	1
Royal Australian Air Force Veterans' Residences Trust Fund	–	3	3	–	2	2

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Royal Australian Air Force Welfare Trust Fund	–	1	1	–	–	–
Royal Australian Navy Central Canteens Board	–	2	2	–	–	–
Royal Australian Navy Relief Trust Fund	–	2	2	–	1	1

Source: Audit differences reported to entities in the Defence Portfolio.

4.4.5 The following sections provide a summary of the 2018–19 financial statements audit results for Defence and other material entities.

Department of Defence

4.4.6 Defence is responsible for protecting and advancing Australia’s strategic interests through the promotion of security and stability, the provision of military capabilities to defend Australia and its national interests, and the provision of support for the Australian community and civilian authorities as directed by the government.

4.4.7 As a result of the enactment of the *Intelligences Services Amendment (Establishment of the Australian Signals Directorate) Act 2018*, the Australian Signals Directorate transitioned from a division within Defence to a statutory agency with effect from 1 July 2018.

Summary of financial performance

4.4.8 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Defence and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(32,167.7)	(32,187.7)
Revenue from government	32,525.8	33,040.8
Surplus/(deficit) attributable to the Australian Government	358.1	853.1
Total other comprehensive income	1,150.2	1,477.6
Total comprehensive income/(loss) attributable to the Australian Government	1,508.3	2,330.7
Total assets	105,867.0	100,088.9
Total liabilities	9,220.5	8,366.1
Total equity	96,646.5	91,722.8

Source: Defence’s audited financial statements for the year ended 30 June 2019.

4.4.9 Defence receives depreciation funding each year as part of revenue from government to fund the acquisition of assets. The decreased surplus is primarily due to a reduction in appropriation revenue partially offset by reversals of previous asset write-downs.

4.4.10 Total assets increased mainly due to the acquisition of buildings and infrastructure of \$1.6 billion and movements in specialist military equipment (SME). The balance of SME increased as a result of a revaluation increase of \$0.9 billion and acquisitions of \$8.6 billion. These increases in SME were partially offset by depreciation of \$4.6 billion.

Table 4.4.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	8,528.9	7,066.6
Total income	1,511.3	1,563.5
Surplus/(deficit)	(7,017.6)	(5,503.1)
Total other comprehensive income/(loss)	(45,932.1)	(18,767.7)
Total comprehensive income/(loss)	(52,949.7)	(24,270.8)
Total assets administered on behalf of Government	3,801.1	3,701.0
Total liabilities administered on behalf of Government	182,139.8	130,413.1
Net assets/(liabilities)	(178,338.7)	(126,712.1)

Source: Defence's audited financial statements for the year ended 30 June 2019.

4.4.11 The increase in total expenses is mainly attributed to an increase in defined employee benefits, primarily as a result of a \$1.1 billion increase in the cost of Australian Defence Force members' service and a \$0.3 billion increase in net interest costs.

4.4.12 The increase in the liability relating to these defined benefits was due to:

- interest and service costs of \$8.6 billion;
- movements in financial assumptions, predominately decreases in interest rates, of \$47.1 billion; and
- adjustments to reflect differences between expected and actual invalidity exits, wage, CPI and pension increases of \$0.6 billion.

4.4.13 The increase in the liability was partially offset by financing of benefits and employer contributions of \$2.6 billion.

Key areas of financial statements risk.

4.4.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Defence's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.4.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 4.4.4: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental specialist military equipment (SME) \$66.6 billion	Accuracy and valuation of the SME balance which includes platform assets in use and under construction and spare parts for these assets KAM (valuation)	Higher	<ul style="list-style-type: none"> • high degree of judgement due to the highly specialised nature of these assets and the management estimates required to determine appropriate useful lives and assess the financial impact of indicators of impairment; • subjectivity in the valuation assessment due to the difficulty in obtaining the replacement costs of assets with a similar capability in the absence of an active market; • the annual impairment and revision of useful lives are subject to a high degree of judgement and subjectivity; • management of assets under construction (AUC) is dispersed across numerous projects that have complex multi-year contractual arrangements and project management requirements; and • large prepayments are often made in relation to the acquisition and sustainment of SME. 	One significant audit finding remains unresolved. Refer to paragraphs 4.4.22 to 4.4.24.
Administered Employee Provisions \$182.0 billion	Accuracy, valuation and disclosure of administered employee provisions KAM (valuation)	Higher	<ul style="list-style-type: none"> • complexity of the calculation and significant judgements applied in the selection of long-term assumptions including rates for salary growth, pension indexation, pension take-up and invalidity retirements; and • detailed disclosure requirements for the presentation and disclosure of defined benefit plans. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental inventory \$7.2 billion (including explosive ordnance (EO) fuel general stores inventory (GSI))	Existence and completeness of inventory balances KAM (existence and completeness)	Moderate	<ul style="list-style-type: none"> the variety and number of inventory items which are managed across a large number of geographically dispersed locations and through a number of IT systems; and complexity and management expertise required to assess and identify obsolete stock. 	No significant or moderate audit findings identified.
Departmental general assets \$28.6 billion	Accuracy and valuation of general assets KAM (valuation)	Moderate	<ul style="list-style-type: none"> high degree of management judgement required in respect of classifying project costs as capital or expense; and assumptions applied to determine appropriate useful lives and in the selection of valuation techniques to measure fair value and assess the financial impact of indicators of impairment. 	No significant or moderate audit findings identified.
Departmental capital commitments \$24.5 billion	Completeness, accuracy and valuation of capital commitments	Moderate	<ul style="list-style-type: none"> completeness of data used for reporting capital commitments; and the conversion of the commitments to Australian dollars at the end of the reporting period increases the risk associated with the accuracy and valuation reported in the financial statements. 	No significant or moderate audit findings identified.
Departmental litigation and compensation schemes (unquantifiable contingent liability)	Recognition and measurement of potential litigation in relation to environmental contamination and other legal exposures	Moderate	<ul style="list-style-type: none"> complexity involved in assessing and reporting financial impacts relating to actual and potential legal actions with regards to environmental contamination issues; and the variety of Defence's activities exposes it to potential litigation for past actions. 	No significant or moderate audit findings identified.

Source: ANAO 2018–19 audit results, and Defence's audited financial statements for the year ended 30 June 2019.

4.4.15 The following performance audits reports were tabled during 2018–19 and 2019–20 and were relevant to the financial management or administration of Defence:

- Auditor-General Report No.2 2019–20 *Defence's Administration of Travel Allowances Paid to APS Employees*;
- Auditor-General Report No.3 2019–20 *Defence's Quarterly Performance Report on Acquisition and Sustainment*; and
- Auditor-General Report No.20 2018–19 *2017–18 Major Projects Report*.

4.4.16 These reports identified issues around the governance, risk management and quality assurances practices of Defence. Similar issues were noted in the financial statements audit and have been raised as minor findings over the monitoring and management of travel and purchase cards and the approval and documentation of assets and inventory.

Audit results

4.4.17 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.4.5: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Significant (A)	1	–	–	1
Moderate (B)	1	1 ^(a)	(1)	1
Total	2	1	(1)	2

Note a: The moderate audit finding — Monitoring and management of accounts with privileged access was first reported to Parliament in Auditor-General Report No.46 of 2018–19 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2018–19 audit results.

4.4.18 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that Defence's 2018–19 financial statements were not materially misstated.

Resolved moderate audit finding

Documentation supporting the annual assessment of SME impairment indicators

4.4.19 During the 2016–17 audit, the ANAO identified weaknesses in the documentation of Defence's SME impairment assessment which is required annually under Australian Accounting Standards Board (AASB) 136 *Impairment of Assets*. SME is dispersed across Defence bases with the acquisition, custodian and sustainment responsibility residing with Systems Program Offices and Project Offices and other service groups. These business units advise the Defence Finance Group annually of any impairment indicators.

4.4.20 The ANAO reported weaknesses in this process including documentation provided to the Defence Finance Group by the business units did not reflect current circumstances providing limited value to the overall impairment assurance process and instances where the assessment of impairment indicators had not been completed by Defence.

4.4.21 During the 2018–19 final audit the ANAO tested Defence SME impairment assessments, and noted that Defence had assessed and documented additional impairment indicators to be

considered. These assessments were reviewed by an appropriate delegate. As a result, this finding was resolved.

Unresolved significant audit finding

Management and monitoring of SME balances in ROMAN and MILIS

4.4.22 In 2017–18 the ANAO reported a number of issues with the substantiation of SME transactions in the Military Integrated Logistics Information System (MILIS) and the corresponding accounts in the financial management information system (ROMAN). Defence uses these systems to manage the acquisition and sustainment of SME assets. The issues identified included:

- delays in processing payments and receipts in ROMAN and MILIS;
- delays in validating MILIS transactions and reconciling to balances in the clearing accounts;
- payments and purchases posted to incorrect general ledger accounts and cost centres; and
- delays in transferring SME from assets under construction to the fixed asset register after confirmation of being in use by business units.

4.4.23 In 2018–19 Defence commenced remediation of this issue, by:

- matching a significant number of ROMAN and MILIS transactions and validating price differences;
- undertaking a comprehensive review of aged balances which resulted in the transfer of assets to the fixed asset register; and
- commencing training of business units to address processing issues.

4.4.24 Defence will continue in 2019–20 to refine the reconciliation processes which will include remediation of remaining aged balances, monitoring and processing of un-validated transactions and correctly classifying project and sustainment costs. The ANAO will undertake testing of these remediation activities as part of the 2019–20 audit cycle.

Unresolved moderate audit finding

Monitoring and management of accounts with privileged access

4.4.25 Maintaining and supporting IT systems requires that some individuals have privileged access rights. This level of access can be used to bypass security controls and make changes, either to system settings or directly to system data. Individuals with privileged access must be unique and identifiable, and have their activity regularly monitored to detect any unauthorised use.

4.4.26 During the 2018–19 interim audit the ANAO's review of privileged access identified:

- five accounts that were shared by up to 16 users;
- privileged users with inappropriate access that would enable them to delete database tables; and
- password parameters that did not align to the requirements of the Australian Government Information Security Manual for password management in Defence One (Defence's Human resource information management system) and the Joint Fuel Information Management System.

4.4.27 Defence has commenced resolution of the above weaknesses, including reducing many of the accounts and shared roles identified during interim. The ANAO will undertake testing of these remediation activities as part of the 2019–20 audit cycle.

Australian Signals Directorate

4.4.28 The purpose of the Australian Signals Directorate (ASD) is to defend Australia from global threats and advance Australia's national interest through the provision of foreign signals intelligence, cyber security and offensive cyber operations, as directed by government. The Australian Cyber Security Centre, a division within ASD, provides support to government and the Australian community to improve Australia's cyber resilience. Following the enactment of the *Intelligences Services Amendment (Establishment of the Australian Signals Directorate) Act 2018*, ASD became a prescribed agency on 1 July 2018. Prior to this date, ASD existed as a division within the Department of Defence.

4.4.29 In addition to the establishment of ASD as a prescribed agency, certain functions associated with cyber security transferred to ASD on 1 July 2018 from the Department of the Prime Minister and Cabinet, Attorney-General's Department and the Digital Transformation Agency.

Summary of financial performance

4.4.30 The following section provides analysis of 2018–19 key financial statements items reported by ASD. As ASD was established as a prescribed agency on 1 July 2018 no comparative financial information is presented.

Table 4.4.6: Key financial statements items

Key financial statement items	2018–19 (\$m)
Net (cost of)/contribution by services	(774.8)
Revenue from government	743.5
Surplus/(deficit) attributable to the Australian Government	(31.3)
Total other comprehensive income/(loss)	11.3
Total comprehensive income/(loss) attributable to the Australian Government	20.0
Total assets	452.6
Total liabilities	127.3
Total equity	325.3

Source: ASD's audited financial statements for the year ended 30 June 2019.

4.4.31 The net cost of services is due to ASD being primarily funded by appropriations from government. The more significant expenses incurred and contributing to the net cost of services by ASD relate to services received from suppliers (\$240.4 million) and employee expenses (\$475.9 million).

4.4.32 Total assets primarily comprise \$436.5 million of non-financial assets. These non-financial assets are mainly associated with the \$275.5 million of property, plant and equipment, buildings and infrastructure that were transferred to ASD on 1 July 2018 from Defence and other agencies.

ASD also reported, \$107.8 million in prepayments for services provided by Defence that predominately relate to shared service and occupancy expenses.

4.4.33 Total liabilities are mainly related to employee leave provisions and outstanding payments to suppliers. On 1 July 2018, \$63.2 million of leave provisions were transferred to ASD from Defence and other agencies which increased to \$76.5 million at 30 June 2019. The increase is primarily due to the discounting of employee provisions for reporting purposes. The Commonwealth bond rate, a key input into the discounting calculation, decreased during the period, increasing the provision balance.

Key areas of financial statements risk

4.4.34 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ASD's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.4.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.4.7: Key areas of financial statements risk

Relevant financial statement item	Key areas of risk	Audit risk rating	Factors contribution to the risk assessment
Plant and equipment \$262.6 million Buildings and infrastructure \$42.0 million Intangibles \$24.1 million	Valuation of non-financial assets, particularly assets under construction	Moderate	<ul style="list-style-type: none"> judgement applied by ASD in determining whether or not expenditure on assets, particularly those under construction, should be capitalised or expensed; and valuation and impairment considerations for assets, particularly complex assets under construction, is subject to judgement by ASD.
All financial statement line items	Completeness and accuracy of transactions made by ASD's shared service provider	Moderate	<ul style="list-style-type: none"> significance of the reliance on the internal controls and IT processes that have been established by the shared service provider.
Net assets restructured on 1 July 2018 \$221.1 million	Completeness and accuracy of balances transferred to ASD on 1 July 2018	Moderate	<ul style="list-style-type: none"> significance of the quantum and value of assets and liabilities transferred to ASD on 1 July 2018.

Source: ANAO 2018–19 audit results, and ASD's audited financial statements for the year ended 30 June 2019.

Audit results

4.4.35 There were no significant or moderate audit findings arising from the 2018–19 financial statements audit.

Australian War Memorial

4.4.36 The Australian War Memorial (AWM) is responsible for maintaining and developing the national memorial to Australians who have lost their lives in wars or warlike operations, developing, maintaining and exhibiting a national collection of historical material, and conducting and fostering research into Australian military history.

Summary of financial performance

4.4.37 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the AWM's, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.8: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(50.5)	(54.3)
Revenue from government	50.9	53.0
Surplus/(deficit) attributable to the Australian Government	0.4	(1.3)
Total other comprehensive income/(loss)	(36.2)	25.0
Total comprehensive income/(loss) attributable to the Australian Government	(35.8)	23.7
Total assets	1,451.9	1,475.9
Total liabilities	13.3	13.1
Total equity	1,438.6	1,462.8

Source: AWM's audited financial statements for the year ended 30 June 2019.

4.4.38 The reduction in net cost of services was mainly due to the AWM ceasing to depreciate the National Collection from 1 July 2018⁷⁷ which was partially offset by the expense associated with the development of the Memorial Redevelopment Business Plan and ICT Modernisation Project. The movement in comprehensive loss relates to the change in the value of heritage and cultural assets and fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.4.39 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of AWM's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.4.9. No significant or moderate audit findings were identified relating to these key areas of risk.

⁷⁷ In accordance with *AASB 116 Property, Plant and Equipment*, the AWM was able to demonstrate they had adopted and implemented appropriate curatorial and preservation policies. Therefore, the AWM's heritage and cultural assets have an indefinite life and would not be subject to depreciation.

Table 4.4.9: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets \$1,153.1 million	Valuation of the collection	Higher	<ul style="list-style-type: none"> valuation is subject to judgement and assumptions, including assessments for impairment and the unique nature of the collection having no active market; and judgement is involved in determining what costs should be capitalised.

Source: ANAO 2018–19 audit results, and AWM's audited financial statements for the year ended 30 June 2019.

Audit results

4.4.40 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Defence Housing Australia

4.4.41 Defence Housing Australia (DHA) is responsible for providing housing and related services to members of the Australian Defence Force and their families, consistent with Defence's operational requirements. To meet these requirements, DHA is responsible for constructing, purchasing and leasing houses for Australian Defence Force personnel. Each year, DHA sells a portion of its properties through a sale and leaseback program, and those revenues are DHA's primary source of capital funding to acquire new properties.

Summary of financial performance

4.4.42 The following section provides a comparison of the 2017–18 and 2018–19 key financial statement items reported by the DHA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.10: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total revenue, income and share of joint venture profits	935.5	1,114.6
Total expenses	879.1	1,057.7
Profit before tax	56.4	56.9
Income tax expense	15.5	12.6
Net profit after income tax	40.9	44.3
Other comprehensive income	–	–
Total comprehensive income	40.9	44.3
Total assets	2,314.7	2,301.2
Total liabilities	747.2	750.0
Total equity	1,567.5	1,551.2

Source: DHA's audited financial statements for the year ended 30 June 2019.

4.4.43 The decrease in revenue was attributable to:

- the decrease in the number of leases and decrease in the proceeds from sale and leaseback of properties during the year;
- the reallocation of revenue against relevant expenses including lessor management fees which were offset against rental expense and other charges offset against related expenses; and
- a reduction in revenue relating to project management fees due to the completion of major projects in the 2018–19 financial year by DHA on behalf of Defence as part of the project management services.

4.4.44 The decrease in total expenses related specifically to the offsetting of lessor management fees against the rental expenses and the reduction in rates, repairs and maintenance due to the decrease in number of leases. The decrease in the cost of inventories sold correlates to the decrease in sales.

Key areas of financial statements risk

4.4.45 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of DHA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.4.11.

Table 4.4.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Inventories \$978.6 million	Valuation of inventories	Higher	<ul style="list-style-type: none"> • the high volume of properties and the complexity and detail of the model used to determine the correct valuation basis for inventory as either cost or net realisable value; • the accuracy and uncertainty associated with the market data which is a key input into the valuation model used to calculate the net realisable value; • management judgement applied in determining key inputs into the valuation model used to determine net realisable value; • the accuracy and completeness of the inventory data held in the systems supporting the financial statements due to the volume of properties; and • depth of detailed judgement in applying the complex technical requirements of the financial framework for presentation and disclosure. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Investment properties \$1,039.6 million	Valuation of investment properties	Higher	<ul style="list-style-type: none"> complex valuation method, multiple data sources and assumptions subject to management judgement, including determining impairment; and judgement to determine the correct classification of investment properties as either held for sale or non-current assets. 	One moderate finding was identified. Refer to paragraphs 4.4.48 - 4.4.49
Disclosure in notes to the financial statements	Assessing the implications of the implementation of AASB 16 and related disclosures in 2018–19	Higher	<ul style="list-style-type: none"> AASB 16 <i>Leases</i> will be effective in the financial year ending 30 June 2020. The implementation of this standard is likely to have a significant impact on the financial statements of DHA due to the number leases with the Department of Defence and external investors; and it is expected that this standard will have a significant impact on how DHA accounts for transactions and arrangements in the future. 	No significant or moderate audit findings identified.
Revenue \$927.7 million	Revenue recognition and the initial implication of AASB 15	Moderate	<ul style="list-style-type: none"> AASB 15 <i>Revenue from Contracts with Customers</i> was effective for the year ended 30 June 2019. The implementation of this standard had a significant impact on the financial statements of DHA due to the number of different revenue streams and operational arrangements with the Department of Defence and external investors; this standard will have a significant impact on how DHA accounts for transactions and arrangements in the future; and the nature and number of the revenue streams and complexity of transactions and systems used to capture and record the financial information. 	No significant or moderate audit findings identified.

Source: ANAO 2018–19 audit results, and DHA's audited financial statements for the year ended 30 June 2019.

Audit results

4.4.46 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.4.12: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	–	1	–	1
Total	–	1	–	1

4.4.47 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that the DHA's 2018–19 financial statements were not materially misstated.

New moderate audit finding

Completeness and Accuracy of Lease Data

4.4.48 DHA engaged a contract firm to perform an assessment of the completeness and accuracy of lease data. This initial sample assessment provided in a draft report identified some anomalies in relation to leasing data quality and internal controls. The contract firm engagement also identified a number of leases that were not able to be located for the purposes of testing. Data anomalies were noted in relation to approximately 9.3 per cent of the sample tested, a number of the errors identified related to fields which do not have a financial statements impact.

4.4.49 As a result, DHA commissioned the contract firm to utilise a technology solution to perform a full review of the lease data in relation to the entire lease portfolio (circa 13,000 leases). This work had not been completed as at the date of signing of the 2018–19 financial statements. On receipt of the results of the work performed on the entire lease portfolio, management will need to corroborate any data issues identified and update the underlying dataset to adjust for any corroborated inaccuracies to enable the calculation of the impact of the first time adoption of AASB 16 *Leases*. Management has developed a remediation plan and is currently implementing this plan, which is expected to be concluded in the 2019–20 financial year.

Department of Veterans' Affairs

4.4.50 The Department of Veterans' Affairs (DVA) is responsible for developing and implementing programs to assist the veteran and ex-service communities. This includes granting pensions, allowances and other benefits, and providing treatment under the *Veterans' Entitlements Act 1986*; the administration of benefits and arrangements under the Military Rehabilitation and Compensation and the Safety, Rehabilitation and Compensation (Defence-related Claims) legislation; administering the *Defence Service Homes Act 1918* and the *War Graves Act 1980*; and conducting commemorative programs to acknowledge the service and sacrifice of Australian servicemen and women.

Summary of financial performance

4.4.51 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the DVA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.13: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(411.8)	(389.0)
Revenue from government	374.8	368.3
Income tax – competitive neutrality	-	0.4
Surplus/(deficit) attributable to the Australian Government	(37.0)	(21.1)
Total other comprehensive income	2.0	0.7
Total comprehensive income/(loss) attributable to the Australian Government	(35.0)	(20.4)
Total assets	309.0	268.7
Total liabilities	220.5	186.0
Total equity	88.5	82.7

Source: DVA's audited financial statements for the year ended 30 June 2019.

4.4.52 The net cost of services has increased primarily due to increases in contractor costs during the year relating to the additional hiring of temporary staff, in particular as a result of a surge in the number of claims received in respect of the Townsville floods. This increase has been partially offset with a decrease in information technology and communications costs as the majority of former DVA IT staff have now been transferred to Services Australia to manage the IT services provided by Services Australia to DVA.

4.4.53 Total assets increased due to increases in land and buildings relating to additional expenditure on office fit-outs following the signing of the lease for the new Brisbane office. In addition, premiums and recoveries receivable increased as a result of recoveries from increased claims activities experienced by the Defence Service Homes Insurance Scheme, which forms part of DVA's financial statements.

4.4.54 Total liabilities have increased due to increases in outstanding claims provisions. Consistent with the increase in premiums and recoveries receivable discussed above, outstanding claims provisions have increased as a result of the Townsville floods.

Table 4.4.14: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	20,742.0	12,816.0
Total income	17.0	17.0
Surplus/(deficit)	(20,725.0)	(12,799.0)
Total other comprehensive income	(35.0)	24.0
Total comprehensive income/(loss)	(20,760.0)	(12,775.0)
Total assets administered on behalf of Government	1,659.0	1,653.0
Total liabilities administered on behalf of Government	23,789.0	13,701.0
Net assets/(liabilities)	(22,130.0)	(12,048.0)

Source: DVA's audited financial statements for the year ended 30 June 2019.

4.4.55 The increase in total expenses is mainly attributed to a \$10.0 billion increase in the military compensation scheme provision following an actuarial review.

4.4.56 The primary components of the increase in the liability are:

- opening balance adjustments of \$5.2 billion, increasing the 2018 actuarial valuation due to subsequent actual claims experience and associated modelling changes; and
- adjustments of \$4.8 billion in the current financial year resulting from actual claims and payments made, particularly for permanent impairment outlays under the *Military Rehabilitation and Compensation Act 2004* and the *Safety, Rehabilitation and Compensation (Defence Related Claims) Act 1988*, which increased the provision by \$0.9 billion, and interest rate changes which increased the provision by \$3.9 billion.

4.4.57 The opening balance adjustments represent what the liability would have been at 30 June 2018 had all data at that point been available. These adjustments mainly comprised increased permanent impairment liability and increased incapacity and medical liabilities due to increased claims. Adjustments for current year claims mainly comprised the outstanding cost of claims reported between 1 July 2018 and 30 June 2019, offset by actual payments.

4.4.58 The increase in the provision highlights the inherent volatility and complexity associated with the determination of a reliable best estimate valuation. Similar to previous years, payments have been high in 2018–19 as a result of both increasing claims experience, and DVA reducing the backlog of past claims for permanent impairment. The long tailed nature of the liability also means that it is particularly sensitive to changes in interest rates.

Key areas of financial statements risk

4.4.59 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of DVA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.4.15, including the area which was considered to be a Key Audit

Matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.4.15: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered personal benefit and healthcare provisions \$23.3 billion	Valuation of military compensation provision KAM	Higher	<ul style="list-style-type: none"> judgements involved in determining the assumptions and calculations underpinning the actuarial assessment of the military compensation provision, including assumptions relating to future trends in medical costs, permanent incapacity, and inflation rates; increasing value of the provision as an unfunded liability; and availability, quality and completeness of data used to derive the valuation.
Administered personal benefits expense \$12.4 billion health care expenses \$8.3 billion	Accuracy of personal benefits and health care payments	Higher	<ul style="list-style-type: none"> complexity of overseeing and maintaining a large number of IT business systems which are supported by the shared services provider, Services Australia, formerly the Department of Human Services; complexity of legislation applicable to individual claims; reliance on accurate and complete veteran-provided information; and reliance on a risk-based quality assurance program to identify errors and initiate debt recovery arrangements in individual claims.
All financial statement line items IT control environment	Effectiveness of the IT control environment in view of the continued expansion of shared service arrangements with Services Australia	Higher	<ul style="list-style-type: none"> access, logging and monitoring of a large number of system users; multiple interactions between information and payment systems; 'aged' administered payment management systems; increased complexity of ongoing maintenance of IT controls, particularly security management, under shared service arrangements; and incident and problem solving and change management for new system releases or upgrades.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental non-financial assets \$111.6 million	Valuation of non-financial assets including land and buildings and internally-developed intangibles	Moderate	<ul style="list-style-type: none"> land and buildings may not be accurately valued in accordance with AASB 116 <i>Property, Plant and Equipment</i>; additions to internally-developed intangibles may not be recorded in accordance with recognition and measurement criteria outlined in AASB 138 <i>Intangible Assets</i>; annual impairment assessment may not identify indicators of impairment, particularly in relation to ageing legacy systems; and depreciation rates may not reflect patterns of usage.
Administered All financial statement line items	Accounting for legislative changes	Moderate	<ul style="list-style-type: none"> complexity of legislative changes required to IT systems for DVA's digital readiness program; and introduction of non-liability health care provisions on claim processing, assessment and payment arrangements.

Source: ANAO 2018–19 audit results, and DVA's audited financial statements for the year ended 30 June 2019.

Audit results

4.4.60 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

4.5 Education portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Education	Yes	Moderate	✓	6 Sep 2019	10 Sep 2019	◆
Australian National University	No	Moderate	✓☞	29 Mar 2019	2 Apr 2019	□
Australian Research Council	Yes	Low	✓	16 Sep 2019	17 Sep 2019	Nil

✓: auditor's report not modified

◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

☞: financial year end date other than 30 June 2019

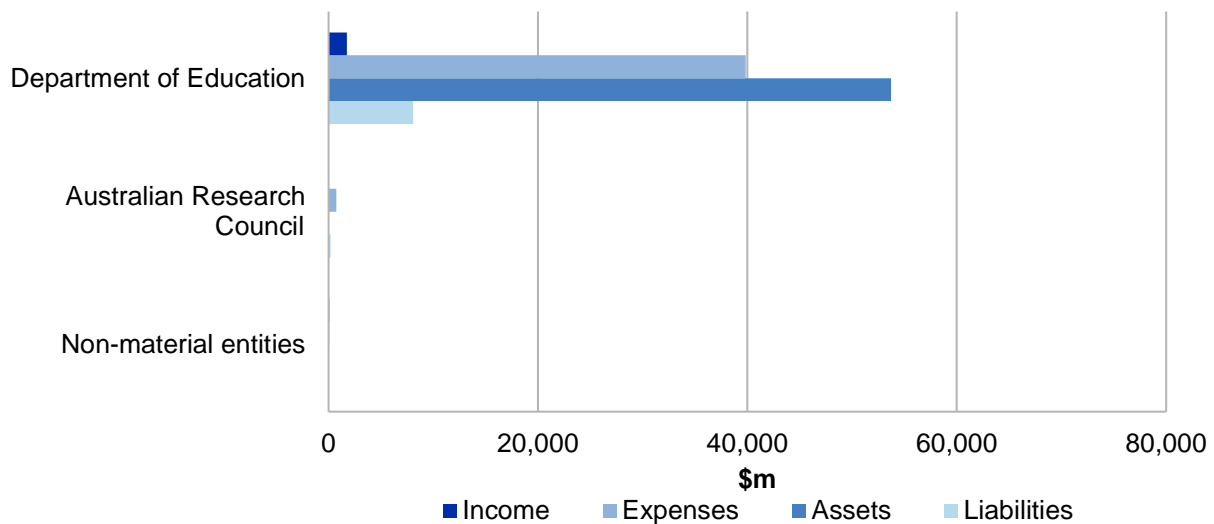
Portfolio overview

4.5.1 The Education portfolio is responsible for assisting the Australian Government to undertake a national leadership role in early childhood education and child care, preschool education, schooling, higher education and research, and international education.

4.5.2 The Department of Education is the lead entity in the portfolio and is responsible for national policies and programs that help Australians access quality and affordable early child care and childhood education, school education, higher education, and international education and research.

4.5.3 Figure 4.5.1 shows the Education portfolio's income, expenses, assets and liabilities.

Figure 4.5.1: Education portfolio's income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.5.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Education portfolio.

Table 4.5.1: The number of audit differences for entities in the Education portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Education	5	5	10	–	2	2
Australian Curriculum, Assessment and Reporting Authority	–	–	–	–	1	1
Australian Institute for Teaching and School Leadership Limited	1	–	1	2	–	2
Australian National University	2	1	3	–	2	2
– ANU Enterprise Pty Limited	–	–	–	1	–	1
– Australian Scientific Instruments Pty Ltd	2	–	2	1	–	1
Australian Research Council	1	3	4	–	2	2

Source: Audit differences reported to entities in the Education Portfolio.

4.5.5 The following sections provide a summary of the 2018–19 financial statements audit results for all material entities within the Education portfolio and findings relating to non-material entities.

Department of Education

4.5.6 The Department of Education (Education) works with state and territory governments, other government entities and a range of stakeholders to deliver education and training-related policy, advice and services.

4.5.7 The Administered Arrangement Order (AAO) of 29 May 2019 transferred responsibility for Vocational Education and Training (including VET Student loans, Trade Support Loans and Apprenticeships) from Education to the Department of Employment, Skills, Small and Family Business (Employment). In addition, responsibility for Migrant Adult Education was transferred from Education to the Home Affairs portfolio. The AAO of 29 May 2019 also changed the name of the entity from the Department of Education and Training to the Department of Education.

Summary of financial performance

4.5.8 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Education, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(385.4)	(385.6)
Revenue from government	365.0	350.3
Surplus/(deficit) attributable to the Australian Government	(20.4)	(35.3)
Total other comprehensive income/(loss)	1.0	–
Total comprehensive income/(loss) attributable to the Australian Government	(19.4)	(35.3)
Total assets	168.4	165.6
Total liabilities	114.0	101.0
Total equity	54.4	64.6

Source: Education's audited financial statements for the year ended 30 June 2019.

4.5.9 Revenue from government increased due to increased funding for the Family Day Care Integrity Surge objective, which aims to reduce fraudulent child care claims relating to family day care providers, an increase for the Schools Data Validation Project, and additional funding to address legislative remedies for Vocational Education and Training (VET) loan debt and associated litigation.

4.5.10 The increase in assets is attributed to ICT services for the Transforming the Collection of Student Information (TCSI) project which aims to streamline data reporting through existing systems to the TCSI system for the Higher Education Loan Program (HELP), Vocational Student Loans (VSL) and other higher education providers.

4.5.11 The increase in liabilities relates mainly to the impact of changes in the Australian Government bond rate which is a key input into the discounting of employee leave provisions. The change in the bond rate increased the discounted value of the provision.

4.5.12 The decrease in equity is primarily attributed to return of equity as a result of prior year appropriation quarantined under section 51 of the PGPA Act in 2018–19.

Table 4.5.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	39,238.0	37,888.3
Total income	6,953.2	851.5
Surplus/(Deficit)	(32,284.8)	(37,036.8)
Total other comprehensive income/(loss)	225.2	385.1
Total comprehensive income/(loss)	(32,059.6)	(36,651.7)
Total assets administered on behalf of Government	53,568.6	43,825.3
Total liabilities administered on behalf of Government	7,956.1	7,714.6
Net assets/(liabilities)	45,612.5	36,110.7

Source: Education's audited financial statements for the year ended 30 June 2019.

4.5.13 The increase in administered expenses in the current year is mainly due to an increase in grant expenses resulting from the application of indexation and transition provisions in the *Australian Education ACT 2013* for Schools National Support and an increase in the number of student enrolments from 2017–18. In addition, the implementation of the new child care subsidy program effective 2 July 2018 has increased personal benefit expenses in the current year.

4.5.14 The increase in income is attributed to fair value gains of \$5.6 billion on higher education loans mainly driven by earlier receipt of loan repayments due to the lower repayment thresholds, and adjustments for changes in interest rates for 2018–19.

4.5.15 The increase in assets is due to the increased receivable for higher education loans. The present value of the loans has increased as a result of the movement in the interest rates. The increase in liabilities is due to the increase in the Higher Education Superannuation Program provision which has increased as a result of the movement in current year interest rates. This was partially offset by a reduction in the personal benefits provision as a result of the transition from the historical Child Care Benefit and Rebate programs to the new Child Care Subsidy program.

Key areas of financial statements risk

4.5.16 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Education's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.5.4, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.5.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered other financial assets: HELP receivable \$49.9 billion HELP impairment \$17.9 billion HELP loans interest income \$1.1 billion	The valuation of the outstanding HELP loan receivable KAM	Higher	<ul style="list-style-type: none"> the balances of outstanding loans and impairment are derived from complex actuarial estimates and the estimate contains a degree of estimation uncertainty; the complexity involved in estimating future income of individuals that need to repay HELP debts, the timing of expected repayments and the amount of the loan not expected to be recovered; and payment data is reliant on sources external to Education such as: the Australian Taxation Office; universities; and other third parties.
Administered provision \$7.3 billion other receivables - Higher Education Superannuation Program (HESP) \$0.4 million	The valuation of the HESP provision and receivable KAM	Higher	<ul style="list-style-type: none"> the valuation of the HESP liability is subject to an actuarial estimation process and is highly sensitive to movements in discount factors and bond rates; and the valuation is complex and depends on the accurate provision of source data by universities.
Administered personal benefits receivable \$0.3 million personal benefits payable \$26.5 million personal benefits provision \$475.8 million	Implementation and management of the new Child Care Subsidy Legislation including the valuation of the childcare personal benefit provision and receivable balances and the accuracy and completeness of the child care subsidy expense. KAM	Higher	<ul style="list-style-type: none"> complex legislation and administration arrangements that apply to child care benefits; complex estimation process for personal benefits provision and receivable balances; payments are reliant on self-assessed information provided by child care service providers and claimants; and the IT environment is highly dependent on external information systems which are administered by the Departments of: Social Services and Services Australia.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered all financial statement items	IT business systems and associated processing of key financial statements information.	Moderate	<ul style="list-style-type: none"> large and complex IT environment with business applications processing a high volume of transactions; many IT systems are bespoke or heavily customised to Education; and reliance on customised reports to prepare financial statements balances.

Source: ANAO 2018–19 audit results, and Education’s audited financial statements for the year ended 30 June 2019.

4.5.17 Auditor-General Report No.11 2018–19 *Design and Implementation of the VET Student Loans Program* was tabled during 2018–19. While this report did not include recommendations regarding risks to Education’s financial administration as it relates to the financial statements, the observations of these reports were considered in designing audit procedures.

Audit results

4.5.18 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.5.5: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	–	2 ^{(a)(b)}	–	2
Total	–	2	–	2

Note a: The moderate audit finding — Monitoring of Database Activity was first reported to Parliament in Auditor-General Report No.46 of 2018–19 *Interim Report on Key Financial Controls of Major Entities*.

Note b: The moderate audit finding — Unauthorised Network access was first reported to Parliament in Auditor-General Report No.46 of 2018–19 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2018–19 audit results.

4.5.19 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the Education’s 2018–19 financial statements were not materially misstated.

Unresolved moderate audit findings

Monitoring of Database Activity

4.5.20 IT databases supporting core departmental applications are managed and maintained at the Department of Employment, Skills, Small and Family Business. These databases are managed externally, but the Department of Education (as data owners) maintains responsibility for this data.

4.5.21 The ANAO recommended during the 2018–19 interim audit that a regular and formalised process be put in place that will ensure the actions of privileged users at the database level are logged and monitored for all applications. It was also recommended that standard operating procedures providing support to this process should also be developed and formally approved by senior management.

4.5.22 During the final audit phase, the ANAO confirmed that Education was still in the process of developing and implementing the policy and procedures to log and monitor privileged user activity.

Unauthorised Network Access

4.5.23 During the IT general control testing undertaken for the 2018–19 financial statements audit, the ANAO identified a network account that remained active after the employee had been terminated. This account did not have an 'expiry date' making this account fully accessible.

4.5.24 The account remained active as a result of the Exit Advice Notification (EAN) not being finalised when the employee terminated.

4.5.25 The ANAO undertook testing over employee terminations during the final audit phase. This testing identified six terminated staff that did not have their access removed. In all cases, the account had not been disabled.

4.5.26 To further support this work, the ANAO performed additional testing over the EAN submissions through the testing of employee terminations. Across the hard close and final audit phases, 45 sample items were selected for testing to determine if an EAN had been completed in line with the department's outlined processes. Of the 45 tested, 13 EANs were identified as being not submitted at all or being parked in the system as the supervisor had not approved the activity. As such, this finding remains open and the department is reviewing its current processes.

Australian Research Council

4.5.27 The purpose of the Australian Research Council (ARC) is to grow knowledge and innovation for the benefit of the Australian community through funding the highest quality research, assessing the quality, engagement and impact of research, and providing advice on research matters.

Summary of financial performance

4.5.28 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by ARC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.6: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(23.8)	(22.6)
Revenue from government	21.4	21.2
Surplus/(deficit) attributable to the Australian Government	(2.4)	(1.4)
Total other comprehensive income	–	(0.1)
Total comprehensive income/(loss) attributable to the Australian Government	(2.4)	(1.5)
Total assets	33.5	35.1
Total liabilities	9.9	10.1
Total equity	23.6	25.0

Source: ARC's audited financial statements for the year ended 30 June 2019.

4.5.29 Fluctuations in balances are the result of normal business activity.

Table 4.5.7: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	(707.1)	(691.3)
Total income	10.4	9.4
Surplus/(Deficit)	(696.7)	(681.9)
Total other comprehensive income/(loss)	0.0	0.0
Total comprehensive income/(loss)	(696.7)	(681.9)
Total assets administered on behalf of Government	0.7	1.0
Total liabilities administered on behalf of Government	181.8	239.3
Net assets/(liabilities)	(181.1)	(238.3)

Source: ARC's audited financial statements for the year ended 30 June 2019.

4.5.30 Total grants payable decreased in 2018–19 by \$57.6 million predominately due to the timings of grants approved by the management as part of its normal business processes. Fluctuations in other balances are the result of normal business activity.

Key areas of financial statements risk

4.5.31 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ARC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 4.5.8. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 4.5.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered grants expense \$700.1 million	Completeness and accuracy of grants payments	Moderate	<ul style="list-style-type: none"> complexity of grant payments, including variations to grant agreements during the year; and the high volume of grant payments and variations throughout the year increases the risks of error or fraud; and complex systems, processes and regulations exist for approval, management, payment, acquittal and reporting of administered grants.

Source: ANAO 2018–19 audit results, and ARC's audited financial statements for the year ended 30 June 2019.

4.5.32 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Comments on non-material entities

Australian National University

4.5.33 The Australian National University (ANU) was set up in 1946 with a special charter — to give the nation a university that would ‘advance the cause of learning and research in general, and take its rightful place among the great universities of the world’. The ANU has a 31 December reporting date.

Resolved moderate audit findings

Communication and interaction with the HR department

4.5.34 During the audit for the financial period ending 31 December 2017 there were delays in the provision of human resources (HR) information, including the ability to obtain data directly from the HR system, which resulted in modifications to the audit approach.

4.5.35 ANU granted the ANAO appropriate access to the HR system which provided the ability to run reports and extract data independently. The ANAO was also satisfied that the ANU Finance and Business Services section were able to access the HR system to interrogate and review the information as required for HR expenditure and provisions. This finding has been resolved.

ANU investment portfolio

4.5.36 Investments is a material balance for ANU having a value of \$1.6 billion as 31 December 2017. From 1 January 2017, ANU ceased to manage its investment portfolio in-house and engaged the National Australia Bank’s NAB Asset Servicing (NAS) as its custodian.

4.5.37 Following the move to the new custodian (NAS), as at 31 December 2017 the ANU had not formalised and documented the processes, procedures and framework which enabled the ANU to gain assurance regarding the accurate record of the balances and the movements of the share portfolio in the general ledger and financial statements. A total reconciliation of the complete balance in the ledger comprising the NAS component and the investments held outside of NAS had not been performed by ANU at the time of the final audit. On request from the ANAO a reconciliation was satisfactorily performed. No issues were noted

4.5.38 The ANU was requested to formalise and document the framework (including formal policies and procedures) that enabled the ANU to place reliance upon the completeness and accuracy of all movements and balances within the share portfolio as reported by NAS. The ANAO reviewed the processes for management assurance over the investment portfolio as part of the 2017–18 audit and concluded that the actions implemented by ANU were satisfactory. This finding has been resolved.

4.6 Employment, Skills, Small and Family Business portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Employment, Skills, Small and Family Business	Yes	Moderate	✓	12 Sept 19	16 Sept 19	◆

✓: auditor's report not modified

◆: new significant or moderate findings and/or legislative matters noted

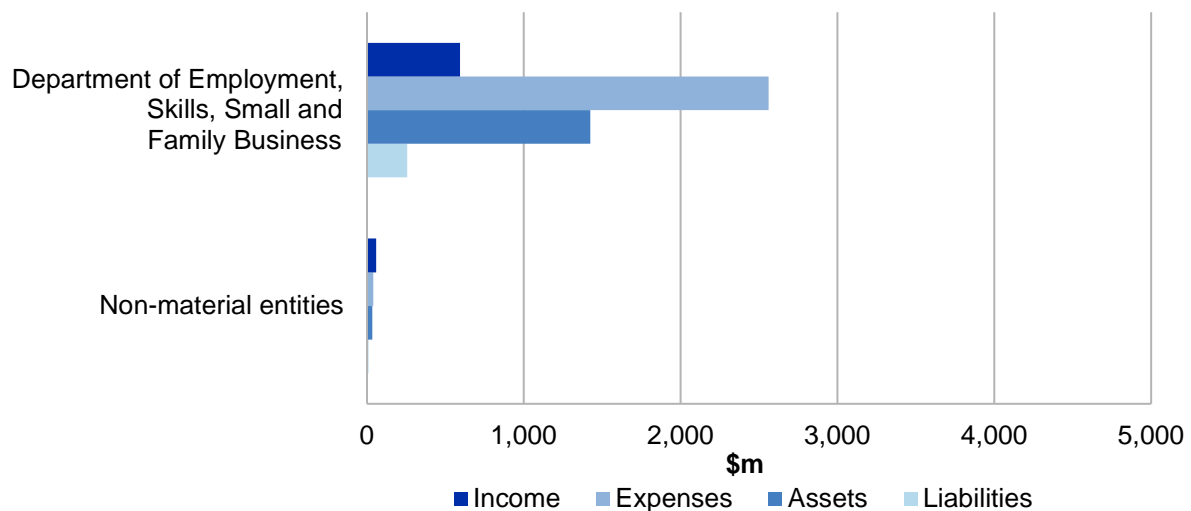
Portfolio overview

4.6.1 The Employment, Skills, Small and Family Business portfolio is responsible for national policies and programs to support economic growth by delivering policies and programs that assist job seekers to find work; encourage small and family businesses to grow; and maximise opportunity through access to quality skills and training.

4.6.2 The Department of Employment, Skills, Small and Family Business (Employment) is the lead entity in the portfolio. On 29 May 2019, following an Administrative Arrangements Order (AAO), the name of the Department was changed from the Department of Jobs and Small Business to the Department of Employment, Skills, Small and Family Business. The following changes affected Employment's financial statements for the year ended 30 June 2019.

- Functions transferred from the Department of Education: Skills and Training programs special appropriations — VET Student Loans and Trade Support Loans and Student Identifiers special account.
- Functions transferred to the Attorney-General's Department: The *Fair Entitlements Guarantee Act 2012* and all previous portfolio entities.

4.6.3 Figure 4.6.1 shows the Employment, Skills, Small and Family Business portfolio's income, expenses, assets and liabilities.

Figure 4.6.1: Employment, Skills, Small and Family Business portfolio's income, expenses, assets and liabilities

Source: 2018–19 CFS.

4.6.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Employment portfolio.

Table 4.6.1: The number of audit differences for entities in the Employment portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Employment, Skills, Small and Family Business	–	–	–	–	2	2

Source: Audit differences reported to entities in the Employment Portfolio.

4.6.5 The following sections provide a summary of the 2018–19 financial statements audit results for Employment.

Department of Employment, Skills, Small and Family Business

4.6.6 The Department of Employment, Skills, Small and Family Business (Employment) supports economic growth: by delivering policies and programs that assist job seekers to find work; encourage small and family businesses to grow; and maximise opportunity through access to quality skills and training.

4.6.7 Following the 29 May 2019 AAO a number of portfolio entities transferred out and the following balances were removed from Employment's administered financial statements and reported by the Attorney-General's Department at 30 June 2019:

- administered investments relating to Comcare and the Coal Mining Industry (Long Service Leave) Corporation; and
- amounts payable to Comcare at year-end in respect of worker's compensation claims.

Summary of financial performance

4.6.8 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Employment, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(387.4)	(351.9)
Revenue from government	335.0	310.8
Surplus/(deficit) attributable to the Australian Government	(52.4)	(41.1)
Total other comprehensive income	0.1	–
Total comprehensive income/(loss) attributable to the Australian Government	(52.3)	(41.1)
Total assets	346.9	344.1
Total liabilities	129.8	131.4
Total equity	217.1	212.7

Source: Employment's audited financial statements for the year ended 30 June 2019.

4.6.9 The movement in net cost of services was mainly attributable to an increase in consultant and contractor costs of \$12.4 million and IT service costs of \$6.8 million. This was mainly due to an increase in IT costs associated with projects undertaken by Employment in the 2018–19 financial year and services provided by third parties. Revenue from government increased as a direct result of new measures in the current year including funding for additional places for the provision of employment services and small business services.

Table 4.6.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	2,116.9	2,158.8
Total income	297.1	587.1
Surplus/(deficit)	(1,819.8)	(1,571.7)
Total other comprehensive income/(loss)	–	95.6
Total comprehensive income/(loss)	(1,819.8)	(1,476.1)
Total assets administered on behalf of Government	1,078.0	483.1
Total liabilities administered on behalf of Government	126.0	2,458.5
Net assets/(liabilities)	952.0	(1,975.4)

Source: Employment's audited financial statements for the year ended 30 June 2019.

4.6.10 The decrease in total administered expenses is mainly attributable to a reduction in grant expenditure of \$28.9 million as a result of the finalisation of the ParentsNext program trial. This was transitioned to an on-going demand driven program and classified as a supplier expense. In addition, with effect from the AAO in May 2019, all Industrial and Workplace Relation personal benefit expenses were transferred to the Attorney General's Department.

4.6.11 Total administered income and total administered liabilities declined mainly due to the transfer of Comcare and Coal Mining Industry (Long Service Leave) Corporation to the Attorney-General's portfolio as a result of the AAO.

4.6.12 The increase in total administered assets was mainly due to the transfer of \$610.3 million in trade support loans receivable and \$439.5 million in vocation student loans receivable from the Department of Education to Employment, as a result of the AAO. This was partially offset by the transfer out to the Attorney-General's Department of the administered investments balances relating to Comcare and Coal Mining Industry (Long Service Leave Funding) Corporation as a result of the AAO.

Key areas of financial statements risk

4.6.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Employment's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.6.4, including areas considered to be Key Audit Matters (KAM) by the ANAO.

Table 4.6.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered financial assets receivable: VSL receivable \$439.5 million TSL receivable \$610.3 million	The valuation of the outstanding loans receivable under the VET student loan (VSL) and Trade Support Loan (TSL) programs. This was a new area of financial statements risk following the AAO. KAM	Higher	<ul style="list-style-type: none"> the balances of outstanding loans are derived from actuarial estimates that contains a degree of estimation uncertainty; the complexity involved in estimating future income of individuals that need to repay VSL and TSL debts, the timing of expected repayments and the amount of the loan not expected to be recovered; and payment data is reliant on sources external to Employment such as: the Australian Taxation Office; Department of Education and other third parties.
Administered supplier expenses \$1.4 billion subsidies \$377.5 million personal benefits \$245.6 million	Accuracy and validity of administered expenses. KAM	Moderate	<ul style="list-style-type: none"> payments are reliant on assessments made by third party service providers; and the success of the department's compliance activities are crucial to the integrity of the jobactive program.

Source: ANAO 2018–19 audit results, and Employment's audited financial statements for the year ended 30 June 2019.

Audit results

4.6.14 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.6.5: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	—	1 ^(a)	—	1
Total	—	1	—	1

Note a: The moderate audit finding — Monitoring of Database Activity was first reported to Parliament in Auditor-General Report No.46 2018–19 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2018–19 audit results.

4.6.15 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that Employment's 2018–19 financial statements were not materially misstated.

Unresolved moderate audit finding

Monitoring of Database Activity

4.6.16 Employment maintains IT systems used to capture data and make calculations which form the basis of payments made from the Financial Management Information System (FMIS) to eligible recipients. These systems include Employment Support Services (ESS) which captures data and processes claims related to job seekers, and electronic Fair Entitlements Guarantee (eFEG) which receives and tracks claims by employees under the Fair Entitlements Guarantee program⁷⁸.

4.6.17 Maintaining and supporting IT system databases requires that some individuals have powerful access rights referred to as privileged user access. This level of access can be used to bypass security controls and make changes, either to system settings or directly to system data. Individuals with privileged user access should have their activity regularly monitored to detect any unauthorised use.

4.6.18 During the 2018–19 final audit phase the ANAO reviewed the Department's implementation of controls to address this finding. The ANAO noted that a new Security Information and Event Management (SIEM) system has been implemented and went live in July 2019 which has enhanced Employment's capability to mitigate cyber threats. However, this SIEM system does not address the specific risk of inappropriate actions by database administrators being detected, investigated and rectified. The Department advised they are currently in the process of procuring software that will ensure the actions of these privileged users at the database layer are logged and monitored. The ANAO will review the Department's progress in addressing this issue during the 2019–20 audit.

78 Responsibility for the eFEG system was transferred under the AAO to the Attorney General's Department from 1 July 2019.

4.7 Environment and Energy portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Environment and Energy	Yes	Moderate	✓	30 Sept 19	30 Sept 19	Nil
Bureau of Meteorology	Yes	Low	✓	28 Aug 19	28 Aug 19	◆
Clean Energy Finance Corporation	Yes	Moderate	✓	22 Aug 19	22 Aug 19	Nil
Clean Energy Regulator	No	Moderate	✓	27 Sept 19	27 Sept 19	▲
Director of National Parks	No	Moderate	✓	27 Sept 19	27 Sept 19	▲
Snowy Hydro Limited	Yes	Moderate	✓	28 Aug 19	28 Aug 19	Nil

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

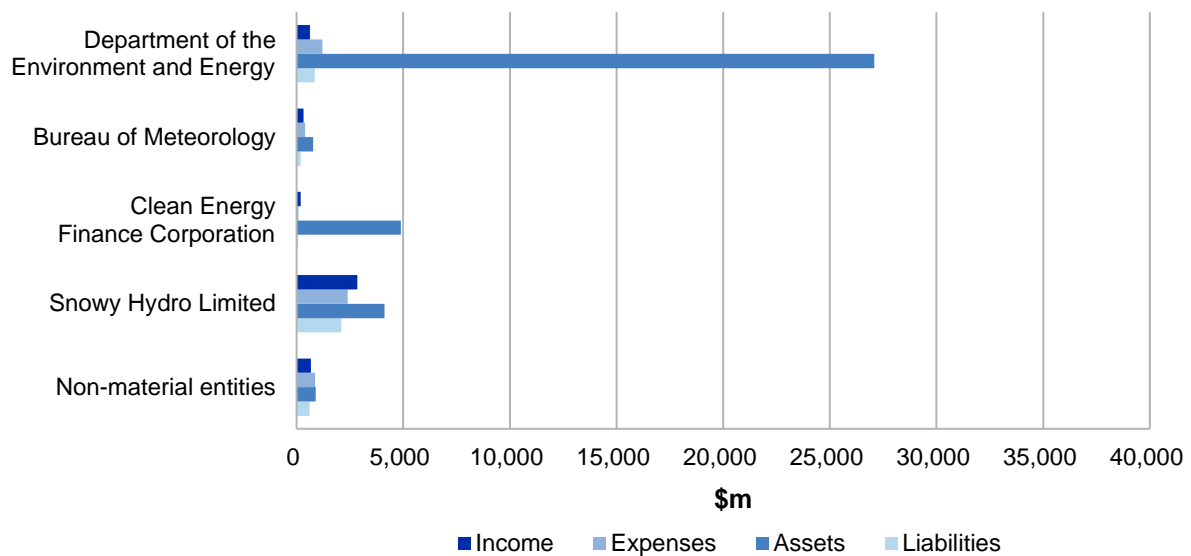
◆: new significant or moderate findings and/or legislative matters noted

Portfolio overview

4.7.1 The Environment and Energy portfolio is responsible for advising the government and implementing programs with respect to the environment, energy, and meteorological services. The portfolio is also responsible for protecting matters of national environmental significance including flora, fauna, ecological communities and heritage places.

4.7.2 The Department of the Environment and Energy is the lead entity in the portfolio and is responsible for developing and implementing environmental and energy policy to support the government. The department is also responsible for managing the conservation, protection and sustainability of Australia's natural resources, biodiversity, ecosystems, environment and heritage, and contributing to the national response to climate change. In addition, the department's role includes advancing Australia's interests in the Antarctic, managing environmental water use, and supporting the reliable, sustainable and secure operation of energy markets.

4.7.3 Figure 4.7.1 shows the Environment and Energy portfolio's income, expenses, assets and liabilities.

Figure 4.7.1: Environment and Energy portfolio's income, expenses, assets and liabilities

Source: 2018–19 CFS.

4.7.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Environment and Energy portfolio.

Table 4.7.1: The number of audit differences for entities in the Environment and Energy portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of the Environment and Energy	–	1	1	–	1	1
Australian Renewable Energy Agency	–	–	–	–	2	2
Bureau of Meteorology	3	–	3	2	–	2
Clean Energy Finance Corporation	2	–	2	–	–	–
Clean Energy Regulator	–	1	1	–	–	–
Climate Change Authority	–	1	1	–	–	–
Director of National Parks	–	–	–	–	1	1
Great Barrier Reef Marine Park Authority	1	–	1	1	4	5

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Sydney Harbour Federation Trust	3	1	4	3	–	3

Source: Audit differences reported to entities in the Environment and Energy Portfolio.

4.7.5 The following sections provide a summary of the 2018–19 financial statements audit results for the Department of Environment and Energy, other material entities and findings related to non-material entities in the portfolio.

Department of the Environment and Energy

4.7.6 The Department of the Environment and Energy (Environment) is responsible for: advising the government on environmental and energy policy; managing the conservation, protection and sustainability of Australia’s natural resources, biodiversity, ecosystems, environment and heritage; and reducing Australia’s greenhouse gas emissions and contributing to the national response to climate change. Additional areas of responsibility include advancing Australia’s interests in the Antarctic, managing environmental water use, and supporting the reliable, sustainable and secure operation of energy markets.

Summary of financial performance

4.7.7 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Environment, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(542.8)	(570.7)
Revenue from government	403.9	454.4
Surplus/(deficit) attributable to the Australian Government	(138.9)	(116.3)
Total other comprehensive income	(54.4)	134.8
Total comprehensive income/(loss) attributable to the Australian Government	(193.3)	18.5
Total assets	966.9	912.9
Total liabilities	799.8	659.4
Total equity	167.1	253.5

Source: Environment’s audited financial statements for the year ended 30 June 2019.

4.7.8 The increase in total liabilities is primarily due to an increase in other provisions relating to Australia’s responsibilities for make-good in Antarctica. There was an increase in liabilities of \$134.1 million as a result of updating the provisions at 30 June 2019 for changes in key economic and engineering assumptions. The increases to the Antarctic Regions provision were made through

other comprehensive income, resulting in a cost for 2018–19. In 2017–18 other comprehensive income increased as a result of the revaluation of property, plant and equipment at 30 June 2018.

Table 4.7.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	607.0	1,110.0
Total income	638.8	307.2
Surplus/(Deficit)	31.8	(802.8)
Total other comprehensive income/(loss)	3,775.2	225.5
Total comprehensive income/(loss)	3,807.0	(577.3)
Total assets administered on behalf of Government	26,110.0	21,954.5
Total liabilities administered on behalf of Government	55.1	16.3
Net assets/(liabilities)	26,054.9	21,938.2

Source: Environment's audited financial statements for the year ended 30 June 2019.

4.7.9 The overall decrease in total administered expenses in 2018–19 was due to a decrease in administered grants expense in line with the budget estimates. The decrease was predominantly driven by a decrease of \$443.3 million associated with additional funding for the Great Barrier Reef 2050 Partnership program announced in the 2017–18 Portfolio Supplementary Additional Estimates.

4.7.10 The increase in other comprehensive income and total assets administered on behalf of Government resulted from an increase in the valuation of administered investments primarily related to Snowy Hydro Limited and the Clean Energy Finance Corporation.

Key areas of financial statements risk

4.7.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Environment's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.7.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 4.7.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered investments \$16.1 billion	Valuation of the Australian Government's investment in Snowy Hydro Ltd KAM	Higher	<ul style="list-style-type: none"> a unique asset that is not readily traded in the open market, subject to complex estimation and significant judgement relating to forecasts of future cash flows.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered water entitlements \$3.8 billion	Valuation of water entitlement assets KAM	Moderate	<ul style="list-style-type: none"> the balance and impairment process is subject to estimation and judgement, and impacted by factors including the maturity and assessment of the water market; and information to support the valuation is provided by third parties.
Departmental other provisions \$695.2 million	Valuation of provision for restoration obligations in the Antarctic KAM	Higher	<ul style="list-style-type: none"> the balance is subject to judgement and estimation, particularly relating to discount rates, escalation factors, asset replacement costs and useful lives.
Administered grants expense \$153.5 million	Accuracy of grants programs	Moderate	<ul style="list-style-type: none"> Environment administers a wide variety of grant programs which constitute a significant expense reported in the department's financial statements and are reliant on third party grant service administrators.

Source: ANAO 2018–19 audit results, and Environment's audited financial statements for the year ended 30 June 2019.

Audit results

4.7.12 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Bureau of Meteorology

4.7.13 The Bureau of Meteorology is responsible for gathering weather, water and atmospheric observations in order to provide forecasts, warnings and long-term weather and climatic outlooks.

Summary of financial performance

4.7.14 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the Bureau of Meteorology, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.5: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(313.7)	(311.4)
Revenue from government	231.7	230.4
Surplus/(deficit) attributable to the Australian Government	(82.1)	(81.0)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(82.1)	(81.0)
Total assets	773.5	716.8
Total liabilities	184.7	176.7
Total equity	588.8	540.1

Source: Bureau of Meteorology's audited financial statements for the year ended 30 June 2019.

4.7.15 The increase in total assets was largely due to the acquisition of internally developed software in 2018–19. This contributed to the increase in net cost of services from higher depreciation and amortisation expenses. Fluctuations in other balances are considered to be as a result of normal activities.

Table 4.7.6: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(0.5)	2.3
Revenue from government	–	–
Surplus/(deficit) attributable to the Australian Government	(0.5)	2.3
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(0.5)	2.3
Total assets	0.1	0.1
Total liabilities	0.5	0.0
Net assets/(liabilities)	(0.4)	0.1

Source: Bureau of Meteorology's audited financial statements for the year ended 30 June 2019.

4.7.16 In 2017–18 administered income related to income generated from the sale of third-party advertising on the Bureau of Meteorology's website. In 2018–19 the Bureau of Meteorology ceased a major contract with a third-party advertiser which resulted in a decrease in administered income, the surplus and total comprehensive income. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.7.17 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of

Bureau of Meteorology's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.7.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.7: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Plant and equipment \$349.1 million	Valuation of specialised weather equipment	Moderate	<ul style="list-style-type: none"> involves complex valuation processes that involve significant judgement and estimation by valuation experts; and includes diverse types of assets such as radar, weather stations and super computers located across Australia.
Computer software \$130.1 million	Valuation of computer software	Moderate	<ul style="list-style-type: none"> high level of complexity involved in capturing costs and ensuring these are capitalised in accordance with Australian accounting standards; and significant reliance on management's judgements in relation to useful lives and impairment of these assets.
Own source income \$89.0 million	Completeness and accuracy of own-source income	Moderate	<ul style="list-style-type: none"> own-source income makes up almost 30 per cent of overall revenue; various revenue streams are generated through multiple channels; and requires compliance with recognition and measurements requirements of relevant Australian accounting standards.

Source: ANAO 2018–19 audit results, and Bureau of Meteorology's audited financial statements for the year ended 30 June 2019.

Audit results

4.7.18 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.7.8: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2018–19 audit results.

4.7.19 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that the Bureau of Meteorology's 2018–19 financial statements were not materially misstated.

New moderate audit finding

Underpayment of superannuation on certain allowances

4.7.20 During 2018–19, the Bureau of Meteorology received legal advice that confirmed an employee was entitled to a superannuation payment in relation to rent-free accommodation that had been received during their employment. The Bureau of Meteorology is currently undertaking an assessment of the value of the underpayment of superannuation for the employee, and an assessment of the potential impact of underpayment of superannuation in relation to other former and current employees.

4.7.21 The Bureau of Meteorology has advised that records relating to the timing and provision of rent-free accommodation to employees was not readily available, and potentially incomplete and/or inaccurate. The ANAO will review and monitor the Bureau of Meteorology's progress in addressing this matter as part of the 2019–20 financial statements audit.

Clean Energy Finance Corporation

4.7.22 The Clean Energy Finance Corporation (CEFC) is responsible for the facilitation of increased flows of finance into the clean energy sector. The CEFC's role is to invest with commercial rigour in a diverse portfolio across the spectrum of clean energy technologies that are solely or mainly Australian based — either directly or indirectly through industry and the banking sector — that, in aggregate, have an acceptable but not excessive level of risk relative to the sector. The CEFC is required to liaise with relevant persons and bodies, including the Australian Renewable Energy Agency, the Clean Energy Regulator, other Australian Government entities and state and territory governments, for the purposes of facilitating its investment function. In the Investment Mandate Direction 2018, the responsible ministers have also directed the CEFC Board to prioritise investments that support reliability and security of electricity supply and make available up to:

- \$1 billion of investment finance over 10 years for the Reef Funding Program;
- \$1 billion of investment finance over 10 years for a Sustainable Cities Investment Program; and
- \$200 million for debt and equity investment through the Clean Energy Innovation Fund.

Summary of financial performance

4.7.23 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the CEFC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.9: Key financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	216.8	75.9
Surplus/(deficit) attributable to the Australian Government	218.8	73.7
Total other comprehensive income	(0.1)	28.1
Total comprehensive income/(loss) attributable to the Australian Government	218.7	101.8
Total assets	4,891.4	4,086.8
Total liabilities	71.3	56.6
Total equity	4,820.1	4,030.2

Source: CEFC's audited financial statements for the year ended 30 June 2019.

4.7.24 The increase in the contribution by services reflects realised returns on a significantly larger investment portfolio and gains from the revaluation of financial assets carried at fair value. Upon the adoption of AASB 9 *Financial Instruments* in 2018–19, CEFC reclassified a significant portion of its financial assets to fair value through profit and loss. This means that the revaluation of these assets now affects contribution by services, rather than other comprehensive income. This also explains why other comprehensive income was higher in 2017–18.

4.7.25 Total liabilities increased due to an increase in unearned income from fees received in advance on new investment arrangements. Equity increased mainly as a result of an additional \$600.0 million from the CEFC Special Account to fund the corporation's pipeline of contracted debt and equity investments, together with the \$218.8 million surplus for the 2018–19 financial year. The increase in total assets is a result of increased investments.

Key areas of financial statements risk

4.7.26 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of CEFC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.7.10. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.10: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from interest and loan fees and distributions from trusts and equity investments \$191.3 million	Revenue recognition	Higher	<ul style="list-style-type: none"> calculation of revenue from a diverse set of financial assets, some of which are complex in nature and some of which are concessional; and amounts received for establishment and other fees may be in a form other than cash (for example, shares), raising valuation issues.
Loans and advances \$2.6 billion Other debt securities \$1.3 billion Other financial assets \$487.3 million Provision for concessional loans \$11.3 million	Accounting for complex finance agreements including the adequacy of impairment provisions and concessional loan adjustments	Higher	<ul style="list-style-type: none"> complex lending scenarios to entities undertaking new or emerging technologies in the climate change sector where a mature track record of results is still to be established and where access to other finance has been challenging; complicated agreements with borrowers impacting on fair value assessment and concessional loan accounting calculations; obtaining relevant benchmark information for related market data from which concessional loan charges are determined requires significant judgement; and complexity of impairment assessments in relation to forecast future cash flows, security valuation and relevant discount factors, given the nature of the borrowers and their underlying business.
Key management personnel remuneration \$5.5 million	Accuracy and completeness of the disclosure of key management personnel remuneration	Moderate	<ul style="list-style-type: none"> a portion of the executive remuneration is based on achievement of KPIs, requiring verification of the KPIs and the variable remuneration paid.

Source: ANAO 2018–19 audit results, and CEFC's audited financial statements for the year ended 30 June 2019.

Audit results

4.7.27 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Snowy Hydro Limited

4.7.28 Snowy Hydro Limited (Snowy Hydro) became wholly owned by the Australian Government on 29 June 2018, following the Australian Government's purchase of 100 per cent of the shares in the company held by the governments of New South Wales and Victoria. Snowy Hydro's business includes energy generation activities to supply the National Electricity Market, and operating as a retail energy provider to over 1 million customers through the Red Energy and Lumo Energy brands.

Snowy Hydro's energy generation capacity of 5500 megawatts supplies New South Wales, Victoria and South Australia, primarily through the generating capacity of the Snowy Mountains hydroelectric scheme. Snowy Hydro is currently progressing Snowy 2.0, a pumped hydro project which will add 2000 megawatts of on demand generation and 175 hours of large-scale storage capability to the existing Snowy Scheme.

Summary of financial performance

4.7.29 The following section provides a summary of the 2018–19 key financial statements items reported by Snowy Hydro, and includes commentary on movements contributing to overall performance. The 2017–18 financial statements were not audited by the ANAO, as the Auditor-General was not the appointed auditor prior to the Australian Government purchase of the company. The 2017–18 numbers are included below for the purposes of comparative analysis only.

Table 4.7.11: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total revenue	2,869.5	2,789.4
Total expenses	2,393.5	2,407.9
Income tax expense	143.8	114.0
Profit for the period	332.2	267.5
Other comprehensive income	(85.6)	10.8
Total other comprehensive income attributable to the Australian Government	246.6	278.3
Total assets	4,119.3	3,420.0
Total liabilities	2,092.4	1,399.8
Total equity	2,026.9	2,020.2

Source: Snowy Hydro's audited financial statements for the year ended 30 June 2019.

4.7.30 The increase in total revenue is due mainly to growth in the number of customers in the retail market and commercial and industrial sectors contracting with Red Energy and Lumo for supply of electricity in 2018–19.

4.7.31 Total expenses were consistent with the prior period mainly due to the impact of offsetting factors. The direct costs of revenue increased, consistent with growth in the number of customers during the period, which were offset by decreases in expenses recognised for changes in the fair value of financial instruments.

4.7.32 The \$699.3 million increase in total assets is due mainly to the capitalisation of work in progress. During 2018–19, Snowy Hydro capitalised \$576.3 million of costs which mainly related to progressing the Snowy 2.0 project following final investment decision approval made by Snowy Hydro's Board in late 2018. Total assets also increased due to increases in prepayments for services related to the Snowy 2.0 project which will be drawn down over the term of construction.

4.7.33 Total liabilities increased by \$692.6 million in 2018–19. This was mainly due to:

- a \$523.9 million increase in interest bearing liabilities, mainly bank loans, reflecting borrowings applied to partially fund the cost of construction of Snowy 2.0; and
- a \$155.1 million increase in other financial liabilities, mainly related to foreign exchange contracts, interest rate swaps and energy market derivatives, reflecting changes in key inputs into model valuations and additional contracts entered into in 2018–19.

Key areas of financial statements risk

4.7.34 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Snowy Hydro's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.7.12. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.12: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Other Financial Assets \$152.3 million Other Financial Liabilities \$314.3 million Changes in fair value of financial instruments \$15.7 million Decrease in other comprehensive income \$119.7 million	Valuation of financial instruments	Higher	<ul style="list-style-type: none"> • increased level of management judgement required to determine fair value of derivative contracts which are underpinned by complex data models to calculate financial instrument values; • valuation process requires the use of observable and unobservable inputs to calculate fair value. The nature and uniqueness of some energy market derivatives recognised by Snowy Hydro requires an increased level of judgement to determine unobservable valuation model inputs; and • the valuation of financial instruments is sensitive to inputs such as electricity prices, electricity supply volumes and market data such as interest and exchange rates.
Environmental certificate assets \$50.2 million	Valuation of renewable energy certificates	Higher	<ul style="list-style-type: none"> • increased level of judgement applied by Snowy Hydro in determining the accounting treatment of renewable energy certificates and their valuation at balance date.
Trade and other receivables \$467.9 million Allowance for doubtful debts \$28.6 million	Completeness and accuracy of the impairment of retail debtors	Higher	<ul style="list-style-type: none"> • change in requirements of the Accounting Standards, which introduced a new model for estimating impairment on debtors using an 'expected credit loss' model.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Capitalised customer acquisition costs \$130.7 million Amortisation \$40.8 million	Valuation of customer acquisition costs	Higher	<ul style="list-style-type: none"> level of management judgement applied in determining which costs outlaid to acquire retail customers meet relevant technical requirements for capitalisation; and complexity of estimation process and judgement applied to determine an appropriate amortisation rate reflective of the expected time a customer will continue to procure services from Snowy Hydro.
Unbilled revenue receivable \$246.8 million	Valuation and existence of unbilled retail revenue	Higher	<ul style="list-style-type: none"> estimation required due to services provided not yet billed arising from timing of electricity meter reads for customers and the date of preparing the financial statements; and estimation process involves increased management judgement underpinned by a complex data model with a number of inputs, significant number of customers and data sources.
Part of balance of construction in progress \$670.6 million	Capitalisation of work in progress for Snowy 2.0	Moderate	<ul style="list-style-type: none"> Snowy 2.0 is a complex infrastructure project delivered over a number of financial periods; and judgement applied by Snowy Hydro in determining which costs associated with project establishment and delivery, meet the relevant technical requirements for capitalisation.
Intangible Assets - Goodwill \$383.2 million	Valuation and impairment of non-financial assets	Moderate	<ul style="list-style-type: none"> the impairment estimation process is complex and judgemental due to the nature of the process which requires assumptions to be made related to future cash flows and discount rates.

Source: ANAO 2018–19 audit results, and Snowy Hydro's audited financial statements for the year ended 30 June 2019.

Audit results

4.7.35 There were no significant or moderate audit findings arising from the 2018–19 financial statements audit.

Comments on non-material entities

Clean Energy Regulator

4.7.36 The Clean Energy Regulator (CER) is responsible for administering schemes legislated by the Australian Government for measuring, managing, reducing or offsetting Australia's carbon emissions.

Unresolved moderate audit finding

Privileged user management

4.7.37 In 2015–16, the ANAO raised three low risk findings relating to the logging and monitoring of privileged user activity at the application and database level across the environment. During the 2017–18 audit, CER advised that there were delays in the implementation of a comprehensive monitoring solution (SPLUNK). As a result, the findings remained open until the solution could be tested during the 2018–19 interim audit.

4.7.38 During the 2018–19 interim audit the ANAO was unable to obtain evidence of full implementation of the SPLUNK solution; as a result the three low risk prior year findings were merged and a new moderate finding was raised due to the following:

- the historical logging solution fell into an unrecoverable state in December 2018 and logs obtained from the system since that time were ad-hoc and unreliable due to collection errors;
- logs being collected by the new SPLUNK solution were unavailable for review until May 2019, compounded by a lack of corporate knowledge in the use of the system due to staff absences; and
- logs were only reviewed from 23 May 2019 onwards, with retrospective fixes applied in several incidents found through the logging process during the period.

4.7.39 Based on the above, the underlying risks remained in effect for a substantial portion of the financial year (December 2018 to May 2019), noting also that the pre-December 2018 period was operating on the monitoring platform previously found to have weaknesses in the 2017–18 audit.

4.7.40 The ANAO recognises the significant progress made by the CER in addressing these issues, including the implementation of new logging and monitoring solutions, processes and procedures. The risk of material misstatement was mitigated through the retrospective review of logs performed by CER in May 2019. Evidence of the operating effectiveness of these controls was only demonstrated at the end of the 2018–19 audit cycle. The ANAO will review the ongoing operation of these controls during the 2019–20 audit to ensure they are embedded in the IT control environment.

Director of National Parks

4.7.41 The Director of National Parks (DNP) is responsible for the sustainable management of the Commonwealth's protected areas through conservation and appreciation of Commonwealth reserves. The DNP achieves its objectives through the provision of safe visitor access, the control of invasive species, and working with stakeholders and neighbours.

Unresolved moderate audit finding

Identification, valuation and classification of assets

4.7.42 This finding was first raised during the interim phase of the 2016–17 audit after undertaking site visits to the Kakadu and Booderee National Parks. The ANAO identified weaknesses in the identification, classification and valuation of assets and that the Kakadu National Park did not have an approved and implemented capital maintenance plan for the upkeep of its roads. These issues were not resolved during the 2018–19 audit process.

4.7.43 The DNP has made significant progress and is currently developing an Asset Management Strategy, Asset Management Plans, Kakadu Roads Strategy and associated Roads Maintenance Plan. The ANAO will review these strategies and plans during the 2019–20 financial statements audit.

4.8 Finance portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Finance	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil
ASC Pty Ltd	Yes	Moderate	✓	25 Sep 19	25 Sep 19	Nil
Australian Naval Infrastructure Pty Ltd	Yes	Moderate	✓	12 Sep 19	12 Sep 19	Nil
Future Fund Management Agency and the Board of Guardians	Yes	Moderate	✓	24 Sep 19	24 Sep 19	Nil

✓: auditor's report not modified

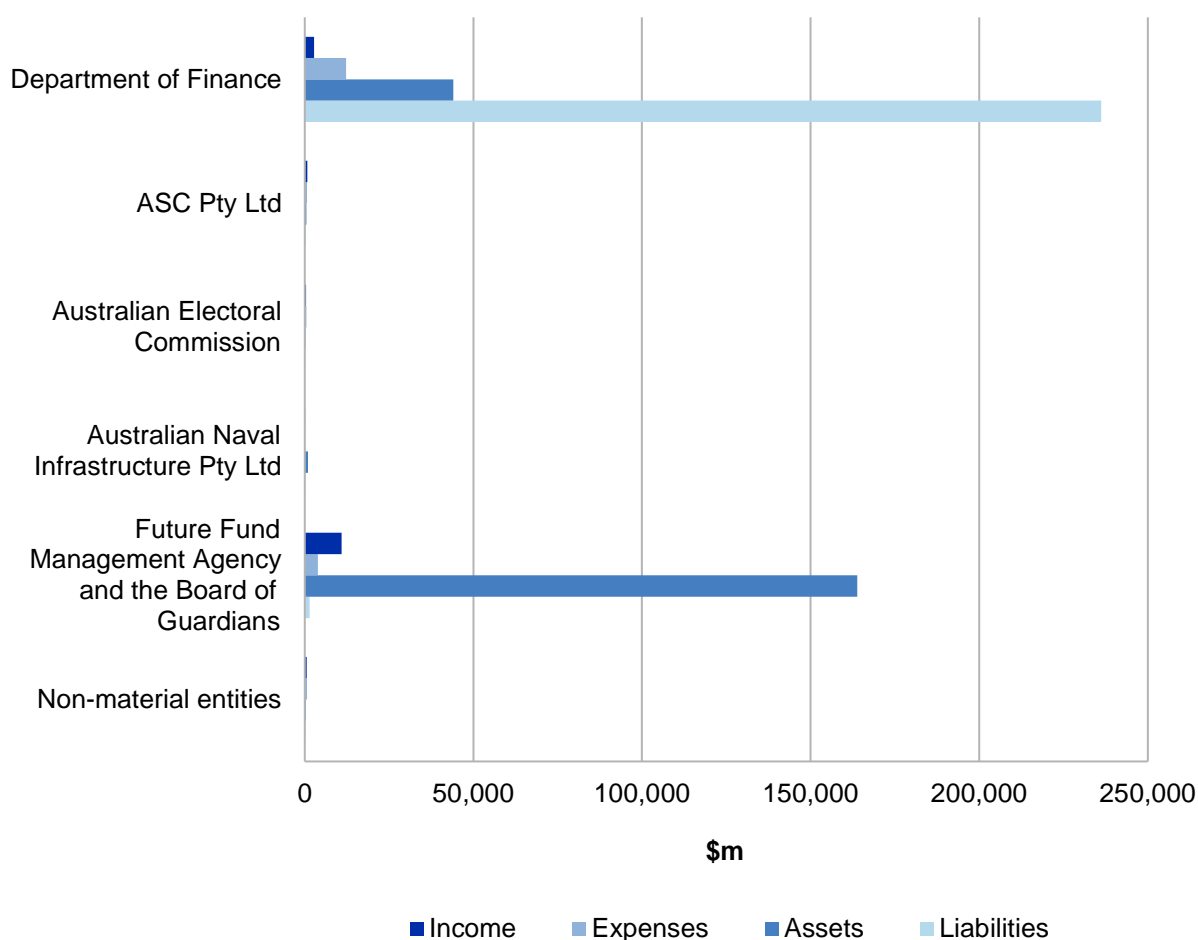
Portfolio overview

4.8.1 The Finance portfolio is responsible for the preparation of the consolidated financial statements (CFS) of the Australian Government and a range of finance-related functions that include providing the Australian Government with budget policy advice and responsibility for superannuation arrangements for government employees and asset sales.

4.8.2 The Department of Finance is the lead entity in the portfolio and is responsible for supporting the government's budget process and oversight of public sector resource management, governance and accountability frameworks. In addition, the department is responsible for the preparation of the annual CFS, which includes the whole-of-government and the general government sector financial statements and the Australian Government's financial outcome.

4.8.3 Figure 4.8.1 shows the Finance portfolio's income, expenses, assets and liabilities.

Figure 4.8.1: Finance portfolio's income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.8.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Finance portfolio.

Table 4.8.1: The number of audit differences for entities in the Finance portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Finance	–	4	4	2	–	2
ASC Pty Ltd	–	1	1	–	2	2
– ASC AWD Shipbuilder Pty Ltd	–	2	2	–	1	1
– ASC Shipbuilding Pty Ltd	–	–	–	–	1	1
Australian Electoral Commission	–	–	–	–	3	3

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Australian Naval Infrastructure Pty Ltd	–	–	–	–	1	1
Commonwealth Superannuation Corporation	–	–	–	2	–	2
Independent Parliamentary Expenses Authority	–	2	2	–	2	2

Source: Audit differences reported to entities in the Finance Portfolio.

4.8.5 The following sections provide a summary of the 2018–19 financial statements audit results for the Department of Finance, and other material entities.

Department of Finance

4.8.6 The Department of Finance (Finance) is responsible for supporting the government's budget process and oversight of public sector resource management, governance and accountability frameworks, as well as the production of the Australian Government's consolidated financial statements.

Summary of financial performance

4.8.7 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Finance, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(242.5)	(135.7)
Revenue from government	259.0	262.6
Surplus/(deficit) attributable to the Australian Government	16.5	126.9
Total other comprehensive income/(loss)	162.3	38.8
Total comprehensive income/(loss) attributable to the Australian Government	178.8	165.7
Total assets	3,071.9	2,943.2
Total liabilities	731.6	749.5
Total equity	2,340.3	2,193.7

Source: Finance's audited financial statements for the year ended 30 June 2019.

4.8.8 Finance is the government insurer through the Comcover scheme. For 2018–19, Finance's net cost of services increased due to growth in insurance claims experience (\$83.0 million) and a decrease in gains on sale of properties driven by lower sales. The increase in total comprehensive income and assets is largely due to the increase in values within Finance's property portfolio.

Table 4.8.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	11,653.7	9,312.3
Total income	2,600.1	2,219.4
Surplus/(deficit)	(9,053.6)	(7,092.9)
Total other comprehensive income/ (loss)	(46,146.7)	(6,733.1)
Total comprehensive income/(loss)	(55,200.3)	(13,826.0)
Total assets administered on behalf of Government	40,990.3	32,727.9
Total liabilities administered on behalf of Government	235,466.0	184,956.1
Net liabilities	194,475.7	152,228.2

Source: Finance's audited financial statements for the year ended 30 June 2019.

4.8.9 Total expenses have increased with the distribution of \$2.3 billion in funds largely from the DisabilityCare Australia Fund and Medical Research Future Fund managed by Finance.

4.8.10 The increase in total income and administered assets is predominately associated with the growth in the investment funds to \$37.1 billion from \$29.8 billion, largely due to additional contributions received of \$8.6 billion, partially offset by the distributions described above.

4.8.11 Finance also reports the Commonwealth's superannuation liability for the Australian public service. The other comprehensive loss increased largely due to the lower discount rates used in the superannuation liabilities' valuation. The lower discount rates and other estimate adjustments have increased the superannuation provision by approximately \$46.1 billion.

Key areas of financial statements risk

4.8.12 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Finance's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.8.4, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.8.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered superannuation provision \$233.1 billion	Valuation of the superannuation provision KAM	Higher	<ul style="list-style-type: none"> • complex calculation of each superannuation fund's liability and sensitivity of each fund to demographic factors and other movements, such as salary growth and bond rates; and • reliance on the Commonwealth Superannuation Corporation for the processing of superannuation benefit payments and the provision of complete and accurate data to Finance's actuary.
Departmental insurance provision \$473.7 million	Valuation of the provision and the accounting for outstanding insurance claims KAM	Higher	<ul style="list-style-type: none"> • complex calculation based on assumptions that require significant judgement; and • reliance on the control environment of an external service provider for the effective management of the claims process.
Departmental land and buildings (including investment properties) \$1.9 billion	Valuation of properties KAM	Moderate	<ul style="list-style-type: none"> • use of different valuation methods that require significant judgement on the selection of assumptions within the valuation models across a large portfolio of properties.

Source: ANAO 2018–19 audit results, and Finance's audited financial statements for the year ended 30 June 2019.

Audit results

4.8.13 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

ASC Pty Ltd

4.8.14 ASC Pty Ltd (ASC) supports Australia's naval capabilities. ASC built Australia's fleet of Collins Class submarines for the Royal Australian Navy and is responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines through the in-service support contract.

4.8.15 ASC is also part of the alliance-based contract arrangement delivering three Air Warfare Destroyers to the Royal Australian Navy. This alliance is made up of the Department of Defence, ASC as the lead shipbuilder, and Raytheon Australia as the mission systems integrator.

4.8.16 ASC is a proprietary company limited by shares registered under the *Corporations Act 2001*. The Minister for Finance is the sole shareholder minister on behalf of the Commonwealth of Australia.

4.8.17 A new ASC subsidiary, ASC OPV Shipbuilder Pty Ltd, was created on 10 August 2018. This company signed a contract on 14 November 2018 with Luerssen Australia under which the company will build the first two of 12 Arafura class offshore patrol vessels. On 13 December 2018, ASC transferred the ownership of one of its subsidiaries, ASC Shipbuilding Pty Ltd, to the Commonwealth by way of a non-cash dividend. This enabled the Commonwealth to transfer that company to BAE Systems, who will build the next generation of frigates for the Royal Australian Navy.

Summary of financial performance

4.8.18 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by ASC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.5: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	699.8	719.4
Total income	743.0	765.1
Income tax expense	12.9	13.7
Profit/(loss)after income tax	30.3	32.0
Total other comprehensive income/(loss)after income tax	(0.2)	0.0
Total comprehensive income/(loss) after income tax	30.1	32.0
Total assets	432.4	539.4
Total liabilities	298.1	408.8
Net assets/(liabilities)	134.3	130.6

Source: ASC's audited financial statements for the year ended 30 June 2019.

4.8.19 The decrease in income and expenses is mainly due to lower activity on the Air Warfare Destroyer program as it approaches its conclusion in March 2020. The decrease in assets and liabilities mainly reflects ASC's repayment of advances from the Commonwealth in respect of the Air Warfare Destroyer program.

Key areas of financial statements risk

4.8.20 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ASC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.8.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.8.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from continuing operations \$743.0 million	Revenue and profit recognition in relation to the Air Warfare Destroyer and Offshore Patrol Vessel projects and the Collins Class submarine in-service support contract	Higher	<ul style="list-style-type: none"> accounting for revenue, profit recognition, and claims in relation to these projects and contracts is complex due to the need to estimate and calculate many variables, including performance against targets. The amounts are subject to significant estimation and judgement; and introduction of AASB 15 <i>Revenue from contracts with customers</i> from 1 July 2018.
Various	Accurate accounting for the transfer of ASC Shipbuilding Pty Ltd	Higher	<ul style="list-style-type: none"> the significance of the transaction; and the complexity of separating the company, which had previously been closely integrated with the other companies in the ASC group, from that group.

Source: ANAO 2018–19 audit results, and ASC's audited financial statements for the year ended 30 June 2019.

4.8.21 The performance audit report Auditor-General Report No.1 2019–20 *Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities* was tabled during 2019–20 and was relevant to the financial management or administration of ASC. The results of the performance audit did not have significant implications for the financial statements audit.

Audit results

4.8.22 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Australian Naval Infrastructure Pty Ltd

4.8.23 Australian Naval Infrastructure Pty Ltd (ANI) was established to acquire, hold, manage and develop the infrastructure and related facilities used in connection with the domestic manufacture of naval vessels. The infrastructure held by ANI at Osborne in South Australia is used by: the operator of the Air Warfare Destroyer program, the AWD Alliance (ASC, Raytheon Australia and the Commonwealth) in its manufacture of vessels; by Luerssen Australia Pty Ltd in its manufacture of two offshore patrol vessels; and by ASC Pty Ltd for maintenance of the Collins class submarines under contract arrangements with the Commonwealth, represented by the Department of Defence.

4.8.24 ANI is also undertaking a \$535.0 million project to expand and modernise the surface shipyard at Osborne in support of the Hunter class frigate program, and in conjunction with Naval Group and the Commonwealth, is developing a new submarine yard which will be utilised for construction of the Attack class submarines.

4.8.25 ANI is a proprietary company limited by shares registered under the *Corporations Act 2001*. The Commonwealth, represented by the Minister for Finance, owns all shares in ANI.

Summary of financial performance

4.8.26 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by ANI, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.7: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	33.0	24.1
Total income	21.4	18.7
Income tax benefit/(expense)	3.4	1.6
Profit/(loss) after income tax	(8.2)	(3.8)
Total other comprehensive income after income tax	–	4.4
Total comprehensive income after income tax	(8.2)	0.6
Total assets	921.3	610.7
Total liabilities	76.7	59.4
Net assets/(liabilities)	844.5	551.3

Source: ANI's audited financial statements for the year ended 30 June 2019.

4.8.27 The increase in expenses mainly reflects higher depreciation, corporate costs and utility expenses as ANI expands its shipyard facilities.

4.8.28 The increase in income is primarily due to higher interest income in 2018–19 as a result of more cash investments being held and increased rental income from the occupants of properties acquired by ANI during 2018–19.

4.8.29 The expansion of ANI's facilities is the main reason for the significant increase in assets. The increase in liabilities is predominantly due to the increased operational activities undertaken as ANI's facilities expand.

Key areas of financial statements risk

4.8.30 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ANI's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.8.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.8.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment (PPE) \$807.7 million	Valuation of PPE	Higher	<ul style="list-style-type: none"> • valuation requires significant judgements and estimates particularly in relation to assessing the highest and best use for the assets; and • significant expansion of PPE holdings, including work-in-progress
Revenue \$21.4 million	Accuracy and completeness of revenue	Moderate	<ul style="list-style-type: none"> • introduction of AASB 15 <i>Revenue from contracts with customers</i> on 1 July 2018, resulting in a new framework for determining how revenue is recognised.

Source: ANAO 2018–19 audit results, and ANI's audited financial statements for the year ended 30 June 2019.

Audit results

4.8.31 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Future Fund Management Agency

4.8.32 The Future Fund Management Agency, which supports the independent Future Fund Board of Guardians (together, the Future Fund), is responsible for investing the assets of the Future Fund under the *Future Fund Act 2006* and other investment funds, managed on behalf of the Department of Finance, under the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013*, the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018* and the *Medical Research Future Fund Act 2015*, for the benefit of future generations of Australians.

Summary of financial performance

4.8.33 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the Future Fund, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.9: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	242.7	247.1
Total income	17,035.1	12,654.2
Income tax expense	65.0	72.1
Surplus/(deficit)	16,727.4	12,335.0
Total other comprehensive income	–	–
Total comprehensive income	16,727.4	12,335.0
Total assets	163,615.7	148,343.3
Total liabilities	1,141.1	2,596.1
Net assets/(liabilities)	162,474.6	145,747.2

Source: The Future Fund's audited financial statements for the year ended 30 June 2019.

4.8.34 The investment earnings for the Future Fund during 2018–19 were above the prior year. The return of 11.5 per cent (2018: 9.3 per cent) is above the Future Fund's target return of 5.6 per cent (CPI plus 4.0 per cent). The increase in return has led to the growth in the fund size at year end as all returns are re-invested.

4.8.35 The decrease in liabilities relates to:

- a reduction in payables as at 30 June 2019 when compared to 30 June 2018 due to timing differences in payments; and
- a reduction in the value of foreign currency contracts as at 30 June 2019 and the application of 30 June 2019 exchange rates.

Key areas of financial statements risk

4.8.36 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the Future Fund's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.8.10, including the area which was considered a Key Audit Matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.8.10: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Investments - Collective Investments \$75.3 billion	Valuation of private market investments KAM	Higher	<ul style="list-style-type: none"> • the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Investments \$160.3 billion	Effectiveness of governance processes, including monitoring external service providers and the custodian	Moderate	<ul style="list-style-type: none"> reliance on information from the custodian (including asset valuation, rights, obligations and existence of assets); and potential for financial loss where custodian or sub-custodian fails to meet its obligations in accordance with the agreed terms.

Source: ANAO 2018–19 audit results, and Future Fund's audited financial statements for the year ended 30 June 2019.

Audit results

4.8.37 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audit.

4.9 Foreign Affairs and Trade portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Foreign Affairs and Trade	Yes	Moderate	✓	3 Sept 19	4 Sept 19	Nil
Export Finance Australia	Yes	Moderate	✓	22 Aug 19	23 Aug 19	Nil

✓: auditor's report not modified

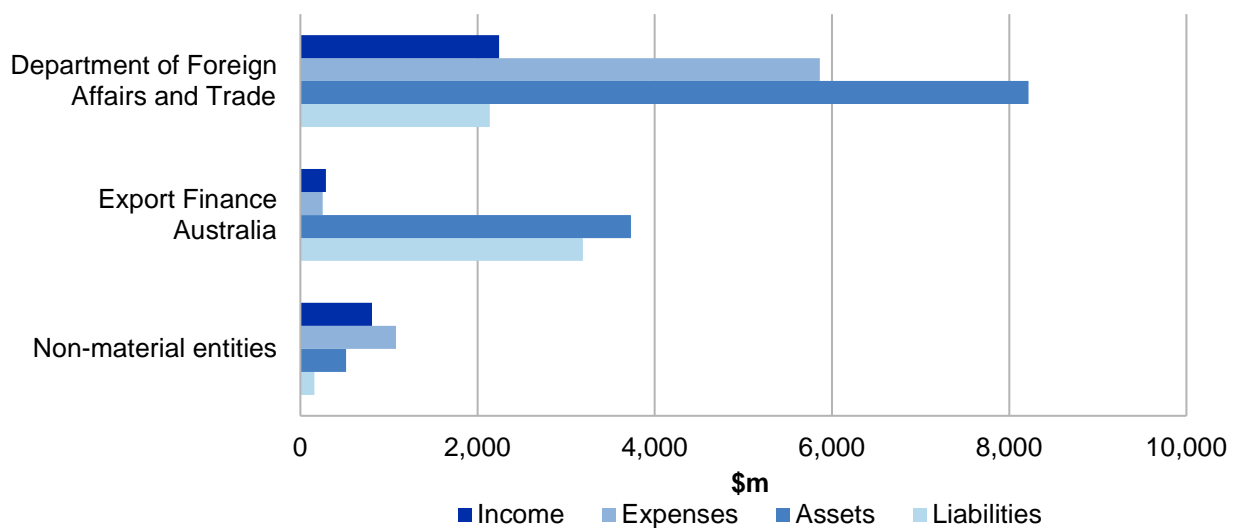
Portfolio overview

4.9.1 The objective of the Foreign Affairs and Trade portfolio is to advance Australia's security and prosperity in a contested and competitive world, as supported by the implementation of the 2017 Foreign Policy White Paper.

4.9.2 The Department of Foreign Affairs and Trade (DFAT) is the lead entity in the portfolio and is responsible for providing foreign, trade and development policy advice and for leading the Australian Government's international efforts to shape the regional and international environment.

4.9.3 Figure 4.9.1 shows the Foreign Affairs and Trade's income, expenses, assets and liabilities.

Figure 4.9.1: Foreign Affairs and Trade portfolio's income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.9.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Foreign Affairs portfolio.

Table 4.9.1: The number of audit differences for entities in the Foreign Affairs portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Foreign Affairs and Trade	1	3	4	–	–	–
Australian Centre for International Agricultural Research	–	4	4	1	1	2
Australian Trade and Investment Commission	–	–	–	–	1	1
Export Finance Australia	–	1	1	–	–	–
Tourism Australia	1	–	1	–	–	–

Source: Audit differences reported to entities in the Foreign Affairs Portfolio.

4.9.5 The following sections provide a summary of the 2018–19 financial statements audit results for DFAT, and other material entities.

Department of Foreign Affairs and Trade

4.9.6 The Department of Foreign Affairs and Trade (DFAT) supports Australia’s foreign, trade and investment, development and international security policy priorities. DFAT is the lead agency managing Australia’s international presence and leads efforts to maximise Australia’s security and prosperity through implementation of the 2017 Foreign Policy White Paper.

Summary of financial performance

4.9.7 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by DFAT, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(1,632.7)	(1,409.0)
Revenue from government	1,439.2	1,355.2
Surplus/(deficit) attributable to the Australian Government	(193.5)	(53.9)
Total other comprehensive income	220.5	220.4
Total comprehensive income/(loss) attributable to the Australian Government	27.0	166.6
Total assets	4,978.6	4,779.5
Total liabilities	488.1	411.0
Total equity	4,490.5	4,368.6

Source: DFAT's audited financial statements for the year ended 30 June 2019.

4.9.8 The net cost of services increased from the prior year primarily as a result of increases to employee expenses of \$55.9 million and supplier expense of \$33.5 million and a reduction in gains of \$132.6 million made from the sale of two overseas properties in 2017–18. The increase in employee expenses is driven by a number of factors including: a 2 per cent increase in Australian-based salaries in line with the enterprise agreement; an increase in the long service leave expense driven by a reduction in the 10 year government bond rate; and an increases in fringe benefits tax resulting from indexation and foreign exchange movements.

4.9.9 Total assets increased primarily due to overseas property revaluations resulting from favourable movements in property markets and foreign exchange rates.

Table 4.9.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	4,063.5	3,728.2
Total income	647.1	1,048.8
Surplus/(deficit)	(3,416.4)	(2,679.4)
Total other comprehensive income (loss)	240.8	0.2
Total comprehensive income/(loss)	(3,175.6)	2,679.2
Total assets administered on behalf of Government	3,241.0	2,954.2
Total liabilities administered on behalf of Government	1,648.2	1,949.8
Net assets/(liabilities)	1,592.8	1,004.4

Source: DFAT's audited financial statements for the year ended 30 June 2019.

4.9.10 DFAT has a range of financial assets and liabilities the most significant of which are subscription assets and grant liabilities. The subscription assets represent membership rights DFAT holds on behalf of the Australian Government for international organisations like International Development Association (IDA) and the Asian Development Fund (ADF). The liabilities represent the

obligations the Australian Government has in relation to its aid commitments with international organisations. Valuations of assets and liabilities resulting from the Australian Government's contribution to the international organisations are undertaken on an annual basis.

4.9.11 The introduction of AASB 9 *Financial Instruments* resulted in a change in accounting treatment for valuation movement relating to subscription assets. Under the new standards valuation adjustments are recorded through other comprehensive income from 2018–19. The valuation increment was recorded through profit and loss in 2017–18. The revaluation reported through other comprehensive income is driven by a combination of changes in the underlying discount rates, foreign exchange movements and new subscription replenishments during 2018–19. This has also resulted in an increase in the total asset base.

4.9.12 The decrease in DFAT's administered expenses and liabilities was due to a combination of timings of the payments and the movements in the valuation of the multilateral grants and contributions payable.

Key areas of financial statements risk

4.9.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of DFAT's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.9.4, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered fees and charges \$560.0 million	Completeness and accuracy of revenue generated from passport operations	Higher	<ul style="list-style-type: none"> a significant proportion of revenue is collected under contractual arrangements by a third party on behalf of the department; and passport production is managed by a third party on behalf of the department.
Departmental sale of goods and rendering of services \$147.3 million	Accuracy of revenue for rental accommodation and other services provided to other Government entities at overseas posts	Higher	<ul style="list-style-type: none"> multiple sources of revenue; and revenue is assessed based on attached agencies' staffing profiles at post, agreed floor space and other factors.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental land and buildings \$3.5 billion	Valuation of the department's overseas property portfolio KAM	Moderate	<ul style="list-style-type: none"> • variety of valuation methodologies applied; • subject to complex estimation and judgements affected by market conditions at overseas locations and foreign exchange adjustments; and • the management of overseas property is undertaken by a third party through contract arrangements.
Administered International Development Association (IDA) and Asian Development Fund (ADF) assets \$2.4 billion multilateral replenishments payable \$1.4 billion	Valuation of IDA and ADF investments and associated liabilities KAM	Moderate	<ul style="list-style-type: none"> • significant judgements, which involve timing of future cash flows, currency and interest rate risks and selection of appropriate discount rates; and • complexity of the membership arrangements determines Australia's share in the funds.
Administered IDA expenses \$3.2 billion aid program liabilities \$136.6 million	Accuracy and completeness of the administered aid program payments KAM	Moderate	<ul style="list-style-type: none"> • there is significant geographical spread of aid program recipients and a diverse range of aid program payments with a significant component paid through third party providers.
All financial statement line items	Completeness and accuracy of financial information associated with overseas posts	Moderate	<ul style="list-style-type: none"> • financial information is collected through decentralised operations; and • locally engaged staff payments are subject to various employee conditions and benefits based on local laws and regulations.

Source: ANAO 2018–19 audit results, and DFAT's audited financial statements for the year ended 30 June 2019.

Audit results

4.9.14 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Export Finance Australia

4.9.15 Export Finance Australia (previously Export Finance and Insurance Corporation or 'Efic') is responsible for facilitating and encouraging Australian export trade and overseas infrastructure development on a commercial basis. Export Finance Australia provides financial support when financing from the banking market is unavailable.

4.9.16 In 2019, Export Finance Australia's mandate was expanded to increase Export Finance Australia's callable capital. These broader powers enable Export Finance Australia to expand its overall financing capability and engage in transactions that support Australia's economic and strategic interests such as the Australian Infrastructure Financing Facility for the Pacific.

Summary of financial performance

4.9.17 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by Export Finance Australia. These have been split to provide detail on the commercial account and the national interest account and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.5: Commercial account financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	200.2	162.6
Total income	237.0	183.9
Net profit/(loss) before tax equivalent	36.8	21.3
Income tax equivalent charge	11.0	6.4
Surplus/(deficit) attributable to the Government	25.8	14.9
Total other comprehensive income/(loss)	61.7	(1.1)
Total comprehensive income/(loss) attributable to the Australian Government	87.5	13.8
Total assets	3,359.2	3,133.6
Total liabilities	2,819.9	2,674.3
Total equity	539.3	459.3

Source: Export Finance Australia's audited financial statements for the year ended 30 June 2019.

4.9.18 The increase in interest income and interest expenses is reflective of normal business activity and attributable to increases in average balances on investments and borrowings. The increase in Commercial Account profit was impacted by the decrease in long-term United States Dollar (USD) interest rates. While the loans and borrowings are hedged the future net interest margin is not hedged and this resulted in an increase in the fair value. The increase in total other comprehensive income is attributable to a revaluation increment for land and buildings.

4.9.19 The increase in total assets is attributable to an increase in receivables for overnight and short-term fixed deposits with financial institutions and a revaluation increment for land and buildings in the current year. Total liabilities increased due to an increase in borrowings in the

market and a fair value increment on the derivatives used to hedge Export Finance Australia's interest rate and foreign exchange rate risk.

Table 4.9.6: National interest account financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	16.8	16.1
Total income	50.9	48.4
National Interest Account attributable to the Australian Government	34.1	32.3
Total assets administered on behalf of Government	370.9	432.2
Total liabilities administered on behalf of Government	370.9	432.2
Net assets/(liabilities)	–	–

Source: Export Finance Australia's audited financial statements for the year ended 30 June 2019.

4.9.20 The offsetting decreases in total assets and total liabilities is due to the repayment of debts to the national interest account. Loans from the commercial account represent \$354.6 million of the national interest account liabilities as at 30 June 2019.

Key areas of financial statements risk

4.9.21 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Export Finance Australia's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided Table 4.9.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.7: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Commercial account financial instruments - loans and receivables \$1.7 billion	Impairment of loans and receivables	Moderate	<ul style="list-style-type: none"> complex measurement, classification and disclosure requirements; and subject to estimation and judgement including the credit risk exposure for key loans.
Commercial account financial instruments financial assets \$3.2 billion financial liabilities \$2.8 billion	Valuation and classification of financial instruments	Moderate	<ul style="list-style-type: none"> complex measurement which involves derivatives, available for sales financial instruments, borrowings and loans and receivables; and subject to estimation and judgement in assessing the reasonableness of the valuation assumptions and inputs to independent sources.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Commercial and National Interest Account Interest Income	Completeness and accuracy of interest income recognised	Moderate	<ul style="list-style-type: none"> multiple loans with different terms, conditions and counterparties; reliance on the loan management system (Reval) to correctly calculate interest due; accuracy of inputs recorded in the Reval system for new loans; and completeness and accuracy of data transfer from Reval to the Financial Management System.

Source: ANAO 2018–19 audit results, and Export Finance Australia's audited financial statements for the year ended 30 June 2019.

Audit results

4.9.22 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

4.10 Health portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Health	Yes	Moderate	✓	23 Aug 19	26 Aug 19	▲
Australian Digital Health Agency	No	Low	✓	27 Sept 19	1 Oct 19	▲
National Blood Authority	Yes	Low	✓	22 Aug 19	23 Aug 19	Nil
National Health and Medical Research Council	Yes	Low	✓	4 Sept 19	5 Sept 19	▲

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

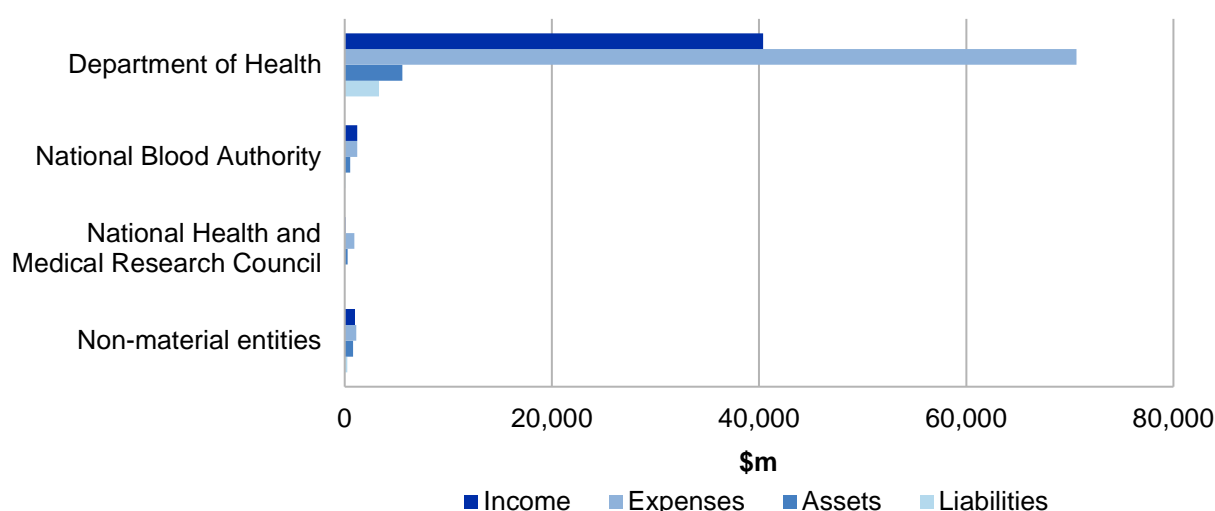
Portfolio overview

4.10.1 The Health portfolio works towards achieving better health and wellbeing for all Australians, now and for future generations.

4.10.2 The Department of Health (Health) is the lead entity in the portfolio. It is responsible for achieving the Australian Government's health outcomes in the areas of health system policy, design and innovation; health access and support services; sport and recreation; individual health benefits; regulation, safety and protection; and ageing and aged care. This includes administering programs and services, such as Medicare and the Pharmaceutical Benefits Scheme, and forming partnerships with the states and territories as well as other stakeholders.

4.10.3 Figure 4.10.1 shows the Health portfolio's income, expenses, assets and liabilities.

Figure 4.10.1: Health portfolio's income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.10.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Health portfolio.

Table 4.10.1: The number of audit differences for entities in the Health portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Health	–	1	1	1	2	3
Aged Care Quality and Safety Commission	2	–	2	–	–	–
Australian Aged Care Quality Agency	4	–	4	2	–	2
Australian Commission on Safety and Quality in Health Care	–	1	1	–	–	–
Australian Digital Health Agency	2	1	3	1	2	3
Australian Institute of Health and Welfare	1	1	2	–	2	2
Australian Sports Anti-Doping Authority	–	3	3	–	1	1
Australian Sports Commission	–	1	1	–	–	–
Food Standards Australia New Zealand	2	5	7	1	7	8
Independent Hospital Pricing Authority	1	1	2	–	–	–
National Blood Authority	–	1	1	2	1	3
National Health Funding Body	1	–	1	–	–	–
National Mental Health Commission	1	–	1	2	5	7
Professional Services Review Scheme	1	–	1	–	–	–

Source: Audit differences reported to entities in the Health Portfolio.

4.10.5 The following sections provide a summary of the 2018–19 financial statements audit results for Health, other material entities and findings related to non-material entities in the portfolio.

Department of Health

4.10.6 The Department of Health (Health) is responsible for achieving the Australian Government's health and ageing priorities through evidence-based policy, program administration,

research, regulatory activities, and partnerships with other government entities, consumers and stakeholders.

4.10.7 As a result of the transfer of Health's grants management processes to the Community Services Grants Hub, staff and assets and liabilities associated with the process were transferred in September to the Department of Social Services (DSS).

4.10.8 The Government established the Independent Aged Care Quality and Safety Commission, effective 1 January 2019. The agency incorporated the former Australian Aged Care Quality agency abolished on the 31 December 2018 and functions of the Aged Care Complaints Commissioner, formerly a division of Health.

Summary of financial performance

4.10.9 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Health, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(733.9)	(653.9)
Revenue from government	705.4	658.5
Surplus/(deficit) attributable to the Australian Government	(28.5)	4.6
Total other comprehensive income/(loss)	–	2.5
Total comprehensive income/(loss) attributable to the Australian Government	(28.5)	7.1
Total assets	419.0	381.8
Total liabilities	335.4	301.5
Total equity	83.6	80.3

Source: Health's audited financial statements for the year ended 30 June 2019.

4.10.10 The increase to net cost of services resulted from higher contractor and consultant costs, primarily driven by costs related to the development and maintenance of the My Aged Care Gateway system in 2018–19, and an increase in employee benefits expenses due to the impact of a fall in the discount rate on employee benefits. In addition, there were approved grant payments met through departmental funds for the current year due to a shortfall in available administered funds. The increase in revenue from government mainly relates to additional funds for grant payments, funding for the My Aged Care Gateway system, partially offset by appropriation transfers for the Community Services Grants Hub and the Aged Care Quality and Safety Commission.

Table 4.10.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	69,710.6	65,632.2
Total income	39,501.2	37,937.6
Surplus/(deficit)	(30,209.4)	(27,694.6)
Total other comprehensive income/(loss)	(61.2)	42.3
Total comprehensive income/(loss)	(30,270.6)	(27,736.9)
Total assets administered on behalf of Government	3,471.4	3,282.0
Total liabilities administered on behalf of Government	2,975.4	2,996.7
Net assets/(liabilities)	496.0	285.3

Source: Health's audited financial statements for the year ended 30 June 2019.

4.10.11 The \$4.1 billion increase in expenses was due to increased grants spending mainly reflecting the expanded scope and activity on the Commonwealth Home Support Programme and increases in personal benefit spending primarily reflecting an increase in Medicare funding, investment in new medicine listings on the Pharmaceutical Benefits Scheme (PBS), and a boost in aged care funding. These costs were partially matched by higher revenue of \$1.6 billion for Medicare funding. Fluctuations in other balances were a result of normal business activities.

Key areas of financial statements risk

4.10.12 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Health's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.10.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 4.10.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered subsidies \$12.7 billion	Accuracy of Residential Care subsidies KAM	Higher	<ul style="list-style-type: none"> payment of aged care subsidies to nursing home providers are based on Aged Care Funding Instrument assessments prepared by the same providers and involve judgements regarding the level of patient care. 	The moderate audit finding remains unresolved. Refer to paragraph 4.10.15.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental sale of goods and rendering of services \$194.8 million	Estimation of Revenue related to the Therapeutic Goods Administration	Higher	<ul style="list-style-type: none"> the estimation of revenue under the <i>Therapeutic Goods Act (TGA) 1989</i> involves judgements and assumptions related to the assessment of registration and conformity fees. 	The moderate audit finding remains unresolved. Refer to paragraph: 4.10.15.
Administered personal benefits \$46.2 billion	Accuracy of personal benefit payments including medical benefits and pharmaceutical benefit payments KAM	Higher	<ul style="list-style-type: none"> volume and complexity of health care payments with varying eligibility requirements; and processed by Services Australia on complex IT systems. 	No significant or moderate audit findings identified.
Administered recoveries \$2.6 billion	Completeness and accuracy of Pharmaceutical Benefits Scheme recovery revenue	Moderate	<ul style="list-style-type: none"> manual calculation of complex information in spreadsheets; and reliance on data sourced from the Services Australia and complex arrangements in place with pharmaceutical companies for recovery of expenditure. 	No significant or moderate audit findings identified.
Administered personal benefits provisions \$899.9 million subsidies provision \$430.0 million	Valuation of the Medical Indemnity and Medicare and Pharmaceuticals Outstanding Claims provisions KAM	Moderate	<ul style="list-style-type: none"> judgements over future claims and economic assumptions including discount rate and future claims that underpin the estimation indemnity provisions and rely on the quality of underlying data. 	No significant or moderate audit findings identified.
Administered grants expense \$9.2 billion	Accuracy and occurrence of grant payments.	Moderate	<ul style="list-style-type: none"> significant number of grant programs are administered by Health with different eligibility criteria. 	No significant or moderate audit findings identified.

Source: ANAO 2018–19 audit results, and Health's audited financial statements for the year ended 30 June 2019.

Audit results

4.10.13 The following table summarises the status of the audit finding reported by the ANAO in 2017–18 and 2018–19.

Table 4.10.5: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	–	1 ^(a)	–	1
Total	–	1	–	1

Note a: The moderate audit finding — *Monitoring of privileged user activity*, was first reported to Parliament in Auditor-General Report No.46 of 2018–19 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2018–19 audit results.

4.10.14 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that the Health's 2018–19 financial statements were not materially misstated.

Unresolved moderate audit finding

Monitoring of privileged user activity

4.10.15 During the 2018–19 interim audit, the ANAO's testing identified weaknesses in the monitoring of users with privileged access to IT business systems relevant to the collection of Therapeutic Goods Administration revenue and management of aged care providers. The ANAO identified that there were no processes in place to effectively monitor the activity of privileged users with access to several key IT business systems. The Department uses a program to monitor privileged user access at the network level and has committed to extend this program to the individual business systems. In addition the Department has advised it will perform regular reviews of activity reports. These activities are expected to be fully implemented in 2019–20, at which time implementation will be reviewed by the ANAO.

National Blood Authority

4.10.16 The National Blood Authority (NBA) is responsible for securing the supply of safe and affordable blood products, including through national supply arrangements and coordination of best practice standards within agreed funding policies under the national blood arrangements.

Summary of financial performance

4.10.17 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the NBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.6: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(6.4)	(7.6)
Revenue from government	5.7	5.6
Surplus/(deficit) attributable to the Australian Government	(0.7)	(2.0)
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(0.7)	(2.0)
Total assets	11.5	10.6
Total liabilities	3.9	2.9
Total equity	7.6	7.7

Source: NBA's audited financial statements for the year ended 30 June 2019.

4.10.18 The net cost of services decrease of \$1.2 million predominately represents a return to normal business activity following an increase in the prior year of supplier expenses for information communication and technology.

Table 4.10.7: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	1,196.1	1,165.0
Total income	1,207.9	1,158.7
Surplus/(deficit)	11.8	(6.3)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	11.8	(6.3)
Total assets administered on behalf of Government	510.0	507.8
Total liabilities administered on behalf of Government	57.7	70.7
Net assets/(liabilities)	452.3	437.1

Source: NBA's audited financial statements for the year ended 30 June 2019.

4.10.19 The NBA receives funding from the states and territories based on budgeted expenditure for the purchase of blood and plasma products and operational expenses. Expenses have increased due to an increase in prices for fresh blood products and an increase in the quantity of collected plasma for fractionation as well as an increase in demand for plasma products.

Key areas of financial statements risk

4.10.20 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of NBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in

2018–19 is provided in Table 4.10.8. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.10.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered inventories \$101 million	Existence and Valuation of Inventory	Moderate	<ul style="list-style-type: none"> judgements and assumptions involved in the valuation of blood and blood products; and the geographical spread of inventory and reliance on service providers to manage the inventory holdings.

Source: ANAO 2018–19 audit results, and NBA's audited financial statements for the year ended 30 June 2019.

Audit results

4.10.21 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

National Health and Medical Research Council

4.10.22 The National Health and Medical Research Council (NHMRC) is the Australian Government's key entity for managing investment in, and integrity of, health and medical research. NHMRC is also responsible for developing health advice for the Australian community, health professionals and governments, and for providing advice on ethical practice in health care and in the conduct of health and medical research.

Summary of financial performance

4.10.23 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the NHMRC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.9: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(38.6)	(40.4)
Revenue from government	37.6	39.0
Surplus/(deficit) attributable to the Australian Government	(1)	(1.4)
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(1)	(1.4)
Total assets	27.4	28.9
Total liabilities	13.7	14.6
Total equity	13.7	14.3

Source: NHMRC's audited financial statements for the year ended 30 June 2019.

4.10.24 Fluctuations in balances were the result of normal business activities.

Table 4.10.10: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	894.7	848.6
Total income	7.8	9.2
Deficit	(886.7)	(839.4)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	(886.7)	(839.4)
Total assets administered on behalf of Government	243.0	249.3
Total liabilities administered on behalf of Government	5.8	8.0
Net assets/(liabilities)	237.2	241.3

Source: NHMRC's audited financial statements for the year ended 30 June 2019.

4.10.25 Total expenses increased due to increased funding for Boosting Dementia Research and Medical Research Grants.

Key areas of financial statements risk

4.10.26 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of NHMRC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.10.11.

Table 4.10.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered grant expenses \$887.1 million	Management and accounting of grant expenditure	Higher	<ul style="list-style-type: none"> management of, and accounting for, a range of grants payments that constitute a significant expense reported in the NHMRC's financial statements; and complexities associated with the indexing of grant payments. 	One moderate audit finding remains unresolved. Refer to paragraphs: 4.10.29 – 4.10.31
Departmental intangibles \$16.0 million	Management and valuation of intangible assets	Moderate	<ul style="list-style-type: none"> significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and judgements involved in estimating the capitalisation of the staff and other costs attributed to developing the software applications. 	No significant or moderate audit findings identified.

Source: ANAO 2018–19 audit results, and NHMRC's audited financial statements for the year ended 30 June 2019.

Audit results

4.10.27 The following table summarises the status of the audit finding reported by the ANAO in 2017–18 and 2018–19.

Table 4.10.12: Status of Audit Finding

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	1	–	–	1
Total	1	–	–	1

Source: ANAO 2018–19 audit results.

4.10.28 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that the NHMRC's 2018–19 financial statements were not materially misstated.

Unresolved moderate audit finding

User access management – monitoring of third party access to IT systems

4.10.29 During the 2016–17 audit, the ANAO's testing of user access to NHMRC's information technology (IT) systems, including the Financial Management Information System (FMIS), identified that external vendors have privileged user access to NHMRC's IT Infrastructure (Network, Databases and Operating Systems) and the FMIS. The activities performed by these vendors were not logged and, as a result, no regular monitoring of user activities was performed by NHMRC. Additionally,

there were no regular monitoring controls in place at NHMRC to ensure that vendors' activities are compliant with NHMRC's policy and procedures.

4.10.30 Users with privileged 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. Ineffective monitoring controls increases the risk that unauthorised changes may be made to NHMRC's IT infrastructure and compromise the security of systems and its data.

4.10.31 NHMRC has advised that a permanent solution will be implemented as part of the replacement of key IT infrastructure during 2019–20. The ANAO will continue to focus on this area to ensure it is appropriately addressed.

Comments on non-material entities

Australian Digital Health Agency

4.10.32 The Australian Digital Health Agency (Digital Health) has responsibility for the strategic management and governance of the National Digital Health Strategy and the design, delivery and operations of the national digital healthcare system including the My Health Record system.

New significant audit findings

Integrity of Financial Reporting

4.10.33 As part of the 2018–19 audit, the ANAO reviewed the operational effectiveness of Digital Health's controls related to financial reporting and supplier and contract management, with a particular focus on financial transactions occurring at year-end. Control weaknesses in Digital Health's contract and supplier management and financial reporting processes resulted in material adjustments being identified by the ANAO. These adjustments were not identified by Digital Health's own processes and controls and were material to the financial statements.

4.10.34 The ANAO identified for the preparation of the financial statements and the supplier and contract management process at year end that material control deficiencies demonstrated by the organisational wide use of inappropriate accounting treatment for routine supplier transactions, in particular:

- financial statements supporting work papers for the supplier payable balances did not undergo appropriate quality assurance, contain adequate management analysis or appropriate supporting evidence;
- payables and accruals were recognised based on a contract commitment for future work and not a present obligation based on services rendered. This is not in accordance with the Australian Accounting Standards;
- weaknesses in year end contract and invoice management processes, which resulted in invoices for services being received on or before the execution of a contract as well as invoices being processed without appropriate authorisation that the relevant goods or services had been received; and
- Digital Health's governance processes did not identify the risks around the recognition of payables and accruals associated with supplier and contract management.

4.10.35 The ANAO recommended that governance and internal control processes around supplier and contract management are strengthened to include: regular management reporting against

budget; appropriate quality assurance checks including the performance of supporting analytical procedures to explain significant year-end movements and detailed analysis to corroborate large payable balances against supporting information that demonstrates that the goods or services have been received; and ensuring appropriate approval of invoices and receipting of goods and services before invoices are processed. Digital Health has agreed to these recommendations. The ANAO will review Digital Health's progress in addressing this finding as part of the 2019–20 financial statements audit.

4.11 Home Affairs portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Home Affairs	Yes	High	✓	9 Sept 19	10 Sept 19	◆
Australian Federal Police	Yes	Moderate	✓	11 Oct 19	11 Oct 19	▲□
Australian Security Intelligence Organisation	Yes	Moderate	✓	8 Aug 19	8 Aug 19	Nil

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

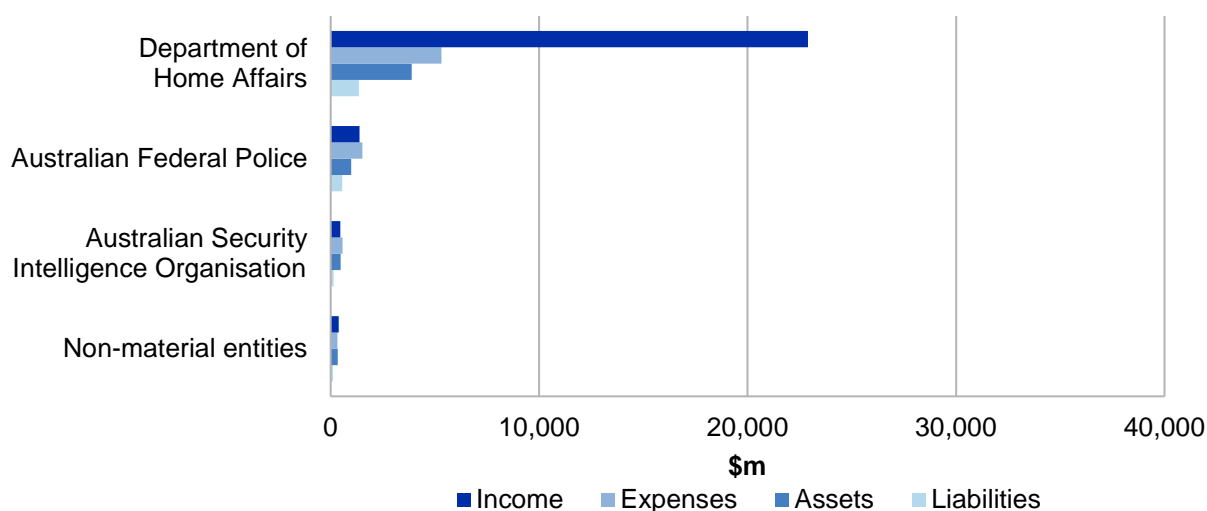
Portfolio overview

4.11.1 The creation of the Home Affairs portfolio in December 2017 brought together Australia's federal law enforcement, national and transport security, criminal justice, emergency management, multicultural affairs and immigration, and border-related functions and agencies.

4.11.2 The Department of Home Affairs is the lead entity in the portfolio and is responsible for: managing the movement of non-citizens; implementing visa, citizenship, multicultural affairs, and refugee and humanitarian assistance programs; and facilitating international trade and collecting border revenue. The department also deals with national security and law enforcement policy and operations, transport security, critical infrastructure protection coordination, protective services at Commonwealth establishments and diplomatic and consular premises in Australia, cyber policy coordination, as well as emergency management and natural disaster assistance.

4.11.3 The Department of Home Affairs includes the Australian Border Force, which is responsible for border, investigations, compliance, detention (facilities and centres) and enforcement functions, as well as Australia's customs functions. In light of the portfolio's focus on law enforcement and security, maintaining a high integrity culture is critical.

4.11.4 Figure 4.11.1 shows the Home Affairs portfolio's income, expenses, assets and liabilities.

Figure 4.11.1: Home Affairs portfolio's income, expenses, assets and liabilities

Source: 2018–19 CFS.

4.11.5 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Home Affairs portfolio.

Table 4.11.1: The number of audit differences for entities in the Home Affairs portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Home Affairs	5	1	6	4	1	5
Australian Criminal Intelligence Commission	1	–	1	1	4	5
Australian Federal Police	–	4	4	1	1	2
Australian Institute of Criminology	2	–	2	–	–	–
Australian Security and Intelligence Organisation	–	2	2	–	5	5
Australian Transaction Reports and Analysis Centre	3	–	3	2	3	5

Source: Audit differences reported to entities in the Home Affairs Portfolio.

4.11.6 The following sections provide a summary of the 2018–19 financial statements audit results for Home Affairs, and other material entities.

Department of Home Affairs

4.11.7 The Department of Home Affairs (Home Affairs) coordinates policy and operations for Australia's national and transport security, federal law enforcement, criminal justice, cyber security, border, immigration, multicultural affairs, emergency management and trade-related functions.

4.11.8 While the Department assumed responsibility for the functions transferred as a result of the Administrative Arrangement Order in December 2017 that also established the Home Affairs portfolio, the transfer of certain activities associated with national security policy and operations from the Attorney-General's Department and the Department of the Prime Minister and Cabinet was deferred until the establishment of related special accounts in 2018–19. Additional appropriation funding associated with the National Security Branch was also transferred to Home Affairs in 2018–19.

4.11.9 As a result of the Administrative Arrangement Orders dated 29 May 2019, the Department also assumed responsibility for: settlement services for refugees and humanitarian migrants from the Department of Social Services; and adult migrant education from the Department of Education. These arrangements did not take effect until 1 July 2019.

Summary of financial performance

4.11.10 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Home Affairs, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(3,008.6)	(2,829.9)
Revenue from government	2,663.9	2,505.5
Surplus/(deficit) attributable to the Australian Government	(344.7)	(324.4)
Total other comprehensive income/(loss)	3.2	35.2
Total comprehensive income/(loss) attributable to the Australian Government	(341.5)	(289.2)
Total assets	2,145.8	2,132.7
Total liabilities	914.9	810.8
Total equity	1,230.9	1,321.9

Source: Home Affairs' audited financial statements for the year ended 30 June 2019.

4.11.11 In 2017–18, an independent valuation of the property, plant and equipment was undertaken resulting in a \$35.2 million increase in the fair value of assets, reflected in total other comprehensive income. In 2018–19, the Department engaged an independent valuer to assess the reported valuations of the property, plant and equipment and identified variations which were considered significant resulting in adjustments. Given the relative currency of the valuation of the property, plant and equipment as a result of the 2017–18 valuation, the impact on total other

comprehensive income and total comprehensive loss attributable to the Australian Government in 2018–19 was reduced.

4.11.12 The increase in total liabilities and reduction in total equity was mainly due to the commencement of two new national office leases that included leases incentives. This resulted in a \$98.2 million increase in recognised lease incentive liabilities for the Department. Fluctuations in other balances are considered to be as a result of normal activities.

Table 4.11.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	2,044.8	2,358.4
Total income	20,007.4	19,367.6
Surplus/(deficit)	17,962.6	17,009.2
Total other comprehensive income (loss)	6.8	30.1
Total comprehensive income/(loss)	17,969.4	17,039.3
Total assets administered on behalf of Government	1,745.0	1,820.0
Total liabilities administered on behalf of Government	441.1	391.7
Net liabilities	1,303.9	1,428.3

Source: Home Affairs' audited financial statements for the year ended 30 June 2019.

4.11.13 Administered income and the surplus increased mainly due to increases in customs duty, the Skilling Australians Fund levy and Passenger Movement Charge (PMC) collections. The \$254.2 million increase in customs duty primarily related to collections for tobacco and alcohol, with a 12.5 per cent increase in the duty rate on tobacco products on 1 September 2018, partially offset by reduced collections relating to petroleum and other goods reflecting the slowing of Australian economic growth. The introduction in August 2018 of a nomination training contribution charge on employers nominating workers under the temporary and permanent employer sponsored migration programs, known as the Skilling Australians Fund levy, further increased administered income by \$198.0 million. PMC collections increased by \$57.3 million due to an increase in the number of eligible people departing Australia and short-term visitors during 2018–19.

4.11.14 In 2017–18, Home Affairs gifted \$245.7 million of public property to the Papua New Guinea government, with the closure of the Manus Island Regional Processing Centre on 31 October 2017. No similar gifts were made in 2018–19, explaining the reduction in administered expenses and increase in surplus and total comprehensive income.

4.11.15 Fluctuations in other balances are considered to be as a result of normal activities.

Key areas of financial statements risk

4.11.16 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Home Affairs' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in

2018–19 are provided in Table 4.11.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 4.11.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered customs duty revenue \$15.9 billion taxation receivable - customs duty (a component of taxation receivable) \$392.7 million	Completeness and accuracy of customs duty collections and refunds KAM	Higher	<ul style="list-style-type: none"> the significant value of customs duty revenue; the self-assessment nature of the import declaration process; reliance on compliance risk management processes over the completeness of revenue; and the complexity of the information technology (IT) environment used to manage customs duty. 	No significant or moderate audit findings identified.
Administered visa application charges \$2.3 billion	Completeness and accuracy of the collection of visa revenue KAM	Higher	<ul style="list-style-type: none"> the significant value of visa application charges; the decentralised approach to the collection of visa revenue which occurs in a number of locations domestically and internationally, using a number of payment mechanisms; and the complexity of the IT environment used to collect and process visa application charges. 	While not posing a financial statements related risk, an audit issue has been identified regarding visa and citizenship application quality management. This has an associated business risk. Refer to paragraphs 4.11.19 – 4.11.25.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered non-financial assets \$1.0 billion services rendered - detention (component of suppliers expenses) \$1.5 billion	Accuracy of detention and regional processing centres expenses and valuation of the associated non-financial assets KAM	Higher	<ul style="list-style-type: none"> the significance of expenses and complexity of contracts associated with managing the detention and regional processing centres; the variability of the costs associated with administering the detention and regional processing network, as the level of expenses is dependent on the rate of arrival and detention of these people; the complexity of performing valuations in a range of markets given the geographically dispersed land, buildings and equipment including assets located overseas; and the financial implications of the closure of regional processing centres. 	No significant or moderate audit findings identified.
Administered SRSS personal benefits expenses (a component of personal benefits expenses) \$279.5 million	Completeness and accuracy of payments of personal benefits under the Status Resolution Support Services (SRSS) program	Moderate	<ul style="list-style-type: none"> complex eligibility criteria for the categories of allowable personal benefits; payments are made under third-party arrangements with the Department of Human Services and other providers; and the self-assessment nature of the personal benefits process. 	No significant or moderate audit findings identified.
Departmental employee benefits expense \$1.5 billion employee provisions \$474.1 million	Completeness and accuracy of employee entitlements	Moderate	<ul style="list-style-type: none"> selected Home Affairs staff were entitled to a range of allowances, subject to a number of conditions under different enterprise agreements until the consolidation of agreements which occurred in February 2019; and staff are located both in Australia and overseas, including locally engaged staff who may be entitled to varying employment conditions and benefits based on local laws and regulations. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered and Departmental Multiple financial statement line items	Completeness and accuracy of financial information associated with overseas posts	Moderate	<ul style="list-style-type: none"> decentralised nature of operations and controls; and managed under third party arrangements through service level agreements with the Department of Foreign Affairs and Trade, and the Australian Trade and Investment Commission (Austrade). 	No significant or moderate audit findings identified.

Source: ANAO 2018–19 audit results, and Home Affairs' audited financial statements for the year ended 30 June 2019.

Audit results

4.11.17 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.11.5: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Significant (A)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2018–19 audit results.

4.11.18 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the Home Affairs' 2018–19 financial statements were not materially misstated.

New significant audit findings

Visa and Citizenship Quality Management

4.11.19 Home Affairs established a Secretary Instruction and Quality Management Policy to mandate regular quality assurance reviews to improve consistency in decision making and ensure the effective identification and management of emerging business risks relating to the assessment and issuance of visas and citizenship. Consistent with this Instruction and Policy, a Visa and Citizenship Quality Management Framework (VCQMF) was established with purposes including:

- identifying existing and emerging risks, including the risk of inappropriate or incorrect visa and citizenship decisions;
- the development and implementation of effective controls to mitigate identified risks;
- regularly testing controls using quality management and assurance activities to determine whether all key risks have been identified and are being effectively controlled;
- ensuring a consistent approach to visa and citizenship decision quality;
- the development of support tools that capture and measure the level of correctness and accuracy of visa and citizenship decisions; and
- identifying opportunities for improvement and staff training requirements.

4.11.20 The VCQMF established reporting requirements and the quality assurance sample rate that is required to provide statistically relevant data to identify and mitigate risks so that regular reports to the executive provide sufficient information for strategic policy decisions. The VCQMF also set out where exceptions from the required sample rate may be acceptable, and the information required in these circumstances to be included in reports to the Executive and Audit Committee.

4.11.21 The audit identified:

- throughout the international posts and visa program areas, there is significant non-compliance with the required quality assurance sample rate;
- there is no evidence of alternative assurance activities that compensate for the reduced level of assurance due to sample rates not being achieved;
- required reporting relating to the outcome of quality assurance management was suspended between January and June 2019 while capability of the tool was enhanced. This has significantly reduced oversight of activities being undertaken;
- for quality assurance samples that were conducted, it is not evident how significant error rates were being monitored and managed/remediated;
- Home Affairs was not able to demonstrate sufficient reporting to the Executive and Audit Committee to facilitate their assessment and action including independent advice and assurance by the Audit Committee regarding the appropriateness of the system of risk oversight and management and system of internal control; and
- certain content in the existing framework document is out of date.

4.11.22 The ANAO concluded that the audit finding did not impact the calculation and recognition of visa revenue in the financial statements. The significant non-adherence to the related requirements undermines:

- the assurance that is being obtained by management over key controls and the appropriateness of decisions, and the adequacy and validity of reports to the executive for strategic policy decisions;
- effective risk and resource management, including informed identification, and adjustment to risk mitigation activities; and
- opportunities for improvement and staff training requirements.

4.11.23 The ANAO recommends that Home Affairs prioritise the:

- finalisation of related reviews and implementation of: the Immigration and Citizenship Services Group Quality Management Framework; Immigration; Integrity Assurance Framework; and related Global Case Management Framework;
- implementation of the newly established procedural instructions;
- finalisation of enhancements to system tools and review of quality assurance testing programs; and
- re-introduction of regular monitoring, appropriate analysis and reporting of quality assurance activities. This should be communicated to relevant stakeholders including the Executive, Audit Committee and other appropriate governance committees.

4.11.24 Home Affairs has agreed to the recommendations however, disagreed with the rating of the finding. Home Affairs has advised that:

- the related review and implementation of the relevant frameworks has been significantly progressed;
- the newly established procedural instructions were implemented from 1 July 2019 with a post implementation review scheduled in early 2020;
- a number of system enhancements have been completed with further enhancements to be finalised by the end of 2019; and
- regular reporting and monitoring activities are considered necessary. Home Affairs is considering the required elements recommended by the ANAO as the quality assurance framework is reviewed.

4.11.25 The ANAO will review the progress made by Home Affairs as part of the 2019–20 audit.

Australian Federal Police

4.11.26 The Australian Federal Police (AFP) is responsible for the provision of police services in relation to laws of the Commonwealth, the provision of policing services to the Australian Capital Territory (ACT) and external territories, combatting transnational serious organised crime and terrorism, disrupting crime offshore, supporting regional security, and protecting Australian interests and assets.

Summary of financial performance

4.11.27 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the AFP and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.6: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(1,212.7)	(1,148.1)
Revenue from government	1,103.3	1,016.0
Surplus/(deficit) attributable to the Australian Government	(109.4)	(132.1)
Total other comprehensive income	–	0.7
Total comprehensive income/(loss) attributable to the Australian Government	(109.4)	(131.4)
Total assets	976.7	949.7
Total liabilities	548.6	541.7
Total equity	428.1	407.9

Source: AFP's audited financial statements for the year ended 30 June 2019.

4.11.28 Revenue from government has increased by \$87.3 million due to additional funding for new programs including Australian Centre to Counter Child Exploitation, Aviation Air Cargo and Security Package, PNG post APEC and Use of Force Training; additional funds received from the ACT

Government for ACT Policing services (\$8.0 million); and budget measures at MYEFO related to workers compensation premiums, increased protection activity related to the federal election and upgrades of technology (\$33.0 million).

4.11.29 Increases in expenses related to employee expenses (\$43.1 million), supplier expenses (\$11.7 million), depreciation and write down of assets (\$14.5 million) and grant and other expenses for the Jakarta Centre for Law Enforcement Cooperation (\$2.9 million). The increase in employee expenses was driven by a two per cent salary increase from May 2018 (\$20.9 million) and leave and other entitlements (\$22.6 million) mainly driven by changes in actuarial assumptions underpinning leave provisions and the previous underpayment of superannuation. The increase in supplier expenses was due to increases in communication costs (\$5.0 million) and operational costs (\$5.8 million) including for the PNG APEC Summit. Depreciation and write down of assets increased due to depreciation of new assets (\$8.1 million) and a change to the capitalisation policy which increased the asset recognition threshold from \$2,000 to \$5,000 and resulted in additional asset write downs in 2018–19 (\$6.4 million).

4.11.30 The increase in total assets by \$27.0 million is due to increases in cash balances and appropriations receivables (\$13.7 million) due to the timing of drawdowns of appropriations; prepayments of software licences and support (\$5.5 million) and increases in intangible assets (\$18.2 million). The increase is partially offset by the change in capitalisation threshold outlined above (\$6.4 million). The \$6.9 million increase in liabilities is due to an increase in employee provisions (\$34.1 million) driven by changes in actuarial assumptions underpinning leave provisions and the previous underpayment of superannuation. This has been partially offset by a decrease in supplier payables (\$19.7 million) compared to the prior year and other payables (\$7.5 million) with no voluntary redundancies payable as at 30 June 2019.

Table 4.11.7: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(13.9)	(15.6)
Revenue from government	0.5	0.4
Surplus/(deficit) attributable to the Australian Government	(13.9)	(15.7)
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(13.9)	(15.7)
Total assets	0.1	1.0
Total liabilities	1.1	1.3
Total equity	(1.0)	(0.3)

Source: AFP's audited financial statements for the year ended 30 June 2019.

4.11.31 Fluctuations in administered balances are a result of normal business activities.

Key areas of financial statements risk

4.11.32 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of

AFP's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.11.8.

Table 4.11.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental employee benefits \$924.1 million employee provisions \$397.6 million	Recognition and measurement of payroll.	Moderate	<ul style="list-style-type: none"> size and complexity of the remuneration structure including variable awards, work hours, penalty rates and allowances. 	One moderate audit finding on superannuation refer to paragraphs 4.11.37 – 4.11.38.
All financial statement line items	Operating effectiveness of IT general controls (ITGCs).	Moderate	<ul style="list-style-type: none"> prior year issues identified in respect of ITGCs which are an integral part of the audit in assessing the controls around key financial systems. 	One moderate audit findings on IT general controls Refer to paragraphs 4.11.39 – 4.11.40.

Source: ANAO 2018–19 audit results, and AFP's audited financial statements for the year ended 30 June 2019.

Audit results

4.11.33 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.11.9: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	3	–	1	2
Total	3	–	1	2

4.11.34 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the AFP's 2018–19 financial statements were not materially misstated.

Resolved moderate audit finding

Untimely removal and monitoring of privileged application access

4.11.35 During the 2017–18 interim audit the ANAO observed privileged user access to the financial management information system (FMIS) was not removed on a timely basis. It was also noted that AFP did not have formalised monitoring of the validity of the activities performed by the users with privileged access to ensure that their activities are in line with the AFP policy. The extended period of privileged user access increased the risk of an inappropriate activity being performed in the FMIS system.

4.11.36 During 2018–19, the ANAO observed an updated process which addressed the timely removal of access. The monitoring of privileged user activity remains as a lower risk finding.

Unresolved moderate audit findings

Underpayment of superannuation on certain allowances

4.11.37 During 2017–18, AFP identified an underpayment of superannuation expenses dating back to 2007, which resulted in the understatement of employee expenses and liabilities. The underpayment primarily related to obligations to pay superannuation on certain allowances which arose as a result of lack of clarity of obligations in enterprise agreements. An estimate of the resulting liability for specific allowances was reported in 2017–18 with an increase to the estimate reported in 2018–19 upon clarification of the liability for additional allowances.

4.11.38 AFP is expecting to complete quantification of the actual liability for underpayment of superannuation during 2019–20. The ANAO will review the progress of this work as part of the 2019–20 financial statements audit.

FMIS user access provisioning and termination

4.11.39 During 2016–17 it was identified that the AFP did not have adequate controls around the review of position based FMIS access, and had a significant number of users with access to sensitive transaction codes. This can lead to increased risk of improper use, or changes made to the system and master data. The ANAO recommended changes to limit access and reduce the risk where possible. If limiting access was not possible a formal risk assessment be undertaken with periodic reviews of access, and implementation of monitoring of users with this access be performed. In response to this issue the AFP significantly reduced the number of users with sensitive access and was evaluating the need for additional compensating controls.

4.11.40 In 2018–19 it was identified that another system was in use which allowed a significant number of employees to change the employee positions, and hence FMIS access of their team members. In some cases this process was not subject to approval controls. The AFP is in the process of implementing a solution that will reduce the number of users that have access to change employee positions and hence FMIS access. In the interim the ANAO recommended that the AFP consider logging and monitoring certain high risk position changes to mitigate the risk. The AFP did not accept this recommendation as necessary. The ANAO will monitor the progress of this matter during the 2019–20 financial statements audit.

Australian Security Intelligence Organisation

4.11.41 The Australian Security Intelligence Organisation (ASIO) is responsible for protecting Australia, its people and its interests from threats to security through intelligence collection, assessment, and advice to the government.

Summary of financial performance

4.11.42 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the ASIO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.10: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net cost of/(contribution by) services	553.7	510.2
Revenue from government	435.2	421.8
Surplus/(deficit) attributable to the Australian Government	(118.5)	(88.4)
Total other comprehensive income/(loss)	–	(36.8)
Total comprehensive income/(loss) attributable to the Australian Government	(118.5)	(51.6)
Total assets	477.0	488.9
Total liabilities	134.1	118.4
Total equity	342.9	370.5

Source: ASIO's audited financial statements for the year ended 30 June 2019.

4.11.43 The increase in the net cost of services is due to an increase in employee benefits expenses of \$23.1 million and an increase in depreciation expenses of \$14.7 million. The increase in employee expenses is mainly due to changes in the Australian Government bond rate used to discount the employee leave provision at 30 June 2019 and growth in employee numbers during 2018–19. The increase in depreciation expenses was due to additional asset purchases in 2018–19 and the impact of a revaluation undertaken in 2017–18, which increased the carrying value of assets subsequently depreciated in 2018–19.

4.11.44 The decrease in other comprehensive income is related to the non-financial asset revaluation conducted in 2017–18 which increased asset carrying values in that year. The revaluation is only undertaken periodically, with ASIO determining no revaluation was required in 2018–19.

4.11.45 The increase in total liabilities is due mainly to the impact of discounting employee leave provisions and growth in the number of employees. The Australian Government bond rate was lower this year, reducing the discounting and increasing the employee leave provision.

Key areas of financial statements risk

4.11.46 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ASIO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 4.11.11. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 4.11.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Employee benefits expenditure \$272.1 million employee leave provisions \$91.3 million	Accuracy and completeness of employee benefits	Moderate	<ul style="list-style-type: none"> limitations in the payroll system mean that some entitlements require manual calculation.

Source: ANAO 2018–19 audit results, and ASIO audited financial statements for the year ended 30 June 2019.

Audit results

4.11.47 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

4.12 Industry, Innovation and Science portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Industry, Innovation and Science	Yes	Moderate	✓	6 Sept 19	6 Sept 19	Nil
Australian Nuclear Science and Technology Organisation	Yes	Moderate	✓	15 Oct 19	15 Oct 19	▲
Commonwealth Scientific and Industrial Research Organisation	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

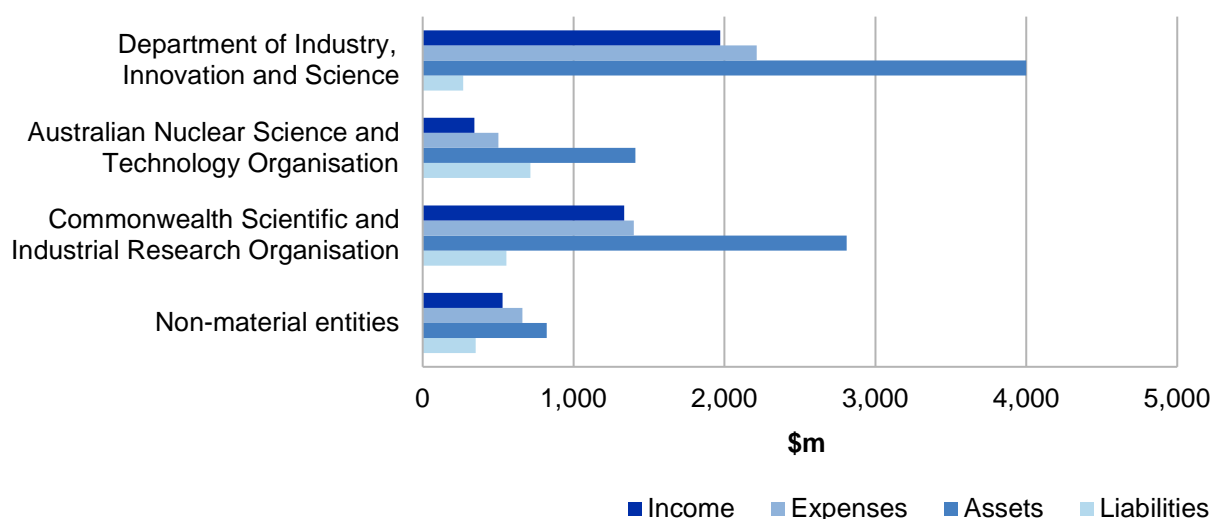
Portfolio overview

4.12.1 The Industry, Innovation and Science portfolio is responsible for boosting Australia's competitiveness and facilitating economic and technological transformation to deliver a modern, digital and globally integrated economy that supports economic growth and job creation.

4.12.2 The Department of Industry, Innovation and Science (Industry) is responsible for: supporting science and commercialisation; growing business investment and improving business capability; developing northern Australia; and streamlining regulation. The department has established a grants hub to streamline the administration of government grants to business.

4.12.3 Figure 4.12.1 shows the Industry, Innovation and Science Portfolio's income, expenses, assets and liabilities.

Figure 4.12.1: Industry, Innovation and Science portfolio's income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.12.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Industry portfolio.

Table 4.12.1: The number of audit differences for entities in the Industry portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Industry, Innovation and Science	3	3	6	1	4	5
Australian Nuclear Science and Technology Organisation	–	–	–	1	–	1
– ANSTO Nuclear Medicine Pty Ltd	–	3	3	–	–	–
Commonwealth Scientific and Industrial Research Organisation	–	1	1	–	–	–
– National ICT Australia Limited	–	2	2	–	–	–
– Science and Industry Endowment Fund	–	1	1	–	–	–
IP Australia	–	1	1	–	1	1
National Offshore Petroleum Safety and Environmental Management Authority	–	2	2	–	2	2

Source: Audit differences reported to entities in the Industry Portfolio.

4.12.5 The following sections provide a summary of the 2018–19 financial statements audit results for Industry and other material entities.

Department of Industry, Innovation and Science

4.12.6 The Department of Industry, Innovation and Science (Industry) is responsible for supporting science and commercialisation, growing business investment and improving business capability, developing northern Australia, and streamlining regulation.

Summary of financial performance

4.12.7 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Industry, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(423.4)	(456.0)
Revenue from government	397.8	381.2
Surplus/(deficit) attributable to the Australian Government	(25.6)	(74.8)
Total other comprehensive income	0.7	1.4
Total comprehensive income/(loss) attributable to the Australian Government	(24.9)	(73.4)
Total assets	348.3	337.2
Total liabilities	165.7	160.4
Total equity	182.6	176.8

Source: Industry's audited financial statements for the year ended 30 June 2019.

4.12.8 Industry's net cost of services decreased in 2018–19 compared to 2017–18. This decrease predominately relates to the transfer of the Australian Astronomical Observatory's functions from Industry to the Australian National University and Macquarie University in 2017–18. This transfer resulted in increased expenses for the write-down and impairment of assets. The decrease was partially offset by an increase in supplier expenses incurred as a result of the expanding shared services role being undertaken by Industry. Industry's asset and liability balances remained stable between years.

Table 4.12.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	1,704.2	1,738.5
Total income	1,489.1	1,140.6
Surplus/(deficit)	(215.1)	(597.9)
Total other comprehensive income (loss)	(204.1)	(174.9)
Total comprehensive income/(loss)	(419.2)	(772.8)
Total assets administered on behalf of Government	3,650.6	3,821.8
Total liabilities administered on behalf of Government	103.3	113.1
Net assets/(liabilities)	3,547.3	3,708.7

Source: Industry's audited financial statements for the year ended 30 June 2019.

4.12.9 The deficit decreased from \$597.9 million to \$215.1 million as a result of an increase in royalty collections of \$331.8 million driven by increased prices for oil coupled with decreases in the exchange rate. These increases were partially offset by a reduction in subsidies paid of \$45.4 million due to the continued wind-down of the Automotive Transformation Scheme and a decrease in grants expenditure.

4.12.10 Total assets administered on behalf of Government has decreased from \$3.8 billion to \$3.7 billion. This was predominately as result of a reduction in the net asset value of Industry's investment in the Australian Nuclear Science and Technology Organisation which decreased by \$184.5 million in 2018–19.

Key areas of financial statements risk

4.12.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Industry's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.12.4, including the area which was considered a Key Audit Matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered royalties revenue \$1.4 billion accrued revenue	Completeness and accuracy of offshore petroleum and uranium royalties KAM	Higher	<ul style="list-style-type: none"> reliance on data reporting and administrative functions performed by third parties, including state and foreign governments and other federal government agencies; and calculations are dependent on information provided by taxpayers in a self-assessment regime.
Departmental own-source income \$84.8 million	Completeness and accuracy of Industry's other revenue streams	Higher	<ul style="list-style-type: none"> diversity of revenue streams; reliance on manual calculations to quantify some revenue amounts; and large volume of cash based transactions.
Administered loans (a component of trade and other receivables) \$30.5 million)	Valuation of concessional loans made under the Northern Australia Infrastructure Facility program	Moderate	<ul style="list-style-type: none"> subject to significant judgement relating to the determination of the market interest rate and loan terms for use in the valuation; and complexity and variety of concessions that are able to be provided increases the risk of determining an inaccurate value.
Administered Grants expense \$402.3 million Grants payable \$64.8 million	Accuracy, occurrence and completeness of grant payments	Moderate	<ul style="list-style-type: none"> significant number of individual grant programs which operate under separate grant agreements and are subject to different eligibility criteria; and reliance on third party acquittals to confirm validity of grant payments.

Source: ANAO 2018–19 audit results, and Industry's audited financial statements for the year ended 30 June 2019.

4.12.12 Auditor-General Report No.33 2018–19 *Governance and Integrity of the Northern Australia Infrastructure Facility* was tabled during 2018–19 and was relevant to the financial management and administration of Industry.

4.12.13 The objective of the audit was to examine the effectiveness of governance and integrity arrangements for the Northern Australia Infrastructure Facility (NAIF) including the arrangements around the consideration and approval of projects approved for financial assistance.

4.12.14 Financial assistance, in the form of concessional loans, are funded by a special appropriation reported by Industry. A Master Facility Agreement provides a contractual arrangement between the Commonwealth (represented by Industry), NAIF (corporate Commonwealth entity) and the states, for the provision of the concessional financial assistance. The performance audit was used to inform the financial statements audit risk assessment.

Audit results

4.12.15 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.12.5: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	1	–	(1) ^a	–
Total	1	–	(1)	–

Note a: The moderate audit issue relating to Human Resources Shared Services User Access Management was resolved as reported to Parliament in Auditor-General Report No.46 2018–19 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2018–19 audit results.

4.12.16 There were no significant or moderate unresolved audit findings at the conclusion of the 2018–19 financial statements audit.

Australia Nuclear Science and Technology Organisation

4.12.17 The Australian Nuclear Science and Technology Organisation (ANSTO) is Australia's national nuclear research and development organisation. ANSTO operates Australia's only nuclear research reactor and the Australian Synchrotron, contributes to radiopharmaceutical production and supply, and conducts research into areas of national priority, including human health, the environment and the nuclear fuel cycle. ANSTO also provides advice to government and other stakeholders on matters relating to nuclear science, technology and engineering.

Summary of financial performance

4.12.18 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by ANSTO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.6: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(521.7)	(284.6)
Revenue from government	214.2	198.1
Income tax benefit/(expense)	(0.1)	(0.4)
Surplus/(deficit) attributable to the Government	(307.8)	(86.9)
Total other comprehensive income/(loss)	(53.8)	(57.2)
Total comprehensive income/(loss) attributable to the Australian Government	(361.6)	(144.1)
Total assets	1,397.1	1,501.5
Total liabilities	757.7	528.9
Total equity	639.4	972.5

Source: ANSTO's audited financial statements for the year ended 30 June 2019.

4.12.19 As a result of ANSTO undertaking an independent external valuation of its decommissioning provision liabilities there was a significant increase to the provision of \$226.1 million that was included in the net cost of services and other comprehensive loss.

4.12.20 The decrease in total assets was primarily due to the impairment of property, plant and equipment in relation to the Mo-99 facility. With the facility operational in 2018–19 the carrying value of the assets exceeded the value of expected future cash-flows resulting in an impairment of \$147.3 million.

Key areas of financial statements risk

4.12.21 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ANSTO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.12.7.

Table 4.12.7: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Decommissioning provision \$613.3 million	Valuation of the decommissioning provision including radioactive waste	Higher	<ul style="list-style-type: none"> complexity of the calculation and reliance upon the exercise of significant judgement relating to the decommission of unique assets and materials. 	Moderate finding from 2017–18 remains unresolved on preparation of accounting position papers. Refer to paragraphs 4.12.24 – 4.12.25.
Property, plant and equipment \$1,138.6 million intangible assets \$68.1 million Parent entity disclosures - Investment in subsidiaries	Valuation and subsequent depreciation of non-financial assets	Moderate	<ul style="list-style-type: none"> the valuation of non-financial assets is subjective and requires significant judgement particularly given the unique nature of assets held; and the Mo-99 facility was expected to be operational during 2018–19 with the assets no longer being accounted for as assets-under-construction. 	Moderate finding from 2017–18 remains unresolved on preparation of accounting position papers. Refer to paragraphs 4.12.24 – 4.12.25.
Financial statement disclosures	Cash flow and going concern	Moderate	<ul style="list-style-type: none"> cash flow issues were identified in the ANSTO Nuclear Medicine subsidiary casting doubt on the ability of this entity to continue as a going concern with reliance on ANSTO to provide financial support. 	No significant or moderate findings identified.
Total own-source revenue \$121.9 million	Completeness and accuracy of material streams of commercial revenue	Moderate	<ul style="list-style-type: none"> the number of revenue streams from both commercial and government sources and complexity of funding arrangements; and first time adoption of AASB 15 <i>Revenue from contracts with customers</i> for ANSTO's subsidiaries. 	No significant or moderate findings identified.

Source: ANAO 2018–19 audit results, and ANSTO's audited financial statements for the year ended 30 June 2019.

Audit results

4.12.22 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.12.8: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	1	–	–	1
Total	1	–	–	1

Source: ANAO 2018–19 audit results.

4.12.23 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that ANSTO's 2018–19 financial statements were not materially misstated.

Unresolved moderate audit finding

Financial statements and key accounting position papers preparation process

4.12.24 As part of the year-end 2017–18 financial statements process it was agreed with ANSTO management that there could have been improvements through enhancing the financial statements preparation process and the preparation of accounting position papers for key accounting and disclosure issues. This was to be implemented as part of the 2018–19 financial statements preparation process.

4.12.25 Progress was made by management in relation to the timetable for delivery of financial statements and automation of the financial statements preparation process. However, a number of significant audit differences were required in relation to the existence of ANSTO Nuclear Medicine's decommissioning provision and the valuation of its property, plant and equipment. These are complex and judgemental balances, that are material to both the subsidiary's and ANSTO's accounts. Key position papers from management were not provided in relation to these key areas of audit focus. As a result the finding has remained unresolved and will be reviewed as part of the 2019–20 financial statements audit.

Commonwealth Scientific and Industrial Research Organisation

4.12.26 The primary functions of the Commonwealth Scientific and Industrial Research Organisation (CSIRO), as set out in the *Science and Industry Research Act 1949*, are to carry out scientific research and facilitate the application or utilisation of the results of such research. CSIRO is responsible for delivering science and innovative solutions for industry, society and the environment.

Summary of financial performance

4.12.27 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the CSIRO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.9: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	871.9	862.8
Revenue from government	834.6	793.5
Surplus/(deficit) attributable to the Australian Government	(37.3)	(69.2)
Total other comprehensive income	15.7	120.4
Total comprehensive income/(loss) attributable to the Australian Government	(21.6)	51.2
Total assets	2,853.5	2,779.2
Total liabilities	554.3	519.2
Total equity	2,299.2	2,260.0

Source: CSIRO's audited financial statements for the year ended 30 June 2019.

4.12.28 The decrease in the deficit attributable to government from \$69.2 million in 2017–18 to \$37.3 million in 2018–19 is consistent with the operating loss approved by Government. The decrease was primarily related to an increase of \$25 million for sale of goods and rendering of services related to co-investment and consulting services revenue, and valuation gains on equity instruments recorded at fair value. The decrease in total other comprehensive income attributable to the Australian Government in 2018–19 is mainly attributable to the relative size of the land and building asset valuation adjustment in 2017–18.

Key areas of financial statements risk

4.12.29 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of CSIRO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.12.10. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.10: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Sale of goods and rendering of services \$410.4 million Contract research work in progress (WIP) project revenue \$30.4 million other payables (contract research revenue received in advance) \$131.0 million	Recognition of project revenue and associated measurement of WIP and unearned revenue	Moderate	<ul style="list-style-type: none"> revenue is recorded with reference to contracted milestones and the stage of completion; and significance of the balance within the financial statements.
Land and buildings \$1,564.2 million plant and equipment \$563.3 million investment properties \$52.1 million	Valuation of investment properties, plant and equipment	Moderate	<ul style="list-style-type: none"> the valuation of non-financial assets requires significant judgement as investment properties and land and buildings can be specialised in nature with no readily available market reference points; and significance of the balance within the financial statements.
Provision for remediation \$41.0 million	Valuation of the provision for remediation	Moderate	<ul style="list-style-type: none"> inherent uncertainty associated with remediation works to be undertaken on waste material at a remote location.
All financial statement line items	Accounting for and disclosure of new entities as part of the Innovation Fund	Moderate	<ul style="list-style-type: none"> consolidating new entities adds complexity to the process of preparing financial statements.

Source: ANAO 2018–19 audit results, and CSIRO's audited financial statements for the year ended 30 June 2019.

Audit results

4.12.30 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

4.13 Infrastructure, Transport, Cities and Regional Development portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Infrastructure Transport, Cities and Regional Development	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil
Airservices Australia	Yes	High	✓	24 Sept 19	25 Sept 19	□
Australian Rail Track Corporation	Yes	High	✓	28 Aug 19	28 Aug 19	Nil
Moorebank Intermodal Company Limited	Yes	High	✓	21 Sept 19	23 Sept 19	▲
National Capital Authority	Yes	Low	✓	30 Aug 19	03 Sept 19	Nil
WSA Co Ltd	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

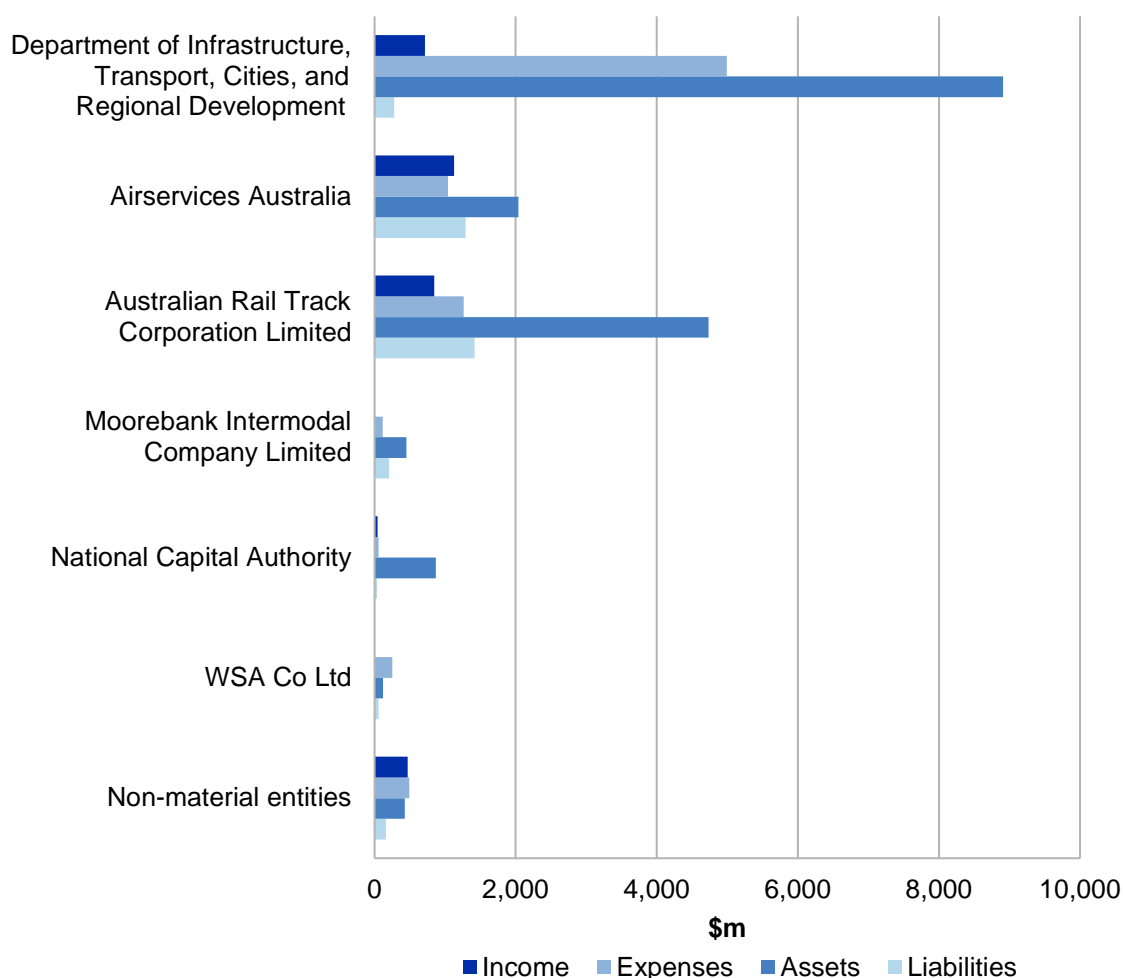
□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

Portfolio overview

4.13.1 The Infrastructure, Transport, Cities and Regional Development portfolio (Infrastructure portfolio) covers a number of policy areas, including safety across the civil aviation, maritime and transport sectors; air navigation services; developing and administering the national capital; and road, rail and freight transport systems.

4.13.2 The Department of Infrastructure, Transport, Cities and Regional Development is the lead entity in the portfolio and is responsible for improving infrastructure across Australia, through funding coordination of transport and other infrastructure; providing an efficient and competitive transport system; strengthening the sustainability and diversity of regional economies; supporting governance arrangements in the Australian territories; and developing national policy on cities.

4.13.3 Figure 4.13.1 shows the Infrastructure, Transport, Cities and Regional Development portfolio income, expenses, assets and liabilities.

Figure 4.13.1: Infrastructure, Transport, Cities and Regional Development portfolio's income, expenses, assets and liabilities

Source: 2018–19 CFS.

4.13.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Infrastructure portfolio.

Table 4.13.1: The number of audit differences for entities in the Infrastructure portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Infrastructure Transport, Cities and Regional Development	2	1	3	–	5	5
Airservices Australia	–	1	1	1	1	2

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Australian Maritime Safety Authority	1	2	3	–	–	–
Australian Rail Track Corporation	–	5	5	–	–	–
Australian Transport Safety Bureau	–	3	3	–	2	2
Civil Aviation Safety Authority	–	1	1	–	–	–
Infrastructure and Project Financing Agency	–	2	2	–	1	1
Moorebank Intermodal Company Limited	2	3	5	–	2	2
National Capital Authority	1	2	3	1	3	4
National Transport Commission	–	3	3	–	–	–
WSA Co Ltd	–	2	2	–	–	–

Source: Audit differences reported to entities in the Infrastructure Portfolio.

4.13.5 The following sections provide a summary of the 2018–19 financial statements audit results for the Department of Infrastructure, Transport, Cities and Regional Development and other material entities.

Department of Infrastructure, Transport, Cities and Regional Development

4.13.6 The Department of Infrastructure, Transport, Cities and Regional Development (Infrastructure) is responsible for improving infrastructure across Australia through: funding coordination of transport and other infrastructure; providing an efficient, sustainable, competitive and safe transport system for all transport users; strengthening the sustainability, capacity and diversity of regional economies; implementing the national policy on cities; and supporting governance arrangements in the Australian territories.

Summary of financial performance

4.13.7 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Infrastructure, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(225.7)	(243.8)
Revenue from government	210.0	241.7
Surplus/(deficit) attributable to the Australian Government	(15.7)	(2.1)
Total other comprehensive income/(loss)	0.1	(0.2)
Total comprehensive income/(loss) attributable to the Australian Government	(15.6)	(2.3)
Total assets	177.2	182.8
Total liabilities	65.7	63.6
Total equity	111.5	119.2

Source: Infrastructure's audited financial statements for the year ended 30 June 2019.

4.13.8 The decrease in the net cost of services and revenue from government is due to the impact of machinery of government changes which occurred in 2017–18. The 2017–18 results include the impact of transactions associated mainly with the operations of the Office of Transport Security which was transferred to the Department of Home Affairs.

4.13.9 The increase in the comprehensive loss relates mainly to the impact of changes in the Australian Government bond rate which is a key input into the discounting of employee leave provisions. The change in the bond rate increased the discounted value of the provision.

4.13.10 Fluctuations in other balances are considered to be a result of normal activities.

Table 4.13.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	4,760.5	4,945.5
Total income	563.5	602.8
Surplus/(deficit)	(4,197.0)	(4,342.7)
Total other comprehensive income (loss)	(1,014.3)	88.8
Total comprehensive income/(loss)	(5,211.3)	(4,253.9)
Total assets administered on behalf of Government	8,732.0	8,236.4
Total liabilities administered on behalf of Government	211.5	170.2
Net assets	8,520.5	8,066.2

Source: Infrastructure's audited financial statements for the year ended 30 June 2019.

4.13.11 Total administered expenses decreased mainly due to the impact of the write down in the value of land transferred to WSA Co in 2017–18 for the development of the Western Sydney Airport, which increased expenses in 2017–18. Other fluctuations in expenses are considered to be the result of normal activities.

4.13.12 Total administered income decreased due to:

- a \$69.0 million reduction in fees collected by Infrastructure for the federal interstate registration scheme which ceased on 1 July 2018; and
- a \$46.5 million reduction in payments received from WSA Co for preparatory activities undertaken by the Australian Government.

This was offset by an increase in gains of \$42.5 million associated with the recognition of a financial asset related to biodiversity credits (refer to paragraph 4.13.14).

4.13.13 Total comprehensive income decreased by \$1.0 billion mainly due to the impact of the valuation of investments in portfolio entities, particularly the Australian Rail Track Corporation (ARTC), Moorebank Intermodal Terminal and WSA Co. During the year Infrastructure provided \$783.7 million of equity funding to these companies to enable the delivery of infrastructure projects which have not generated a short term return. The loss also reflects in the decrease in the fair value of ARTC due to decreases in estimated future cash flows which impacted the valuation.

4.13.14 Total assets increased by \$495.6 million, mainly due to the impact of offsetting balances:

- decrease in the value of land acquired for the future development of the Western Sydney Airport (\$26.1 million). The land was acquired for \$29.8 million in July 2018 and as at 30 June 2019 was valued at \$3.7 million. This transaction is being considered as part of the performance audit *Purchase of the 'Leppington Triangle' land for the future development of Western Sydney Airport* which is currently in progress;
- decrease in the value of administered investments (\$281.2 million);
- increases in the value of trade and other receivables, reflective of drawdowns of loans to support infrastructure projects (\$628.0 million); and
- increase in the value of other financial assets relating to the purchase of biodiversity credits that will be used to settle obligations under local planning laws for infrastructure projects at the Moorebank Intermodal Terminal and Western Sydney Airport (\$75.8 million). Infrastructure has also recognised a provision for the future use of these credits to represent the obligations to settle biodiversity obligations under the planning laws. The recognition of this provision contributed to the increase in total liabilities.

4.13.15 In addition to the recognition of biodiversity offset credits (refer to paragraph 4.13.14) total liabilities increased due to recognition of increased grants payable from the achievement of milestones by recipients close to year end (\$40.1 million).

Key areas of financial statements risk

4.13.16 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Infrastructure's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.13.4, including areas considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered investments \$5.1 billion	Valuation of the Australian Government's investment in the Australian Rail Track Corporation and Airservices Australia KAM	Higher	<ul style="list-style-type: none"> valuations for the Australian Rail Track Corporation and Airservices Australia are subject to complex estimation processes using a discounted cash flow model. The use of this model requires Infrastructure to make significant judgements in the selection of assumptions and inputs, such as future cash flows and discount rates.
Administered advances and loans \$2.8 billion concessional loan commitments \$15.1 million loans interest revenue \$105.0 million concessional loans expense \$4.9 million	Valuation of concessional loans KAM	Moderate	<ul style="list-style-type: none"> complexity of the valuation and required calculations for loan balances, including the level of estimation required to determine the appropriate market rate for the concessional component of new loans; introduction of a new accounting standard in 2018–19 requiring impairment to be calculated using the expected credit loss model; and impairment considerations that may apply considering the nature and length of loan arrangements.
Administered grants expense \$4.1 billion grants payable \$69.1 million	Management of grant payments	Moderate	<ul style="list-style-type: none"> complex, significant and diverse range of programs that include a number of different administrative and legislative arrangements and conditions; and level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements.

Source: ANAO 2018–19 audit results, and Infrastructure's audited financial statements for the year ended 30 June 2019.

Audit results

4.13.17 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Airservices Australia

4.13.18 Airservices Australia (Airservices) is responsible for the provision of air navigation services across Australian and oceanic airspace, and the provision of aviation rescue firefighting services at major Australian airports. Supported by a national network of communications, surveillance and navigation facilities and infrastructure, Airservices is funded through charges levied on its customers and borrowings from debt markets.

Summary of financial performance

4.13.19 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by Airservices, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.5: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total income	1,127.1	1,110.5
Total expenses	1,039.3	1,003.7
Income tax expense	25.4	32.3
Profit/(loss) after income tax	62.4	74.5
Total other comprehensive income/(loss) after tax	(17.6)	18.2
Total comprehensive income/(loss)	44.8	92.7
Total assets	2,039.4	1,910.1
Total liabilities	1,289.7	1,198.9
Total equity	749.7	711.2

Source: Airservices' audited financial statements for the year ended 30 June 2019.

4.13.20 The total other comprehensive income after tax result was predominantly driven by a \$39.1 million actuarial loss on the superannuation defined benefit fund. This was the result of changes in financial assumptions, including a reduction in corporate bond rates and salary growth rates being applied.

4.13.21 Airservices manages the Civil-Military Air Traffic Management System acquisition contract (OneSKY) in partnership with the Department of Defence (Defence). As at 30 June 2019, Airservices held \$85.1 million from Defence that was in excess of Defence's share of work conducted by Thales under the contract. This was an increase of \$51.7 million from the amount received in 2017–18 and largely explains the related increase in total assets and liabilities due to the related cash at bank held and the recognition of amounts received in advance respectively.

Key areas of financial statements risk

4.13.22 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Airservices' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.13.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Airways revenue \$1.1 billion	Completeness and accuracy of airways revenue	Higher	<ul style="list-style-type: none"> complexity of the flight traffic data captured that is used as the basis for customer billings; and dependence on multiple integrated IT systems.
Property, plant and equipment \$912.0 million assets under construction \$259.9 million intangibles \$94.6 million	Management, recognition and valuation of assets under construction, and existing, completed property, plant and equipment and intangibles	Moderate	<ul style="list-style-type: none"> sensitivity of the valuation of completed asset infrastructure, which is a material balance for Airservices, to changes in the assumptions used in valuation models including technical obsolescence; and complexity of capturing of costs related to assets under construction due to the technical nature of assets and the judgements involved in assessing whether costs can be capitalised and the appropriate point of recognition.
Aviation Rescue and Fire Firefighting Services (ARFFS) decontamination provision \$54.5 million	Calculation of provisions for legal obligations and related contingencies	Moderate	<ul style="list-style-type: none"> complexity of the underlying event that gave rise to a potential legal obligation associated with ARFFS decontamination; and significant judgement required in valuing the ARFFS decontamination provision and contingent liability.
Financial assets \$332.8 million financial liabilities \$779.8 million	Management of and accounting for, a range of financial instruments	Moderate	<ul style="list-style-type: none"> complex nature of financial instruments held by Airservices, including interest rate swaps and forward exchange contracts; and extensive and complex presentation and disclosure requirements, including foreign currency and interest rate exposures and the fair value of complex financial instruments.
Fair value of defined benefit plan assets \$921.1 million present value of the defined benefit obligation \$710.7 million	Valuation of defined benefit superannuation obligations	Moderate	<ul style="list-style-type: none"> complexities associated with the valuation of the defined benefit asset requiring the use of an actuary; and judgement required in estimating future liabilities and the sensitivities of the fund to economic and demographic assumptions supporting the estimate.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Various expenses and capital items	Management and accounting of contracts	Moderate	<ul style="list-style-type: none"> significant monetary value of contracts; and large number of diverse contracts that are complex in nature.

Source: ANAO 2018–19 audit results, and Airservices' audited financial statements for the year ended 30 June 2019.

Audit results

4.13.23 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.13.7: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	1	–	(1)	–
Total	1	–	(1)	–

Source: ANAO 2018–19 audit results.

4.13.24 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that Airservices' 2018–19 financial statements were not materially misstated.

Resolved moderate audit finding

Management of IT Changes on the Corporate Network

4.13.25 Change management is a key component of the control environment, supporting the controlled progression of changes to systems and processes. The ANAO identified weaknesses in the IT change management processes for Airservices' corporate network that increased the risk that unauthorised or inappropriate changes may be implemented. These weaknesses included an inability by Airservices to identify changes made to systems, validate authorised changes were undertaken and provide evidence of approval and testing for some changes.

4.13.26 To progress the remediation of identified weaknesses Airservices implemented an organisational wide change management tool during 2017–18 which was applied to the enterprise resource planning system. During 2018–19, the tool was effectively implemented for all key business systems including those supporting management of revenue. The ANAO has assessed that this finding has been appropriately resolved.

Australian Rail Track Corporation

4.13.27 The Australian Rail Track Corporation (ARTC) is responsible for the development, maintenance, management and delivery of some of Australia's major rail networks, including the national interstate rail network, the Hunter Valley coal rail network and the Inland Rail network. In May 2017, the Australian Government announced it would invest up to \$8.4 billion in equity funding into ARTC in order for the company to deliver the Inland Rail project. Inland Rail is a 1700-kilometre rail line that will link Brisbane and Melbourne through regional Australia and will be completed in 2024–25. It is the largest rail freight infrastructure project ever undertaken in Australia.

Summary of financial performance

4.13.28 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the ARTC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.8: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Expenses	1,261.5	728.8
Revenue	847.7	831.0
Income tax expense	34.6	47.9
Profit/(loss) attributable to the Australian Government	(448.4)	54.3
Total other comprehensive income/(loss)	(138.5)	32.1
Total comprehensive income/(loss) attributable to the Australian Government	(586.9)	86.4
Total assets	4,599.0	4,830.7
Total liabilities	1,285.1	1,152.0
Total equity	3,313.9	3,678.7

Source: ARTC's audited financial statements for the year ended 30 June 2019.

4.13.29 Total expenses increased by \$532.7 million, contributing to the total loss recorded by ARTC, mainly due to impairment of non-financial assets recognised at fair value (refer to paragraph 4.13.30) and the continuing delivery of Inland Rail which increased expenses for certain project costs and employee expenses.

4.13.30 The decrease in total assets is mainly due to the valuation of property, plant and equipment, with ARTC recognising impairment charges on these assets of \$450.7 million during 2018–19. ARTC recognises non-financial assets on a fair value basis determined using an income based discounted cash flow analysis with impairments recognised where the carrying value of assets exceeds the calculated fair value. The impairment was impacted in 2018–19 by:

- changes in key inputs to the cash flow analysis for the interstate network and changes to forecast future cash flows due to continued challenging market conditions exacerbated by the reduction in the number of rail operators accessing the network; and
- the increased expenditure on Inland Rail assets and reflecting the future discounted cash flows to ARTC in relation to this investment.

4.13.31 The \$133.1 million increase in total liabilities relates mainly to the net increase in total interest bearing liabilities to support Inland Rail expenditure during the period (\$85.5 million).

4.13.32 The \$364.8 million decrease in total equity is due to reductions in the asset revaluation reserve and retained earnings reflective of the decrease in the fair value of property, plant and equipment (refer to paragraph 4.13.30), offset by the receipt of equity funding from the Australian Government for the delivery of Inland Rail (\$194.7 million) and Adelaide to Tarcoola Re-railing project (\$96.0 million).

4.13.33 Fluctuations in other balances are considered to be a result of normal activities.

Key areas of financial statements risk

4.13.34 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ARTC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.13.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.9: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$4.2 billion Impairment Expenses \$450.7 million	Valuation of infrastructure assets	Higher	<ul style="list-style-type: none"> the determination of the fair value of infrastructure assets is subject to judgement and sensitive to changes in assumptions, including forecasts of business performance, cash flows in future years and discount rates.
Access Revenue \$720.1 million Trade receivables \$58.5 million	Completeness of revenue	Higher	<ul style="list-style-type: none"> subject to management estimates and judgement to determine the amount of revenue recognised due to impact of regulatory access undertakings; and complexity of underlying process for recognition of access revenue by rail operators.
Deferred tax assets \$156.2 million Income tax expense \$34.6 million	Recognition and measurement of taxation related balances	Moderate	<ul style="list-style-type: none"> tax liabilities and deferred tax assets (DTAs) arise predominantly from asset revaluations, which are subject to judgement and uncertainty; and increased judgement applied in recognising the amount of the DTAs that ARTC will be able to utilise to offset future taxation expense.
Interest bearing liabilities \$450.1 million	Classification of funding and debt management	Moderate	<ul style="list-style-type: none"> the operations of ARTC are currently supported through a number of interest bearing liabilities, including short and long term bonds and a syndicated debt facility which require periodic renegotiation; and current liabilities exceeded current assets resulting in an increased focus on debt management.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Provision for incidents \$16.7 million	Estimation of provision for incidents	Moderate	<ul style="list-style-type: none"> judgement is required by ARTC to estimate the extent of provisioning for cost of incidents occurring before balance date.
Deferred income – government grants \$532.8 million grant Income \$84.7 million	Classification of grants in the income statement	Moderate	<ul style="list-style-type: none"> judgement is involved in determining the appropriate recognition point for grant contributions in accordance with the relevant requirements of the accounting standards and nature of the grant funded assets.

Source: ANAO 2018–19 audit results, and ARTC's audited financial statements for the year ended 30 June 2019.

Audit results

4.13.35 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Moorebank Intermodal Company Limited

4.13.36 The Moorebank Intermodal Company Limited (MIC) was established to oversee the development and future operation of the Moorebank intermodal terminal in Sydney's south-west. It is designed to enable more freight to be moved by rail both locally and nationally. The Moorebank terminal will have an import and export facility with a direct link to Port Botany, and also an interstate and regional facility to connect to the national rail freight network. The terminal will be developed and operated by co-investor Sydney Intermodal Terminal Alliance (SIMTA).

4.13.37 In May 2015, MIC established two wholly owned subsidiaries: the Moorebank Intermodal Development Investment Trust (MIDIT) and the Moorebank Intermodal Development Rail Trust (MIDRT). The trusts were established to facilitate the delivery of MIC's obligations under its agreements with SIMTA and to allow for divestment by the Commonwealth of its financial interests in the terminal development. These entities are reported in the consolidated financial statements of MIC. The MIDIT jointly holds the Land Precinct Trust with SIMTA to undertake the land development.

Summary of financial performance

4.13.38 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by MIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.10: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	113.2	87.3
Total revenue	1.1	0.7
Income tax benefit	30.4	25.4
Income/(loss) for the year	(81.7)	(61.2)
Total other comprehensive income/(loss)	12.2	(0.3)
Total income/(loss) for the year	(69.5)	(61.5)
Total assets	450.5	321.3
Total liabilities	208.3	184.3
Total equity	242.2	137.0

Source: MIC's audited financial statements for the year ended 30 June 2019.

4.13.39 Total expenses and liabilities have increased to reflect the revised costs for preparation works including remediating and rezoning land associated with the delivery of the intermodal terminal, contractual obligations associated with the Moorebank Intermodal voluntary planning agreement and construction of Moorebank Avenue. The increase is a result of higher than forecast construction costs.

4.13.40 Total assets have increased due to additional capitalised costs in relation to capital works as well as cash being higher as a result of unspent equity injections received from the Australian Government during the year. The increase in total equity reflects the additional funding received from the Australian Government.

Key areas of financial statements risk

4.13.41 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of MIC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.13.11. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Non-financial liabilities – provisions \$200.9 million	Valuation of the land remediation; Moorebank Avenue works and voluntary planning contribution provisions	Higher	<ul style="list-style-type: none"> judgements and estimates involved in capturing remediation and site preparation costs, including assessing the level of work required for the completion of these projects.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Non-financial assets – equity accounted investments \$165.4 million	Recognition and disclosure of the value of the Precinct Land Trust	Moderate	<ul style="list-style-type: none"> complexity of the investment structure; and valuation of the land is subject to judgements and estimates associated with a discounted cash flow methodology, including future cash flows, rates of return and discounting.
Non-financial assets – assets under construction \$124.1 million	Capitalisation and valuation of assets under construction	Moderate	<ul style="list-style-type: none"> judgements involved in apportioning capital and operating costs; and judgements involved in considering the indicators of impairment to estimate the value of non-financial assets.
Deferred tax assets \$64.5 million	Valuation of deferred tax assets	Moderate	<ul style="list-style-type: none"> judgements in involved the assessment of recoverability of deferred tax assets against future forecast profits; and judgements involved in the apportionment of deductible costs for the derivation of the deferred tax asset.

Source: ANAO 2018–19 audit results, and MIC's audited financial statements for the year ended 30 June 2019.

4.13.42 Auditor-General Report No.9 2018–19 *Procurement Processes and Management of Probity by the Moorebank Intermodal Company* during 2018–19 was relevant to the financial management or administration of MIC. This report included recommendations regarding procurement, contract management and governance which were considered in designing audit procedures for the 2018–19 financial statement audit.

Audit results

4.13.43 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.13.12: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	1	–	–	1
Total	1	–	–	1

Source: ANAO 2018–19 audit results.

4.13.44 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that the MIC's 2018–19 financial statements were not materially misstated.

Unresolved moderate audit finding

Support and Quality Assurance over the financial statements close process

4.13.45 During the 2017–18 final audit, the ANAO identified weaknesses in the financial statements processes that involved judgements, and the presentation of MIC's consolidated financial statements. Key determinations and decisions associated with financial statements

preparation, including valuations, which were finalised late or with weaknesses in appropriate quality assurance. These observations continued for the 2018–19 final audit.

4.13.46 These weaknesses highlighted opportunities for improvements regarding management’s quality assurance and support processes to enhance the quality of its financial reporting and reduce the risk of error and the potential for material misstatement to the Group’s consolidated financial statements. The ANAO will review progress in addressing this issue as part of the 2019–20 audit.

National Capital Authority

4.13.47 The National Capital Authority (NCA) is responsible for managing the strategic planning, promotion and enhancement of Canberra as the national capital for all Australians through the development and administration of the National Capital Plan, the operation of the National Capital Exhibition, delivery of education and awareness programs, and works to enhance the character of the national capital.

Summary of financial performance

4.13.48 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the NCA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.13: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(17.9)	(20.3)
Revenue from government	17.2	17.1
Surplus/(deficit) attributable to the Australian Government	(0.7)	(3.2)
Total other comprehensive income	–	0.3
Total comprehensive income/(loss) attributable to the Australian Government	(0.7)	(2.9)
Total assets	22.8	22.0
Total liabilities	5.8	6.5
Total equity	17.0	15.5

Source: NCA’s audited financial statements for the year ended 30 June 2019.

4.13.49 The lower cost of services is primarily due to a lower level of sponsored works activity. The increase in total assets is predominantly related to an increase in available appropriations at year-end following lower than expected capital project activity.

4.13.50 Fluctuations in other balances is a result of normal activities.

Table 4.13.14: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	37.1	34.9
Total income	23.6	24.9
Surplus/(deficit)	(13.5)	(10.0)
Total other comprehensive income	6.4	7.8
Total comprehensive income/(loss)	7.1	2.2
Total assets administered on behalf of Government	846.6	868.7
Total liabilities administered on behalf of Government	27.3	25.8
Net assets/(liabilities)	819.3	842.9

Source: NCA's audited financial statements for the year ended 30 June 2019.

4.13.51 During 2018–19, there were no significant asset additions. The reduction in total assets and net assets is primarily related to the depreciation and amortisation of existing assets and divestment of a property.

Key areas of financial statements risk

4.13.52 The ANAO completed appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of NCA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.13.15. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.15: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered other payables \$21.4 million Departmental other payables \$3.0 million	Classification and valuation of the construction activities relating to NCA's responsibility to develop, further enhance and replace assets on national land	Moderate	<ul style="list-style-type: none"> complexities in determining the value of work in progress at balance date as works are often between defined construction milestones and professional judgement is required.
Administered non-financial assets \$844.0 million	Valuation and accounting for land, buildings and infrastructure located within the National Capital Estate	Moderate	<ul style="list-style-type: none"> complexities in determining the fair value of land, deemed for the special purposes of Canberra as the national capital, and related capital works.

Source: ANAO 2018–19 audit results, and NCA's audited financial statements for the year ended 30 June 2019.

Audit results

4.13.53 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

WSA Co Limited

4.13.54 WSA Co Limited was established to construct and operate the Western Sydney Airport in Badgerys Creek, in south-western Sydney, to the functional specifications determined by the Australian Government. WSA Co is a government business enterprise wholly owned by the Australian Government, represented by the Minister for Finance and the Minister for Population, Cities and Urban Infrastructure as shareholder ministers.

4.13.55 The Australian Government is expected to invest up to \$5.3 billion into WSA Co to build Western Sydney Airport. This investment covers WSA Co's work on the earthworks and construction of the airport (runway and terminal infrastructure) in accordance with the conditions of the project deed agreed by the Australian Government and WSA Co. Early earthworks, representing the commencement of construction, commenced in late 2018.

Summary of financial performance

4.13.56 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by WSA Co, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.16: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	252.9	280.5
Total revenue	0.9	0.6
Income tax benefit	–	–
Income/(loss) for the year/period	(252.0)	(279.9)
Total other comprehensive income	–	–
Total comprehensive income/(loss)	(252.0)	(279.9)
Total assets	117.9	58.4
Total liabilities	55.8	62.6
Total equity	62.1	(4.2)

Source: WSA Co's audited financial statements for the year ended 30 June 2019.

4.13.57 Total expenses decreased by \$27.6 million in 2018–19, mainly due to:

- reductions in the payments made for preparatory activities being undertaken by the Commonwealth; and
- increased capitalisation of supplier expenses for activities undertaken in delivery and construction of the airport given the stage of progress, also reflected in the increased value of total assets at 30 June 2019.

4.13.58 The total comprehensive loss for 2018–19 reflects the nature of funding available to WSA Co. WSA Co has entered into an equity subscription agreement with the Commonwealth to fund the development and construction of the airport to meet the Commonwealth's functional specifications. During 2017–18 WSA Co received \$318.3 million of this funding from the Commonwealth. These funds are recorded as share capital and were not recognised in the statement of comprehensive income.

4.13.59 The increase in total assets is mainly due to increases in:

- the capitalisation of assets under construction in accordance with WSA Co's capitalisation policy. During 2018–19 the delivery and planning for airport infrastructure progressed and resulted in a higher rate of capitalisation of non-financial assets (\$30.9 million); and
- supplier prepayments associated with airport construction and delivery (\$13.4 million).

4.13.60 Fluctuations in other balances were considered to be in the normal course of business.

Key areas of financial statements risk

4.13.61 The ANAO completed appropriate audit procedures on all material items. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.13.17. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.17: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Assets under construction \$33.3 million supplier expenses \$210.5 million	Recognition of capital work in progress for airport construction activities	Higher	<ul style="list-style-type: none"> • judgement and estimation required by WSA Co in apportioning capital and operating costs across the whole of term construction of the airport given the nature of the project and proposed delivery; and • quantum of expenditure and attribution of expenditure that will be incurred in the construction of the airport.
Decontamination provision \$24.7 million decontamination expenses \$20.4 million	Recognition of Provision for Remediation of airport land	Moderate	<ul style="list-style-type: none"> • recognition of decontamination provisions is inherently complex and subject to a higher level of judgments and estimates relating to future costs cost and level of contamination of land.
Multiple financial statement line items.	Procurement Policies and Processes	Moderate	<ul style="list-style-type: none"> • weaknesses in procurement and contract management processes can increase the risk of unapproved expenditure or budgeted cost overruns being incurred by WSA Co.

Source: ANAO 2018–19 audit results, and WSA Co's audited financial statements for the year ended 30 June 2019.

Audit results

4.13.62 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

4.14 Parliamentary Departments

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Parliamentary Services	Yes	Moderate	✓	6 Sept 19	6 Sept 19	Nil

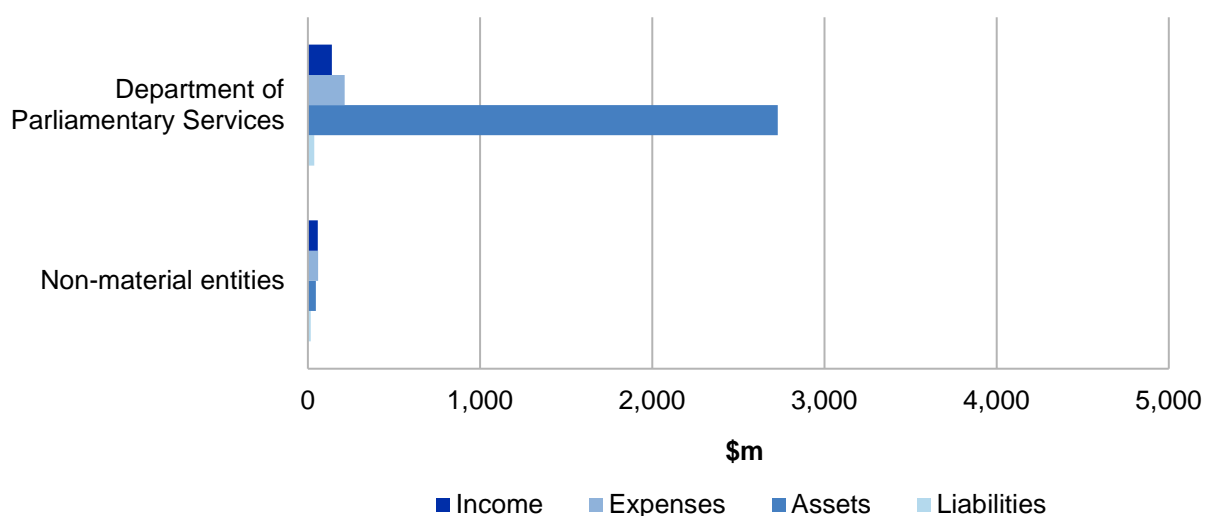
✓: auditor's report not modified

Portfolio overview

4.14.1 The Parliamentary Departments support the operation of the Parliament of Australia, its committees and members. There are four parliamentary departments: the Department of Parliamentary Services; the Department of the Senate; the Department of the House of Representatives; and the Parliamentary Budget Office.

4.14.2 Figure 4.14.1 shows the Parliamentary Departments' income, expenses, assets and liabilities.

Figure 4.14.1: Parliamentary Departments' income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.14.3 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Parliamentary Departments.

Table 4.14.1: The number of audit differences for entities in the Parliamentary Departments

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Parliamentary Services	1	1	2	–	–	–
Department of the Senate	–	2	2	–	–	–
Parliamentary Budget Office	–	1	1	–	–	–

Source: Audit differences reported to entities in the Parliamentary Departments.

4.14.4 The following sections provide a summary of the 2018–19 financial statements audit results for the Department of Parliamentary Services.

Department of Parliamentary Services

4.14.5 The Department of Parliamentary Services (DPS) is responsible for supporting the Parliament through the provision of a range of services, including library, Hansard, broadcasting, communications, and building security and maintenance.

Summary of financial performance

4.14.6 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by DPS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(148.5)	(144.9)
Revenue from government	126.4	123.0
Surplus/(deficit) attributable to the Australian Government	(22.1)	(21.9)
Total other comprehensive income/(loss)	0.4	0.7
Total comprehensive income/(loss) attributable to the Australian Government	(21.7)	(21.2)
Total assets	132.0	130.6
Total liabilities	32.0	29.5
Total equity	100.0	101.1

Source: DPS's audited financial statements for the year ended 30 June 2019.

4.14.7 Fluctuations in balances reflect normal business activities.

Table 4.14.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	50.9	42.9
Total income	0.0	0.0
Surplus (deficit)	(50.9)	(42.9)
Total other comprehensive income/(loss)	88.0	84.6
Total comprehensive income/(loss)	37.1	41.7
Total assets administered on behalf of Government	2,596.2	2,474.6
Total liabilities administered on behalf of Government	5.9	2.0
Net assets/(liabilities)	2,590.3	2,472.6

Source: DPS's audited financial statements for the year ended 30 June 2019.

4.14.8 The increase in administered assets was a result of additions and a revaluation partially offset by an additional year of depreciation expense. Fluctuations in the other balances reflect normal business activities.

Key areas of financial statements risk

4.14.9 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of DPS's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 4.14.4, including the area which was considered a Key Audit Matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.14.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered non-financial assets (excluding intangibles) \$2.6 billion	Valuation of non-financial assets KAM	Higher	<ul style="list-style-type: none"> the unique nature of Parliament House, its contents and the purpose of the land, increases the judgement applied and complexity in establishing a fair value.

Source: ANAO 2018–19 audit results, and DPS's audited financial statements for the year ended 30 June 2019.

Audit results

4.14.10 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

4.15 Prime Minister and Cabinet portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Prime Minister and Cabinet	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil
Indigenous Business Australia	Yes	Moderate	✓	17 Sept 19	18 Sept 19	Nil
Indigenous Land and Sea Corporation	Yes	Low	✓	11 Sept 19	12 Sept 19	Nil
Northern Land Council	No	Moderate	—	—	—	◆L
North Queensland Livestock Industry Recovery Agency	Yes	Moderate	✓	26 Sept 19	26 Sept 19	Nil
Wreck Bay Aboriginal Community Council	No	Low	✓	18 Nov 19	21 Nov 19	L

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

◆: new significant or moderate issues and/or legislative matters noted

—: signed financial statements not presented for audit as at 29 November 2019

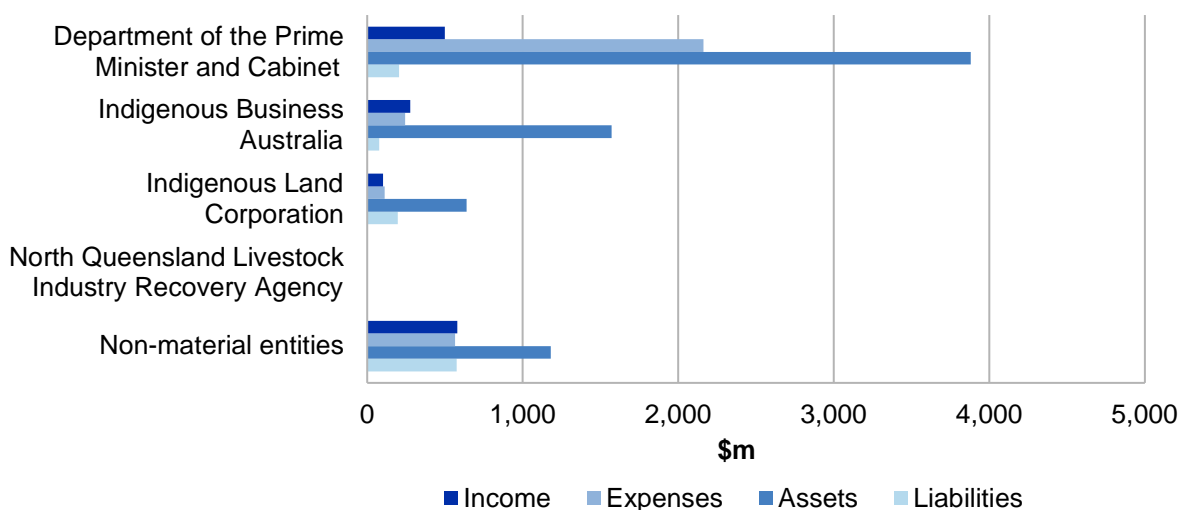
Portfolio overview

4.15.1 The Prime Minister and Cabinet portfolio is responsible for providing support and policy advice to the Prime Minister, the Cabinet and ministers on public and government administration matters, including policy development and whole-of-government coordination.

4.15.2 The Department of the Prime Minister and Cabinet (PM&C) is the lead entity in the portfolio. The department's three key purposes in 2018–19 were: to support the Prime Minister as the head of the Australian Government and the Cabinet; provide advice on major domestic policy and international national security matters; and improve the lives of Aboriginal and Torres Strait Islander peoples.

4.15.3 Figure 4.15.1 shows the Prime Minister and Cabinet portfolio's income, expenses, assets and liabilities.

Figure 4.15.1: Prime Minister and Cabinet portfolio's income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.15.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those entities, within the Prime Minister and Cabinet portfolio, that had audit differences.

Table 4.15.1: The number of audit differences for entities in the Prime Minister and Cabinet portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of the Prime Minister and Cabinet	–	3	3	–	2	2
- Aboriginals Benefit Account	–	1	1	–	–	–
Aboriginal Hostels Limited	–	2	2	–	1	1
Anindilyakwa Land Council	1	–	1	1	2	3
Australian Institute of Aboriginal and Torres Strait Islander Studies	1	1	2	–	3	3
Central Land Council	1	–	1	–	1	1
Indigenous Business Australia	–	1	1	–	1	1
- Gagudju Lodge Cooida Trust	–	–	–	–	1	1

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
- IBA Retail Asset Management Pty Ltd	–	–	–	–	1	1
- IBA Retail Property Trust	–	1	1	2	–	2
- Ikara Wilpena Enterprises Pty Ltd	–	4	4	–	–	–
- Indigenous Economic Development Trust	–	–	–	–	1	1
- Indigenous Real Estate Investment Trust	2	–	2	–	4	4
- Tennant Creek Foodbarn Partnership	–	2	2	–	–	–
- Tennant Creek Land Holding Trust	–	1	1	–	–	–
- Tjapukai Aboriginal Cultural Park Partnership	–	–	–	2	–	2
- Wilpena Pound Aerodrome Services Pty Ltd	–	1	1	–	–	–
Indigenous Land and Sea Corporation	–	1	1	–	5	5
- Australian Indigenous Agribusiness Company Pty Ltd	–	1	1	–	1	1
- National Centre of Indigenous Excellence Ltd	–	–	–	–	2	2
- The Owners - Strata Plan No. 86156	–	1	1	–	4	4
- Voyages Indigenous Tourism Australia Pty Ltd	–	2	2	–	2	2
Northern Land Council	3	3	6	4	–	4
Office of National Intelligence	–	1	1	–	2	2
Office of the Official Secretary to the Governor General	–	–	–	–	2	2
Outback Stores Pty Ltd	–	1	1	2	–	2
Tiwi Land Council	–	1	1	–	2	2

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Torres Strait Regional Authority	–	2	2	1	12	13
Workplace Gender Equality Agency	1	–	1	–	1	1
Wreck Bay Aboriginal Community Council	1	–	1	–	2	2

–: signed financial statements not presented for audit as at 29 November 2019.

Source: Audit differences reported to entities in the Prime Minister and Cabinet portfolio.

4.15.5 The following sections provide a summary of the 2018–19 financial statements audit results for the Department of the Prime Minister and Cabinet, other material entities and findings related to non-material entities in the portfolio.

Department of Prime Minister and Cabinet

4.15.6 The Department of the Prime Minister and Cabinet (PM&C) is responsible for coordinating policy development across government in economic, domestic and international affairs, and Aboriginal and Torres Strait Islander advancement.

4.15.7 On 1 July 2019, the National Indigenous Australians Agency (NIAA) was created as an executive agency within the Prime Minister and Cabinet portfolio. NIAA assumed the lead role for Commonwealth policy development, program design, implementation and service delivery for Aboriginal and Torres Strait Islander peoples.

Summary of financial performance

4.15.8 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by PM&C, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(431.8)	(441.4)
Revenue from government	404.9	417.4
Surplus/(deficit) attributable to the Australian Government	(26.9)	(24.0)
Total other comprehensive income/(loss)	2.8	(0.8)
Total comprehensive income/(loss) attributable to the Australian Government	(24.1)	(24.8)
Total assets	262.0	250.1
Total liabilities	149.0	138.5
Total equity	113.0	111.6

Source: PM&C's audited financial statements for the year ended 30 June 2019.

4.15.9 Revenue from government has declined mainly due to the full-year effect of transfers of functions from the Department in prior years. The increase in assets is largely due to expenditure on improvements of leased properties and on internally-developed software projects. The increase in liabilities is mainly due to re-measurement of the long service provision using a lower discount rate. Fluctuations in other balances are the results of normal business activities.

Table 4.15.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	1,705.6	1,707.6
Total income	78.4	91.1
Surplus/(deficit)	(1,627.2)	(1,616.5)
Total other comprehensive income/(loss)	89.9	131.4
Total comprehensive income/(loss)	(1,537.3)	(1,485.1)
Total assets administered on behalf of Government	3,619.7	5,288.1
Total liabilities administered on behalf of Government	54.8	67.3
Net assets/(liabilities)	3,564.8	5,220.8

Source: PM&C's audited financial statements for the year ended 30 June 2019.

4.15.10 Administered income and assets are lower as a result of the transfer on 1 February 2019 of the balance of the Aboriginal and Torres Strait Islander Land Account from PM&C to the Indigenous Land and Sea Corporation Future Fund managed by the Future Fund Management Agency.

Key areas of financial statements risk

4.15.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of PM&C's financial statements. The ANAO focused audit effort on those areas that are assessed as

having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.15.4, including the area which was considered a Key Audit Matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.15.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered grants \$1.3 billion	Occurrence of grants expenses KAM	Higher	<ul style="list-style-type: none"> the magnitude and diversity of grant programs with multiple administrative processes; and a decentralised eligibility assessment and approval process.
Departmental employee benefits \$264.6 million employee provisions \$86.2 million	Valuation of employee provisions	Moderate	<ul style="list-style-type: none"> significant balance within the departmental financial statements with a component of employee benefits relating to allowances paid to staff in remote areas.
Departmental property, plant and equipment \$117.6 million Intangibles \$34.7 million	Valuation and existence of non-financial assets	Moderate	<ul style="list-style-type: none"> subject to judgement and estimation in determining property conditions and market values of assets dispersed across multiple regional locations.
Administered investments in Commonwealth entities \$2.4 billion Term deposits \$1.0 billion	Valuation of investments	Moderate	<ul style="list-style-type: none"> appropriateness of the selection of valuation techniques and underlying assumptions applied by PM&C to determine fair value for investments in Commonwealth entities; and inaccurate or incomplete consolidation of the Aboriginals Benefit Account investment balances into the administered financial statements.

Source: ANAO 2018–19 audit results, and PM&C's audited financial statements for the year ended 30 June 2019.

Audit results

4.15.12 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Indigenous Business Australia

4.15.13 Under its enabling legislation, the *Aboriginal and Torres Strait Islander Act 2005*, Indigenous Business Australia's (IBA's) purposes: are to assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency; and to advance the commercial and economic interests of Aboriginal and Torres Strait Islander peoples by accumulating and using a substantial capital base for their benefit. IBA has 22 actively trading subsidiaries, which are audited by the ANAO.

Summary of financial performance

4.15.14 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the IBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.5: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	33.3	2.6
Revenue from government	9.7	10.1
Surplus/(deficit) before income tax on continuing operations	43.0	12.7
Income tax expense	–	–
Surplus/(deficit) attributable to non-controlling interest	13.6	3.7
Surplus/(deficit) attributable to the Australian Government	29.4	9.0
Total other comprehensive income/(loss)	(0.9)	(0.1)
Total comprehensive income/(loss) attributable to the Australian Government	28.5	8.9
Total assets	1,570.3	1,467.7
Total liabilities	76.6	52.0
Total equity	1,493.7	1,415.7

Source: IBA's audited financial statements for the year ended 30 June 2019.

4.15.15 In 2018–19, a higher net contribution by services, and surplus attributable to the Australian Government, were mainly the result of a lower discount rate applied to home and business loans. The discount rate was reviewed based on IBA's credit loss experience rather than using industry inputs as previously applied. The change coincided with the transition to a reclassification of its loan portfolio to amortised cost from 1 July 2018 following the introduction of AASB 9 *Financial Instruments*.

4.15.16 The increase in total assets and the associated equity is reflective of the lower discount rate applied to fair value home loans in 2018–19. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.15.17 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of IBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.15.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.15.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Loans – Home Ownership Program \$897.2 million Loans – Business Development and Assistance Program \$45.3 million	Valuation of loan portfolio – implementing amortised cost under AASB 9	Moderate	<ul style="list-style-type: none"> • fair value calculations are based on a combination of variable market inputs and internally generated estimates and judgements; • the fair value methodology is complex and requires regular review to ensure continued reliability; • application of an amortised cost basis after initial recognition requires the development of new processes and systems within IBA to accurately calculate and recognise loan balances under the requirements of AASB 9; and • the initial adoption of changes under AASB 9 require adjustment to the opening balance sheet and additional explanatory disclosures.
Loans – Home Ownership Program \$897.2 million Loans – Business Development and Assistance Program \$45.3 million	Valuation of loan portfolio – implementing expected credit losses under AASB 9	Moderate	<ul style="list-style-type: none"> • change in recognition criteria for loans impairment under AASB 9 requires the development of a new methodology to estimate expected credit losses which requires the use of judgements and estimates; and • expected credit losses will need to be recognised on inception of loans receivable, it is expected that the initial adoption of AASB 9 will require adjustment to the opening balance sheet and additional explanatory disclosures.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Loans – Home Ownership Program \$897.2 million Loans – Business Development and Assistance Program \$45.3 million	Valuation of loan portfolio – change in loan discount rates	Moderate	<ul style="list-style-type: none"> judgement applied in setting the discount rate used in the present-value calculation of loans receivable on inception, which is a key input; the new approach to calculating the discount rate is underpinned by significant assumptions and analysis, including using actual internal experience, comparing IBA's expected losses in the standard variable rate benchmark for major industry financial institutions; and reliability and completeness of the IBA's own credit risk history underpins the risk weightings and credit risk margin; and
Investment property \$134.7 million Property, plant and equipment \$23.3 million	Valuation of investments	Moderate	<ul style="list-style-type: none"> fair value calculation includes forecast earnings and capitalisation rates derived for regional areas, which are subject to judgement; complex accounting requirements associated with investments in associate entities and assessment of impairment and gains on revaluation; and unaudited management accounts are used for valuation of unlisted investments in associated entities.

Source: ANAO 2018–19 audit results, and IBA's audited financial statements for the year ended 30 June 2019.

Audit results

4.15.18 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Indigenous Land and Sea Corporation

4.15.19 The purpose of the Indigenous Land and Sea Corporation (ILSC) is to assist Aboriginal and Torres Strait Islander people to acquire, manage and invest in land and water so as to provide economic, environmental, social and cultural benefits, and to provide land and water management assistance to support the delivery of sustainable benefits from land and water rights acquisition.

4.15.20 The ILSC consolidated entity includes the following subsidiaries: the Australian Indigenous Agribusiness Company Pty Ltd; the National Centre of Indigenous Excellence Ltd; The Owners – Strata Plan No. 86156; and Voyages Indigenous Tourism Australia Pty Ltd.

Summary of financial performance

4.15.21 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by ILSC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.7: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(42.4)	(50.9)
Revenue from government	62.0	61.2
Surplus/(deficit) before income tax attributable to the Government	19.6	10.3
Income tax expense/(benefit)	6.7	(24.4)
Surplus/(deficit) attributed to the Government	12.9	34.7
Total other comprehensive income/(loss)	13.4	45.9
Total comprehensive income/(loss) attributable to the Australian Government	26.3	80.6
Total assets	875.5	828.4
Total liabilities	397.2	376.4
Total equity	478.3	452.0

Source: ILSC's audited financial statements for the year ended 30 June 2019.

4.15.22 The decrease in net cost of services and increase in surplus before income tax are largely attributable to an increase in revenue of the subsidiary, Voyages Indigenous Tourism Australia Pty Ltd, and an increase in the market value of livestock. This is offset by an increase in expenses arising from the acquisition of properties which are subsequently granted to Indigenous organisations, in line with the objectives of ILSC. The movement in revenue is the result of higher levels of tourism to Ayers Rock Resort (the Resort) throughout 2018–19. In addition, average livestock prices in 2018–19 were higher than in 2017–18, where a loss was experienced.

4.15.23 There was a net tax expense for 2018–19 and a corresponding increase in total liabilities for deferred tax. In 2017–18 there was an increase in the tax benefit due to the recognition of prior year temporary differences not previously recognised, which was partly offset by the tax effect of the 2017–18 year's operations. The underlying business of Voyages Indigenous Tourism Australia Pty Ltd has become more profitable in both 2017–18 and 2018–19.

4.15.24 In 2018–19, an independent valuation of the Resort was undertaken resulting in a \$16.6 million increase in the value of the Resort. The current year increase was recognised through the balance sheet and other comprehensive income, contributing to the increase in total assets and total equity in 2018–19.

Key areas of financial statements risk

4.15.25 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ILSC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.15.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.15.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$439.8 million Land \$87.4 million	Valuation of Ayers Rock Resort	Higher	<ul style="list-style-type: none"> complexities in valuing the Ayers Rock Resort due to the judgements and assumptions involved in determining future cash inflows driven by occupancy and room rates.
Interest bearing loans \$151.7 million	Financing of Ayers Rock Resort	Moderate	<ul style="list-style-type: none"> significant value of loans, including new financing arrangements during the 2018–19 financial year; a concessional loan which is a variable rate loan based on the weighted average cost of borrowing for future issuance of Treasury bonds and needs to be reassessed each year; and exposure to movements in the interest rate potentially impact the value of the refinanced loan and concessional loan.
Property, Plant and Equipment \$439.8 million Biological Assets \$26.5 million	Valuation of Property, Plant Equipment and Livestock	Moderate	<ul style="list-style-type: none"> complexities in valuing property, plant and equipment due to the judgements and assumptions involved, including the complexities associated in valuing the agribusiness assets; and impact of market conditions for valuing livestock.
Property, Plant and Equipment \$439.8m Biological Assets \$26.5 million	Valuation of Commercial Properties & Agribusinesses transferred	Moderate	<ul style="list-style-type: none"> complexities involved in valuing these assets in accordance with the requirements of the accounting standards.
Total Revenue \$254.4 million Total Expenses \$284.9 million	Accuracy of Revenue and Expenses	Moderate	<ul style="list-style-type: none"> varying revenue and purchasing streams with differing processes and controls due to the separation between the front and back office which are in different locations; and decentralised nature of Voyages' operations.
Income Tax Expense \$6.7 million Deferred Tax Liability \$21.7 million	Tax Effect Accounting and Tax Loss Recognition	Moderate	<ul style="list-style-type: none"> complexities in the calculation of tax balances.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Biological Assets \$26.5 million	Existence of Livestock	Moderate	<ul style="list-style-type: none"> the remoteness and size of cattle stations make the mustering of cattle inherently difficult.

Source: ANAO 2018–19 audit results, and ILSC's audited financial statements for the year ended 30 June 2019.

Audit results

4.15.26 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Comments on non-material entities

Northern Land Council

4.15.27 The Northern Land Council (NLC) is a corporate Commonwealth entity formed under section 21 of the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA). The NLC is responsible for assisting Aboriginal people in the top end of the Northern Territory to acquire and manage their traditional lands and seas.

New significant legislative breach

Audit of Northern Land Council's Subsidiaries Under s44 of the PGPA Act

4.15.28 Section 44 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires that the accountable authority of the Commonwealth entity must ensure that all subsidiaries financial statements are audited by the Auditor-General. In February 2019, it was identified by the ANAO that NLC had potential control over a number of entities during the 2017–18 and 2018–19 financial years, however these entities had not been consolidated within the NLC's financial statements.

4.15.29 In July 2019, NLC confirmed that based on independent information and professional advice, NLC was deemed to exercise control over two subsidiary entities: the North Australia Aboriginal Corporation (NAAC) and the Northern Aboriginal Investment Corporation Pty Ltd (NAIC) as a trustee of the Northern Australian Aboriginal Charitable Trust (NAACT). The impact of this for financial reporting was that the entities NAAC, NAIC and NAACT were required to be consolidated into the 2018–19 NLC financial statements and the comparatives for 2017–18 required restatement. This was consistent with the ANAO's assessment.

4.15.30 NLC did not notify the ANAO in timely manner of its control over the subsidiaries, which would have enabled ANAO to implement a process for the audit of these entities for the 2017–18 and 2018–19 financial years. Failure to identify and appropriately notify the ANAO resulted in a breach of the PGPA Act.

4.15.31 The ANAO is working with NLC on the process to appoint the Auditor-General as the auditor for the subsidiaries. Further, going forward NLC will implement reviews of director declarations to identify instances where there is common board membership that may result in control of an entity which should then be consolidated. The ANAO will review progress in addressing this breach as part of the 2019–20 audit.

New moderate audit findings

Financial Statement Close Process

4.15.32 During the 2018–19 final audit phase, the ANAO identified a number of weaknesses in the quality and timeliness of working papers provided to support financial statements. This resulted in delays in the finalisation of the 2018–19 financial statements audit.

4.15.33 These weaknesses included: a lack of adequate quality assurance of the financial statements; inadequate implementation of key processes in relation to the request, receipt and evaluation of key management personnel declarations which support the identification and reporting of related party transactions as required under the accounting standards; and errors in calculations and disclosures resulting in multiple versions of the financial statements.

4.15.34 The ANAO recommends that the NLC implements quality assurance processes, to strengthen the quality of financial reporting and reduce the risk of material misstatement to the NLC's consolidated financial statements.

4.15.35 NLC has advised that it will implement procedures to address these weaknesses in 2019–20. The ANAO will review the progress made by the NLC to improve its financial statements preparation process as part of the 2019–20 audit.

Payroll exceptions

4.15.36 Since 2014–15, the ANAO has identified and reported to the NLC management a number of minor findings and weaknesses in relation to the internal controls and processes within the NLC for payroll. In 2018–19, the ANAO continued to identify a number of internal control weaknesses and identified a number of non-material errors in payments to staff. The identified control weakness, together with a lack of implementation of recommendations from prior years to improve the internal control processes for payroll, increases the likelihood that inaccurate or inappropriate payments are made and not detected.

4.15.37 NLC acknowledged the requirement to improve and streamline payroll processes and controls including the implementation of quality assurance processes by January 2020. The ANAO will review progress in addressing this finding as part of the 2019–20 audit.

Unresolved significant legislative breach

Royalty Trust Account

4.15.38 Previous audits have identified non-compliance of the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA). This Act establishes the Council's responsibilities for payments in respect of Aboriginal land, requiring payment of an amount equal to amounts received to, or for the benefit of, the traditional owners of the land, within six months after that amount is received through the royalty trust account.

4.15.39 Consistent with prior years, in 2018–19 the ANAO identified instances of non-compliance with the requirement for funds in NLC's royalty trust account to be distributed to traditional owners within the agreed timeframes.

4.15.40 NLC commenced a royalty reform project in 2016–17 to address the legislative requirements. The project was aimed at reducing incidents of non-compliance with the ALRA and reconciling outstanding balances in the royalty trust account to identify the appropriate owners for distribution. Management advised in May 2019 that the remaining unreconciled amount of

\$0.9 million previously reported to the ANAO in 2017–18 was incorrectly reported and that the unreconciled amount increased to \$2.8 million in 2018–19.

4.15.41 The ANAO's review of the royalty trust account reconciliation in 2018–19 identified:

- exceptions in relation to contracts that had an overdrawn trust balance; and
- instances where there was an overpayment of administration fees to the NLC from royalty trust contracts.

4.15.42 As a result of the issues identified above the ANAO was unable to place reliance on the reconciliation.

4.15.43 The NLC is obtaining further legal advice for the treatment of the \$2.8 million unreconciled balance. The ANAO will review the NLC's progress as part of the 2019–20 audit.

Wreck Bay Aboriginal Council

4.15.44 The Wreck Bay Aboriginal Community Council (WBACC) is a corporate Commonwealth entity established by the *Aboriginal Land Grant (Jervis Bay Territory) Act 1986*. WBACC has various functions including land holding and management, provision of community services for its members and business enterprises.

New significant legislative breach

Record Keeping and Governance

4.15.45 Section 41 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires that the accountable authority of a Commonwealth entity must cause records to be kept that properly record and explain the entity's transactions and financial position.

4.15.46 Following the retirement of a WBACC executive in 2018, WBACC was advised by the departed staff member that the signed employment contract on file was not the most current contract. The signed contract provided by the staff member from their personal records contained provisions for additional amounts payable on termination. WBACC obtained legal advice which resulted in the payment of additional amounts that had not previously been anticipated or accounted for by WBACC.

4.15.47 WBACC has stated that the current Board members were not aware of the signed contract produced by the departing staff member. The executive's employment contract had been the subject of audit discussions in prior years and the more recent employment contract had not been provided to audit at the time these discussions were held.

4.15.48 The ANAO has recommended that WBACC review the processes around the receipt and storage of employment contracts. The WBACC has stated that going forward all executive level employment contracts will be reviewed by a legal representative prior to approval. The ANAO also recommended that the training of Wreck Bay council members be continued to strengthen their roles, responsibilities and corporate governance.

4.16 Social Services portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Social Services	Yes	Moderate	✓	2 Sept 19	2 Sept 19	Nil
Australian Hearing Services	Yes	Low	✓	19 Aug 19	19 Aug 19	Nil
National Disability Insurance Agency	Yes	High	✓	13 Sep 19	13 Sept 19	▲ □
Services Australia	Yes	Moderate	✓	26 Aug 19	27 Aug 19	Nil

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

Portfolio overview

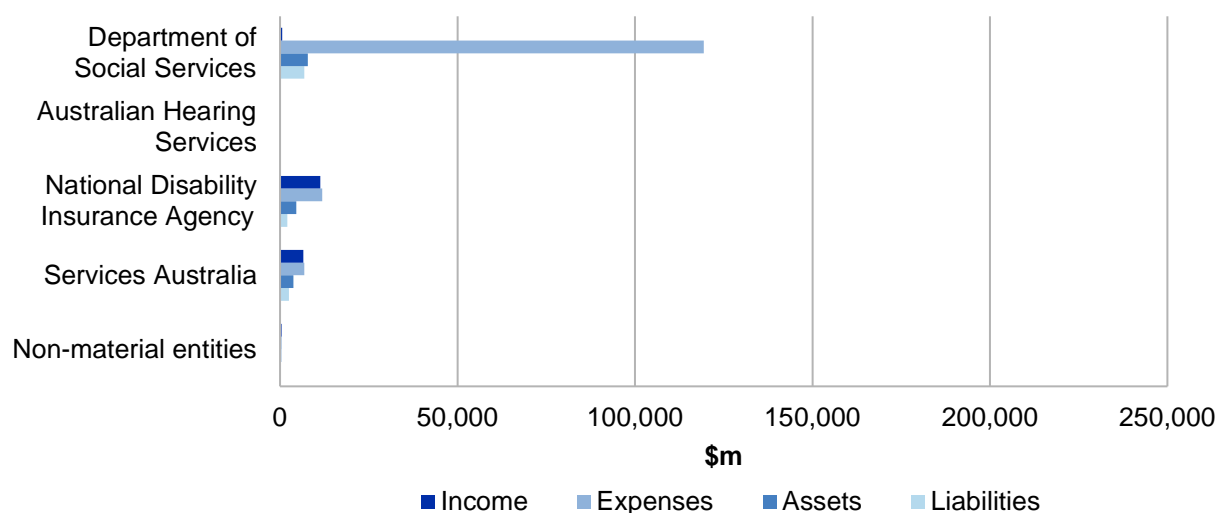
4.16.1 The Social Services portfolio is responsible for achieving the Australian Government's social policy outcomes and delivering social security priorities through policy advice, program administration and research.

4.16.2 The Department of Social Services (DSS) is the lead entity in the portfolio and has four core areas of responsibility — social security, families and communities, disability and carers, and housing. The portfolio includes Services Australia which has responsibility for delivering a range of payments and services to support individuals, families and communities, as well as providers and businesses. These include income support payments and services, aged care payments, Medicare payments and services, and child support services.

4.16.3 The 29 May 2019 Administrative Arrangements Orders transferred responsibility for whole of government services delivery from the Prime Minister and Cabinet portfolio to the renamed Services Australia (formally the Department of Human Services).

4.16.4 Figure 4.16.1 shows the Social Services portfolio's income, expenses, assets and liabilities.

Figure 4.16.1: Social Services portfolio's income, expenses, assets and liabilities



Source: 2018–19 CFS.

4.16.5 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Social Services portfolio.

Table 4.16.1: The number of audit differences for entities in the Social Services portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Social Services	1	3	4	2	3	5
Australian Institute of Family Studies	1	–	1	1	3	4
National Disability Insurance Agency	–	–	–	–	1	1
NDIS Quality and Safeguard Commission	2	4	6	–	–	–
Services Australia	–	1	1	–	1	1

Source: Audit differences reported to entities in the Social Services Portfolio.

4.16.6 The following sections provide a summary of the 2018–19 financial statements audit results for the Department of Social Services, and other material entities.

Department of Social Services

4.16.7 The Department of Social Services (DSS) is responsible for social security, families and communities, disability and carers, and housing. DSS works in partnership with other government and non-government organisations on a range of policies, programs and services focused on improving the wellbeing of people and families in Australia.

4.16.8 DSS provides shared services arrangements to other entities through the Community Grants Hub. In 2018–19, 284 staff transferred from the Department of Health to DSS. DSS is now responsible for managing a large number of grant programs on behalf of the Department of Health.

Summary of financial performance

4.16.9 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by DSS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(496.5)	(449.6)
Revenue from government	420.5	406.7
Surplus/(deficit) attributable to the Australian Government	(76.0)	(42.9)
Total other comprehensive income/(loss)	3.2	0.1
Total comprehensive income/(loss) attributable to the Australian Government	(72.8)	(42.8)
Total assets	329.4	358.8
Total liabilities	166.2	156.2
Total equity	163.2	202.6

Source: DSS' audited financial statements for the year ended 30 June 2019.

4.16.10 The increase in the net cost of services is due to the increase in employee expenses as a result of the transfer of the Community Grants Hub staff from the Department of Health and the decrease in the government bond rate resulting in an increase in expenses related to leave and other entitlements and provisions. There were also a number of systems developed/enhanced to support program delivery that led to an increase in amortisation expense. This increase was partially offset by an increase in resources received free of charge from the Department of Health for the Aged Care Gateway IT systems application development services work.

4.16.11 The increase in revenue from government is mainly due to the transfer of funding from the Department of Health to DSS as a result of the Community Grants Hub restructure.

Table 4.16.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	119,139.1	116,137.2
Total income	514.9	85.0
Surplus/(deficit)	(118,624.2)	(116,052.2)
Total other comprehensive income/(loss)	700.1	897.9
Total comprehensive income/(loss)	(117,924.1)	(115,154.3)
Total assets administered on behalf of Government	7,495.6	6,240.3
Total liabilities administered on behalf of Government	6,632.6	6,402.6
Net liabilities	863.0	162.3

Source: DSS' audited financial statements for the year ended 30 June 2019.

4.16.12 Total expenses increased primarily as a result of higher payments made to the National Disability Insurance Agency (NDIA) for growth in participant numbers in the National Disability Insurance Scheme (NDIS) and due to an increase in personal benefit expenses which is driven by an increase in age pension rates and a growing ageing population. This increase was partially offset by a decrease in the write-down and impairment of assets due to refinements in the actuarial model used and the downward movement of the yield curve applied in the actuarial valuations of personal benefit receivables at 30 June 2019.

4.16.13 Total income increased mainly due to the increase in gains as a result of the write back of the doubtful debts allowance for personal benefits. The doubtful debts allowance for personal benefits decreased due to refinements in the actuarial model used in the estimation of doubtful debts.

4.16.14 The increase in assets is due to the increase in the investment in NDIA, as NDIA is in a growth stage as new participants join the NDIS. This is partially offset by the decrease in the estimate of doubtful debts for personal benefits explained in the paragraph above.

Key areas of financial statements risk

4.16.15 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of DSS' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.16.4, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered personal benefits expenses \$110.8 billion	Accuracy and occurrence of personal benefits expenses KAM	Higher	<ul style="list-style-type: none"> reliance on the correct self-disclosure of personal circumstances by a large number of diverse recipients; and reliance on the Services Australia's complex information technology system for the processing of a high volume of payments across numerous personal benefit types with varying conditions for determining payment amount.
Administered personal benefits provisions \$4.1 billion personal benefits receivables (component of receivables \$4.5 billion)	Valuation of personal benefits provisions and personal benefits receivables KAM	Higher	<ul style="list-style-type: none"> provisions and receivables involve estimation models which require significant judgements and assumptions, and are dependent on a number of factors. These factors include, but are not limited to, new budget measures affecting benefit programs, timing of payments, personal circumstances of recipients and the economic environment; and the accuracy and completeness of the source data used by the actuary in developing the estimation of the provisions and receivables is also a key component of the valuation process.
Administered grant expenses \$2.4 billion	Accuracy and occurrence of grant expenses KAM	Moderate	<ul style="list-style-type: none"> a large number of grants programs with differing legislative and policy requirements which make the management of grant processes complex and this has the potential to impact the validity of grant expenses.

Source: ANAO 2018–19 audit results, and DSS' audited financial statements for the year ended 30 June 2019.

4.16.16 The following performance audits reports were tabled during 2018–19 relevant to the financial management or administration of DSS:

- Auditor-General Report No.1 2018–19 *The Implementation and Performance of the Cashless Debit Card*;
- Auditor-General Report No.13 2018–19 *Disability Support Pension — Follow-on Audit*;
- Auditor-General Report No.45 2018–19 *Coordination and Targeting of Domestic Violence Funding and Actions*; and
- Auditor-General Report No.50 2018–19 *National Disability Insurance Scheme Fraud Control Program*.

4.16.17 While these reports did not include recommendations regarding risks to DSS's financial administration as it relates to the financial statements, the observations of these reports were considered in designing audit procedures.

Audit results

4.16.18 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Australian Hearing Services

4.16.19 Australian Hearing Services (Hearing Australia) is responsible for the provision of government-funded hearing services through a national network of hearing centres to eligible clients under the Australian Government's Hearing Services Program. Hearing Australia is managed by a board of directors appointed by the Minister for Government Services and is constituted under the *Australian Hearing Services Act 1991*.

Summary of financial performance

4.16.20 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by Hearing Australia, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.5: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Surplus/(deficit) after income tax equivalent expense	16.6	19.1
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	16.6	19.1
Total assets	186.2	146.0
Total liabilities	107.2	73.8
Total equity	79.0	72.2

Source: Hearing Australia's audited financial statements for the year ended 30 June 2019.

4.16.21 The reduced surplus in 2018–19 is predominantly a result of the increased cost of people, primarily due to a salary increase of three per cent in November 2018, against relatively flat revenue.

4.16.22 The increase in total assets predominately relates to higher cash balances invested in term deposits. The increase in liabilities is mainly related to funding received in advance for grants relating to Community Service Obligation, Sound Scouts and Hearing Assessment Program.

Key areas of financial statements risk

4.16.23 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Hearing Australia's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.16.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total revenue \$251.1 million	Completeness of revenue	Higher	<ul style="list-style-type: none"> a number of revenue streams under the Hearing Services Program that are governed by various Acts and Rules.
Non-financial assets \$31.5 million	Valuation of property plant and equipment and intangible assets	Moderate	<ul style="list-style-type: none"> complex accounting judgements and estimates are required around useful lives and impairment including for specialised equipment; and assets located throughout Australia.

Source: ANAO 2018–19 audit results, and Hearing Australia's audited financial statements for the year ended 30 June 2019.

Audit results

4.16.24 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

National Disability Insurance Agency

4.16.25 The National Disability Insurance Agency (NDIA) was established under the *National Disability Insurance Scheme Act 2013*. The NDIA is responsible for delivering the National Disability Insurance Scheme (the Scheme). The Scheme is designed to provide individual control and choice in the delivery of reasonable and necessary care and support; to improve the independence, and social and economic participation, of eligible people with disability, their families and carers; and to provide associated referral services and activities.

Summary of financial performance

4.16.26 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the NDIA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.7: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(783.3)	(93.4)
Revenue from government	1,477.7	1,051.0
Surplus/(deficit) attributable to the Australian Government	694.4	957.6
Total other comprehensive income/(loss)	11.1	5.4
Total comprehensive income/(loss) attributable to the Australian Government	705.5	963.0
Total assets	4,555.1	2,805.3
Total liabilities	2,024.0	979.7
Total equity	2,531.1	1,825.5

Source: NDIA's audited financial statements for the year ended 30 June 2019.

4.16.27 The increase in the net cost of services and revenue from government is due to the increase in operational costs associated with administering the higher number of participants in the Scheme in 2018–19.

4.16.28 Total assets increased primarily due to a higher cash balance as at 30 June 2019. This resulted from a slower than forecast participant intake in 2018–19 and lower than expected supports claimed by Scheme participants.

4.16.29 The increase in total liabilities is mainly due to the increase in the participant plan provision. The participant plan provision is an estimate calculated by the Scheme Actuary for the value of any services provided to participants that have not yet been claimed. The increase in the provision largely reflects the higher number of participants in the Scheme in 2018–19.

Key areas of financial statements risk

4.16.30 The ANAO completed appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of NDIA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.16.8, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 4.16.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Participant plan expenses \$10.5 billion	Accuracy and occurrence of participant plan expenses KAM	Higher	<ul style="list-style-type: none"> ongoing growth in Scheme participant numbers and the need to cater for a diverse group of participants with varying and changing needs; reliance on third parties to provide information to support payments, making these payments more susceptible to fraud; no supporting documentation required as part of the claiming process; and developing compliance program supporting payments to participants. 	One moderate finding identified. Refer to paragraphs 4.16.47 – 4.16.50.
Participant plan provision \$1.4 billion	Valuation of participant plan provisions KAM	Higher	<ul style="list-style-type: none"> reliance on accounting estimates based on relatively immature longitudinal data given the maturity of the Scheme; and complexity of calculations due to the significant number of participant plans and the diverse nature of goods and services provided. 	No significant findings identified.
Contributions in-kind from Commonwealth, State and Territory governments \$1.3 billion	Completeness, occurrence and accuracy of contributions of in-kind services from Commonwealth and State and Territory governments KAM	Higher	<ul style="list-style-type: none"> complexities around the valuation and accounting for in-kind contributions provided by the Commonwealth or state and territory governments directly to organisations providing disability services under existing funding relationships, where a proportion of the funding has been allocated to be made available to NDIS participants. 	No significant findings identified.

Source: ANAO 2018–19 audit results, and NDIA's audited financial statements for the year ended 30 June 2019.

4.16.31 Auditor-General Report No.50 2018–19 *National Disability Insurance Scheme Fraud Control Program* was tabled during 2018–19 and was relevant to the financial management and administration of the NDIA.

4.16.32 The objective of the performance audit was to examine the effectiveness of the NDIA's fraud control program and its compliance with the Commonwealth *Fraud Rule*. The report concluded that the NDIA is largely compliant with the requirements of the Commonwealth *Fraud Rule* and is undertaking work which has the potential to make its fraud control program effective. The results did not impact the financial statements audit approach.

Audit results

4.16.33 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

Table 4.16.9: Status of audit findings

Category	Closing position (2017–18)	New findings (2018–19)	Findings resolved (2018–19)	Closing position (2018–19)
Moderate (B)	3	–	(2)	1
Total	3	–	(2)	1

Source: ANAO 2018–19 audit results.

4.16.34 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the NDIA's 2018–19 financial statements were not materially misstated.

Resolved moderate audit findings

Business Assurance — Compliance Program

4.16.35 Access to the Scheme is regulated via NDIA's assessment and approval of individual applicants against eligibility criteria. Once approved as eligible for the Scheme, a participant plan is formulated and approved that outlines the reasonable and necessary supports required by the participant.

4.16.36 Scheme participants can choose to self-manage their approved plan of supports or have their plan managed by the NDIA. Where plans are managed by the NDIA, payments are made to the provider subject to claims lodged online. Self-managed participants also claim online but funds are paid directly to the individual participant. No supporting documentation is required as part of the claiming process. Providers are expected to maintain evidence supporting the claims. Self-managed participants are required to keep copies of receipts for supports provided.

4.16.37 In 2015–16 the ANAO's review of the NDIA's progress towards implementing an assurance framework, including a compliance program, over the integrity of claims paid to both scheme participants and service providers identified weaknesses. The review noted that there were no documented compliance activities for payments made directly to self-managed participants and that the review program for payments made to providers was based on a non-statistical sample methodology which does not allow results to be extrapolated across the population to estimate the potential rate of non-compliance within the Scheme.

4.16.38 The ANAO also identified that there was insufficient documentary evidence to demonstrate quality assurance processes over the integrity of decisions made concerning provider registrations, participant identity or eligibility and participant plan approvals.

4.16.39 In 2017–18 the NDIA implemented more robust processes that allowed for the timely verification and analysis of errors and the error rates resulting from quality assurance processes undertaken.

4.16.40 During 2018–19 NDIA continued to mature its business assurance over payment integrity through expansion of the quarterly compliance program to include self-managed participant payments and finalisation of a standardised methodology for the design, development, testing and production of risk profiles as part of data analytical program to identify possible fraud. As a result this finding has been downgraded to a minor finding.

Approval of Supports to Participants of the Scheme

4.16.41 The NDIA uses the SAP Customer Relationship Management (CRM) system to manage Scheme participant records, assess their eligibility for access to the Scheme, create and approve their support plans, create and register disability support service providers, and process service bookings and claims.

4.16.42 Roles in the CRM enable NDIA staff to perform these duties in the system. Roles are allocated both on the basis of a user's job description and, where applicable, their delegation in accordance with the signed Instrument of Delegation. The Instrument of Delegation grants the legislative authority to allow NDIA staff to perform their duties under the delegation of the Chief Executive Officer and for participant plan approvals sets the dollar value limit that a delegate may approve.

4.16.43 ANAO testing of participant plan expenses in 2017–18 identified instances where participant plan budget values were increased after a delegate had exercised their delegation and approved the total value of the plan. These instances included participant plans that contained supports that required a quote to be provided, the manual payment of participant supports outside of the CRM system and participant plans that were extended beyond the initial term subsequent to the delegate's approval. These changes in the participant plan budget were not subject to re-approval by an appropriate delegate.

4.16.44 Plan expenditure that exceeds the delegate's approval is a breach of the legislative Instrument of Delegation. This also increases the risk of inappropriate or unauthorised transactions being processed and plans being approved outside of expected ranges which could impact on the Scheme's sustainability.

4.16.45 During 2018–19 the NDIA implemented a weekly review and follow up process over new plans (including revised plans) to ensure any changes to plans were approved by an appropriate delegate. This has partly mitigated the risk.

4.16.46 The NDIA has advised that scheduled CRM system changes will provide an automated control, preventing expenditure against plans where a revision has not been approved. These CRM system changes will also prevent participant plans being extended beyond the initial term without delegate approval. As a result this finding has been downgraded to a minor finding.

Unresolved moderate audit finding

Streamlined Access to Scheme — Defined Programs

4.16.47 Streamlined access processes for participants were introduced to facilitate the timely transition of large numbers of people into the Scheme. One of the streamlined pathways is through

Defined Programs. Defined Programs are existing state, territory and Commonwealth disability support programs that have been assessed by the NDIA as having eligibility requirements that align with Scheme access requirements. People currently receiving support from a Defined Program are automatically deemed eligible for the Scheme, as long as they meet the Scheme age and residence requirements.

4.16.48 The Commonwealth, state and territory governments provide information to the NDIA on existing disability clients transitioning into the Scheme in accordance with an agreed data standard, including if a potential participant is a participant in a Defined Program.

4.16.49 Due to the reliance on state and territory information and the limited access review processes for participants once they have been accepted as eligible to the Scheme, there is an increased risk of ineligible participants entering the Scheme and not being identified as ineligible in a timely manner. A mitigation strategy had not been implemented to address this risk.

4.16.50 The NDIA has advised that the redesigned participant pathway, which guides the interactions between the Scheme and participants, will include a review of the access decision for Defined Program participants as part of their participant plan review. The NDIA has also advised that risk profiling of all participants is scheduled for implementation in 2019–20. The ANAO will review the progress of these developments as part of the interim phase of the 2019–20 financial statements audit.

Services Australia

4.16.51 Services Australia is responsible for delivering a range of payments and services that support individuals, families and communities, as well as providers and businesses. These include: income support payments and services; aged care payments; Medicare payments and services; and child support services. The total value of social and health-related payments and services delivered by Services Australia on behalf of other entities in 2018–19 was \$182.5 billion. These expenses are recognised within each of the individual policy agencies' financial statements.

Summary of financial performance

4.16.52 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by Services Australia, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.10: Key departmental financial statements items

Key departmental financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(4,876.8)	(4,375.5)
Revenue from government	4,546.3	4,297.1
Surplus/(deficit) attributable to the Australian Government	(330.5)	(78.4)
Total other comprehensive income	13.0	20.2
Total comprehensive income/(loss) attributable to the Australian Government	(317.5)	(58.2)
Total assets	2,670.6	2,808.3
Total liabilities	1,507.4	1,652.3
Total equity	1,163.2	1,156.0

Source: Services Australia's audited financial statements for the year ended 30 June 2019.

4.16.53 Net costs of services increased mainly due to an increase in expenditure associated with the delivery of new and existing budget measures. These measures primarily related to delivery modernisation projects, including the Welfare Payment Infrastructure Transformation program, Health Delivery Modernisation and Veterans Centric Reform (delivering improved services to veterans). The department's revenue from government was higher than the prior year due to the increased funding for these budget measures.

4.16.54 The decrease in total assets is due to a reduction in appropriation receivable from the prior year, which again reflects the additional expenditure on the new budget measures. This reduction has been partially offset by an increase in non-financial assets, which is due to an increase in capitalised costs for these modernisation projects.

Table 4.16.11: Key administered financial statements items

Key administered financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	1,681.7	1,588.2
Total income	1,796.1	1,621.7
Surplus	114.4	33.5
Total other comprehensive income	6.8	7.5
Total comprehensive income	121.2	41.0
Total assets administered on behalf of Government	1,138.0	1,049.8
Total liabilities administered on behalf of Government	1,030.0	967.8
Net assets	108.1	82.0

Source: Service Australia's audited financial statements for the year ended 30 June 2019.

4.16.55 The key activity within Services Australia's administered functions relates to child support. The cash collected by Services Australia from non-custodial parents in 2019 was \$1.511 billion with \$1.546 billion transferred to the custodial parents in that same year. The total child support amount

payable to Services Australia to be transferred to custodial parents has built up over time to \$1.608 billion. This is offset by the amount not expected to be recovered estimated by the actuary to be \$692.9 million. This assessment is driven by a combination of a fall in collection rates, an increase in the mean term to recovery, and the impact of changes in the bond rate.

Key areas of financial statements risk

4.16.56 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Service Australia's financial statements. Services Australia has a highly complex IT environment made up of numerous systems hosted across different IT platforms. The ANAO assessed Services Australia's key IT general and application controls that support the financial statements. The ANAO has identified a number of minor findings in the prior and current year audits relating to IT general controls, in particular IT access and privileged user management, which represent weaknesses in Services Australia's IT control environment. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.16.12, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.12: Key areas of financial statements risk

Relevant financial statement item	Key areas of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Child support maintenance receivables \$914.8 million	Valuation of child support receivables that are yet to be paid by non-custodial parents at the end of the financial year. KAM	Moderate	<ul style="list-style-type: none"> significant judgements and assumptions around the collection rates of child support obligations are applied in determining the valuation of child support receivables, and require the involvement of an actuary. These judgements rely on the quality of the underlying data used in the estimation process; and a large volume of child support financial transactions are processed using bespoke IT application under the complex <i>Child Support Act 1988</i>. This complexity increases the judgements and estimates associated with the child support receivable valuation.
Departmental intangible assets \$471.8 million	Valuation of intangible assets KAM	Moderate	<ul style="list-style-type: none"> significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and judgements involved in estimating the capitalisation of the staff and other costs attributed to developing the software applications.

Source: ANAO 2018–19 audit results, and Service Australia's audited financial statements for the year ended 30 June 2019.

4.16.57 The following performance audits reports were tabled during 2018–19 relevant to the financial management or administration of Services Australia:

- Auditor-General Report No.10 2018–19 *Design and Implementation of the Quality Framework*;
- Auditor-General Report No.13 2018–19 *Disability Support Pension — Follow-on Audit*;
- Auditor-General Report No.15 2018–19 *Human Services’ Compliance Strategies*;
- Auditor-General Report No.16 2018–19 *Implementation of the Australian Government’s Workplace Bargaining Framework*; and
- Auditor-General Report No.28 2018–19 *Management of Smart Centres’ Centrelink Telephone Services — Follow-up*.

4.16.58 While the remaining reports did not include recommendations regarding risks to Services Australia’s financial administration as it relates to the financial statements, the observations of these reports were considered in designing audit procedures.

Audit results

4.16.59 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

4.17 Treasury portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Treasury	Yes	Moderate	✓	9 Sept 19	10 Sept 19	Nil
Australian Bureau of Statistics	Yes	Low	✓	20 Aug 19	20 Aug 19	Nil
Australian Office of Financial Management	Yes	Moderate	✓	23 Aug 19	23 Aug 19	Nil
Australian Prudential Regulation Authority	Yes	Low	✓	16 Aug 19	16 Aug 19	Nil
Australian Reinsurance Pool Corporation	Yes	Moderate	✓	27 Sept 19	27 Sept 19	Nil
Australian Securities and Investments Commission	Yes	Moderate	✓	20 Aug 19	20 Aug 19	Nil
Australian Taxation Office	Yes	High	✓	12 Sept 19	12 Sept 19	Nil
National Housing Finance and Investment Corporation	Yes	Low	✓	19 Sept 19	1 Oct 19	Nil
Reserve Bank of Australia	Yes	Moderate	✓	4 Sept 19	4 Sept 19	Nil
Royal Australian Mint	No	Moderate	✓	13 Sept 19	13 Sept 19	☐

✓: auditor's report not modified

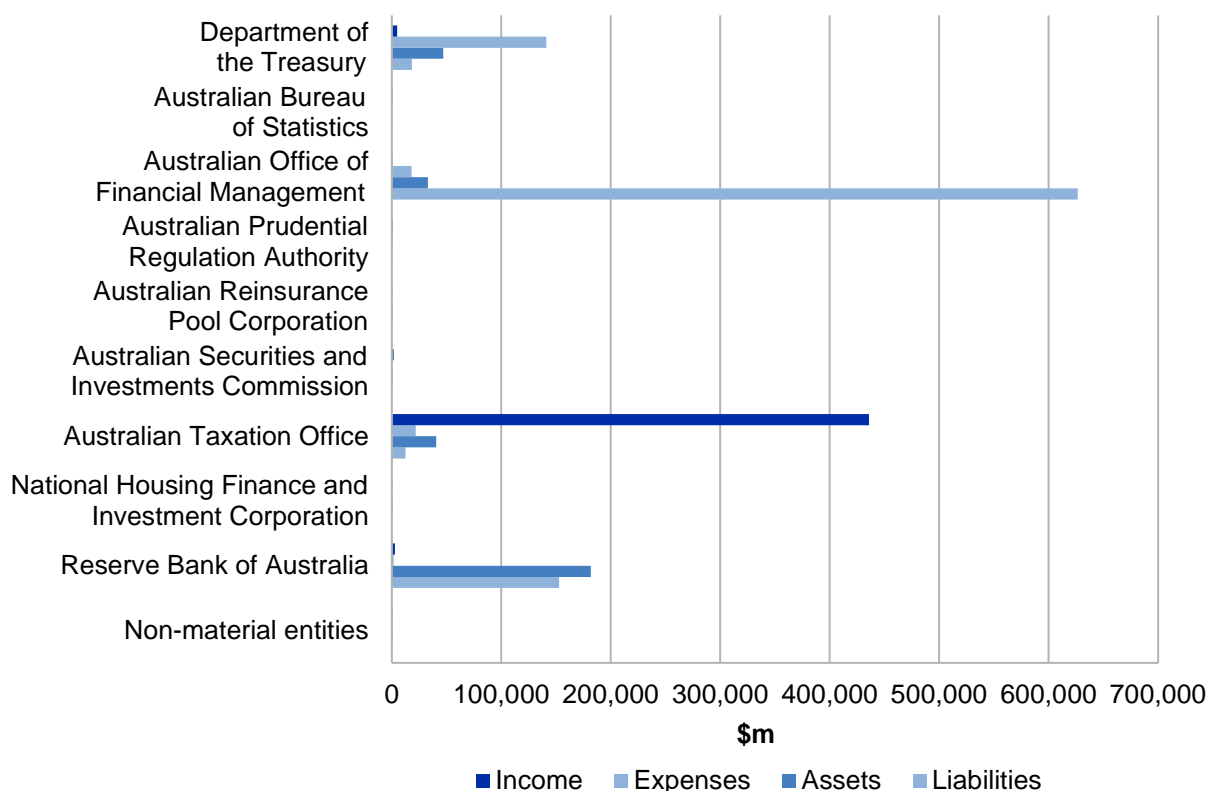
☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

Portfolio overview

4.17.1 The Treasury portfolio is responsible for activities aimed at achieving strong, sustainable economic growth and the improved wellbeing of Australians.

4.17.2 The Department of the Treasury is the lead entity in the portfolio and is responsible for the development, delivery and implementation of economic policy and advice. This includes advice on the economy, budget, taxation, financial, foreign investment and structural policy, superannuation, small business, housing affordability and international economic policy.

4.17.3 Figure 4.17.1 shows the Treasury portfolio's income, expenses, assets and liabilities.

Figure 4.17.1: Treasury portfolio's income, expenses, assets and liabilities

Source: 2018–19 CFS.

4.17.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.15 – 2.16. The analysis included a summary of the total number of audit differences reported to entities during the 2018–19 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Treasury portfolio.

Table 4.17.1: The number of audit differences for entities in the Treasury portfolio

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of the Treasury	–	2	2	–	1	1
Australian Competition and Consumer Commission	1	–	1	–	–	–
Australian Prudential Regulation Authority	–	1	1	–	–	–
Australian Securities and Investments Commission	–	1	1	1	–	1
Australian Taxation Office	1	2	3	12	3	15

	2018–19			2017–18		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Commonwealth Grants Commission	–	1	1	–	1	1
Financial Adviser Standards and Ethics Authority Ltd	–	–	–	–	1	1
National Housing Finance Investment Corporation	–	1	1	–	–	–
Office of the Auditing and Assurance Standards Board	–	–	–	–	2	2
Office of the Australian Accounting Standards Board	1	1	2	–	1	1
Productivity Commission	–	–	–	–	1	1
Reserve Bank of Australia	1	–	1	1	–	1
Royal Australian Mint	2	1	3	2	4	6

Source: Audit differences reported to entities in the Treasury Portfolio.

4.17.5 The following sections provide a summary of the 2018–19 financial statements audit results for the Department of the Treasury, other material entities and findings related to non-material entities in the portfolio.

Department of the Treasury

4.17.6 The Department of the Treasury (the Treasury) is responsible for the development, delivery and implementation of economic analysis and authoritative policy advice issues such as the economy, budget, taxation, financial, foreign investment and structural policy, superannuation, small business, housing affordability and international economic policy.

4.17.7 The Treasury also works with state and territory governments on key policy areas, as well as managing federal financial relations. The Commonwealth, through the Treasury, currently provides grants to the states and territories under the *Federal Financial Relations Act 2009* (FFR Act) through: National Specific Purpose Payments and Agreements; National Health Reform Funding; General Revenue Assistance; and National Partnership Payments. In 2018–19, a significant portion of the National Partnership Payments were delivered by the Department of Infrastructure, Regional Development and Cities and the Department of Social Services.

4.17.8 The Administrative Arrangements Order of 29 May 2019 transferred responsibility for population policy from the Infrastructure portfolio, and housing affordability from the Social Services portfolio to the Treasury. While there was a transfer of function, there were no financial transactions associated with this change in 2018–19.

Summary of financial performance

4.17.9 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the Treasury, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.2: Key departmental financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(199.2)	(193.6)
Revenue from government	189.4	187.8
Surplus/(deficit) attributable to the Australian Government	(9.8)	(5.7)
Total other comprehensive income/(loss)	–	0.3
Total comprehensive income/(loss) attributable to the Australian Government	(9.8)	5.5
Total assets	109.2	105.6
Total liabilities	69.0	64.7
Total equity	40.2	40.9

Source: The Treasury's audited financial statements for the year ended 30 June 2019.

4.17.10 The net cost of services increased as a result of an increase in employee expenses and grants expenses, partially offset by a decrease in supplier expenses. Employee expenses increased largely as a result of the decrease in the bond rate, which also increased the employee provisions balance. Grants increased as a result of one-off grant payments to the National Housing Finance and Investment Corporation and the Australian Financial Complaints Authority. Supplier expenses decreased as a result of reduced consultancy and contractor costs, largely due to the transfer of the shared service centre to the Department of Industry, Innovation and Science. These movements resulted in an increase in the loss attributable to the Australian Government.

Table 4.17.3: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	140,328.2	133,937.1
Total income	4,670.1	1,946.1
Surplus/(deficit)	(135,658.1)	(131,991.0)
Total other comprehensive income/(loss)	3,411.6	3,464.1
Total comprehensive income/(loss)	(132,246.5)	(128,526.9)
Total assets administered on behalf of Government	46,733.3	41,272.5
Total liabilities administered on behalf of Government	18,076.2	17,398.5
Net assets/(liabilities)	28,657.1	23,874.0

Source: The Treasury's audited financial statements for the year ended 30 June 2019.

4.17.11 In 2018–19, there was an increase in grants made on behalf of other government agencies through the COAG Reform Fund Special Account, which resulted in an increase in both revenue and grants expense. Expenses also increased as a result of additional money transferred from the Treasury special account to the Department of Health’s special account for estimated costs associated with the Medicare Benefits Schedule and Pharmaceutical Benefits Scheme as required under the *Medicare Guarantee Act 2017*. Dividend revenue from the Reserve Bank of Australia (RBA) also contributed to the increase in administered income.

4.17.12 The increase in administered assets was mainly due to increases in the value of the administered investments in the RBA and the International Money Fund quota.

Key areas of financial statements risk

4.17.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the Treasury’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.17.4, including areas which were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Other provisions \$1.4 billion	Valuation of the Disaster Recovery Funding Arrangements (DRFA) and the Natural Disaster Relief and Recovery Arrangements Provision (NDRRA) KAM	Higher	<ul style="list-style-type: none"> complexities in judgements involved in estimating the provision arising from reliance on information provided by state and territory governments relating to the estimation of future costs to restore infrastructure to its original condition at the time of the natural disaster and the timing of future payments.
Administered Grants expense \$103.9 billion Grants payable \$156.0 million	Accuracy and completeness of payments to states and territories under the <i>Federal Financial Relations Act 2009</i> KAM	Moderate	<ul style="list-style-type: none"> the significance of the value of grants paid and the complex eligibility criteria for a number of grants; and reliance on other government entities to provide information to support payments and confirm the eligibility criteria have been met.
Administered Investments \$44.0 billion	Valuation of Administered Investments	Moderate	<ul style="list-style-type: none"> the significance of the value of administered investments and the potential impact of the volatility of inputs, such as exchange rates used, in re-measurement of the international financial institutions.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Investments \$165.0 million Advances and loans \$15.3 million	Accuracy, completeness and valuation of National Housing Finance and Investment Corporation (NHFIC) transactions	Moderate	<ul style="list-style-type: none"> complex legislative arrangements which govern the funding arrangements for NHFIC and the accurate recording in the financial statements of associated transactions.

Source: ANAO 2018–19 audit results and the Treasury's audited financial statements for the year ended 30 June 2019.

Audit results

4.17.14 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits

Australian Bureau of Statistics

4.17.15 The Australian Bureau of Statistics (ABS) is responsible for partnering and innovating to deliver relevant, trusted and objective data, statistics and insights to inform Australia's important decisions.

Summary of financial performance

4.17.16 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by the ABS and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.5: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(375.5)	(449.7)
Revenue from government	330.3	413.8
Surplus/(deficit) attributable to the Australian Government	(45.2)	(36.0)
Total other comprehensive income/(loss)	1.0	6.6
Total comprehensive income/(loss) attributable to the Australian Government	(46.3)	(29.4)
Total assets	249.6	272.8
Total liabilities	167.3	172.2
Total equity	82.3	100.6

Source: ABS' audited financial statements for the year ended 30 June 2019.

4.17.17 The decrease in the net cost of services and revenue from government is mainly due to a decrease in costs and a reduction in appropriation revenue attributed to the Australian Marriage Law Postal Survey (AMLPS) for which one-off funding (\$80.5 million) was received in 2017–18.

4.17.18 The decrease in total assets is attributed to lower appropriations receivable due to the timing of drawdowns and the impact of depreciation on property, plant and equipment (PPE) balances. The decrease in equity is due to the Statistical Business Transformation Program equity injection in which was a one off funding adjustment in 2017–18.

Key areas of financial statements risk

4.17.19 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ABS' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 4.17.6. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.17.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Intangible assets \$106.7 million	Valuation and impairment of non-financial assets	Moderate	<ul style="list-style-type: none"> • implementation of technology upgrades and the potential misstatement associated with the incorrect capitalisation and useful lives for internally developed software; and • impairment indicators not adequately identified for business reorganisation.

Source: ANAO 2018–19 audit results, and ABS' audited financial statements for the year ended 30 June 2019.

4.17.20 Auditor-General Report No.5 2018–19 *ANAO Statistical Business Transformation Program — Managing Risk* was considered in developing the financial statements risk and focus on controls during the 2018–19 financial statements audit.

Audit results

4.17.21 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits

Australian Office of Financial Management

4.17.22 The Australian Office of Financial Management (AOFM) is responsible for managing Australian Government debt and financial assets and the issuing of Treasury bonds, Treasury indexed bonds and Treasury notes into the financial markets.

Summary of financial performance

4.17.23 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the AOFM, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.7: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(10.2)	(10.0)
Revenue from government	11.7	10.8
Surplus/(deficit) attributable to the Australian Government	1.5	0.8
Total comprehensive income/(loss) attributable to the Australian Government	1.5	0.8
Total assets	27.6	27.9
Total liabilities	3.6	3.0
Total equity	24.0	24.9

Source: AOFM's audited financial statements for the year ended 30 June 2019.

4.17.24 The increase in revenue from government reflects additional funding for the Australian Business Securitisation Fund. Fluctuations in other balances are the result of normal business activities.

Table 4.17.8: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	17,100.0	17,025.0
Total income	565.0	786.0
Gains/(losses) from repurchasing debt	(896.0)	(512.0)
Re-measurement gain/(loss)	(43,550.0)	581.0
Surplus/(deficit)	(60,981.0)	(16,170.0)
Total comprehensive gain/(loss)	(60,981.0)	(16,170.0)
Total assets administered on behalf of Government	32,824.0	46,933.0
Total liabilities administered on behalf of Government	626,369.0	575,449.0
Net liabilities	593,545.0	528,516.0

Source: AOFM's audited financial statements for the year ended 30 June 2019.

4.17.25 The re-measurement losses and increase in liabilities is mainly due to lower yields on Australian Government Securities over 2018–19. There is an inverse relationship between the market value of securities and the yields on those securities that is, the market value increases (decreases) when yields fall (rise).

Key areas of financial statements risk

4.17.26 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the AOFM's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in

2018–19 is provided in Table 4.17.9; it was considered a Key Audit Matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.17.9: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Australian Government securities \$626.4 billion	Valuation and disclosure of Australian Government securities KAM	Moderate	<ul style="list-style-type: none"> significant value of the liability and significant volume of instruments issued; fair value movements have a material impact on the financial statements and are impacted by price changes in money markets and capital markets; and complex financial statement disclosure requirements for financial assets and liabilities measured at fair value through profit and loss.

Source: ANAO 2018–19 audit results, and the AOFM's audited financial statements for the year ended 30 June 2019.

Audit results

4.17.27 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Australian Prudential Regulation Authority

4.17.28 The Australian Prudential Regulation Authority (APRA) is responsible for regulating the Australian financial services industry through the oversight of banks, credit unions, building societies, friendly societies, general insurers, life insurers, private health insurers, reinsurance companies and most of the superannuation industry. APRA is funded largely by the industries that it regulates.

Summary of financial performance

4.17.29 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by APRA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.10: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(153.6)	(132.3)
Revenue from government	143.7	135.8
Surplus/(deficit) attributable to the Australian Government	(9.9)	3.5
Total other comprehensive income/(loss)	0.3	–
Total comprehensive income/(loss) attributable to the Australian Government	(9.6)	3.5
Total assets	122.4	126.9
Total liabilities	80.7	75.6
Total equity	41.7	51.3

Source: APRA's audited financial statements for the year ended 30 June 2019.

4.17.30 The movement in the net cost of services largely relates to an increase in employee expenses of \$11.2 million, offset by a decrease in other revenue of \$5.9 million. The increase in employee expenses is mostly attributable to an increase in the average staffing level from 607 in 2017–18 to 644 in 2018–19. The decrease in other revenue is largely the result of a reduction in prudential recoveries due to the finalisation of the Prudential Inquiry into the Commonwealth Bank of Australia. Fluctuations in other balances are considered to be as a result of normal activities.

Table 4.17.11: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	463.2	428.4
Total income	678.6	674.5
Surplus/(deficit)	215.4	246.1
Total comprehensive income/(loss)	215.4	246.1
Total assets administered on behalf of Government	3.0	3.0
Total liabilities administered on behalf of Government	2.0	2.0
Net assets/(liabilities)	1.0	1.0

Source: APRA's audited financial statements for the year ended 30 June 2019.

4.17.31 In 2018–19 there was an increase in the collection and subsequent remittance of the Risk Equalisation Levy of \$34.8 million. The Risk Equalisation Levy receipts are set to equalise risk across the private health insurance industry and are determined quarterly under section 7 of the *Private Health Insurance (Risk equalisation Levy) Act 2003* by APRA. The increase impacted both total expenses and total income.

4.17.32 The increase in Risk Equalisation Levy receipts was offset by a reduction in the collection of the Financial institutions Supervisory levy. The Financial institutions Supervisory levy is also determined by the Treasurer, in conjunction with APRA to recover operational costs of APRA, and

other specific costs incurred by certain Commonwealth agencies and departments. In 2018–19 the Financial institutions Supervisory levy collected reduced by \$30.7 million.

Key areas of financial statements risk

4.17.33 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of APRA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 4.17.12. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.17.12: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered levy revenue \$678.5 million	Accuracy of administered levy revenue	Moderate	<ul style="list-style-type: none"> complex calculations that are prescribed in a number of Acts and rules.

Source: ANAO 2018–19 audit results, and APRA's audited financial statements for the year ended 30 June 2019.

Audit results

4.17.34 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Australian Reinsurance Pool Corporation

4.17.35 The Australian Reinsurance Pool Corporation (ARPC), established by the *Terrorism Insurance Act 2003*, is responsible for administering the Terrorism Reinsurance Scheme, providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident.

Summary of financial performance

4.17.36 The following section provides a comparison of the 2017–18 and 2018–19 key financial statements items reported by ARPC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.13: Key financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	164.1	161.1
Own-source income	209.5	189.3
Surplus/(deficit) attributable to the Australian Government	45.4	28.2
Total assets	596.8	548.5
Total liabilities	135.5	122.6
Total equity	461.3	425.9

Source: APRC's audited financial statements for the year ended 30 June 2019.

4.17.37 The increase in own-source income is driven by changes in premium rates in commercial property and the inclusion of high value and mixed use buildings in the scheme from 2018–19. This also resulted in a higher surplus attributable to the Australian Government. Assets increased mainly due to a lower government dividend requirement in 2018–19.

Key areas of financial statements risk

4.17.38 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of APRC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.17.14. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.14: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Premium revenue \$190.8 million Unearned premium \$98.8 million	Accuracy of insurance premium	Moderate	<ul style="list-style-type: none"> • inaccurate recognition of premium; • insurers may calculate and remit incorrect premium reviews; and • incorrect calculation of unearned premium.
Outward retrocession premium expense \$64.8 million	Accuracy of retrocession cost and deferral	Moderate	<ul style="list-style-type: none"> • inaccurate calculations and payments of retrocession premium; and • deterioration in credit worthiness of reinsurance counterparties may affect the recoverability of reinsurance receivables.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Fees \$90.0 million Dividend \$10.0 million	Accuracy of calculations of reserves to fund future capital requirements and insurance claims	Moderate	<ul style="list-style-type: none"> • inaccurate calculations of fees and dividends; and • deterioration in credit worthiness of reinsurance counterparties may affect the recoverability of reinsurance receivables.

Source: ANAO 2018–19 audit results, and APRC's audited financial statements for the year ended 30 June 2019.

4.17.39 Auditor-General Report No.48 2018–19 *Management of the Terrorism Reinsurance Scheme* was tabled during 2018–19 and was relevant to the financial management and administration of APRC.

4.17.40 In summary, the report found that APRC: was effective in managing the Terrorism Insurance Scheme; has effective processes for reviewing and collecting premiums as well as assessing whether the scheme's participation requirements are being met; and has governance arrangements that enable effective management and oversight of the scheme. The results of the performance audit provided additional assurance over the entity's controls and processes, particularly around premium revenues and entity governance.

Audit results

4.17.41 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Australian Securities and Investments Commission

4.17.42 The Australian Securities and Investments Commission (ASIC) is Australia's integrated corporate, financial services, markets and consumer credit regulator to support a fair, strong and efficient financial system for all Australians. ASIC's core responsibility is to maintain and facilitate the performance of that financial system and promote confident and informed participation by investors and consumers.

Summary of financial performance

4.17.43 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by ASIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.15: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(419.7)	(358.9)
Revenue from government	374.3	348.0
Surplus/(deficit) attributable to the Australian Government	(45.4)	(10.9)
Total other comprehensive income/(loss)	5.4	–
Total comprehensive income/(loss) attributable to the Australian Government	(40.0)	(10.9)
Total assets	347.1	337.6
Total liabilities	184.0	166.2
Total equity	163.1	171.4

Source: ASIC's audited financial statements for the year ended 30 June 2019.

4.17.44 The higher net cost of services is mainly due to increased employee expenses resulting from the increase in the long service provision driven by lower government bond rates and a reduction in revenue in 2018–19 due to lower court cost recoveries. Revenue from government increased as new funding was received for strategic initiatives and increased enforcement activities.

Table 4.17.16: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	129.0	123.9
Total income	1,343.5	1,304.7
Surplus/(deficit)	1,214.5	1,180.8
Total assets administered on behalf of Government	436.0	381.5
Total liabilities administered on behalf of Government	379.5	378.8
Net assets/(liabilities)	56.5	2.7

Source: ASIC's audited financial statements for the year ended 30 June 2019.

4.17.45 Total income increased due to higher fees, levies and unclaimed monies collected in 2018–19. These increases were partially offset by lower fines recognised in 2018–19 due to a decrease in litigation and enforceable undertakings.

Key areas of financial statements risk

4.17.46 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ASIC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.17.17. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.17: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered other provisions \$347.8 million	Valuation of the provisions for future claims of unclaimed monies	Higher	<ul style="list-style-type: none"> the actuarial model used to calculate the provision relies on a legislative framework that can be subject to change; and the calculation is sensitive to movements in general market conditions such as the growth rate, claims history and discount rate which are subject to management judgement.
Administered taxation revenue \$850.4 million non-taxation revenue \$493.1 million	Completeness and accuracy of administered revenue	Moderate	<ul style="list-style-type: none"> corporate fees and fines revenue is reliant on the completeness of data in subsidiary IT systems which is transferred to the Financial Management Information System (FMIS); taxation revenue arising from the supervisory cost recovery levies is estimated in advance of invoicing, and subject to management judgement; and complexities in the point at which unclaimed monies revenue is recognised in accordance with AASB 118 <i>Revenue</i>.

Source: ANAO 2018–19 audit results, and ASIC's audited financial statements for the year ended 30 June 2019.

Audit results

4.17.47 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Australian Taxation Office

4.17.48 The Australian Taxation Office's (ATO) core areas of responsibility are managing and shaping tax, excise and superannuation systems that fund services for Australians, together with the provision of support to the Tax Practitioners Board, the Australian Business Register and the Australian Charities and Not-for-profits Commission.

Summary of financial performance

4.17.49 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the ATO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.18: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(3,481.4)	(3,434.2)
Revenue from government	3,237.9	3,199.1
Surplus/(deficit) attributable to the Australian Government	(243.5)	(235.1)
Total other comprehensive income/(loss)	7.8	(0.1)
Total comprehensive income/(loss) attributable to the Australian Government	(235.7)	(235.2)
Total assets	1,233.0	1,371.2
Total liabilities	1,165.5	1,227.2
Total equity	67.5	144.0

Source: ATO's audited financial statements for the year ended 30 June 2019.

4.17.50 The increase in other comprehensive income is mainly attributable to the revaluation increase in the value of the building leasehold improvements that was conducted by external independent valuers during the financial year. The decrease in assets is attributable to depreciation expense for the year.

Table 4.17.19: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	18,051.0	18,935.0
Total revenue	432,357.0	405,819.0
Surplus/(deficit)	414,306.0	386,884.0
Total comprehensive income/(loss)	414,306.0	386,884.0
Total assets administered on behalf of Government	39,195.0	37,298.0
Total liabilities administered on behalf of Government	11,389.0	10,486.0
Net assets/(liabilities)	27,806.0	26,812.0

Source: ATO's audited financial statements for the year ended 30 June 2019.

4.17.51 The increase in surplus and net assets in 2018–19 is primarily driven by increase in withholding tax from individuals, a decrease in work related deductions, and an increase in taxation revenue from companies primarily as a result of increase in mining profits due to higher commodity prices.

Key areas of financial statements risk

4.17.52 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ATO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in

2018–19 are provided in Table 4.17.20, including areas considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.20: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered taxation revenue \$433.4 billion expenses \$19.1 billion	Accuracy of administered income and expenses KAM	Higher	<ul style="list-style-type: none"> • complex estimation processes, involving significant judgement and specialist knowledge; • completeness, relevance and accuracy of source data; and • volatility in economic conditions, such as wage growth, gross domestic product and historical information increases the uncertainty of factors underpinning the estimates.
Administered taxation revenue \$433.4 billion expenses \$19.1 billion provisions for credit amendments and impairment allowance (component of the taxation receivable balance \$25.0 billion) provisions for refunds \$2.7 billion	Valuation of taxation receivables including processes for estimating taxation debt provisions, accounting for settlements of outstanding taxation liabilities and other adjustments to taxpayer client accounts KAM	Higher	<ul style="list-style-type: none"> • significant value of transactions subject to complex estimation processes drawing on specialist knowledge of debt provisions, including allowance for credit amendment and impairment losses associated with taxation receivable balances; • completeness, relevance and accuracy of source data; • complexity associated with negotiations and dispute resolutions; • application of significant judgement for settlement resulting from differing deeds and terms; and • quality assurance processes for key judgements relating to debt provisions including credit amendments; impairment losses; and accounting for settlements of outstanding taxation liabilities and other adjustments to client accounts.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered taxation revenue \$433.4 billion	Completeness and accuracy of taxation revenue and the ATO's compliance risk management relating to the collection of taxation revenue. KAM	Higher	<ul style="list-style-type: none"> the significant value of revenue transactions that rely on information provided by taxpayers in a self-assessment and voluntary compliance regime; the effectiveness of the design and implementation of the compliance risk management regime that reduces the risk that inappropriate taxation returns may not be detected and corrected by the ATO, which makes the deterrence of tax evasion more effective; and judgements associated with the risk management approach to compliance activities.
Administered taxation revenue \$433.4 billion penalty and interest charge remission expenses \$1.2 billion taxation receivables \$25.0 billion	Occurrence and accuracy of the various types of penalties and interest charges applied, remitted and cancelled to taxation liabilities.	Moderate	<ul style="list-style-type: none"> significant manual process surrounding imposition and remission of penalties; application of various types of penalties and interest charges imposed by legislative requirements; and application of judgement surrounding cancellation or remission of penalties and interest charges on unpaid or amended taxation liabilities.
Administered all financial statement items	Completeness and accuracy relating to financial reporting due to complex manual compilation of data processes required for financial reporting purposes.	Moderate	<ul style="list-style-type: none"> manual calculation of complex information in spreadsheets increases the risk of miscalculation due to data linkages and human error.
Administered all financial statement items	Accuracy and completeness of balances due to ATO's IT business systems and associated processing of taxpayer returns and statements	Moderate	<ul style="list-style-type: none"> large and complex IT environment with several hundred business applications processing a high volume of transactions; many IT systems are bespoke or heavily customised to the ATO; and reliance on specialised reports to prepare financial statements balances.

Source: ANAO 2018–19 audit results, and ATO's audited financial statements for the year ended 30 June 2019.

Audit results

4.17.53 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

National Housing Finance and Investment Corporation

4.17.54 The National Housing Finance and Investment Corporation (NHFIC) commenced in 2018–19 and is established by the *National Housing Finance and Investment Corporation Act 2018*. The NHFIC is responsible for the:

- establishment and operation of an Affordable Housing Bond Aggregator to provide finance to registered community housing providers by aggregating its lending requirements and issuing bonds to institutional investors; and
- establishment and operation of the National Housing Infrastructure Facility to provide grants and finance to support the creation of housing-related infrastructure.

Summary of financial performance

4.17.55 The following section provides a summary of the 2018–19 key financial statements items reported by the NHFIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.21: Key financial statements items

Key financial statement items	2018–19 (\$m)
Net (cost of)/contribution by services	(64.7)
Revenue from government	53.7
Surplus/(deficit) attributable to the Australian Government	(11.0)
Total other comprehensive income/(loss)	–
Total comprehensive income/(loss) attributable to the Australian Government	(11.0)
Total assets	515.3
Total liabilities	361.3
Total equity	154.0

Source: NHFIC's audited financial statements for the period ended 30 June 2019.

4.17.56 NHFIC's operations were established in 2018–19 and therefore no comparative information is presented.

4.17.57 The balance of net cost of services is primarily attributable to the upfront recognition of concessional loans discount expense. The balance of total assets is mainly comprised of short term cash investments and loans receivables. The balance of liabilities mainly consists of fixed rate bonds issued through the affordable housing bond aggregator to the commercial market in 2018–19.

Key areas of financial statements risk

4.17.58 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of NHFIC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 4.17.22. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.22: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Inappropriate accounting for and assessment of concessional loans Loans receivable \$273.2 million Concessional loans discount \$61.2 million Concessional loans provisions \$26.0 million	Recognition, completeness and accuracy of concessional loans and associated calculations	Moderate	<ul style="list-style-type: none"> • manual calculation of complex information in spreadsheets; • application of judgement surrounding the selection and application of indices such as market rates; and • implementation and interpretation of AASB 9 Financial Instruments.
Non-compliance with legislative mandates and establishment of appropriate governance frameworks All financial statements line items	Internal control and financial governance framework have been developed and implemented during the year	Moderate	<ul style="list-style-type: none"> • internal control and financial governance framework have not operated for the full financial year.
Issuance of Bonds Other interest bearing liabilities \$314.6 million	Valuation and completeness of bonds recognised in the financial statements	Moderate	<ul style="list-style-type: none"> • the significant value of bonds transactions and subsequent fair value measurement which may require the use of judgement.
Reliance on the Export Finance Australia service level agreement All financial statement line items	Export Finance Australia is responsible for provision of administration and corporate services to NHFIC, including IT platforms.	Normal	<ul style="list-style-type: none"> • reliance over the operating effectiveness of Export Finance Australia's IT platforms and general accounting processes.

Source: ANAO 2018–19 audit results, and NHFIC's audited financial statements for the year ended 30 June 2019.

Audit results

4.17.59 There were no significant or moderate audit findings arising from the 2018–19 financial statements audit.

Reserve Bank of Australia

4.17.60 The objective of the Reserve Bank of Australia (RBA) is to determine and implement monetary policy, work to maintain a strong financial system, and issue the nation's currency. As well as being a policymaking body, the RBA provides selected banking services to a range of Australian Government entities and to a number of overseas central banks and official institutions. The RBA is also responsible for the management of Australia's gold and foreign exchange reserves.

Summary of financial performance

4.17.61 The following section provides a comparison of the 2017–18 and 2018–19 key departmental and administered financial statements items reported by the RBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.23: Key departmental financial statements items

Key financial statement items	2018–19 (\$m)	2017–18 (\$m)
Total expenses	1,715	2,047
Total income	6,264	5,894
Net profit/(loss)	4,549	3,847
Total other comprehensive income	671	436
Total comprehensive income/(loss) attributable to the Australian Government	5,220	4,283
Total assets	181,808	186,341
Total liabilities	152,896	160,964
Total equity	28,912	25,377

Source: RBA's audited financial statements for the year ended 30 June 2019.

4.17.62 The increase in net profit in 2018–19 was primarily driven by valuation gains on foreign currency investments and an increase in interest income from foreign currency and Australian dollar investments. The valuation gains reflect the net depreciation of the Australian dollar against major currencies.

4.17.63 The decrease in assets was primarily due to a decrease in Australian dollar investments as at 30 June 2019, largely due to the maturity of Commonwealth Government and Semi-Government Securities.

4.17.64 The decrease in liabilities was primarily due to a decrease in Commonwealth Government Term Deposits, partially offset by an increase in banknotes on issue reflecting public demand for banknotes and the issuance of the Next Generation Banknote 50 series.

Key areas of financial statements risk

4.17.65 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of RBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in

2018–19 are provided in Table 4.17.24, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.24: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Australian dollar investments \$97.9 billion foreign currency investments \$76.2 billion net gain on security and foreign exchange \$3.3 billion	Valuation of Australian dollar securities and foreign currency investments KAM	Higher	<ul style="list-style-type: none"> complexity in determining the fair value of a range of investments and securities; and potential for a significant financial impact from fluctuations in the value of the Australian dollar.
Australian banknotes on issue \$80.0 billion	Accuracy of the liability for the Australian banknotes KAM	Higher	<ul style="list-style-type: none"> the accuracy of the liability for Australian banknotes on issue is dependent on the assumption that legal tender status is retained by all Australian notes on issue; and high volume of note production and the supply and security of banknotes is structurally significant to the economy.

Source: ANAO 2018–19 audit results, and RBA's audited financial statements for the year ended 30 June 2019.

4.17.66 Auditor-General Report No.1 2018–19 *Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities* was tabled during 2018–19 and was relevant to the financial management or administration of RBA. The results of this performance audit did not have significant implications for the financial statements audit.

Audit results

4.17.67 There were no significant or moderate audit findings arising from the 2017–18 or 2018–19 financial statements audits.

Comments on non-material entities

The Royal Australian Mint

4.17.68 The Royal Australian Mint (the Mint) is the sole supplier of Australia's coins, and produces coins for other countries, along with medals, medallions, and tokens for both national and

international clients. The Mint is also the custodian of Australia's National Coin Collection and provides educational and tourist services to local and overseas residents.

Resolved moderate audit findings

Controls over accuracy of system based parameters and costing

4.17.69 In 2017–18 the Mint implemented a new information technology management system to manage inventory and manufacturing functions. In 2017–18, the Mint identified deficiencies in configuration settings within this new system that contributed to a number of adjustments to inventory costs. These system configuration issues were unable to be remediated through configuration adjustments and required ongoing monitoring and review.

4.17.70 The ANAO recommended the Mint conduct a post-implementation review of the system implementation, with a focus on data input and system configuration controls, to remediate factors that may have contributed to these adjustments. During 2018–19 the ANAO observed that the Mint had implemented appropriate monitoring and review procedures to reduce the risk of error to an acceptable level. As a result, this finding has been resolved.



Grant Hehir
Auditor-General

Canberra ACT
17 December 2019

Appendices

Appendix 1 Listing of entities by portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Agriculture Portfolio									
Department of Agriculture	Yes	Moderate	✓	6 Sept 19	10 Sept 19	▲ □	16 Sept 19	14 Oct 19	22 Oct 19
Australian Fisheries Management Authority	No	Low	✓	10 Sept 19	13 Sept 19	Nil	18 Sept 19	16 Oct 19	
Australian Pesticides and Veterinary Medicines Authority	No	Low	✓	9 Sept 19	9 Sept 19	Nil	10 Oct 19	8 Nov 19	
Cotton Research and Development Corporation	No	Low	✓	21 Aug 19	22 Aug 19	Nil	15 Oct 19	27 Nov 19	
Fisheries Research and Development Corporation	No	Low	✓	16 Aug 19	16 Aug 19	Nil	15 Oct 19	27 Nov 19	
Grains Research and Development Corporation	No	Low	✓	13 Aug 19	14 Aug 19	Nil	14 Oct 19	27 Nov 19	
Murray-Darling Basin Authority	No	Low	✓	17 Sept 19	17 Sept 19	Nil	8 Oct 19	17 Oct 19	25 Oct 19
Regional Investment Corporation	No	Low	✓	3 Oct 19	3 Oct 19	Nil	3 Oct 19	29 Oct 19	22 Oct 19
Rural Industries Research and Development Corporation	No	Low	✓	11 Sept 19	12 Sept 19	Nil	11 Sept 19	27 Nov 19	
Wine Australia	No	Low	✓	24 Sept 19	24 Sept 19	Nil	24 Sept 19	27 Nov 19	
Attorney-General's Portfolio									
Attorney-General's Department	Yes	Moderate	✓	22 Aug 19	27 Aug 19	Nil	1 Oct 19	21 Oct 19	22 Oct 19
Administrative Appeals Tribunal	No	Moderate	✓	10 Sept 19	11 Sept 19	Nil	25 Sept 19	21 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Asbestos Safety and Eradication Agency	No	Low	✓	19 Sept 19	19 Sept 19	Nil	19 Sept 19	21 Oct 19	
Australian Building and Construction Commission	No	Low	✓	9 Sept 19	9 Sept 19	Nil	26 Sept 19	21 Oct 19	
Australian Commission for Law Enforcement Integrity	No	Low	✓	23 Sept 19	24 Sept 19	Nil	30 Sept 19	21 Oct 19	
Australian Financial Security Authority	No	Moderate	✓	24 Sept 19	24 Sept 19	Nil	24 Sept 19	23 Oct 19	
Australian Human Rights Commission	No	Low	✓	20 Sept 19	20 Sept 19	Nil	20 Sept 19	21 Oct 19	
Australian Law Reform Commission	No	Low	✓	9 Sept 19	9 Sept 19	□	17 Sept 19	21 Oct 19	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	Moderate	✓	17 Sept 19	17 Sept 19	Nil	17 Sept 19	21 Oct 19	
Comcare	Yes	Moderate	✓	18 Sept 19	19 Sept 19	Nil	25 Sept 19	21 Oct 19	
Fair Work Commission	No	Low	✓	4 Sept 19	4 Sept 19	Nil	26 Sept 19	21 Oct 19	
Fair Work Ombudsman and Registered Organisations Commission Entity	No	Low	✓	16 Sept 19	16 Sept 19	Nil	20 Sept 19	21 Oct 19	
Federal Court of Australia	No	Low	✓	6 Sept 19	6 Sept 19	Nil	6 Sept 19	21 Oct 19	
High Court of Australia	Yes	Low	✓	3 Sept 19	3 Sept 19	Nil	24 Oct 19	•	
National Archives of Australia	Yes	Low	✓	3 Sept 19	3 Sept 19	Nil	13 Sept 19	21 Oct 19	
Office of Parliamentary Counsel	No	Low	✓	19 Sept 19	20 Sept 19	Nil	20 Sept 19	21 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Office of the Australian Information Commissioner	No	Low	✓	10 Sept 19	11 Sept 19	Nil	12 Sept 19	21 Oct 19	
Office of the Commonwealth Director of Public Prosecutions	No	Low	✓	23 Sept 19	23 Sept 19	Nil	26 Sept 19	21 Oct 19	
Office of the Commonwealth Ombudsman	No	Low	✓	17 Sept 19	19 Sept 19	Nil	1 Oct 19	21 Oct 19	
Office of the Inspector-General of Intelligence and Security	No	Low	✓	24 Sept 19	24 Sept 19	Nil	30 Sept 19	21 Oct 19	
Safe Work Australia	No	Low	✓	16 Sept 19	18 Sept 19	Nil	20 Sept 19	21 Oct 19	
Seacare Authority	No	Moderate	✓	17 Sept 19	19 Sept 19	Nil	19 Sept 19	21 Oct 19	
Communications and the Arts Portfolio									
Department of Communications and the Arts	Yes	Moderate	✓	18 Sept 19	19 Sept 19	▲◆□	19 Sept 19	21 Oct 19	22 Oct 19
Australia Business Arts Foundation Limited	No	Low	✓	2 Sept 19	2 Sept 19	Nil	2 Sept 19	21 Oct 19	
Australia Council	No	Low	✓	29 Aug 19	30 Aug 19	Nil	1 Sept 19	15 Oct 19	
Australian Broadcasting Corporation	Yes	Moderate	✓	22 Aug 19	22 Aug 19	◆	11 Sept 19	16 Oct 19	
Australian Communications and Media Authority	Yes	Low	✓	3 Sept 19	3 Sept 19	Nil	4 Sept 19	15 Oct 19	
Australian Film, Television and Radio School	No	Low	✓	25 Sept 19	26 Sept 19	Nil	26 Sept 19	28 Oct 19	
Australian National Maritime Museum	No	Low	✓	4 Sept 19	4 Sept 19	Nil	4 Sept 19	23 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
– Australian National Maritime Museum Foundation	No	Low	✓	4 Sept 19	5 Sept 19	Nil	N/A	N/A	
Australian Postal Corporation	Yes	Moderate	✓	21 Aug 19	21 Aug 19	Nil	21 Aug 19	17 Oct 19	
– Australia Post Licensee Advisory Council Limited	No	Low	✓	20 Aug 19	20 Aug 19	Nil	N/A	N/A	
– Australia Post Services Pty Ltd	No	Low	✓	13 Sept 19	13 Sept 19	Nil	N/A	N/A	
– Australia Post Transaction Services Pty Ltd	No	Moderate	✓	13 Sept 19	13 Sept 19	Nil	N/A	N/A	
– STI Co Pty Ltd	No	Low	✓	30 Apr 19	30 Apr 19	Nil	N/A	N/A	
Bundanon Trust	No	Low	✓	5 Sept 19	5 Sept 19	Nil	5 Sept 19	21 Oct 19	
National Film and Sound Archive of Australia	No	Low	✓	30 Sept 19	1 Oct 19	Nil	30 Sept 19	24 Oct 19	
National Gallery of Australia	Yes	Moderate	✓	26 Aug 19	27 Aug 19	Nil	1 Oct 19	24 Oct 19	
– National Gallery of Australia Foundation	No	Low	✓	26 Aug 19	27 Aug 19	Nil	N/A	N/A	
National Library of Australia	Yes	Low	✓	9 Aug 19	14 Aug 19	Nil	14 Aug 19	17 Oct 19	
National Museum of Australia	No	Low	✓	15 Aug 19	19 Aug 19	Nil	19 Aug 19	30 Oct 19	
National Portrait Gallery of Australia	No	Low	✓	27 Sept 19	27 Sept 19	Nil	27 Sept 19	22 Oct 19	
NBN Co Limited	Yes	High	✓	8 Aug 19	8 Aug 19	Nil	8 Aug 19	21 Oct 19	
Old Parliament House	No	Low	✓	27 Aug 19	28 Aug 19	Nil	28 Aug 19	21 Oct 19	
Screen Australia	No	Low	✓	2 Sept 19	2 Sept 19	Nil	2 Sept 19	22 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Special Broadcasting Service Corporation	No	Moderate	✓	29 Aug 19	29 Aug 19	Nil	29 Aug 19	17 Oct 19	
Defence Portfolio									
Department of Defence	Yes	High	✓	20 Sept 19	23 Sept 19	▲◆□	25 Sept 19	16 Oct 19	23 Oct 19
AAF Company	No	Low	✓	18 Sept 19	18 Sept 19	Nil	18 Sept 19	16 Oct 19	
Army and Air Force Canteen Service	No	Low	✓	27 Aug 19	27 Aug 19	Nil	28 Aug 19	17 Oct 19	
Australian Military Forces Relief Trust Fund	No	Low	✓	19 Aug 19	19 Aug 19	Nil	19 Aug 19	16 Oct 19	
Australian Signals Directorate	Yes	Moderate	✓	23 Sept 19	23 Sept 19	Nil	10 Oct 19	16 Oct 19	
Australian Strategic Policy Institute Ltd	No	Low	✓	30 Aug 19	30 Aug 19	Nil	30 Aug 19	14 Oct 19	
Australian War Memorial	Yes	Low	✓	30 Aug 19	2 Sept 19	Nil	2 Sept 19	14 Oct 19	
Defence Housing Australia	Yes	Moderate	✓	19 Sept 19	19 Sept 19	▲	30 Sept 19	16 Oct 19	
Department of Veterans' Affairs	Yes	Moderate	✓	10 Sept 19	10 Sept 19	Nil	10 Sept 19	17 Oct 19	
– Defence Service Homes Insurance Scheme	No	Moderate	✓	10 Sept 19	10 Sept 19	Nil	10 Sept 19	17 Oct 19	
RAAF Welfare Recreational Company	No	Low	✓	16 Sept 19	16 Sept 19	Nil	16 Sept 19	16 Oct 19	
Royal Australian Air Force Veterans' Residences Trust Fund	No	Low	✓	26 Sept 19	26 Sept 19	Nil	26 Sept 19	16 Oct 19	
Royal Australian Air Force Welfare Trust Fund	No	Low	✓	26 Aug 19	26 Aug 19	Nil	26 Aug 19	16 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Royal Australian Navy Central Canteens Board	No	Low	✓	4 Oct 19	8 Oct 19	Nil	8 Oct 19	16 Oct 19	
Royal Australian Navy Relief Trust Fund	No	Low	✓	27 Aug 19	27 Aug 19	Nil	27 Aug 19	16 Oct 19	
Education and Training Portfolio									
Department of Education	Yes	Moderate	✓	6 Sept 19	10 Sept 19	◆	19 Sept 19	14 Oct 19	24 Oct 19
Australian Curriculum, Assessment and Reporting Authority	No	Low	✓	23 Aug 19	23 Aug 19	Nil	4 Sept 19	16 Oct 19	
Australian Institute for Teaching and School Leadership Limited	No	Low	✓	8 Oct 19	8 Oct 19	Nil	8 Oct 19	17 Oct 19	
Australian National University	No	Moderate	✓👉	29 Mar 19	2 Apr 19	□	29 Mar 19	18 Sept 19	
– ANU Enterprise Pty Limited	No	Low	✓👉	28 Mar 19	29 Mar 19	Nil	N/A	N/A	
– Australian Scientific Instruments Pty Ltd	No	Moderate	✓👉	28 Mar 19	29 Mar 19	Nil	N/A	N/A	
– Social Research Centre Pty Limited	No	Low	✓👉	28 Mar 19	29 Mar 19	Nil	N/A	N/A	
Australian Research Council	Yes	Low	✓	16 Sept 19	17 Sept 19	Nil	2 Oct 19	16 Oct 19	
Tertiary Education Quality and Standards Agency	No	Low	✓	29 Aug 19	29 Aug 19	Nil	30 Sept 19	21 Oct 19	
Employment, Skills, Small and Family Business									
Department of Employment, Skills, Small and Family Business	Yes	Moderate	✓	12 Sept 19	16 Sept 19	◆	19 Sept 19	15 Oct 19	23 Oct 19

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Australian Skills Quality Authority	No	Low	✓	13 Sept 19	13 Sept 19	Nil	13 Sept 19	15 Oct 19	
Environment and Energy Portfolio									
Department of the Environment and Energy	Yes	Moderate	✓	30 Sept 19	30 Sept 19	Nil	11 Oct 19	21 Oct 19	21 Oct 19
– Natural Heritage Trust of Australia	No	Low	✓	30 Sept 19	30 Sept 19	Nil	N/A	N/A	
Australian Renewable Energy Agency	No	Low	✓	18 Sept 19	18 Sept 19	Nil	18 Sept 19	17 Oct 19	
Bureau of Meteorology	Yes	Low	✓	28 Aug 19	28 Aug 19	◆	20 Sept 19	17 Oct 19	
Clean Energy Finance Corporation	Yes	Moderate	✓	22 Aug 19	22 Aug 19	Nil	1 Oct 19	17 Oct 19	
– Clean Energy Investment Management Pty Ltd	Yes	Low	✓	27 Aug 19	27 Aug 19	Nil	N/A	N/A	
Clean Energy Regulator	No	Moderate	✓	27 Sept 19	27 Sept 19	▲	30 Sept 19	17 Oct 19	
Climate Change Authority	No	Low	✓	20 Sept 19	20 Sept 19	Nil	18 Oct 19	18 Oct 19	
Director of National Parks	No	Moderate	✓	27 Sept 19	27 Sept 19	▲	3 Oct 19	21 Oct 19	
Great Barrier Reef Marine Park Authority	No	Low	✓	30 Aug 19	30 Aug 19	Nil	20 Sept 19	17 Oct 19	
Snowy Hydro Limited	Yes	Moderate	✓	28 Aug 19	28 Aug 19	Nil	N/A	N/A	
Sydney Harbour Federation Trust	No	Low	✓	17 Sept 19	18 Sept 19	Nil	18 Sept 19	17 Oct 19	
– Sydney Harbour Conservancy Limited	No	Low	✓	17 Sept 19	18 Sept 19	Nil	N/A	N/A	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Finance Portfolio									
Department of Finance	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil	3 Oct 19	15 Oct 19	22 Oct 19
ASC Pty Ltd	Yes	Moderate	✓	25 Sept 19	25 Sept 19	Nil	30 Sept 19	21 Oct 19	
– ASC Shipbuilding Pty Ltd	No	Low	✓	30 Aug 19	30 Aug 19	Nil	N/A	N/A	
– ASC OPV Pty Ltd	No	Moderate	✓	30 Aug 19	30 Aug 19	Nil	N/A	N/A	
Australian Defence Force Super	No	Moderate	✓	25 Sept 19	25 Sept 19	Nil	N/A	N/A	
Australian Electoral Commission	No	Low	✓	3 Sept 19	3 Sept 19	Nil	13 Sept 19	14 Oct 19	
Australian Naval Infrastructure Pty Ltd	Yes	Moderate	✓	12 Sept 19	12 Sept 19	Nil	12 Sept 19	17 Oct 19	
Commonwealth Superannuation Corporation	No	Moderate	✓	25 Sept 19	25 Sept 19	Nil	25 Sept 19	17 Oct 19	
Commonwealth Superannuation Scheme	No	Moderate	✓	25 Sept 19	25 Sept 19	Nil	N/A	N/A	
Future Fund Management Agency and the Board of Guardians	Yes	Moderate	✓	24 Sept 19	24 Sept 19	Nil	24 Sept 19	17 Oct 19	
Independent Parliamentary Expenses Authority	No	Low	✓	25 Sept 19	25 Sept 19	Nil	8 Oct 19	16 Oct 19	
Military Superannuation and Benefits Scheme	No	Moderate	✓	25 Sept 19	25 Sept 19	Nil	N/A	N/A	
Public Sector Superannuation Accumulation Plan	No	Moderate	✓	25 Sept 19	25 Sept 19	Nil	N/A	N/A	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Public Sector Superannuation Scheme	No	Moderate	✓	25 Sept 19	25 Sept 19	Nil	N/A	N/A	
Foreign Affairs Portfolio									
Department of Foreign Affairs and Trade	Yes	Moderate	✓	3 Sept 19	4 Sept 19	Nil	17 Sept 19	16 Oct 19	24 Oct 19
Australian Centre for International Agricultural Research	No	Low	✓	12 Sept 19	12 Sept 19	Nil	2 Oct 19	23 Oct 19	
Australian Secret Intelligence Service	No	Low	✓	25 Oct 19	25 Oct 19	Nil	N/A	N/A	
Australian Trade and Investment Commission	No	Low	✓	29 Aug 19	29 Aug 19	Nil	27 Sept 19	21 Oct 19	
Export Finance Australia	Yes	Moderate	✓	22 Aug 19	23 Aug 19	Nil	25 Sept 19	16 Oct 19	
Tourism Australia	No	Low	✓	22 Aug 19	23 Aug 19	Nil	14 Oct 19	30 Oct 19	
Health Portfolio									
Department of Health	Yes	Moderate	✓	23 Aug 19	26 Aug 19	▲	27 Sept 19	24 Oct 19	23 Oct 19
Aged Care Quality and Safety Commission	No	Low	✓	14 Oct 19	15 Oct 19	Nil	17 Oct 19	31 Oct 19	
Australian Aged Care Quality Agency ^(c)	No	Low	✓📄	14 Oct 19	15 Oct 19	Nil	17 Oct 19	31 Oct 19	
Australian Commission on Safety and Quality in Health Care	No	Low	✓	10 Sept 19	11 Sept 19	Nil	10 Oct 19	15 Oct 19	
Australian Digital Health Agency	No	Low	✓	27 Sept 19	1 Oct 19	▲	1 Oct 19	24 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Australian Institute of Health and Welfare	No	Low	✓	26 Sept 19	26 Sept 19	Nil	26 Sept 19	24 Oct 19	
Australian National Preventive Health Agency	No	Low	✓	23 Aug 19	26 Aug 19	Nil	27 Sept 19	24 Oct 19	
Australian Organ and Tissue Donation and Transplantation Authority	No	Low	✓	18 Sept 19	18 Sept 19	Nil	18 Sept 19	15 Oct 19	
Australian Radiation Protection and Nuclear Safety Agency	No	Low	✓	12 Sept 19	13 Sept 19	Nil	17 Sept 19	15 Oct 19	
Australian Sports Anti-Doping Authority	No	Low	✓	3 Sept 19	3 Sept 19	Nil	7 Oct 19	22 Oct 19	
Australian Sports Commission	No	Low	✓	23 Sept 19	23 Sept 19	Nil	2 Oct 19	16 Oct 19	
Australian Sports Foundation Limited	No	Low	✓	13 Nov 19	18 Nov 19	Nil	•	•	
Australian Sports Foundation Charitable Fund	No	Low	✓	13 Nov 19	18 Nov 19	Nil	N/A	N/A	
Cancer Australia	No	Low	✓	10 Sept 19	10 Sept 19	Nil	26 Sept 19	18 Oct 19	
Food Standards Australia New Zealand	No	Low	✓	4 Oct 19	4 Oct 19	Nil	4 Oct 19	16 Oct 19	
Independent Hospital Pricing Authority	No	Low	✓	6 Sept 19	9 Sept 19	Nil	12 Sept 19	15 Oct 19	
National Blood Authority	Yes	Low	✓	22 Aug 19	23 Aug 19	Nil	30 Sept 19	17 Oct 19	
National Health and Medical Research Council	Yes	Low	✓	4 Sept 19	5 Sept 19	▲	16 Sept 19	22 Oct 19	
National Health Funding Body	No	Low	✓	30 Sept 19	1 Oct 19	Nil	1 Oct 19	15 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
National Mental Health Commission	No	Low	✓	17 Sept 19	19 Sept 19	Nil	21 Sept 19	24 Oct 19	
Professional Services Review Scheme	No	Low	✓	23 Sept 19	23 Sept 19	Nil	30 Sept 19	15 Oct 19	
Home Affairs Portfolio									
Department of Home Affairs	Yes	High	✓	9 Sept 19	10 Sept 19	◆	16 Oct 19	16 Oct 19	21 Oct 19
Australian Criminal Intelligence Commission	No	Low	✓	1 Oct 19	1 Oct 19	Nil	1 Oct 19	16 Oct 19	
Australian Federal Police	Yes	Moderate	✓	11 Oct 19	11 Oct 19	▲□	11 Oct 19	21 Oct 19	
Australian Institute of Criminology	No	Low	✓	1 Oct 19	1 Oct 19	Nil	1 Oct 19	16 Oct 19	
Australian Security and Intelligence Organisation	Yes	Moderate	✓	8 Aug 19	8 Aug 19	Nil	14 Sept 19	16 Oct 19	
Australian Transaction Reports and Analysis Centre	No	Low	✓	3 Sept 19	3 Sept 19	Nil	13 Sept 19	16 Oct 19	
Industry, Innovation and Science Portfolio									
Department of Industry, Innovation and Science	Yes	Moderate	✓	6 Sept 19	6 Sept 19	Nil	18 Sept 19	17 Oct 19	24 Oct 19
Australian Institute of Marine Science	No	Low	✓	27 Aug 19	27 Aug 19	Nil	13 Sept 19	16 Oct 19	
Australian Nuclear Science and Technology Organisation	Yes	Moderate	✓	15 Oct 19	15 Oct 19	▲	1 Nov 19	19 Nov 19	
– ANSTO Nuclear Medicine Pty Ltd	Yes ^(d)	Low	✓ E	15 Oct 19	25 Oct 19	Nil	N/A	N/A	
– PETTECH Solutions Pty Ltd	No	Low	✓	23 Aug 19	23 Aug 19	Nil	N/A	N/A	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Commonwealth Scientific and Industrial Research Organisation	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil	30 Aug 19	16 Oct 19	
– CSIRO Financial Services	No	Moderate	✓	5 Aug 19	5 Aug 19	Nil	N/A	N/A	
– CSIRO General Partner Co Pty Ltd	Yes ^(e)	Low	✓	5 Aug 19	5 Aug 19	Nil	N/A	N/A	
– CSIRO Innovation Fund 1	No	Moderate	✓	5 Aug 19	5 Aug 19	Nil	N/A	N/A	
– National ICT Australia Limited	No	Low	✓	1 Aug 19	1 Aug 19	Nil	N/A	N/A	
– Science and Industry Endowment Fund	No	Low	✓	9 Aug 19	9 Aug 19	Nil	N/A	N/A	
Geoscience Australia	No	Low	✓	13 Sept 19	13 Sept 19	Nil	11 Sept 19	17 Oct 19	
IP Australia	No	Low	✓	17 Sept 19	18 Sept 19	Nil	18 Sept 19	17 Oct 19	
National Offshore Petroleum Safety and Environmental Management Authority	No	Low	✓	2 Oct 19	2 Oct 19	Nil	2 Oct 19	15 Oct 19	
Northern Australia Infrastructure Facility	No	Low	✓	20 Sept 19	20 Sept 19	Nil	20 Sept 19	21 Oct 19	
Infrastructure, Transport, Cities and Regional Development Portfolio									
Department of Infrastructure, Transport, Cities and Regional Development	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil	16 Sept 19	15 Oct 19	21 Oct 19
Airservices Australia	Yes	High	✓	24 Sept 19	25 Sept 19	☐	25 Sept 19	17 Oct 19	
Australian Maritime Safety Authority	No	Low	✓	18 Sept 19	20 Sept 19	Nil	20 Sept 19	21 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Australian Rail Track Corporation	Yes	High	✓	28 Aug 19	28 Aug 19	Nil	28 Aug 19	17 Oct 19	
Australian Transport Safety Bureau	No	Low	✓	13 Sept 19	13 Sept 19	Nil	16 Sept 19	14 Oct 19	
Civil Aviation Safety Authority	No	Low	✓	16 Aug 19	19 Aug 19	Nil	23 Sept 19	21 Oct 19	
Infrastructure and Project Financing Agency	No	Low	✓	11 Sept 19	11 Sept 19	Nil	10 Oct 19	16 Oct 19	
Infrastructure Australia	No	Low	✓	23 Aug 19	23 Aug 19	Nil	15 Oct 19	21 Oct 19	
Moorebank Intermodal Company Limited	Yes	High	✓	21 Sept 19	23 Sept 19	▲	23 Sept 19	16 Oct 19	
– Moorebank Intermodal Development Investment Trust	No	Low	✓	21 Sept 19	23 Sept 19	Nil	N/A	N/A	
– Moorebank Intermodal Development Rail Trust	No	Low	✓	21 Sept 19	23 Sept 19	Nil	N/A	N/A	
National Capital Authority	Yes	Low	✓	30 Aug 19	3 Sept 19	Nil	10 Oct 19	7 Nov 19	
National Transport Commission	No	Low	✓	16 Aug 19	16 Aug 19	Nil	18 Sept 19	23 Oct 19	
North Queensland Water Infrastructure Authority	No	Low	✓	6 Sept 19	6 Sept 19	Nil	1 Oct 19	30 Oct 19	
WSA Co Ltd	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil	30 Aug 19	17 Oct 19	
Parliamentary Departments									
Department of Parliamentary Services	Yes	Moderate	✓	6 Sept 19	6 Sept 19	Nil	13 Sept 19	14 Oct 19	21 Oct 19
Department of the House of Representatives ^(h)	No	Low	✓	30 Sept 19	30 Sept 19	Nil	10 Oct 19	22 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Department of the Senate	No	Low	✓	25 Sept 19	25 Sept 19	Nil	11 Oct 19	15 Oct 19	
Parliamentary Budget Office	No	Low	✓	2 Sept 19	2 Sept 19	Nil	8 Oct 19	14 Oct 19	
Prime Minister and Cabinet Portfolio									
Department of the Prime Minister and Cabinet	Yes	Moderate	✓	30 Aug 19	30 Aug 19	Nil	30 Aug 19	17 Oct 19	21 Oct 19
– Aboriginals Benefit Account	No	Moderate	✓	30 Aug 19	30 Aug 19	Nil	N/A	N/A	
Aboriginal Hostels Limited	No	Moderate	✓	20 Sept 19	20 Sept 19	Nil	20 Sept 19	24 Oct 19	
Anindilyakwa Land Council	No	Low	✓	24 Sept 19	25 Sept 19	Nil	•	•	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	Low	✓	27 Aug 19	27 Aug 19	Nil	•	•	
Australian Public Service Commission	No	Low	✓	20 Sept 19	20 Sept 19	Nil	15 Oct 19	15 Oct 19	
Central Land Council	No	Low	✓	13 Aug 19	14 Aug 19	Nil	19 Sept 19	27 Nov 19	
Indigenous Business Australia	Yes	Moderate	✓	17 Sept 19	18 Sept 19	Nil	18 Sept 19	21 Oct 19	
– Gagudju Crocodile Hotel Trust	No	Low	⚬	⚬	⚬	Nil	N/A	N/A	
– Gagudju Lodge Cooida Trust	No	Low	⚬	⚬	⚬	Nil	N/A	N/A	
– IBA Tourism Asset Management Pty Ltd	No	Low	⚬	⚬	⚬	Nil	N/A	N/A	
– Indigenous Prosperity Fund – Cash Fund	No	Low	✓	13 Sept 19	18 Sept 19	Nil	N/A	N/A	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
– Tennant Creek Foodbarn Partnership	No	Low	✓	1 Nov 19	5 Nov 19	Nil	N/A	N/A	
– Darwin Hotel Partnership	No	Low	✓	7 Nov 19	11 Nov 19	Nil	N/A	N/A	
– IBA Retail Asset Management Pty Ltd	No	Low	✓	25 Oct 19	25 Oct 19	Nil	N/A	N/A	
– IBA Retail Property Trust	No	Low	✓	21 Nov 19	21 Nov 19	Nil	N/A	N/A	
– Ikara Wilpena Enterprises Pty Ltd	No	Low	✓	27 Nov 19	29 Nov 19	Nil	N/A	N/A	
– Ikara Wilpena Holdings Trust	No	Low	✓	18 Nov 19	22 Nov 19	Nil	N/A	N/A	
– Indigenous Economic Development Trust	No	Low	✓	27 Sept 19	30 Sept 19	Nil	N/A	N/A	
– Indigenous Prosperity Fund – Growth Fund	No	Low	✓	13 Sept 19	18 Sept 19	Nil	N/A	N/A	
– Indigenous Prosperity Fund – Income Fund	No	Low	✓	13 Sept 19	18 Sept 19	Nil	N/A	N/A	
– Indigenous Real Estate Investment Trust	No	Low	✓	13 Sept 19	18 Sept 19	Nil	N/A	N/A	
– Kakadu Tourism (GCH) Pty Ltd	No	Low	—	—	—	Nil	N/A	N/A	
– Kakadu Tourism (GLC) Pty Ltd	No	Low	—	—	—	Nil	N/A	N/A	
– Li Ar Yalug Land Holding Trust	No	Low	✓	30 Sept 19	30 Sept 19	Nil	N/A	N/A	
– Northam Solar Project Partnership	No	Low	—	—	—	Nil	N/A	N/A	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
– Performance Bond Fund Trust	No	Low	✓	27 Nov 19	27 Nov 19	Nil	N/A	N/A	
– Tennant Creek Land Holding Trust	No	Low	✓	25 Nov 19	26 Nov 19	Nil	N/A	N/A	
– Tjapukai Aboriginal Cultural Park Partnership	No	Low	—	—	—	Nil	N/A	N/A	
– Wilpena Pound Aerodrome Services Pty Ltd	No	Low	✓	27 Nov 19	29 Nov 19	Nil	N/A	N/A	
Indigenous Land and Sea Corporation	Yes	Low	✓	11 Sept 19	12 Sept 19	Nil	12 Sept 19	22 Oct 19	25 Oct 19
– National Centre of Indigenous Excellence Limited	No	Low	✓	2 Oct 19	2 Oct 19	Nil	N/A	N/A	
– Australian Indigenous Agribusiness Company Pty Ltd	No	Low	✓	11 Sept 19	11 Sept 19	Nil	N/A	N/A	
– The Owners - Strata Plan No. 86156	No	Low	✓	21 Nov 19	22 Nov 19	Nil	N/A	N/A	
– Voyages Indigenous Tourism Australia Pty Ltd	Yes^(f)	Moderate	✓	27 Aug 19	29 Aug 19	Nil	N/A	N/A	
National Australia Day Council Limited	No	Low	✓	29 Aug 19	29 Aug 19	Nil	29 Sept 19	14 Oct 19	
North Queensland Livestock Industry Recovery Agency	Yes^(g)	Moderate	✓	26 Sept 19	26 Sept 19	Nil	14 Oct 19	24 Oct 19	
Northern Land Council	No	Moderate	—	—	—	◆ L	•	•	21 Oct 19
Office of National Intelligence	No	Low	✓	27 Sept 19	27 Sept 19	Nil	N/A	N/A	
Office of the Official Secretary to the Governor-General	No	Low	✓	3 Oct 19	3 Oct 19	Nil	8 Oct 19	18 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Outback Stores Pty Ltd	No	Low	✓	19 Sept 19	19 Sept 19	Nil	20 Sept 19	•	25 Oct 19
Tiwi Land Council	No	Low	✓	5 Sept 19	6 Sept 19	Nil	5 Sept 19	26 Nov 19	21 Oct 19
Torres Strait Regional Authority	No	Low	✓	4 Sept 19	4 Sept 19	Nil	•	•	
Workplace Gender Equality Agency	No	Low	✓	23 Aug 19	23 Aug 19	Nil	19 Nov 19	•	
Wreck Bay Aboriginal Community Council	No	Low	✓	18 Nov 19	21 Nov 19	L	•	•	
Social Services Portfolio									
Department of Social Services	Yes	Moderate	✓	2 Sept 19	2 Sept 19	Nil	30 Sept 19	15 Oct 19	24 Oct 19
Australian Hearing Services	Yes	Low	✓	19 Aug 19	19 Aug 19	Nil	26 Sept 19	21 Oct 19	
Australian Institute of Family Studies	No	Low	✓	6 Sept 19	6 Sept 19	Nil	9 Sept 19	15 Oct 19	
Digital Transformation Agency	No	Low	✓	20 Sept 19	23 Sept 19	Nil	27 Sept 19	17 Oct 19	
National Disability Insurance Agency	Yes	High	✓	13 Sept 19	13 Sept 19	▲□	13 Sept 19	15 Oct 19	
NDIS Quality and Safeguard Commission	No	Low	✓	4 Oct 19	4 Oct 19	Nil	8 Oct 19	17 Oct 19	
Services Australia	Yes	Moderate	✓	26 Aug 19	27 Aug 19	Nil	17 Sept 19	21 Oct 19	
Treasury Portfolio									
Department of the Treasury	Yes	Moderate	✓	9 Sept 19	10 Sept 19	Nil	18 Sept 19	16 Oct 19	23 Oct 19
Australian Bureau of Statistics	Yes	Low	✓	20 Aug 19	20 Aug 19	Nil	19 Sept 19	14 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
Australian Competition and Consumer Commission	No	Low	✓	28 Aug 19	28 Aug 19	Nil	4 Sept 19	16 Oct 19	
Australian Office of Financial Management	Yes	Moderate	✓	23 Aug 19	23 Aug 19	Nil	27 Sept 19	16 Oct 19	
Australian Prudential Regulation Authority	Yes	Low	✓	16 Aug 19	16 Aug 19	Nil	20 Sept 19	16 Oct 19	
Australian Reinsurance Pool Corporation	Yes	Moderate	✓	27 Sept 19	27 Sept 19	Nil	27 Sept 19	14 Oct 19	
Australian Securities and Investments Commission	Yes	Moderate	✓	20 Aug 19	20 Aug 19	Nil	1 Oct 19	17 Oct 19	
Australian Taxation Office	Yes	High	✓	12 Sept 19	12 Sept 19	Nil	8 Oct 19	17 Oct 19	
Commonwealth Grants Commission	No	Low	✓	10 Sept 19	10 Sept 19	Nil	17 Sept 19	16 Oct 19	
Financial Adviser Standards and Ethics Authority Ltd	No	Low	✓	19 Aug 19	21 Aug 19	Nil	12 Sept 19	16 Oct 19	
Inspector-General of Taxation	No	Low	✓	23 Sept 19	23 Sept 19	Nil	2 Oct 19	17 Oct 19	
National Competition Council	No	Low	✓	4 Sept 19	4 Sept 19	Nil	10 Sept 19	16 Oct 19	
National Housing Finance and Investment Corporation	Yes	Low	✓	19 Sept 19	1 Oct 19	Nil	2 Oct 19	17 Oct 19	
Office of the Auditing and Assurance Standards Board	No	Low	✓	11 Sept 19	13 Sept 19	Nil	11 Sept 19	16 Oct 19	
Office of the Australian Accounting Standards Board	No	Low	✓	11 Sept 19	13 Sept 19	Nil	11 Sept 19	16 Oct 19	
Productivity Commission	No	Low	✓	23 Aug 19	23 Aug 19	Nil	1 Oct 19	14 Oct 19	
Reserve Bank of Australia	Yes	Moderate	✓	4 Sept 19	4 Sept 19	Nil	17 Oct 19	17 Oct 19	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings	Annual report approval date ^(a)	Annual report tabling date	Senate Estimates date ^(b)
– Note Printing Australia Ltd	No	Low	✓	22 Jul 19	22 Jul 19	Nil	N/A	N/A	
Royal Australian Mint	No	Moderate	✓	13 Sept 19	13 Sept 19	□	9 Oct 19	21 Oct 19	

Note a: The date of the accountable authority's approval of the annual report is taken as either the date on the transmittal letter or the date the board approved the annual report.

Note b: This is the first appearance for the portfolio in the 2019–20 supplementary budget estimates hearing.

Note c: The Australian Aged Care Quality Agency was abolished as at 31 December 2018 as a result of the *Australian Aged Care Quality Agency Act 2013* being repealed by the *Aged Care Quality & Safety Commission (Consequential Amendments and Transitional Provisions) Act 2018*. The financial statements were prepared for the period 1 July 2018 to 31 December 2018 and were incorporated into the Aged Care Quality and Safety Commission's annual report.

Note d: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Australian Nuclear Science and Technology Organisation, it is not discussed separately as a material entity in this report.

Note e: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Commonwealth Scientific and Industrial Research Organisation, it is not discussed separately as a material entity in this report.

Note f: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Indigenous Land and Sea Corporation, it is not discussed separately as a material entity in this report.

Note g: The North Queensland Livestock Industry Recovery Agency (NQLIRA) was established on 2 March 2018–19. NQLIRA is classified as a material entity for inclusion in the consolidated financial statements. For the purposes of this report NQLIRA has not been included in the Prime Minister and Cabinet portfolio chapter due its limited financial transactions in the 2018–19 financial year. An audit report was issued for NQLIRA in 2018–19.

Note h: The House of Representatives is not required to appear before Senate Estimates.

✓: auditor's report not modified

▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

—: financial statements not signed as at 29 November 2019

☞: financial year end date other than 30 June 2019

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

E: auditor's report contains an emphasis of matter

◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2018–19 interim audit phase, now downgraded or resolved

●: annual report not tabled as at 29 November 2019

Appendix 2 Changes in audit responsibilities in 2018–19

The following is a listing of new entities that were required to be audited by the Auditor-General in 2018–19, entities that ceased to be audited by the Auditor-General in 2018–19, entities that had a name change in 2018–19 and entities that have moved between portfolio.

New entities audited in 2018–19

- Aged Care Quality and Safety Commission
- ASC OPV Pty Ltd
- Australian Signals Directorate
- Australian Sports Foundation Charitable Fund
- Clean Energy Investment Management Pty Ltd
- National Housing Finance and Investment Corporation
- NDIS Quality and Safeguard Commission
- Northam Solar Project Partnership (IBA Northam Solar Pty Ltd)
- North Queensland Water Infrastructure Authority
- North Queensland Livestock Industry Recovery Agency
- STI Co Pty Ltd
- Snowy Hydro Limited

Entities that ceased to be audited by the Auditor-General

- ASC Ship Building Pty Ltd
- Australian Synchrotron Holding Company Pty Limited
- Corporations and Market Advisory Committee
- Defence Housing Australia Investment Management Limited
- DFE Pty Limited

Entities that had a name change

2018–19 Entity name	Former entity name
Department of Agriculture	Department of Agriculture and Water Resources
Department of Education	Department of Education and Training
Export Finance Australia	Export Finance Investment Corporation
Department of Infrastructure Transport, Cities and Regional Development	Department of Infrastructure Regional Development and Cities
Department of Employment, Skills, Small and Family Business	Department of Jobs and Small Business
Indigenous Land and Sea Corporation	Indigenous Land Corporation
Office of National Intelligence	Office of National Assessments
Services Australia	Department of Human Services

2018–19 Entity name	Former entity name
Australian National Maritime Foundation	Australian National Maritime Museum Foundation

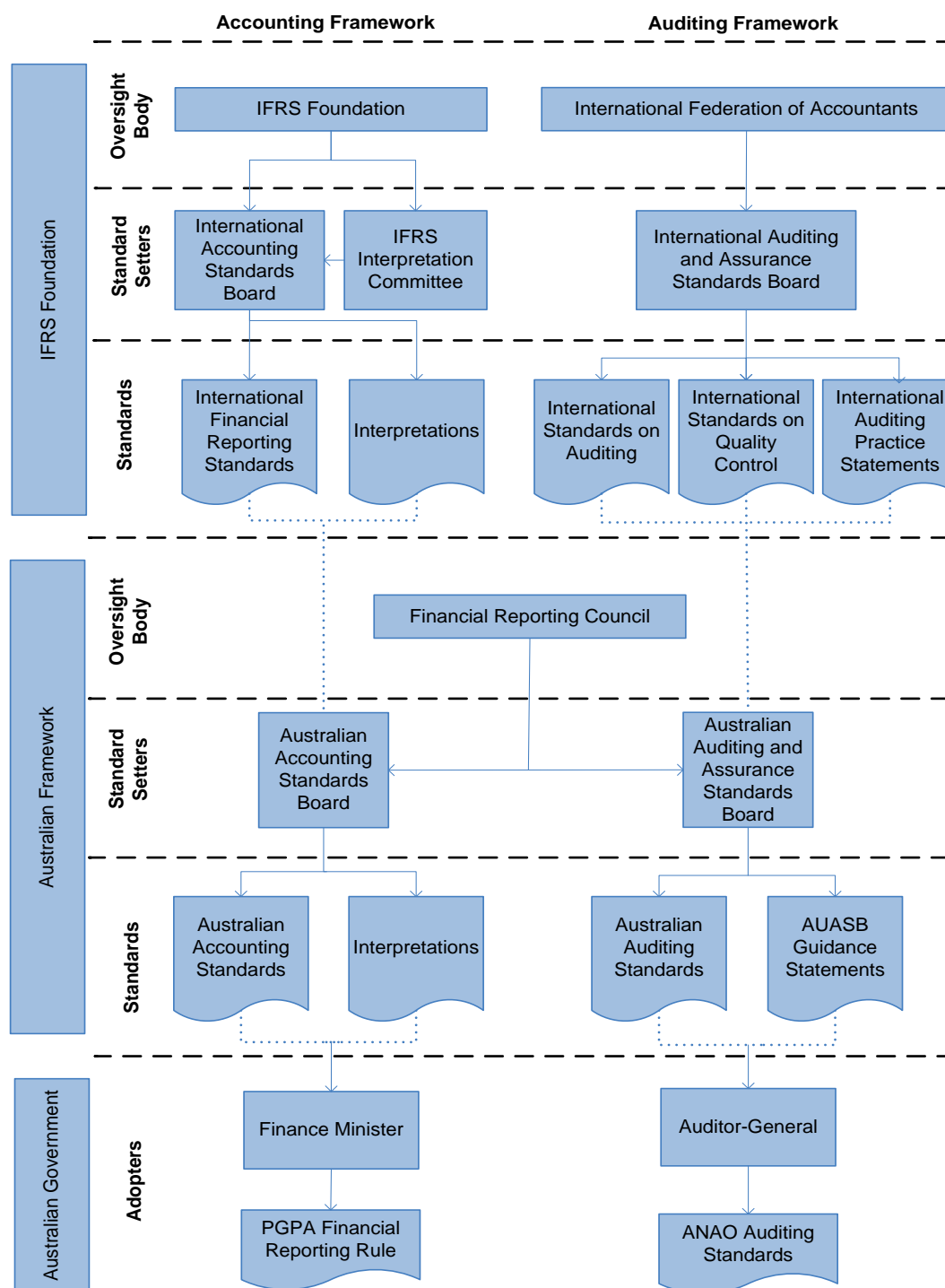
Changes in administrative arrangements

Entity name	2018–19 Portfolio	Former Portfolio
Coal Mining Industry (Long Service Leave Funding) Corporation	Attorney-General's	Jobs and Small Business
Comcare	Attorney-General's	Jobs and Small Business
Fair Work Commission	Attorney-General's	Jobs and Small Business
Fair Work Ombudsman and Registered Organisations Commission Entity	Attorney-General's	Jobs and Small Business
Asbestos Safety and Eradication Agency	Attorney-General's	Jobs and Small Business
Australian Building and Construction Commission	Attorney-General's	Jobs and Small Business
Safe Work Australia	Attorney-General's	Jobs and Small Business
Seacare Authority	Attorney-General's	Jobs and Small Business
Australian Skills Quality Authority	Employment Skills, Small and Family Business	Education and Training
Digital Transformation Agency	Social Services	Prime Minister and Cabinet
Services Australia	Social Services	Human Services
Australian Hearing Services	Social Services	Human Services

Appendix 3 The financial reporting and auditing standards frameworks for 2018–19

- The figure below depicts the standard setting framework for financial reporting and auditing, in the Australian Government context.

Figure A.1: Australian Government standard setting framework

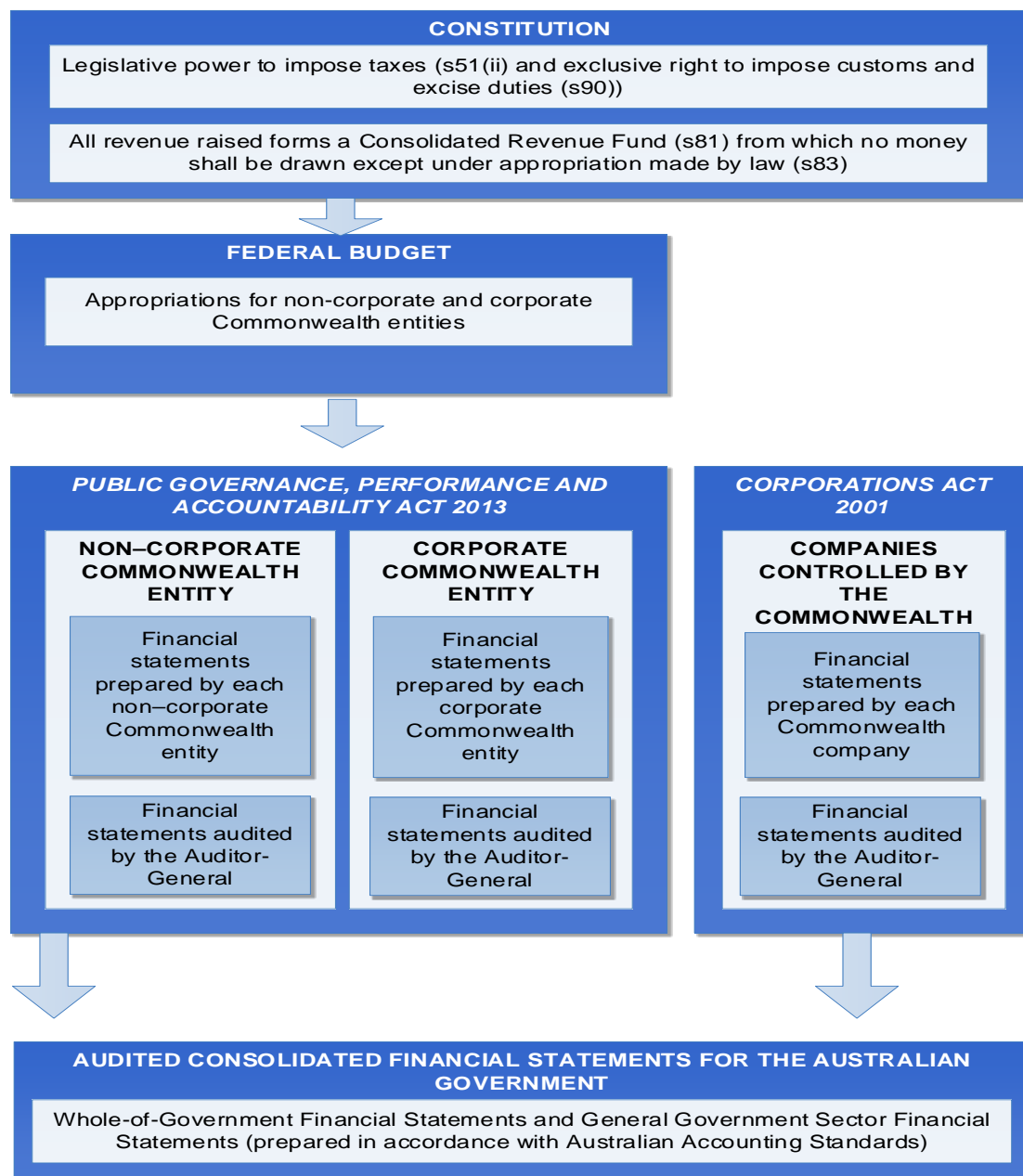


Source: ANAO compilation.

Appendix 4 The financial reporting and auditing framework for 2018–19 financial statements

1. 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.

Figure A.2: Australian Government financial reporting framework



Source: ANAO compilation.

Australian Government reporting entities

Commonwealth Government of Australia

2. Section 48 of the PGPA Act requires the Finance Minister to prepare annual consolidated financial statements for the Commonwealth Government of Australia. These financial statements are general purpose financial statements consolidating the financial activities and financial position of Commonwealth entities and other entities controlled by the Commonwealth Government.
3. The PGPA Act prescribes the Australian Accounting Standards (AASs), and any other requirements prescribed by the rules, as the applicable financial reporting framework for the consolidated financial statements.

Commonwealth entities

4. Section 10 of the PGPA Act defines a Commonwealth entity as a department of state, a Parliamentary department, a listed entity or a body corporate of the Commonwealth other than a Commonwealth company. Section 11 of the PGPA Act determines that there are two types of Commonwealth entities: a non-corporate Commonwealth entity, which is a Commonwealth entity that is not a body corporate⁷⁹; and a corporate Commonwealth entity, which is a Commonwealth entity that is a body corporate and legally separate from the Commonwealth.
5. Section 42 of the PGPA Act requires the accountable authority of a Commonwealth entity to prepare annual financial statements that comply with the AASs and any other requirements prescribed by the rules.
6. Resource Management Guide 125: *The Commonwealth Entities Financial Statements Guide* applies to all Commonwealth reporting entities responsible for preparing financial statements under the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*. The guide includes definitions of terms that have been used in this report.

Non-corporate Commonwealth entities

7. Non-corporate Commonwealth entities, comprising departments of state, Parliamentary departments and listed entities, are subject to the provisions of the PGPA Act. In some cases they also operate under their own enabling legislation.
8. The PGPA Act prescribes the AASs and PGPA Financial Reporting Rule (FRR) as the applicable financial reporting framework for non-corporate Commonwealth entities.

Corporate Commonwealth entities and subsidiaries

9. Corporate Commonwealth entities are bodies corporate that hold money on their own account and have been created to perform specific functions. Corporate Commonwealth

79 Three entities have a body corporate status but are prescribed as non-corporate Commonwealth entities. These are the Australian Competition and Consumer Commission; the Australian Prudential Regulation Authority; and the Australian Securities and Investments Commission.

entities operate under their own enabling legislation and also must comply with the relevant provisions of the PGPA Act.

10. The PGPA Act prescribes the AASs and FRR as the applicable financial reporting framework for corporate Commonwealth entities. The financial reporting framework applicable to subsidiaries of corporate Commonwealth entities depends on the nature of the subsidiary.

Commonwealth companies and subsidiaries

11. 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 2001* (Corporations Act).
12. The applicable financial reporting framework for Commonwealth companies is the Corporations Act, including the AASs and the Corporations Regulations.
13. The financial reporting framework applicable to subsidiaries of Commonwealth companies depends on the nature of the subsidiary.

Other bodies

14. The ANAO also audits the financial statements of other bodies under Commonwealth legislation other than the PGPA Act, including the 'by arrangement' provisions in section 20 of the *Auditor-General Act 1997*. Examples of these other bodies include statutory bodies not established as Commonwealth entities and trusts. The financial reporting framework applicable to these other bodies depends on legislation or other rules that govern that entity.

Audit of Australian Government entity financial statements

Audit scope

15. The accountable authority of a Commonwealth entity is responsible for the preparation and fair presentation of the financial statements and for maintaining records, internal controls, procedures and processes that support the preparation of those statements.
16. The Directors of a Commonwealth company, or a company that is a subsidiary of either a Commonwealth entity or a Commonwealth company, are responsible for the preparation of financial statements that give a true and fair view and for maintaining records, internal controls, procedures and processes that support the preparation of that report.
17. The ANAO's independent audits of financial statements are undertaken to form an opinion whether they are free from material misstatement and present fairly in accordance with applicable accounting standards and legislation. These audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards and provide reasonable assurance.
18. Audit procedures include an 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.

19. The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements or reports 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.
20. 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. The auditor is not responsible for the prevention or detection of fraud and error.

The auditor's report on financial statements

21. The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements present fairly the entity's financial position, the results of its operations and its cash flows in accordance with the applicable financial reporting framework.
22. If the auditor is not of that opinion, the auditor's opinion is modified, with the reasons being indicated.
23. The auditor's report on the financial statements may also include an 'emphasis of matter,' 'other matter' or 'material uncertainty related to going concern' paragraph. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements. The inclusion of these paragraphs does not modify the auditor's opinion.

Form of auditor's opinion

24. 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.
25. An auditor's opinion may be 'modified' in one of three ways.
 - A 'qualified 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 'qualified 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. A 'disclaimer of opinion' is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence regarding individual uncertainties, concludes that the potential interaction of the uncertainties and the possible cumulative effect on the financial report cannot be determined.

- 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

26. 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 circumstances in which an emphasis of matter is used include:
- 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.

Other matter

27. The auditor's report on the financial statements may also include a reference to an 'other matter'. 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.

Material uncertainty related to going concern

28. The auditor's report on the financial statements will also include a reference to a 'material uncertainty related to going concern' when there are possible or actual events or conditions that may cast significant doubt on an entity's ability to continue as a going concern and the financial statements include adequate disclosure about the uncertainty and management's plans to deal with the uncertainty.

Report on other legal and regulatory requirements

29. 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.