

**Audits of the Financial Statements of Australian
Government Entities for the Period Ended
30 June 2020**

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Canberra ACT
17 December 2020

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 2020*. 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



Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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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 2019–20 audits of the Consolidated Financial Statements (CFS) and 245 Australian Government entities. Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* (Auditor-General Report No.38), focused on the interim results of the audits of 24 of these entities.

Consolidated financial statements

4. The CFS presents the whole of government and the general government sector financial statements. The 2019–20 CFS were signed by the Minister for Finance on 24 November 2020 and an unmodified auditor's report was issued on 24 November 2020.

Financial audit results and other matters

Quality and timeliness of financial statements preparation

5. The ANAO issued 232 unmodified auditors' reports, including the CFS, and one modified auditors' report, as at 24 November 2020. A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting.
6. The ANAO noted a decrease in findings relating to processes supporting financial statements preparation; reduced delivery of draft financial statements in line with entity financial statement project plans; and an increase in the total value of audit adjustments reported to entities in 2019–20 compared to 2018–19. These observations, in regards to timeliness of financial statements and the total value of audit differences, indicate there is still an opportunity to improve quality assurance frameworks over financial statements process, noting that the reduced number of findings indicates some improvement has been made.

Timeliness of financial reporting

7. The financial statements were finalised and auditor's reports issued for 77 per cent of entities within three months of the financial year end. On average it took entities an additional

40 days to table their annual reports in Parliament. Sixty-two per cent of entities that are required to table an annual report in Parliament, tabled prior to the date of the portfolio's Senate budget estimates hearing. Of the remaining entities, eight per cent had not tabled an annual report as at 24 November 2020.

Key audit matter reporting

8. The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* for the 24 entities included in Auditor-General Report No. 38 and the Australian Government's CFS. In 2019–20 a total of 56 key audit matters (KAM) were included across the 24 entities and seven KAM were included in the CFS auditor's report.

IT Controls and Cyber Security Risks

9. The 2020 Australian Cyber Security Strategy¹ highlights the importance of protecting Australians online, especially during the COVID-19 pandemic. As part of the response to the COVID-19 pandemic 186 entities implemented some form of remote working. The majority of entities assessed their existing IT general controls as being appropriate to support remote working arrangements, with only 15 of the 186 entities needing changes to IT general controls.

Financial sustainability

8. 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. The assessment identified that eight entities were significantly impacted by the COVID-19 pandemic and required either additional funding, letters of support or a restructuring of operations.

Summary of audit findings

10. A total of 142 findings were reported to entities as a result of the 2019–20 financial statements audits. These comprised two significant, 22 moderate and 118 minor findings. One significant legislative breach was also reported during 2019–20.

11. The highest number of 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.

Implementation of AASB 16 Leases

12. The revised leasing standard, AASB 16 *Leases* (AASB 16), was effective for financial years commencing on or after 1 January 2019; impacting government entities in the 2019–20 financial year. AASB 16 significantly increases the recognition and disclosure of leases by lessees with the

1 Department of Home Affairs, *Australia's Cyber Security Strategy 2020* from <https://www.homeaffairs.gov.au/cyber-security-subsite/files/cyber-security-strategy-2020.pdf> [accessed 23 October 2020].

majority of leases previously treated as operating leases now recognised on the balance sheet. The quality of the implementation of AASB 16 was assessed by considering the number of audit differences identified in relation to AASB 16. The low number and dollar value of audit differences indicates entities were effective in the implementation of AASB 16.

Management of Staff Leave

13. During 2019–20, as a result of the increase in findings relating to human resource management and administration across Australian Government entities during the period from 2015–16 to 2018–19, the ANAO undertook targeted assurance activities over the management of staff leave in three entities. The analysis performed identified weaknesses in processes relating to staff leave and associated monitoring controls.

Reporting and auditing frameworks

Changes to the Australian public sector reporting framework

14. The ANAO's experience with 2019–20 financial statements audits identified particular challenges for entities when dealing with the impact of the COVID-19 pandemic. ANAO staff were restricted in their ability to physically access entities' premises leading to the increased use of remote access to entity financial management and relevant operational systems. The Government's increasing utilisation of online services in supporting the response to major events such as the COVID-19 pandemic necessitates the need for entities to protect critical information from malicious actors.

15. Assuring performance information is an emerging area of practice in the Australian and international audit profession. The PGPA Act provides the basis for the Commonwealth performance framework. In response to a request from the Finance Minister in August 2019, the Auditor-General agreed to conduct pilot assurance audits of the 2019–20 performance statements of three entities. The ANAO completed the audits of two of those entities.

16. During 2019–20, the ANAO continued to progress the goals of its Data Analytics Strategy 2018–20 by extending data analytics solutions to an increased number of audits. In 2019–20, 80 per cent of the audits of major entities conducted in-house involved the use of data analytics as part of the financial statements audit program.

Cost of this report

17. The cost to the ANAO of producing this report is approximately \$474,000.

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 2020, and the Australian Government's financial results for 2019–20.

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 2019–20 Consolidated Financial Statements were signed by the Minister for Finance on 24 November 2020 and the Auditor-General's unmodified auditor's report was issued on 24 November 2020.

The result shows the expenses of the Australian Government of \$600.0 billion for the year ended 30 June 2020 were funded by \$500.3 billion of revenue and approximately \$99.7 billion borrowings. The borrowings represent 16.6 per cent of the total expenses for 2019–20.

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 2019–20 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 2019–20 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 \$447.1 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.
Subsidy expenses \$67.2 billion and subsidy provisions \$23.7 billion JobKeeper \$31.6 billion and Cash Flow Boost measures \$23.6 billion Australian Taxation Office	Eligibility assessments and completeness of reported subsidy expenses and provisions in connection with JobKeeper and Cash Flow Boost measures KAM	Higher	<ul style="list-style-type: none"> the significant value of the subsidy expenses and provisions and the speed of implementation of the COVID-19 stimulus measures; for the JobKeeper scheme, employers are required to self-assess their eligibility on-line and assert they meet the criteria specified in the legislation. For the Cash Flow Boost measure entities that meet the legislative requirements are identified by the Australian Government and payments are then made without the need for an application or specific declaration. The Australian Taxation Commissioner has considerable discretion to make judgements on eligibility; and the Australian Government has recognised a liability for JobKeeper payments and cash flow boost claims attributable to the 2019–20 financial year but not paid by 30 June 2020. This liability is based on significant judgements, including estimates of eligible employers. 	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
Personal benefits expense \$144.7 billion and personal benefits payable \$4.7 billion Australian Taxation Office Department of Social Services	Accuracy and occurrence of personal benefits expense and valuation of personal benefits payable KAM	Higher	<ul style="list-style-type: none"> dependent on the correct self-disclosure of personal circumstances by a large number of diverse recipients; reliant on a complex information technology system for the processing of a high volume of payments across numerous personal benefit types with varying conditions for determining the payment amount; estimation models require significant judgements and assumptions including, but not limited to: new budget measures affecting benefit programs, timing of payments; personal circumstances of recipients; and the economic environment; and the impacts of the Income Compliance Program in view of the Government's decision relating to the use of averaged income data to calculate an individual's personal benefits debt that was then included in personal benefits receivables and whether these potential debt repayments and zeroing had been appropriately accounted for. 	No significant or moderate audit findings identified.
Superannuation liabilities ^b \$431.1 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, requiring significant judgement and estimation in the selection of long-term assumptions, including the salary growth and discount rates to which the valuation of the superannuation liability is highly sensitive. 	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
Advances paid \$64.8 billion Other receivables and accrued revenue \$66.7 billion Numerous entities	Valuation of advances paid 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 \$76.3 billion Future Fund Management Agency Department of Finance	Valuation of collective investment vehicles KAM	Moderate	<ul style="list-style-type: none"> size of the investments and inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments; complexity of valuation techniques and assumptions required in determining fair value; and the COVID-19 pandemic and associated economic downturn has caused significant volatility and uncertainty and this has impacted the valuation of collective investment vehicles. 	No significant or moderate audit findings identified.
Non-financial assets \$241.8 billion Numerous entities Specialist Military Equipment (SME) \$71.7 billion Department of Defence	Valuation of specialist military equipment and other plant, equipment and infrastructure 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; 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. 	<p>No significant or moderate audit findings identified.</p> <p>Refer to the Department of Defence's detailed results in Chapter 5.</p>

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 2019–20 audit results, and the CFS for the year ended 30 June 2020.

Audit results

1.5 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits of the CFS.

Australian Government's financial outcome for 2019–20

Operating result

1.6 The following key financial measures were reported for 2019–20:

- net operating balance was a deficit of \$99.7 billion (2018–19: surplus of \$3.2 billion);
- operating result was a deficit of \$133.9 billion (2018–19: deficit of \$39.7 billion); and
- comprehensive result (change in net worth) was a decrease in net worth of \$135.6 billion compared to a decrease of \$127.4 billion in 2018–19.

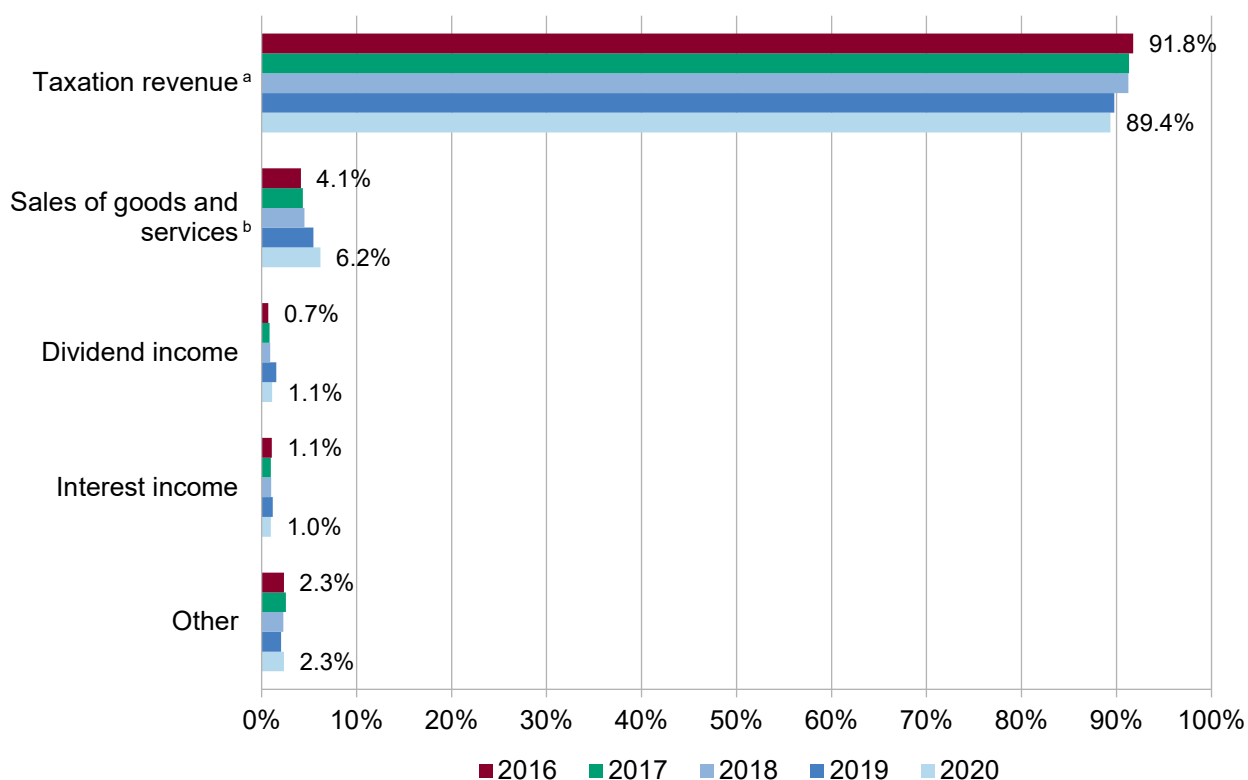
1.7 The net operating balance has returned to a deficit due to a decrease in revenue of 1.5 per cent, an increase in operating expenses of 10.7 per cent, and additional subsidy expenses and personal benefits increase of 27.1 per cent (primarily resulting from the government's economic response to the impact of COVID-19). The increased spending includes \$55.2 billion for JobKeeper payments and cash flow boost to support businesses, additional personal benefit expenses of \$15.7 billion and additional purchases of \$10.0 billion for NDIS, aged care, medical and pharmaceutical benefits. Revenue fell by approximately \$7.5 billion because of lower taxation revenue as a result of the contraction in economic activities due COVID-19.

1.8 In addition to the factors affecting the net operating balances discussed above, the operating result deficit includes net write-down of assets of \$9.1 billion mainly resulting from impairment of tax receivables, net fair value movements in financial instruments of \$18.2 billion and other losses of \$6.9 billion.

1.9 The comprehensive result (total change in net worth) is the sum of the operating result deficit of \$133.9 billion and actuarial revaluation superannuation loss of \$5.0 billion offset by \$3.2 billion revaluation gains on non-financial assets and equity investments.

Revenue by source

1.10 The Australian Government's revenue for the year ended 30 June 2020 was \$500.3 billion (\$507.8 billion for the year ended 30 June 2019). Figure 1.1 provides an analysis of revenue by source from 1 July 2015 to 30 June 2020. Each revenue source as a percentage of total revenue has remained fairly steady with taxation revenue declining from 91.8 per cent in 2015–16 to 89.4 per cent in 2019–20, and sale of goods and services increasing from 4.1 per cent to 6.2 per cent during the same period. Taxation revenue including company tax, individual tax and sales taxes remains the major source of government revenue.

Figure 1.1: Australian Government revenue by source from 2016 to 2020

Note a: In the 2019–20 financial year the main sources of taxation revenue included individual tax (45.9 per cent), company tax (17.5 per cent), sales taxes (13.4 per cent), excise duty revenue (4.6 per cent), and customs duty revenue (3.9 per cent).

Note b: Sales of goods and services include revenue received from the provision of regulatory services, rental income, sale of electricity by Snowy Hydro Limited, revenue from postal services and broadband network revenue.

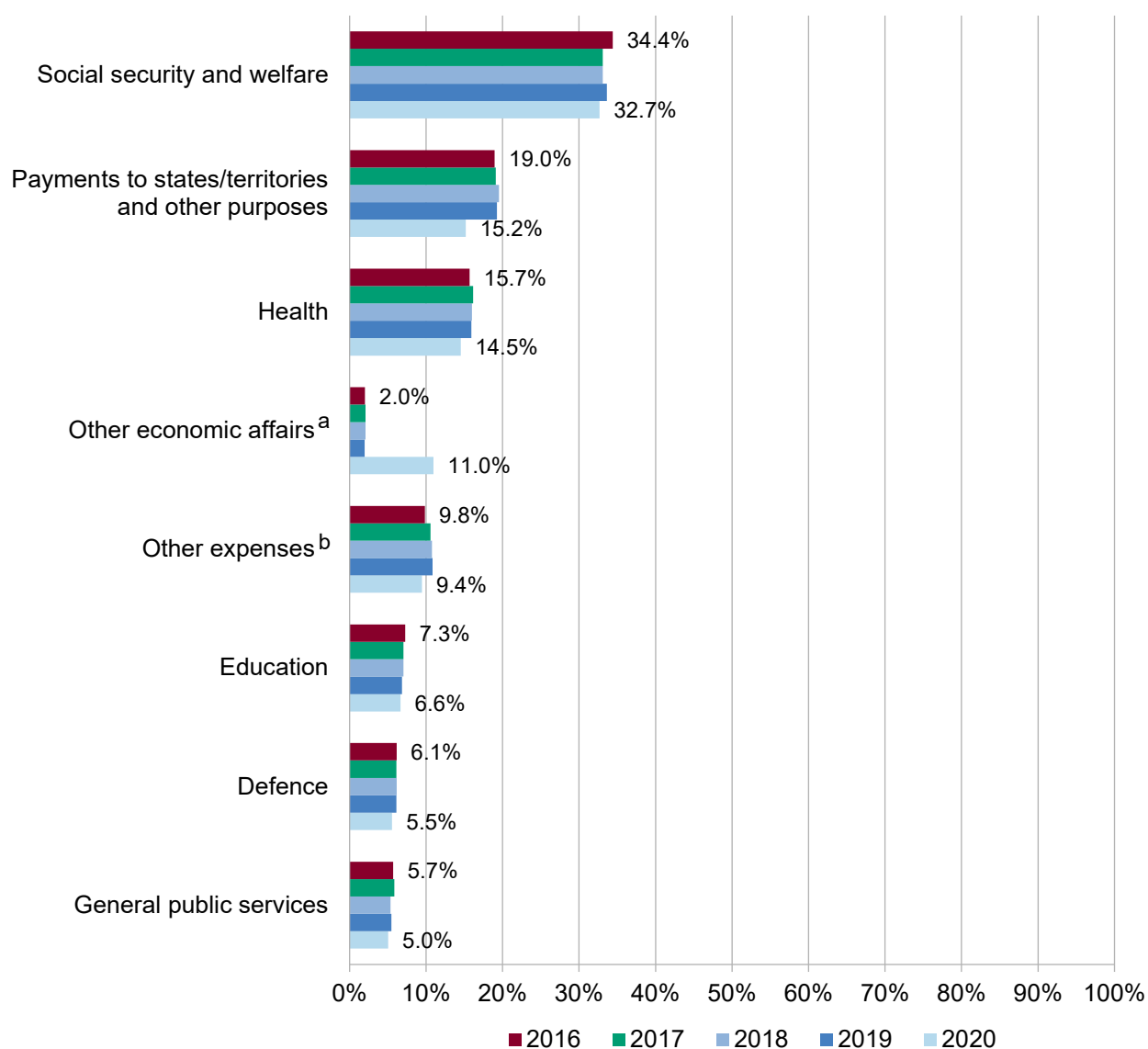
Source: ANAO analysis of CFS from 2016 to 2020.

1.11 The expenses of the Australian Government of \$600.0 billion for the year ended 30 June 2020 were funded by \$500.3 billion of revenue and approximately \$99.7 billion borrowings. The additional borrowings, representing 16.6 per cent of total expenses, was applied to fund expenses resulting from the various stimulus packages in response to COVID-19. Borrowings are expected to continue to increase through the forward estimates. Expenses for the year ended 30 June 2019 were fully funded by revenue.

Classification of expenses by the functions of Government

1.12 The functional classification of expenses shows the total accrual outlays according to the primary purpose the Australian Government aims to achieve. Figure 1.2 provides an analysis of expenses by function from 1 July 2015 to 30 June 2020. As a percentage of total expenses, each of the functions has remained fairly stable except for other economic affairs, which increased from two per cent in the previous four years to 11 per cent in 2019–20. Other economic affairs represents non-standard payments such as tourism promotion and labour market assistance to industry. This function increased significantly in 2019–20 due to the JobKeeper payments and cash flow boost to support businesses impacted by COVID-19 being classified in this category.

Figure 1.2: Proportion of expenses of Government by function from 2016 to 2020



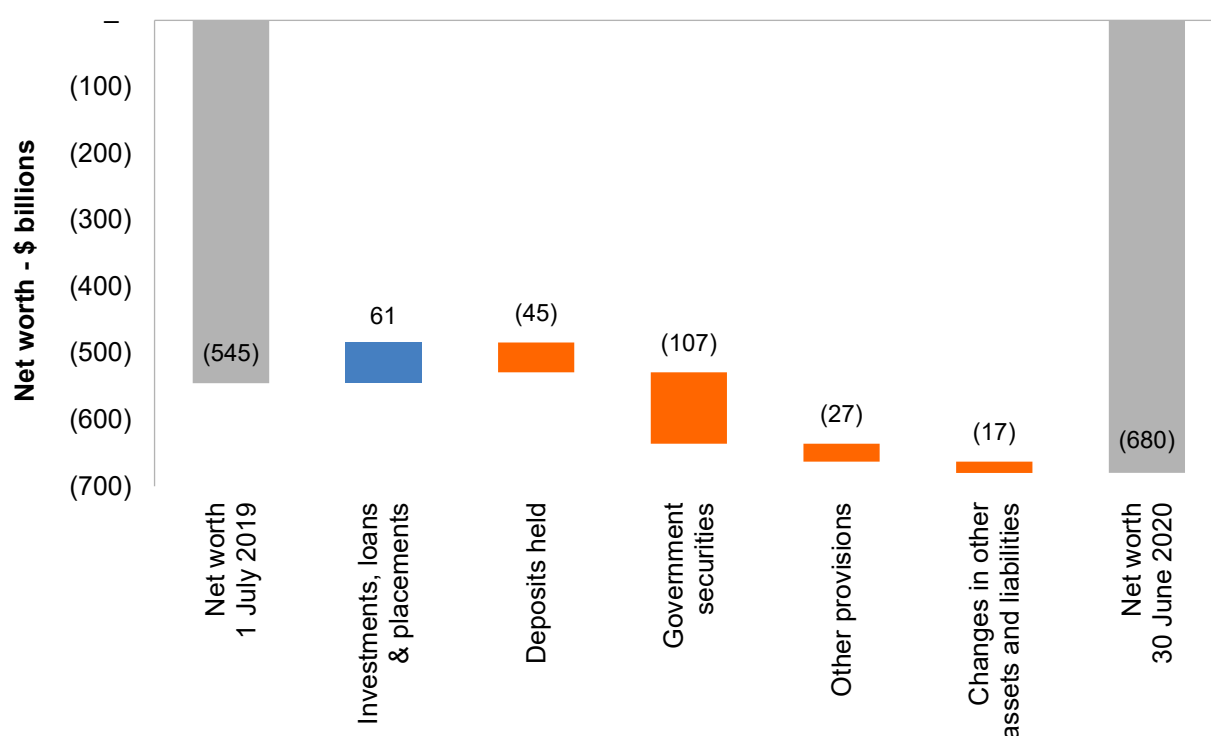
Note a: Other economic affairs represents non-standard payments including storage, tourism promotion, labour market assistance to industry, industrial relations etc. In 2019–20, the JobKeeper payments and other non-standard Australian Government's support provided to the various sectors as a result of the impact of the COVID-19 pandemic are included in this category.

Note b: Other expenses include payments to: agriculture, forestry and fishing; fuel and energy; housing and community amenities; mining, manufacturing and construction; public order and safety; and transport and communications.

Source: ANAO analysis of CFS from 2016 to 2020.

Net worth

1.13 The Australian Government's net worth deficiency increased from \$545.2 billion in 2018–19 to a deficiency of \$679.9 billion in 2019–20. Figure 1.3 provides an analysis of the movement in net worth from 1 July 2019 to 30 June 2020.

Figure 1.3: Changes in the Australian Government's net worth from 2019 to 2020**Relevant financial statement items contributing to changes in net worth**

Source: ANAO analysis of 2019–20 CFS.

1.14 Table 1.2 provides commentary on the main contributors to the change in net worth of the Australian Government identified in Figure 1.3.

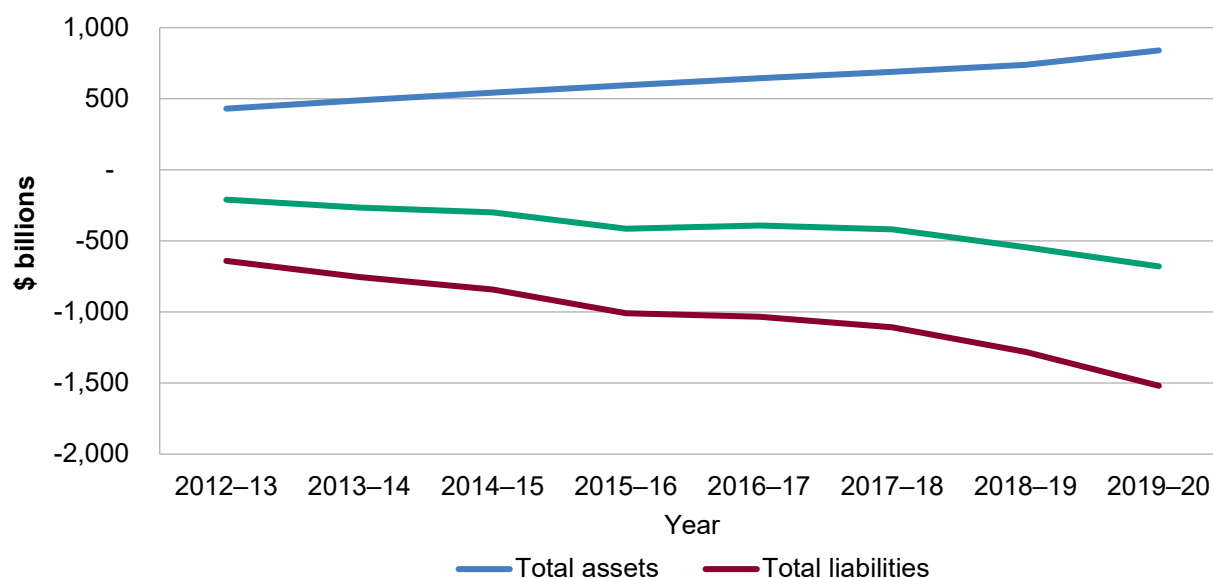
Table 1.2: Explanation of key movements in net worth

Relevant financial statement item	Explanation for key movements in net worth
Investments, loans & placements	Investments, loans and placements comprise securities and other non-equity investments held for liquidity or policy purposes. The increase of \$60.8 billion is largely due to an additional investment of \$57.2 billion by the Reserve Bank of Australia (RBA) to purchase securities in the secondary market as part of monetary policy measures to lower interest rates across the economy in response to COVID-19.
Deposits held	Deposits held are predominantly the liability for funds held with the RBA. These funds are held on behalf of the Australian Government in order to provide exchange settlement accounts that financial institutions must have in order to settle financial obligations arising from the clearing of payments. The increase of \$44.9 billion is primarily as a result of the enhanced liquidity operations of the RBA in response to COVID-19.

Relevant financial statement item	Explanation for key movements in net worth
Government securities	<p>The Australian Office of Financial Management (AOFM), on behalf of the Australian Government, undertakes debt management activities including the issuance of Government securities, such as, Treasury bonds, Treasury indexed bonds and Treasury notes. Government securities increased by \$106.6 billion. This is primarily driven by:</p> <ul style="list-style-type: none"> the issuance of new Treasury Bonds of \$128.2 billion offset by debts repurchased (\$9.0 billion), maturity of securities during the year (\$34.3 billion); increases in net market value adjustments of \$10.4 billion and re-measurement changes of \$6.1 billion; and the increase in Treasury notes of \$55.7 billion to meet short-term borrowings offset by \$51.9 billion applied by the RBA as part of the funds to purchase additional investment.
Other provisions	<p>Other provisions include provisions for benefits and claims, grants, subsidies, tax refunds etc. The increase in other provisions of \$26.6 billion is primarily a result of the \$19.6 billion year-end provision for JobKeeper and cash flow boost payments to businesses for which recipients are entitled under legislation and outstanding benefits and claims of \$6.5 billion.</p>
Changes in other assets and liabilities	<p>Significant movements in assets and liabilities that impacted on net worth were:</p> <ul style="list-style-type: none"> an increase of \$13.5 billion in other receivable and accrued revenue largely driven by the increase in tax receivables relating to payment deferrals granted to taxpayers experiencing financial hardship as a result of the COVID-19 pandemic and the advances paid to the states during 2019–20; an increase of approximately \$24.1 billion in the value of buildings, and other plant, equipment and infrastructure assets due the recognition of right-of-use assets on initial application of AASB16 <i>Leases</i>. Lease liabilities also correspondingly increased by \$22.3 billion as a result of the application of AASB 16; an increase in specialist military equipment of \$5.1 billion, primarily as a result of additions and revaluation adjustments; an increase of \$15.0 billion in the Australian Government's defined benefit superannuation liabilities due to the discount rate used to calculate the liability; increase of \$6.3 billion in other employee liabilities; and an additional \$10.1 billion in Australian banknote currency on issue.

Source: ANAO analysis of 2019–20 CFS.

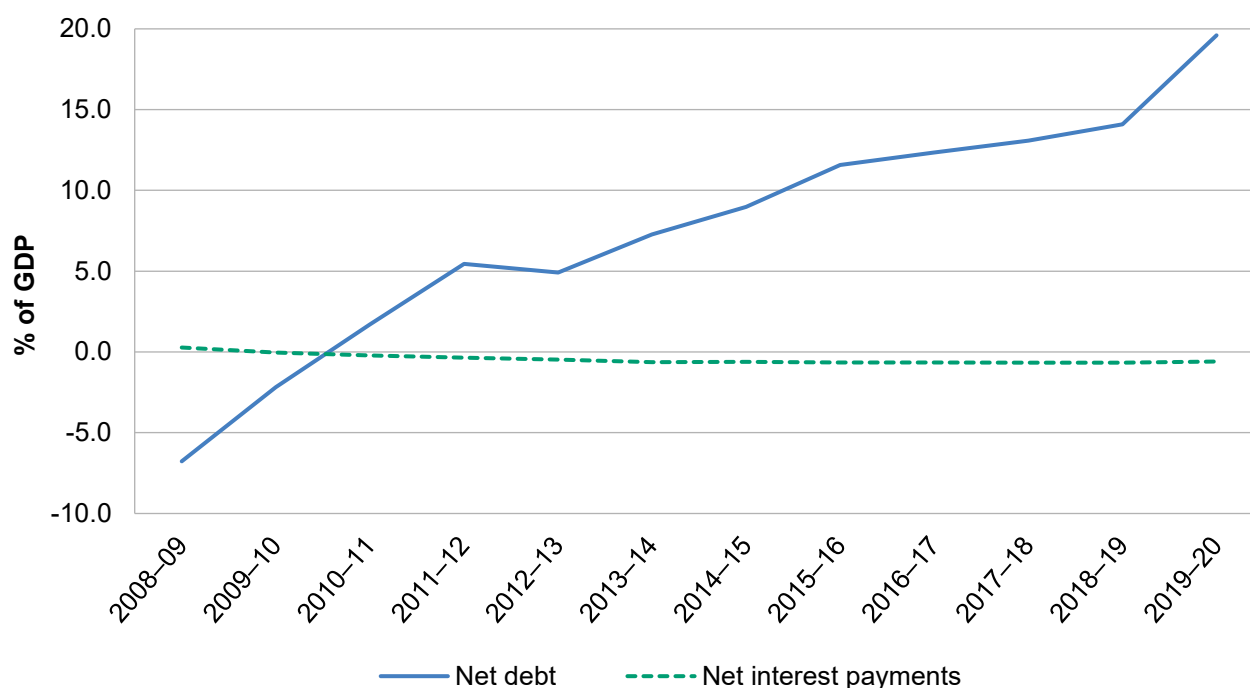
1.15 Figure 1.4 illustrates the total liabilities and assets of the Australian Government since 2012–13. Total assets increased by approximately \$101.3 billion since 30 June 2019 mainly due to the \$57.2 billion purchase of securities from the secondary market by the RBA as part of various monetary policy measures to lower funding cost, and \$29.0 billion increase due to asset revaluation and the 'right-of-use asset' reflecting the implementation of AASB 16 *Leases* (AASB 16). Two significant components that impact the Australian Government's total liabilities are the issue of Government securities, and the value of defined benefit superannuation liabilities. These components are discussed in more detail below.

Figure 1.4: Australian Government's total assets, total liabilities and net worth, from 2012–13 to 2019–20

Source: ANAO analysis of 2019–20 CFS.

Government securities

1.16 There has been a steady growth in net debt as a percentage of GDP. Figure 1.5 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 1.5: Australian Government net financial position (as per cent of GDP), from 2008–09 to 2019–20

Source: ANAO analysis of 2019–20 CFS.

1.17 The level of Government Securities borrowing grew by \$106.7 billion in 2019–20. The net interest payments were \$18.0 billion in 2018–19 remaining relatively stable compared to \$17.4 billion in 2019–20. The low interest rate environment continues to keep the level of net interest payments low, despite the increasing level of net debt.

Superannuation liabilities

1.18 The Australian Government has superannuation liabilities arising from obligations to employees for defined benefit superannuation schemes. Note 9C of the CFS provides information on the nature of these schemes. The total superannuation liability for these schemes was \$431 billion as at 30 June 2020 (\$416 billion as at 30 June 2019). The significant balances of the reported liability relate to the following schemes that are closed to new members:

- Commonwealth Superannuation Scheme (\$94.8 billion);
- Public Sector Superannuation Scheme (\$143.9 billion);
- Military Superannuation Benefits Scheme (\$134.5 billion); and
- Defence Force Retirement and Death Benefits Scheme (\$52.0 billion).

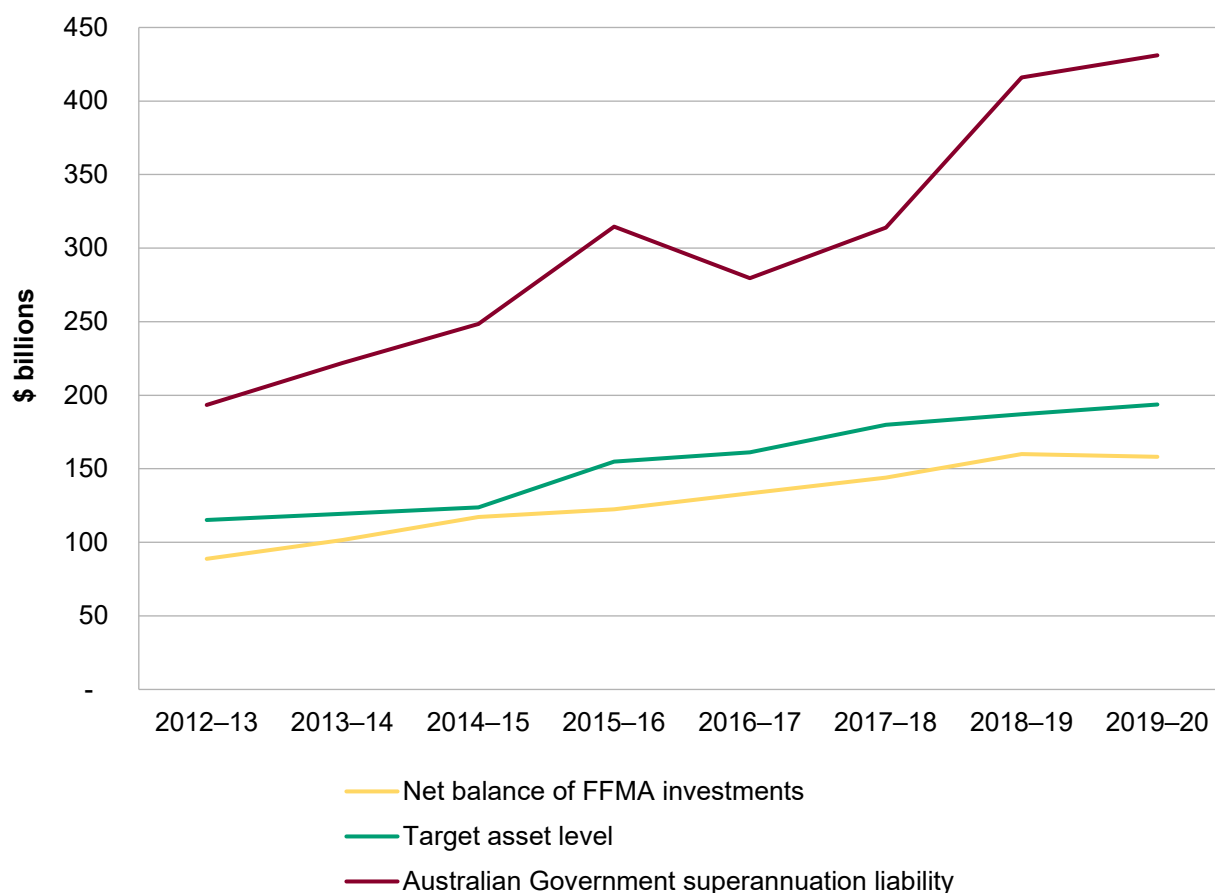
1.19 The primary reason for the increase in the liability is the fall in the discount rate used in valuing the superannuation liability between 30 June 2019 and 30 June 2020. The long term nature of the superannuation liability means that small changes to the discount rate can have a large impact on the liability.

1.20 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.

1.21 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.

1.22 Figure 1.6 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 2019–20.

Figure 1.6: Total value of Australian Government superannuation liabilities and Future Fund investments, and the target asset level, from 2012–13 to 2019–20



Source: ANAO analysis of 2019–20 CFS.

1.23 The TAL represents the best estimate of the assets required, together with investment earnings on those assets, which 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 1.6 reflects the present value of future unfunded superannuation benefits payments discounted using the Commonwealth bond rate, in accordance with Australian Accounting Standards.

1.24 Figure 1.6 shows that the 2019–20 estimate of the TAL is \$193.7 billion², which is above the current Future Fund net asset balance of \$158.2 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.

2 Designated Actuary's Report: Target Asset Level Declaration of 6 July 2018, available from <https://www.finance.gov.au/sites/default/files/2019-11/Target%20Asset%20Level%20Declaration%20for%20the%20Future%20Fund.pdf> [accessed on 23 November 2020]

Government Financing through Loans and Equity

Investments for policy purposes

1.25 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.

1.26 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. The Parliamentary Budget Office in Report no.01/2020 examined trends in the use of alternative financing arrangements and explained how these arrangements relate to the Commonwealth budget and identified possible enhancements to budget reporting to support public understanding.³

1.27 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)

1.28 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 1.25 above.

1.29 The majority of these investments are in entities that provide a positive real return to the Commonwealth and are therefore classified as equity injections.⁴ 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 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 \$300.0 million (excluding Snowy Hydro Limited which was purchased from the NSW and Victorian State Governments). The itemised list at Table 1.3 makes up 34 per cent of equity investments in public corporations. Investments in new or start up corporations are usually valued at their net assets until they exit the start-up phase, which can be a number of years. This may result in a value temporarily lower than the capital contributed as the capital is applied to the operations of the new business.

3 Parliamentary Budget Office Report no.1/2020, available from https://www.apb.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/Alternative_financing_of_government_policies (accessed on 23 November 2020).

4 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 23 November 2020].

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	2,100,000	13,768,000
WSA Co Pty Ltd	1,099,165	203,755 ^a	628,755 ^a
Australian Rail Track Corporation ^b	3,544,093	2,826,466	2,919,700
Australian Naval Infrastructure Pty Ltd	1,188,423	1,182,173	1,182,173
Australian Postal Corporation	400,000	2,203,100	2,593,000
Moorebank Intermodal Company	452,285	295,156	323,593

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.

Source: ANAO analysis of 2019–20 CFS and entity financial statements.

Concessional loans

1.30 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.

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

1.32 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.

1.33 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 *Whole of Government and General Government Sector Financial Reporting*, 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 included in these two key fiscal aggregates.

1.34 The amounts not expected to be repaid (due to being income contingent) on new student loans each financial year since 2015–16 are provided in Table 1.4.

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

	2015–16 (\$b)	2016–17 (\$b)	2017–18 (\$b)	2018–19 (\$b)	2019–20 (\$b)
Debts not to be repaid (new loans)	(2.0)	(1.9)	(1.3)	(1.2)	(1.1)

Source: Australian Government Actuary reports.

1.35 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 2020 was \$50.6 billion compared to the nominal value of the loans of \$69.5 billion. The difference between the nominal value and the fair value include the \$17.6 billion that is not expected to be repaid and the impact of the yield curve movement based on 2019–20 actuarial assessment.⁵ The \$17.6 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.

1.36 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

1.37 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 uses EFA to provide loan management services and other administrative support. In the year ended 30 June 2020, NHFIC raised \$877 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.

1.38 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, Science, Energy and Resources and the Department of Agriculture, Water and the Environment 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.

1.39 During the 2019–20 financial year, these entities have either issued or recommended loans as set out in Table 1.5 below.

5 Australian Government Actuary Report: Reporting for Help Receivable for 2019–20

Table 1.5: Loan transactions during 2019–20

Entity	Number of loans	Summary of loan transactions 2019–20
Northern Australia Infrastructure Facility	11	Eleven loan commitments of up to \$1.4 billion.
National Housing Finance Investment Commission	7	NHFIC advanced \$882.0 million in loans and committed a further \$68.7 million as at 30 June 2020.
Regional Investment Corporation	635	\$715.0 million approved during 2019–20. For the period ended 30 June 2020, \$396.0 million was advanced across loans that were approved in the 2018–19 and 2019–20 financial years.

Source: ANAO analysis provided by entities and 2019–20 annual reports.

1.40 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 2020, 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: 2019–20 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	44	7,026.0	1	Does not have a board	435.0
Export Finance Australia	107.5	18,100.0	15	7	3,307.0
Northern Australia Infrastructure Facility	22.4	7,544.0	11	7	1,704.6
National Housing Finance Investment Commission	28	5,371.0	8	7	1,066.1
Regional Investment Corporation	30	4,417.8	10	5	1,045.0

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

Source: ANAO analysis of 2019–20 annual reports.

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).

Name	Definition
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.
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 23 November 2020].

2. Financial audit results and other matters

Chapter coverage

This chapter provides:

- a summary of the 2019–20 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;
- a summary of the implementation of AASB 16 *Leases*;
- an analysis of the timeliness of entities' financial reporting;
- a summary of the reporting of Key Audit Matters;
- an analysis of IT controls and cyber security risks;
- an analysis of the financial sustainability of material entities; and
- a summary of findings identified during the course of the 2019–20 financial statements audits of entities.

Conclusion

The ANAO issued 232 unmodified auditors' reports, including the Australian Government's Consolidated Financial Statements (CFS), and one modified auditors' report as at 24 November 2020. 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 were free from material misstatement. For two entities, significant 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.

A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting. Sixty-four per cent of entities delivered financial statements in line with an agreed timetable. The ANAO noted a decrease 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 total value of audit differences reported to entities in 2019–20 compared to 2018–19. The observations in regards to timeliness of financial statements and the total value of audit differences indicate there is still an opportunity to improve quality assurance frameworks over financial statements process, noting that the reduced number of findings indicate some improvement has been made.

The revised leasing standard, AASB 16 *Leases* (AASB 16), impacted government entities in 2019–20. AASB 16 significantly increases the recognition and disclosure of leases by lessees with the majority of leases previously treated as operating leases now recognised on the balance sheet. The quality of the implementation of AASB 16 was assessed by considering the number of audit differences identified in relation to AASB 16. The low number and dollar value of audit differences indicates entities were effective in the implementation of AASB 16.

The financial statements were finalised and auditor's reports issued for 77 per cent of entities within three months of the financial year end. On average it took entities an additional 40 days to table their annual reports in Parliament. Sixty-two per cent of entities that are required to table an annual report in Parliament tabled prior to the date of the portfolio's Senate budget estimates hearing commenced. Of the remaining entities, eight per cent had not tabled an annual report as at 24 November 2020.

The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* for the 24 entities included in Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* and the CFS. In 2019–20 a total of 56 key audit matters (KAM) were included across the 24 entities and seven KAM were included in the CFS auditor's report.

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 two significant, 22 moderate and 118 minor audit findings to entities at the completion of the final audits. One significant legislative breach remains open which was first reported during 2012–13. The highest number of significant and moderate findings continue to be in the categories of:

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

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.⁶ This chapter summarises the results of the 2019–20 financial statements audits and provides commentary on specific topics which relate to the governance and administration of entities.

Summary of 2019–20 auditors' reports

2.2 A comparison of the number and type of auditors' reports issued by the Auditor-General and his delegates in 2018–19 and 2019–20 (as at 24 November 2020), including the Consolidated Financial Statements (CFS) is included at Table 2.1. Additional detail relating to the financial

6 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, Regional Development and Communications 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 and 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*.

reporting frameworks applicable to the Australian Government, and the form and content of auditors' reports is outlined in appendices 3 and 4.

Table 2.1: Summary of auditors' reports issued and outstanding as at 24 November 2020

Auditor's report	2019–20	2018–19
Unmodified	232	240
Included an emphasis of matter	5 ^a	1
Included a Report on other legal and regulatory requirements	0	0
Modified	1 ^b	0
Auditors' reports issued	233	240
Not yet issued	13 ^c	8 ^d
Total number of financial statements audits	246	248^e

Note a: Australian Nuclear Science and Technology Organisation, Australian Nuclear Science and Technology Nuclear Medicine Pty Ltd, Indigenous Land and Sea Corporation, Rural Industries Research and Development Corporation and Voyages Indigenous Tourism Australia Pty Ltd.

Note b: National Australia Day Council. For further details refer to chapter five paragraph 5.12.49.

Note c: As at 24 November 2020 the 2019–20 the financial statements had not been finalised for the following entities: Darwin Hotel Partnership; Gagudju Crocodile Hotel Trust; Gagudju Lodge Cooina Trust; Ikara Wilpena Enterprises Pty Ltd; Ikara Wilpena Holdings Trust; Kakadu Tourism (GCH) Pty Ltd; Kakadu Tourism (GLC) Pty Ltd; North Australia Aboriginal Corporation; Northern Australian Aboriginal Charitable Trust; Northern Land Council; Tennant Creek Land Holding Trust; Tjapukai Aboriginal Cultural Park Partnership and Wilpena Pound Aerodrome Services Pty Ltd.

Note d: As at 29 November 2019 the 2018–19 financial statements had not been finalised for the following entities: Gagudju Crocodile Hotel Trust; Gagudju Lodge Cooina 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.

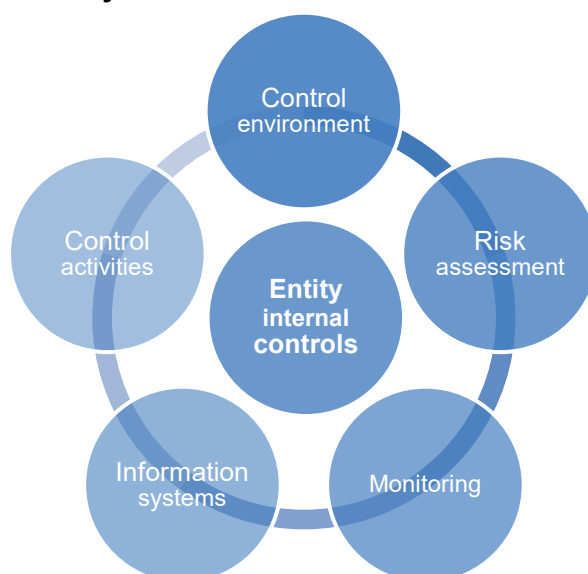
Note e: Subsequent to 30 June 2019, it was identified that the Northern Land Council has two subsidiaries which are required to be audited by the ANAO for the year ended 2018–19 and prior year(s). These entities are the North Australia Aboriginal Corporation and the Northern Australian Aboriginal Charitable Trust. As at 24 November 2020, the 2019–20 and prior years audits are still in progress.

Source: 2018–19 and 2019–20 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 A59.

2.4 In assessing the effectiveness of an entity's control environment to support 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. For information relating to the assessment of IT controls and cyber security risks, refer to paragraphs 2.48 to 2.59.

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 Since its emergence in late 2019, coronavirus disease 2019 (COVID-19) has become a global pandemic impacting on human health and national economies. On 21 January 2020 the Australian Government listed COVID-19 as a disease of pandemic potential under the *Biosecurity Act 2015*. From February 2020, the Australian Government commenced the introduction of a range of policy measures in response to the emergence of COVID-19.

2.7 Under the *Public Governance Performance and Accountability Act 2013* (PGPA Act), the accountable authority must establish and maintain appropriate systems of risk oversight, management and internal control for the entity. The *Commonwealth Risk Management Policy* sets out the government's expectations for Commonwealth entities in undertaking the business of government. Risk is defined as the 'effect of uncertainty on objectives' and risk management as the 'coordinated activities to direct and control an organisation with regard to risk'.

2.8 Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* noted that interim controls testing was undertaken, for the 24 entities considered in that report, before decisions on the implementation of the COVID-19 measures were made and that entities should consider whether appropriate controls have been established for COVID-19 activities.

2.9 As part of assessing the effectiveness of an entity's control environment, the ANAO considered the impact and response to the COVID-19 pandemic for the operations and financial statement preparation processes, including whether entity's had reconsidered their risks and if these risks were considered by its audit committee. All entities reconsidered risk as part of their response to the COVID-19 pandemic, with 24 entities changing their risk appetite.

2.10 Where an internal audit function has been established it can play an important role in providing assurance to the accountable authority that the internal control framework is operating effectively. Entities are encouraged to identify opportunities to leverage internal audit coverage as a means of providing increased assurance to accountable authorities to support their authorisation on the entity's financial statements. The ANAO noted eight entities reduced or deferred internal audit activity to reflect the shift in priorities and risk profile from business as usual in response to the COVID-19 pandemic.⁷

2.11 For the majority of entities, at the completion of the final audits, key elements of internal control were operating effectively, including re-assessment of risks arising from the COVID-19 pandemic, to provide reasonable assurance that the entities were able to prepare financial statements that were free from material misstatement.

2.12 For 15 entities, except for moderate finding/s outlined in chapter five, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement.⁸ For two entities significant 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.⁹

Quality and timeliness of financial statements preparation

2.13 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 ministers, the Parliament and the community.

2.14 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).

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

7 The eight entities were: Australian Building and Construction Commission, Department of Education, Skills and Employment, Department of Foreign Affairs and Trade, Department of Health, Australian Transport Safety Bureau, Airservices Australia, Reserve Bank of Australia and the Australian Taxation Office.

8 The 15 entities were: Australian National University; Australian Nuclear Science and Technology Organisation; Australian Signals Directorate; Australian Trade and Investment Commission; Departments of Defence; Finance; Health; and Home Affairs; Great Barrier Reef Marine Park Authority; High Court of Australia; Kakadu Tourism (GLC) Pty Ltd; Moorebank Intermodal Company Limited; National Disability Insurance Scheme Launch Transition Agency (NDIA); Northern Land Council; and Services Australia.

9 The two entities were: Aboriginal Hostels Limited; and Australian Securities and Investments Commission.

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

2.16 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.

2.17 At the completion of the 2019–20 financial statements audit, the ANAO reported no significant, three moderate and 11 minor findings relating to processes supporting financial statements preparation. This a decrease from 2018–19 where one significant, four moderate and 14 minor findings were reported to entities.

2.18 In 2019–20, the ANAO also assessed the timeliness of financial statements preparation. 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.

2.19 Timeliness in financial statements preparation declined compared to the prior year. Delivery of financial statements in line with the agreed timeframes was achieved by 64 per cent of entities (2018–19: 69 per cent), with a further 25 per cent delivered within one week (2018–19: 18 per cent). The remaining 11 per cent provided their financial statements within 19 days on average of the agreed timeframe (2018–19: 13 days).

2.20 The quality of financial statements preparation was assessed by considering the number and value of audit differences identified. Throughout the financial statements audit process, audit differences other than those considered trivial are communicated to entities. Entities are encouraged to adjust all audit differences.

2.21 The total number of audit differences in 2019–20 (adjusted and unadjusted) decreased by 14 per cent from 2018–19. There was a decrease in the number of unadjusted audit differences in 2019–20, with 98 unadjusted audit differences reported (2018–19: 120). Of these unadjusted differences, 61 related to material entities (2018–19: 52). With the exception of the National Australia Day Council, the unadjusted differences, individually and in aggregate, did not result in a material misstatement to the financial statements of the audited entities.

2.22 Table 2.2 shows that while total unadjusted audit differences decreased compared to 2018–19, the net value impact has increased in 2019–20 for revenue and expenses. This increase is primarily attributed to the unadjusted audit differences for the Department of Defence.

2.23 Of the unadjusted differences identified as a result of the 2019–20 financial statements audits, ten adjustments relating to five entities have been made at the CFS level.¹⁰ The impact of the unadjusted differences was \$937.4 million on revenue; \$875.4 million on expenses; \$86.0 million on assets; \$29.0 million on liabilities; and \$53.0 million on equity.

10 The five entities were: the Departments of Defence, Education, Skills and Employment and Social Services; the Australian Taxation Office; and the National Disability Insurance Scheme Launch Transition Agency.

Table 2.2: Total value of unadjusted audit differences (\$ million)

	2019–20			2018–19		
	Debit impact	Credit impact	Net impact	Debit impact	Credit impact	Net impact
Revenue	76.7	(1,014.1)	(937.4)	60.9	(123.7)	(62.8)
Expenses	981.6	(106.2)	875.4	136.5	(94.7)	41.8
Assets	198.2	(112.2)	86.0	79.8	(126.0)	(46.2)
Liabilities	135.6	(106.6)	29.0	127.8	(76.7)	51.1
Equity	31.1	(84.1)	(53.0)	105.2	(89.1)	16.1

Source: ANAO analysis

2.24 While the ANAO reported a decrease in findings related to processes supporting financial statements preparation, there was a reduction in timeliness of delivery of draft financial statements in line with entity financial statements project plans. Along with the increase in total value of audit differences reported to entities in 2019–20 compared to 2018–19, this indicates there is still an opportunity to improve quality assurance frameworks over financial statements process, noting that the reduced number of findings indicate some improvements have been made. The ANAO recommends that entities continue to enhance their quality assurance frameworks, to ensure that significant accounting policies, estimates and adjustments underpinning financial statements are reviewed as early as possible in the preparation process. In their assurance role, audit committees are encouraged to actively support management through the critical evaluation of accounting papers and holding entities to account for delivering on agreed timetables.

Implementation of AASB 16 Leases

2.25 The revised leasing standard, AASB 16, is effective for financial years commencing on or after 1 January 2019; meaning it impacted 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 was limited, as the right-of-use asset and lease liability largely offset. In terms of profit or loss impact (rather than the current annual rent expense over the term of the lease) two expenses were recognised — interest on the lease liability and amortisation of the right-of-use asset. The effect of AASB 16 ‘front-loads’ the recognition of expense, rather than recognising it on a straight-line basis.

2.26 The introduction of the AASB 16 was announced in early 2016 to allow entities sufficient time to prepare for the transition. To assist entities in the adoption of AASB 16, the Department of Finance updated the *Financial Reporting Rule (FRR)*, Resource Management Guide 125 *Commonwealth Entities Financial Statements Guide (RMG 125)* and Resource Management Guide 110 *AASB 16 Leases Implementation (RMG 110)*. These resources outlined the Commonwealth’s position on the options available for the transitioning and adoption of the new standard. The Department of Finance also provided entities with worked examples covering common leasing arrangements for entities to follow.

2.27 The Department of Finance has published a Better Practice Guide (the guide) to provide direction to all entities with financial statements preparation. Section 7.7 of the guide notes

accounting papers as an important tool to assist and plan for complex matters including changes to accounting standards. The benefit of preparing accounting papers includes allowing entities to document key decisions and keep stakeholders apprised of how they affect financial statements. As AASB 16 was a revised accounting standard for the 2019–20 financial year that affected many entities, quality accounting papers should have been prepared to document the key judgements made by management as a part of the financial statements preparation process.

2.28 For the 2019–20 financial year, 67 per cent of entities were materially affected by AASB 16 with \$29.9 billion of right-of-use assets and \$32.5 billion of lease liabilities recognised at the end of 2019–20 financial year.¹¹ Eighty nine per cent of the materially affected entities prepared accounting papers to assist in the transition as a part of the financial statement preparation process. The Australian Trade and Investments Commission did not prepare an accounting paper of a sufficient standard to support quality financial statements with issues noted around timeliness and completeness of information provided.¹²

2.29 The quality of the implementation of AASB 16 was assessed by considering the number of audit differences identified in relation to AASB 16. The total number of audit differences was 41 (27 adjusted and 14 unadjusted). The total audit differences had a net impact on assets of \$41.0 million (0.002 per cent of CFS value) and on liabilities of \$53.0 million (0.002 per cent of CFS value). The low number and dollar value of audit differences indicates entities were effective in the implementation of AASB 16.

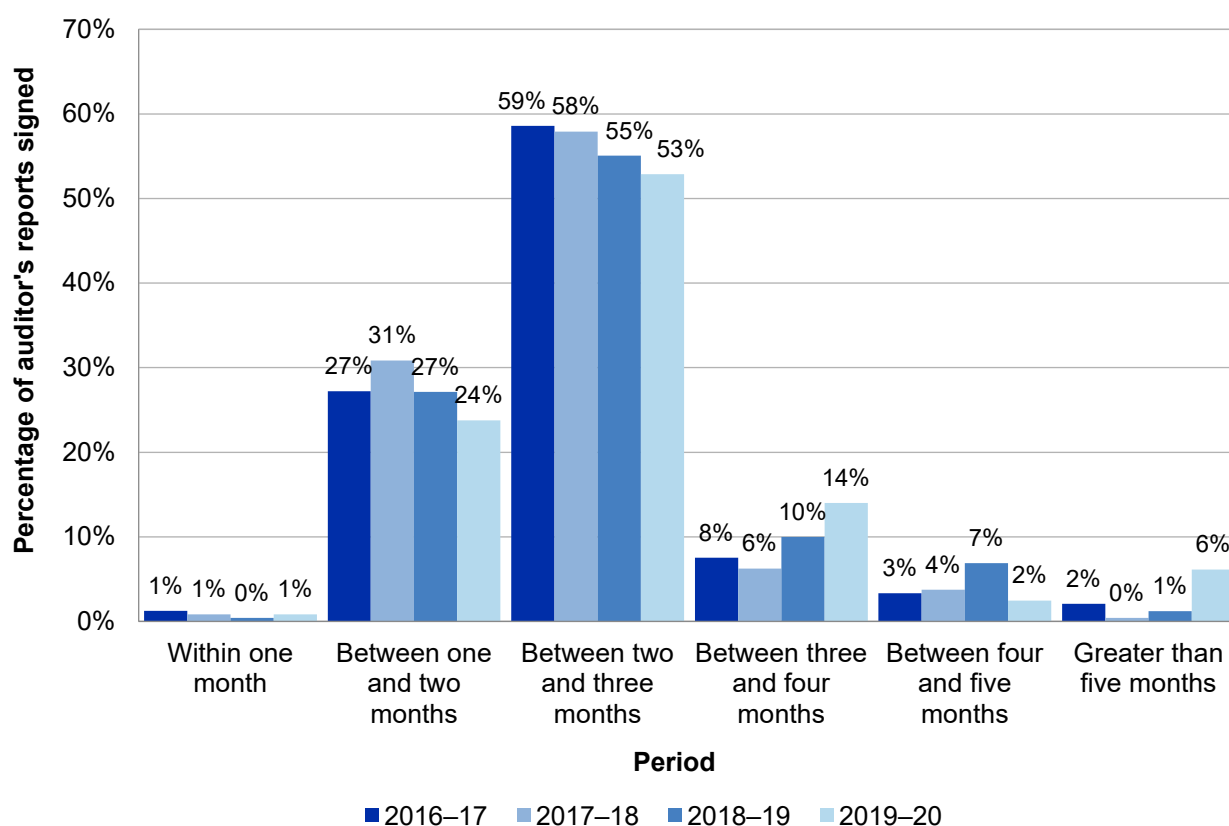
Timeliness of financial reporting

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

2.31 Figure 2.2 shows that the percentage of entities with financial statements and the associated auditor's report signed within two months of the reporting year end has remained relatively consistent between 2018–19 and 2019–20. Seventy-seven per cent of financial statements were signed and associated auditor's reports issued, within three months of year-end. The ANAO issued 91 per cent of auditor's reports within two business days of the signing of the financial statements by the accountable authority (2018–19: 95 per cent).

11 Gross values excluding inter entity eliminations applied at the CFS level.

12 For further details refer to chapter 5 paragraph 5.6.22 for the Australian Trade and Investment Commission

Figure 2.2 Timeframes for auditor's report signing from the end of financial year

Source: ANAO data.

2.32 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 246 mandated financial statements audits, 186 are required to present annual reports to the responsible minister under the *Public Governance, Performance and Accountability Act 2013*.¹³

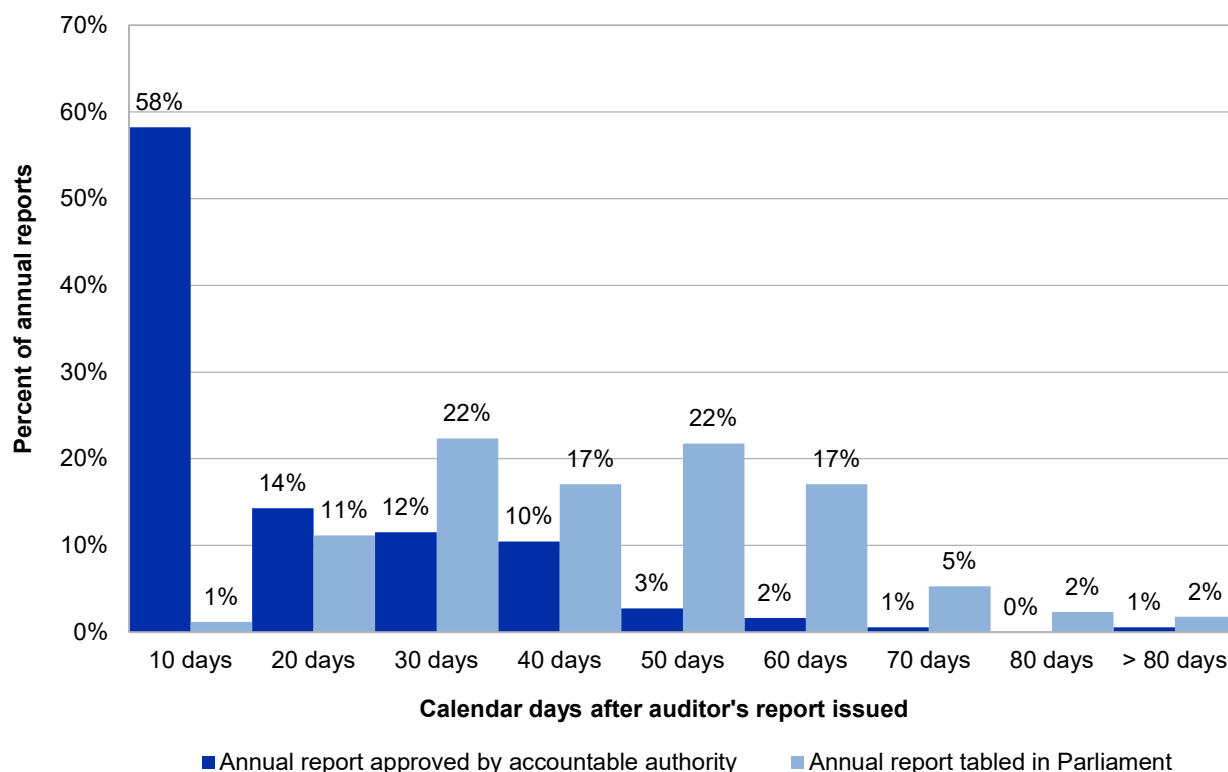
2.33 Annual reports are approved by the entity's accountable authority before being provided to the minister and tabled in Parliament. The Resource Management Guide 135 *Annual report for non-corporate Commonwealth entities* (RMG 135) section 46 states that annual reports are to be provided to the relevant minister by the 15th day of the fourth month after the end of the reporting period.

2.34 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.

¹³ Under the *Public Governance, Performance and Accountability Act 2013*, 187 entities are required to present annual reports to the responsible minister. This includes the Australian National Audit Office.

Figure 2.3: Timeframe for tabling 2019–20 annual reports from issuance of auditor’s report



Source: ANAO analysis.

2.35 The analysis shows, that accountable authorities approved 58 per cent of annual reports within 10 days of the issue of the auditor’s report (2018–19: 60 per cent), with an overall average of 13 days (2018–19: 12 days). The average days between the accountable authority’s approval of the annual report and tabling in Parliament was 28 days (2018–19: 28 days).

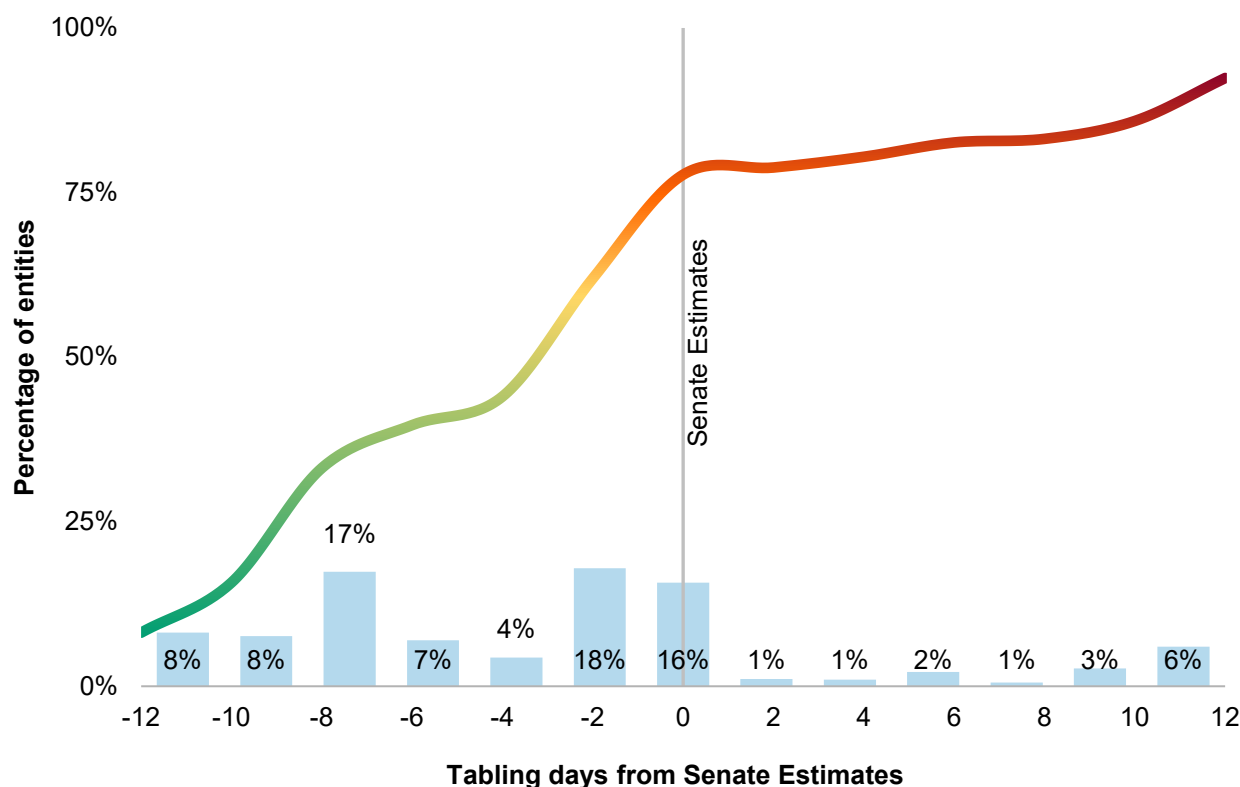
2.36 Thirty-five per cent tabled within 30 calendar days from the issue of the auditor’s report (2018–19: 29 per cent). The tabling of annual reports in Parliament occurred on average 40 days after the auditor’s report was issued (2018–19: 39 days). There are 14 entities that are required to table an annual report for 2019–20 which have not done so, as at 24 November 2020.¹⁴

2.37 Annual reports should be tabled in Parliament to allow sufficient time for review before Senate budget estimates hearings.¹⁵ RMG 135 section 21 indicates that it is best practice for annual reports to be tabled before supplementary budget estimates hearings if they occur before 31 October.

14 The 14 entities were: Aboriginal Hostels Limited; Anindilyakwa Land Council; Australian National Preventive Health Agency; Australian Rail Track Corporation Limited; Coal Mining Industry (Long Service Leave Funding) Corporation; Department of Health; Department of the Treasury; Indigenous Land and Sea Corporation; National Australia Day Council; Northern Land Council; Outback Stores Pty Ltd; Tiwi Land Council; Workplace Gender Equality Agency; and Wreck Bay Aboriginal Community Council.

15 Due to the COVID-19 pandemic the budget was delivered on 6 October 2020 and the 2020–21 Senate budget estimates hearings replace the usual 2020–21 Senate supplementary budget estimates hearings.

Figure 2.4: 2019–20 annual report tabling date in relation to Senate budget estimates hearing, as at 24 November 2020



Note: The remaining eight per cent relate to annual reports yet to be tabled in Parliament.

Source: ANAO analysis.

2.38 Figure 2.4 shows that, in line with best practice, 62 per cent of annual reports were tabled before the date of the 2019–20 budget estimates hearing date (2018–19: 76 per cent). A further 16 per cent tabled on the date of the portfolio's hearing (2018–19: four per cent). There were eight material entities across five portfolios which either tabled annual reports after the portfolio's 2020–21 Senate budget estimates hearing (2018–19: three) or have not tabled annual as at 24 November 2020. Table 2.3 includes further details about the timing of 2019–20 annual reports for material entities that missed Senate budget estimate hearings.

2.39 The provisions of subsections 34C(4) to (7) of the *Acts Interpretation Act 1901* allows the accountable authority to apply for an extension if it is not reasonable possible to provide the annual report within the timeframe required under the PGPA Act. Where accountable authorities apply for an extension this is required to be approved by the relevant Minister. In 2019–20, three entities across three portfolios were approved extensions to table its annual report and therefore the annual report was not tabled prior to the senate estimates date.¹⁶

¹⁶ The three entities were: Coal Mining Industry (Long Service Leave Funding) Corporation; and the Departments of Health, and the Treasury.

Table 2.3: Annual reports tabled after the portfolio's Senate budget estimate hearing for material entities, as at 24 November 2020

Reporting entity	Date auditor's report issued	Approval of annual report ^a	Annual report tabling date	Senate estimates date ^b
Attorney-General's portfolio				
Coal Mining Industry (Long Service Leave Funding) Corporation	12 Oct 20	π	• ^c	27 Oct 20
Health portfolio				
Department of Health ^d	9 Sept 20	π	• ^c	21 Oct 20
Infrastructure, Transport, Regional Development and Communications portfolio				
Department of Infrastructure, Transport, Regional Development and Communications	2 Oct 20	7 Oct 20	29 Oct 20	19 Oct 20
Australian Rail Track Corporation Limited	15 Oct 20	15 Oct 20	•	19 Oct 20
National Capital Authority	1 Sept 20	14 Oct 20	9 Nov 20	19 Oct 20
Prime Minister and Cabinet portfolio				
Indigenous Business Australia	2 Nov 20	28 Sept 20	11 Nov 20	23 Oct 20
Indigenous Land and Sea Corporation	28 Sept 20	π	•	19 Oct 20
Treasury portfolio				
Department of the Treasury	10 Sept 20	8 Nov 20	• ^c	20 Oct 20

π: annual report not approved as at 24 November 2020

•: annual report not tabled as at 24 November 2020

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 2020–21 Senate budget estimates hearing.

Note c: Coal Mining Industry (Long Service Leave Funding) Corporation, the Department of Health and the Department of the Treasury received an extension for tabling of 2019–20 annual reports.

Note d: The Department of Health tabled their annual report after the portfolio supplementary budget estimate hearing in 2018–19.

Source: ANAO analysis

Key audit matters

2.40 ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ASA 701) has been applicable since 2016–17. While ASA 701 only requires Key Audit Matters (KAM) reporting for listed entities, the Auditor-General considers including KAM to be good practice for financial statements auditing. The Auditor-General adopted inclusion of KAM in 2016–17 and this has continued in 2019–20 for the 24 entities included in Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* and also in the Consolidated Financial Statements (CFS) from 2017–18.

2.41 In addition to the CFS, the following entities include KAM:

- Australian Office of Financial Management;
- Australian Postal Corporation;
- Australian Taxation Office;
- Departments of: Agriculture, Water and the Environment; Defence; Education, Skills and Employment; Finance; Foreign Affairs and Trade; Health; Home Affairs; Industry, Science, Energy and Resources; Infrastructure, Transport, Regional Development and Communications; Parliamentary Services; the Prime Minister and Cabinet; Social Services; the Treasury; and Veterans' Affairs;
- Future Fund Management Agency and the Board of Guardians;
- National Disability Insurance Scheme Launch Transition Agency;
- National Indigenous Australians Agency;
- NBN Co Limited;
- Reserve Bank of Australia; and
- Services Australia.¹⁷

2.42 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.

2.43 In 2019–20, a total of 56 KAM were included across the 24 (2018–19: 26) entities (2018–19: 60).¹⁸ Except for the audit of the Attorney-General's Department, which did not give rise to any KAM being included in its auditor's report, the number of KAM per entity ranged from one to five (2018–19: 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.

2.44 The majority of KAM in 2019–20 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.

17 Further details regarding each of these entities' individual KAM are provided in Chapter 5 of this report.

18 In 2018–19 there were 26 entities with KAM reported. Changed numbers were due to the National Indigenous Australians Agency being established from 1 July 2019 and three former Departments being abolished as a result of Machinery of Government changes effective 1 February 2020.

2.45 Other KAM included: completeness and accuracy of expenses relating to subsidies and personal benefit, and other payments and completeness and accuracy of revenue relating taxation, royalty and other revenue.

2.46 The following three new KAM were included in 2019–20 as a result of risks identified relating to the COVID-19 pandemic:

- the valuation of administered investments held by the Department of the Prime Minister and Cabinet as a result of impact of the COVID-19 pandemic on the tourism industry and the loans provided by Indigenous Business Australia;
- the eligibility assessments and completeness of subsidy expenses in the Australian Taxation Office financial statements as a result of the implementation of the stimulus measures administered in connection with JobKeeper and the Cash Flow Boost payments; and
- the existence and completeness of inventories in the National Medical Stockpile maintained by the Department of Health.

2.47 In addition to the new KAM, five existing KAM were updated to include additional audit procedures required to address revised risks resulting from the COVID-19 pandemic.¹⁹ The ANAO also included KAM in the auditor's report for the CFS. There were seven KAM identified for the CFS which have been reported in Table 1.1.

IT Controls and Cyber Security Risks

2.48 Cyber security remains a strategic priority for the Australian Government. The 2020 Australian Cyber Security Strategy highlights the importance of protecting Australians online, especially during the COVID-19 pandemic.²⁰

2.49 The Australian Cyber Security Centre (ACSC) provides advice and information on how Australians can protect themselves online. ACSC has stated that since March 2020, there has been an increase in COVID-19 pandemic themed malicious cyber activity across Australia.²¹ The ACSC has published guidance to inform users of the risks associated with using remote access technologies.²²

2.50 Figure 2.5 provides the ANAO's analysis of changes to remote working arrangements and information technology (IT) general controls within entities as part of their response to the COVID-19 pandemic. As part of the response to the COVID-19 pandemic 186 entities implemented some format of remote working. The majority of entities assessed their existing IT general controls as

19 For further details refer to chapter 5 sections for the Departments of: Defence; Infrastructure, Transport, Regional Development and Communications; and Social Services, the Future Fund Management Agency and Board of Guardians and NBN Co Limited.

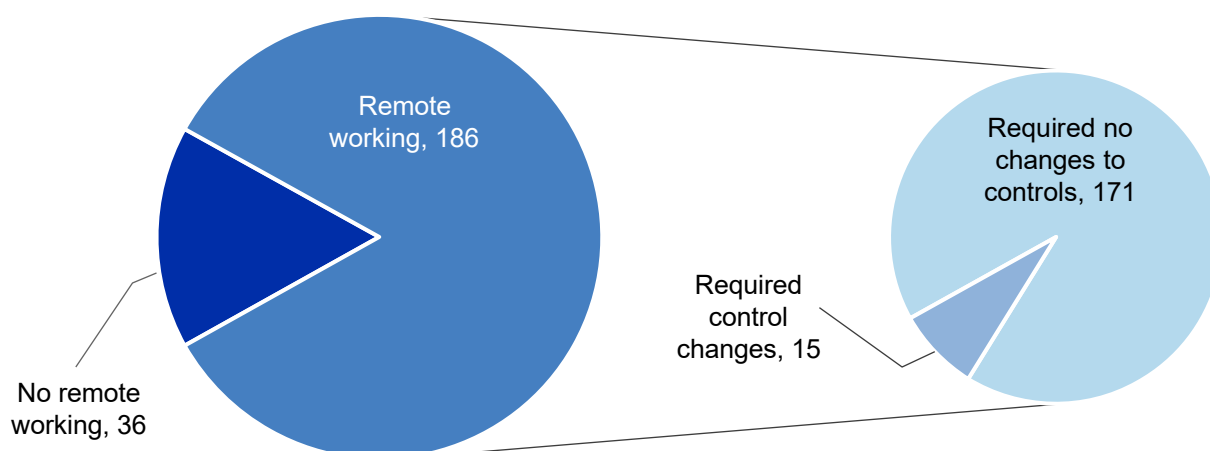
20 Department of Home Affairs, *Australia's Cyber Security Strategy 2020*, available from <https://www.homeaffairs.gov.au/about-us/our-portfolios/cyber-security/strategy> [accessed 23 October 2020].

21 Australian Cyber Security Centre, *COVID-19 malicious cyber activity* from <https://www.cyber.gov.au/acsc/view-all-content/alerts/covid-19-malicious-cyber-activity> [accessed 29 May 2020].

22 Australian Cyber Security Centre, *Cyber security is essential when preparing for COVID-19* from <https://www.cyber.gov.au/acsc/view-all-content/advisories/cyber-security-essential-when-preparing-covid-19> [accessed 24 April 2020].

being appropriate to support remote working arrangements, with only 15 of the 186 entities needing changes to IT general controls.

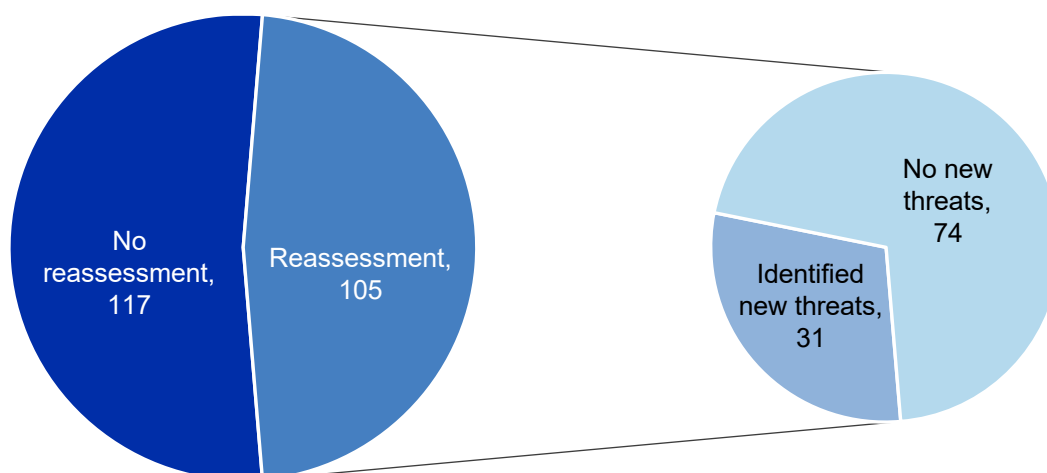
Figure 2.5: Remote working and changes to IT general controls



Source: ANAO data.

2.51 Assessments of exposure to cybersecurity intrusions during the COVID-19 pandemic was performed by 105 entities. Of the 105 entities, 74 did not identify any additional threats due to the COVID-19 pandemic, and the remaining 31 entities did identify at least one new threat as part of this assessment. The most common threat identified was related to phishing scams. Forty five of the 222 entities reported an increase in the volume or frequency of cyber intrusion attempts since March 2020. Figure 2.6 summarises the analysis of cyber intrusion assessments.

Figure 2.6: Reassessment of exposure to cyber intrusions



Source: ANAO data.

2.52 Although there was an increase in the volume of cyber intrusion attempts since March 2020, the ANAO did not note any significant progress against the Protective Security Policy Framework (PSPF) Policy 10 requirements within material entities since the Interim Phase

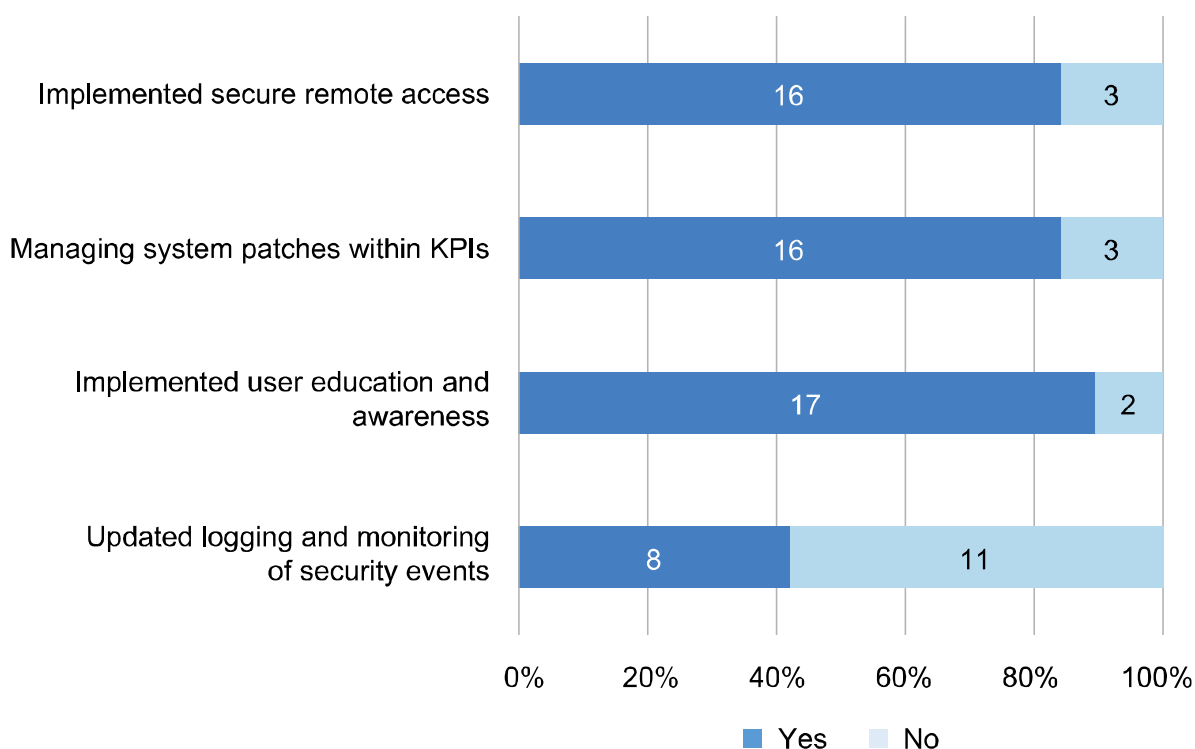
assessment. These entities were still finding it challenging to implement the necessary mitigation strategies, with some having particular difficulties in managing privileged user access.

2.53 The ANAO extended its review of the IT control environment of 19 entities, including all departments of state and a number of major Australian government entities. The 19 entities were selected on the basis of their overall IT risk and complexity and their contribution to the CFS. This selection was used to determine whether cyber security risks arising from the COVID-19 pandemic had been managed to reduce the impact on the application controls relied upon in the audit of financial statements.

2.54 The ANAO performed analysis on the following areas highlighted by ACSC, see Figure 2.7:

- (a) securing remote access;
- (b) management of system patches;
- (c) user education and awareness; and
- (d) logging and monitoring of security events.

Figure 2.7: Implementation of controls in response to the COVID-19 pandemic



Source: ANAO data.

2.55 As per Figure 2.7, remote access was secure for 16 of the entities analysed, with appropriate multi-factor authentication (MFA) and passphrase controls being implemented. MFA reduces the risk of external attackers using stolen usernames and passwords to gain unauthorised access to personal and financial systems and data. Three entities did not use MFA to secure remote access, with one of the three entities stating that MFA was not appropriate for its business environment as it impeded on the level of accessibility to its systems, specifically for staff with accessibility issues. The three entities had decided to rely on other security controls to mitigate the risks associated with less secure implementations of remote access.

2.56 Systems should be appropriately patched to prevent external attackers from exploiting known vulnerabilities to gain unauthorised system access. Of the 19 entities selected, 16 entities were managing patches to its systems within their defined key performance indicators (KPIs). The remaining three entities reported not being able to meet their KPIs as they had changed how they delivered their desktop patches due to the remote working environments.

2.57 User education and guidance to support remote working was in place for 17 entities to ensure staff and other stakeholders were aware of the increased cyber security risk in relation to remote working. This reduces the chances of a successful phishing attack by external attackers. However, only four entities reported that they measured the outcomes from these campaigns. These four entities reported using simulated phishing attacks to assess whether their staff were capable of identifying phishing emails; and website analytics to assess whether the published guidance was being viewed by staff. One of the 19 entities informed the ANAO that it had not performed any user education for remote working in relation to its response to the COVID-19 pandemic. During the preparation of the report, this entity was still in the process of developing training material that was due to be delivered in August 2020.

2.58 Eight entities stated they had broadened their event logging to better monitor cyber threats due to the COVID-19 pandemic. These changes can be used to better detect and prevent malicious activity by taking into account remote working conditions of their staff. One of the eight entities informed ANAO that it added event logging to also ensure that social distancing requirements were maintained. This was done by monitoring staffing levels to ensure buildings were not over occupied.

2.59 Overall, the majority of entities reported that existing IT general controls could support their respective remote working arrangements, with only a few entities identifying new cyber threats. Further, the majority of entities had implemented or updated controls in the risk areas highlighted by ACSC. The broader management of cyber threats assists in reducing the impact on the application controls relied upon in the preparation and audit of financial statements.

Financial sustainability of material entities

2.60 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.

2.61 In 2018–19, the Department of Finance established a portal for capturing and reporting annual reports for all Commonwealth entities and Companies.²³ 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 and includes the following four ratios:

- 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 of the entity.

23 Australia Government Transparency portal, available from: <https://www.transparency.gov.au> [accessed 28 October 2019].

- Financial Assets to Total Liabilities ratio — indicates the extent to which an entity's liabilities can be covered by its financial assets.
- Current Ratio — indicates whether an entity's current assets are greater than its current liabilities. It indicates whether the entity is likely to be able to pay its short term liabilities as they fall due.
- Capital Turnover Ratio — indicates whether an entity is replacing its assets at a sustainable rate.

2.62 The Department of Finance has not developed and communicated guidance to assist users in assessing whether the ratios indicate strong or weak financial performance in the context of the government sector.²⁴ Consistent with 2018–19, 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 62 material entities.²⁵ These parameters are described in Table 2.4 and Table 2.5 below. In addition, there are a number of adjustments made to ratio inputs to achieve a more meaningful indicator as noted below.

Analysis of operating results

2.63 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.

2.64 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.²⁶ As a result, any entity in this category averaging a large deficit should be considered more closely.

2.65 The ANAO analysed the operating results of all material entities over a five year period from 2015–16 to 2019–20. The analysis is based on reported surpluses or deficits after adjusting for unfunded expenses, where relevant, highlighting the full cost of operations.²⁷ Of the 62 material entities, 38 were not-for-profit and 24 were corporate or commonwealth companies or not-for-profit entities which have quasi-commercial operations or departmental functions operating on a for-profit basis.

2.66 For the purposes of this analysis, material entities are grouped into three operating result categories as part of this analysis, outlined in Table 2.4.

24 Consistent with previous ANAO reports. See Auditor General Report No. 20 2019–20 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*, paragraph 2.38.

25 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.

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

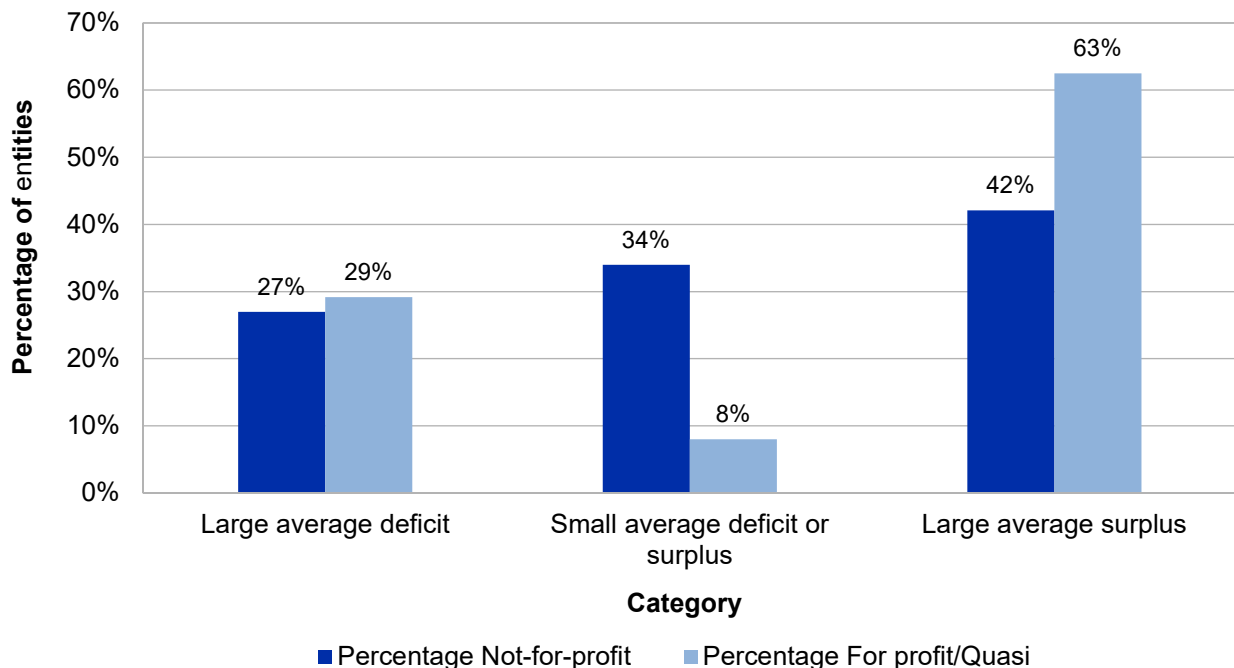
27 The Government provides funding for non-operating costs (for example, replacement and capitalised maintenance of existing departmental assets) to non-corporate commonwealth entities via departmental capital budgets, funded through equity. Corporate Commonwealth entities continue to be funded for depreciation, amortisation and make-good expenses except for entities designated as Collection Institutions which are not funded for depreciation on their heritage and cultural assets. No adjustments have been made for depreciation on right-of-use assets.

Table 2.4: Operating result category

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

Source: ANAO developed parameters.

2.67 Figure 2.8 demonstrates 34 per cent of material not-for-profit (2018–19: 43 per cent) and eight per cent of for profit/quasi entities (2018–19: 12 per cent) were classified as achieving small deficits or surpluses and managing within their breakeven mandate.

Figure 2.8: Operating result analysis

Source: ANAO analysis of material entities' operating results.

2.68 Forty two per cent of not-for-profit entities (2018–19: 44 per cent) and sixty-three per cent of for-profit/quasi-commercial entities (2018–19: 67 per cent) recorded large average surpluses. Twenty seven per cent of not-for profit (2018–19: 13 per cent) and twenty-nine per cent of for-profit/quasi (2018–19: 21 per cent) entities have averaged large deficits. The following discussion focuses on the common drivers for these entities' large average surpluses and large average deficits.

Large average deficit

2.69 The following seven for-profit/ quasi-commercial entities recorded a large average deficit during the period: Australian Naval Infrastructure Pty; Australian Rail Track Corporation; Coal Mining Industry (Long Service Leave Funding) Corporation; Moorebank Intermodal Company

Limited; National Housing Finance and Investment Corporation; NBN Co. Limited; and WSA Co Ltd. Of these entities:

- four recorded large average deficits, consistent to the previous financial year due to being in the build phase of large infrastructure projects, requiring significant investment which has led to their operating losses, they were: Australian Naval Infrastructure Pty Ltd; Moorebank Intermodal Company Limited; NBN Co Limited; and WSA Co Ltd.²⁸
- the Australian Rail Track Corporation (ARTC) large average deficit related to the increase in impairment expenses recognised for property, plant and equipment (including rail infrastructure) assets. These expenses increased in 2018–19 and 2019–20 as a result of impairments recognised on the assets being constructed for the Inland Rail network and on rail infrastructure assets in the Interstate and Hunter Valley rail networks. The impairment was a result of decreases in the expected income for these assets on which the fair value is calculated.
- the National Housing Finance and Investment Corporation large average deficit is a result of the accounting treatment for the increase in concessional loans to eligible clients (2019–20 to \$1.2 billion; 2018–19: \$308 million) and costs associated with the establishment of the agency.
- the Coal Mining Industry (Long Service Leave Funding) Corporation moved from the large average surplus category in 2018–19 due to an 88 per cent decrease in revenue from its investment portfolio in 2019–20 (2018–19: \$127.2 million; 2019–20: \$15.1 million).

2.70 The following nine not-for-profit entities also recorded a large average deficit during the period: the Australian Broadcasting Corporation; Australian Federal Police; Australian Prudential Regulation Authority; National Indigenous Australians Agency; National Capital Authority; and the Departments of Industry, Science, Energy and Resources, Parliamentary Services, the Prime Minister and Cabinet, and Veterans' Affairs.

2.71 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 2019–20 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.

2.72 Two not-for-profit entities remain in the large average deficit category due to factors occurring in current and prior years. The Australian Federal Police (AFP) current year deficit is predominately a result of increased operating costs, including additional protective equipment and cleaning of facilities in response to COVID-19; and increased employee entitlements expenses including additional provision made for unpaid superannuation entitlements. The Department of Industry, Science, Energy and Resources deficit relates to the transfer of functions of the

28 This is consistent with the period 2014–15 to 2018–19 as reported in the Auditor-General Report No.20 2019–20 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*, paragraph 2.47.

Australian Astronomical Observatory functions to the Australian National University and Macquarie University resulting in significant asset write-offs in 2017–18.

2.73 Five entities recorded large average deficits due to events in the current year:

- Australian Prudential Regulation Authority was impacted by an increase in employee benefits expense of \$20.7 million due to an increase in full time equivalent staff, an increase in salary costs and the recognition of a \$9 million provision in relation to an initial claim for court awarded costs.²⁹
- Department of Veterans' Affairs incurred additional contractor expenses of \$20.8 million to meet increased demands for processing veteran claims;
- The Department of Parliamentary Services moved from the large average surplus category to the large average deficit category due to increased employee benefits expenses of \$2.8 million, supplier expenses \$1.4 million and depreciation expenses of \$2.2 million relating to the rollout of capital projects; and
- Department of the Prime Minister and Cabinet's and National Indigenous Australians Agency's (NIAA) deficits are a result of implementation of AASB 16. PM&C and NIAA leased assets previously recognised as operating lease rentals had to be recognised on the balance sheet, resulting in a higher depreciation expense. Previously, the rental payments on these assets were recognised as rental expense.

Large average surpluses

2.74 As outlined in Figure 2.7, 42 per cent of material not-for-profit entities reported average surpluses of more than one per cent of total expenses over the five year period (2018–19: 44 per cent). The following discussion focuses on the common drivers for these entities' large average surpluses.

- Consistent with 2018–19, cultural institutions represent a quarter of the entities in the large average surplus category.³⁰ Factors impacting the average surplus are the receipt of goods or donations for no or nominal consideration, and bequests of cash. 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.
- The Commonwealth Scientific and Industrial Research Organisation (CSIRO), recognised a large average surplus of six per cent due to movements in the valuation of equity investments.
- The Australian Nuclear Science and Technology Organisation (ANSTO) recognised a large average surplus due to the additional funding received in the 2019–20 year, which contributed to the significant surplus in the current year.

29 For further details refer to chapter 5 paragraph 5.14.31 for Australian Prudential Regulation Authority.

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

- Four entities, the Australian Signals Directorate (ASD); Bureau of Meteorology; National Health and Medical Research Council; and Services Australia, continued to report a large average surplus across the five year period. In the current year, the Bureau of Meteorology received additional funding to support the aviation industry, whilst Services Australia received additional funding to deliver Government's COVID-19 stimulus initiatives. The significant surplus for ASD and the National Health and Medical Research Council relate to decreases in expenditure due to the COVID-19 pandemic.³¹
- The Department of Social Services (Social Services) remains in the large average surplus category in 2019–20. This is primarily due to the recovery of capital works from third parties being treated as revenue under accounting requirements.
- The Australian Research Council recorded an average surplus over the five year period of 6.5 per cent. As reported in Auditor-General Report No.20 2019–20 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*, this is due to the timing and recognition of revenue received due to events or project milestones not aligning with the related expenditure.
- As a result of the Administrative Arrangements Order effective 1 February 2020, the Department of Agriculture and Water Resources was abolished and its functions were transferred to the renamed Department of Agriculture, Water and the Environment (DAWE).³² Consistent with the former Department of Agriculture and Water Resources, DAWE has reported a significant surplus in 2019–20 due to revenue collections from cost recovery arrangements. The department operates a number of cost recovery arrangements across the biosecurity, export certification and other business services areas.
- The Australian Office of Financial Management (AOFM) continues to remain in the large average surplus category in 2019–20. In 2019–20, the AOFM surplus was due to additional government funding being received for the implementation and management of the Australian Business Securitisation Fund.³³
- The transition of participants to the National Disability Insurance Scheme (NDIS) and the utilisation of services has impacted the operating result of the National Disability Insurance Agency (NDIA) over the period. There has been a slower phasing of participants than anticipated and lower utilisation of funds by participants which resulted in expenses incurred for 2017–18 to 2019–20 being lower.
- The Department of Finance first assessed Geoscience Australia as a material entity in 2019–20. Geoscience Australia's operating result places them in the large average surplus category due to delays in the Satellite-Based Augmentation System program relative to the original budget for this program. The expenses for this program have not all been realised in the 2019–20 period.

31 For further details relating to the large surplus for the Australian Signals Directorate and the National Health and Medical Research Council refer to chapter 5.

32 The former entity being the Department of the Environment and Energy.

33 For further details relating to the Australian Business Securitisation Fund refer to the following website: <https://treasury.gov.au/small-business/absf> <accessed 3 November 2020>.

Balance sheet analysis

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

2.76 The ANAO analysed the balance sheet positions of material Australian Government entities as at 30 June 2020. 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 that could indicate the need for a future capital injection from government.

2.77 Based on the measures developed by Finance, the ANAO has reviewed an entity's ability to manage its underlying financial position. As Finance has not developed guidance to assist users in assessing whether the ratios indicate strong or weak financial performance in the context of the government sector, the ANAO consistent with the prior year has determined these parameters.

2.78 In determining the parameters to be applied in 2019–20, as a result of the implementation of AASB 16 the ANAO has revised the parameters previously applied. Whilst the net impact on the balance sheet was limited, as the right-of-use asset and lease liability were largely offset, both the liquidity and gearing ratios of entities have been affected. As entities are required to recognise lease liabilities on their balance sheet this has resulted in entities liquidity ratios deteriorating due to the increase in liabilities compared to financial assets. For this reason parameters set out in Table 2.5 for determining balance sheet categories in 2019–20 have been adjusted. Material entities have been grouped into the following categories:

Table 2.5: ANAO parameters for balance sheet categories

Category	Parameters
Strong	Entities where financial assets were at least 40 per cent of total liabilities and where equity was at least 85 per cent of total assets. These entities have the strongest balance sheets.
Less strong	Entities where financial assets were less than 40 per cent of liabilities OR where total liabilities was more than 85 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 40 per cent of liabilities AND where total liabilities were more than 85 per cent of total assets. These entities are the most likely to need additional funding in the future.

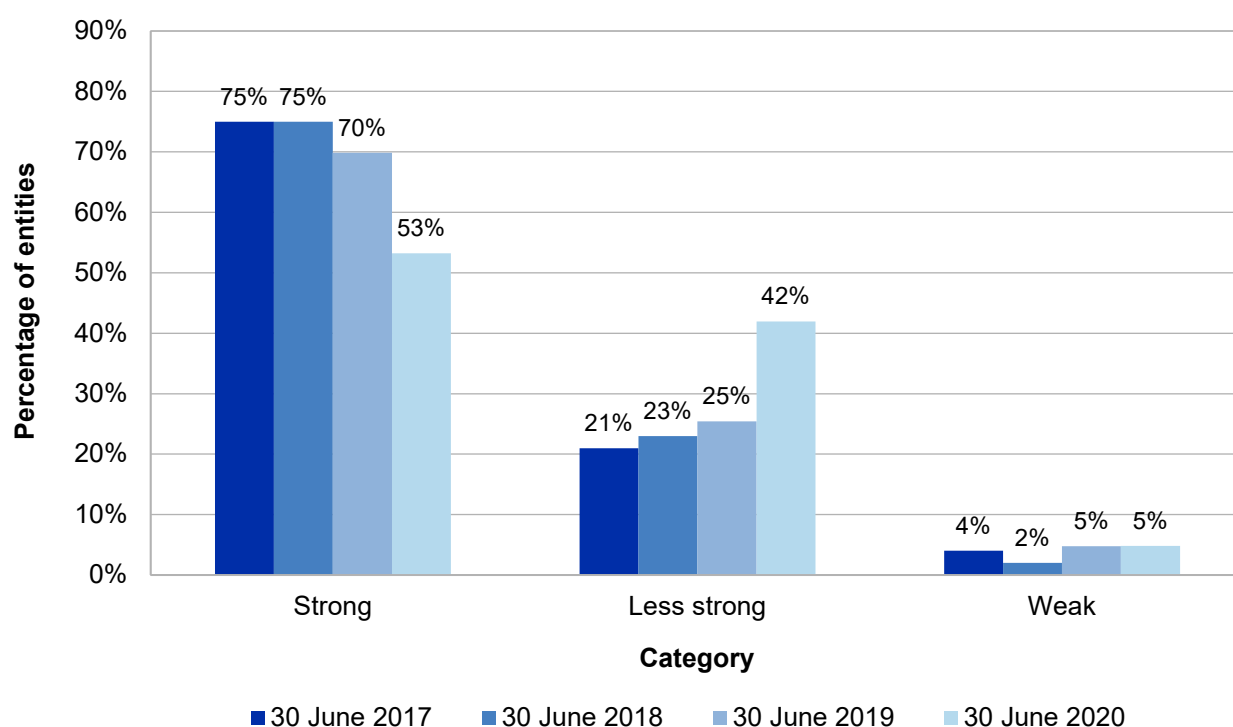
Source: ANAO balance sheet categories.

2.79 Figure 2.9 presents the number of entities in each balance sheet category from 2016–17 to 2019–20. For 2016–17 to 2018–19, the following parameters were used as detailed in Auditor-

General Report No.20 2019–20 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019:*

- Strong: Entities where financial assets were at least 50 per cent of total liabilities and where equity was at least 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 liabilities OR where total liabilities was more than 75 per cent of total assets - these entities had weaker balance sheets, either in liquidity or gearing terms; and
- Weak: Entities where financial assets were less than 50 per cent of liabilities AND where total liabilities were more than 75 per cent of total assets. These entities are the most likely to need additional funding in the future.

Figure 2.9: Balance sheet analysis



Note: The categorisation parameters were changed in 2019–20, as described in paragraph 2.78.

Source: ANAO analysis of entity balance sheets.

2.80 Fifty-three per cent of material entities had strong balance sheets in 2019–20 with the amended parameters (2018–19: 70 per cent). The main driver for movement between categories in 2019–20 is the implementation of AASB 16.³⁴ To facilitate the implementation of AASB 16, the Department of Finance required Commonwealth entities to apply the ‘modified model’. Under this model entities were not required to restate the comparative information and for this reason

34 AASB 16 resulted in entities reporting right-of-use assets and corresponding lease liabilities on the balance sheet for the first time. Non-financial asset and liability balances increased significantly which impacted the liquidity ratios of entities resulting in movements in categories.

there has been a significant change to the liquidity and gearing ratios and it is not therefore appropriate to compare entities' financial sustainability positions from previous periods.

2.81 The entities with weak balance sheets are predominantly those whose operations are dependent on government policy and 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. Entities with weak balance sheets include:

- the Australian Taxation Office, consistent with 2018–19, continues to have a weak balance sheet. In 2019–20 the recognition of \$1.4 billion lease liabilities was slightly offset by a \$151.7 million increase in appropriation receivable related to funding provided to support the government's commitment to address the impact of the COVID-19 pandemic;
- the Department of Social Services balance sheet position was impacted by the recognition of \$576.3 million of lease liabilities associated with the implementation of AASB 16 which resulted in a deterioration of the liquidity ratio; and
- NBN Co Limited's balance sheet continues to be impacted by the loan facility for constructing the national broadband network. NBN Co Limited commenced drawing down on the loan facility towards the end of 2017–18 with an additional \$6.4 billion drawn in 2019–20. This has resulted in a weakened balance sheet with an increase in the debt to equity funding mix. The company is forecast to generate free cash flow beyond 2023.

Impact of the COVID-19 pandemic on financial sustainability

2.82 In preparing financial statements, management is required under the Australian Accounting Standard AASB 101 *Presentation of Financial Statements* (AASB 101), paragraph 25 to make an assessment of an entity's ability to continue to meet its financial obligations as they are due. When making this assessment, management is required to take into account all available future information for a period of at least 12 months from the end of the reporting period.

2.83 The Auditing Standard ASA570 *Going Concern* (ASA570) requires auditors to conclude on an annual basis to consider the appropriateness of management's assessment made in the preparation of the financial report for a period of at least 12 months from the date of the auditor's report being issued.

2.84 Table 2.6 shows that of mandated financial statement audits undertaken by the ANAO in 2019–20, ten entities were significantly impacted by the COVID-19 pandemic and required either additional funding, letters of support or a restructuring of operations.

Table 2.6: ANAO analysis of entities impacted by the COVID-19 pandemic

Entity	Industry	Effect on the entities 2019–20 financial statements	The entity's response relating to the impact of the Australian Bushfires and or the COVID-19 pandemic	ANAO audit opinion issued
Airservices Australia	Aviation	Decrease in revenue by 25% and an increased long term and short term borrowings of \$1.2 billion.	Letter of intent provided by the Minister and additional funding from Government.	Unmodified audit opinion

Entity	Industry	Effect on the entities 2019–20 financial statements	The entity's response relating to the impact of the Australian Bushfires and or the COVID-19 pandemic	ANAO audit opinion issued
Civil Aviation Safety Authority	Aviation	The aviation fuel excise decreased by 17% from the prior year. Increase of 26% in appropriation funding in 2019–20.	Letter of intent provided by the Minister and additional funding from Government.	Unmodified audit opinion
Royal Australian Navy Central Canteens Board (RANCCB)	Defence Welfare and Recreational Services	Decrease in revenue of 9%	RANCCB restructured their operations, reducing staffing and terminating casual employees.	Unmodified audit opinion
Bundanon Trust	Tourism	Decrease in own-source revenue of 40%	Additional funding provided by the Government and access to financially liquid investments	Unmodified audit opinion
Director of National Parks	Tourism	Park entry and camping fees reduced by 34%	Additional appropriation funding provided by the Government and camping fees to recommence in January 2021.	Unmodified audit opinion
Great Barrier Reef Marine Park Authority	Tourism	24% reduction in revenue.	Government funding will continue into the new financial year for operations and additional capital works on their Reef HQ Aquarium, with environmental management fees to recommence in January 2021.	Unmodified audit opinion
Sydney Harbour Federation Trust	Tourism	Decrease in own-source revenue of 13%.	Government approved access to cash reserves.	Unmodified audit opinion
Voyages Indigenous Tourism Australia Pty Ltd	Tourism	Decrease in own-source revenue of 26%.	Letter of support provided by Indigenous Land and Sea Corporation (parent entity).	Unmodified audit opinion with an emphasis of matter as a result of COVID-19 and the valuation of Ayers Rock Resort.

Source: ANAO's analysis.

2.85 The international and domestic border restrictions since March 2020 has resulted in a decline in activity in the airline industry, and had a significant impact on the operations of

Airservices Australia and the Civil Aviation Safety Authority. On 18 March 2020, the Minister for Infrastructure, Transport and Regional Development announced a relief package for the Australian aviation industry which involved the refunding or waiving of a range of government and industry charges that included aviation fuel excise and Airservices Australia charges on domestic airline and security charges.³⁵

2.86 These measures were effective from 1 February 2020. To assist the financial sustainability of both entities, the Minister provided a letter of support outlining the arrangements as a result of the decision to refund or waive charges.³⁶ The government provided funding to Airservices Australia of \$831.8 million to support critical operating costs, while the Civil Aviation Safety Authority received additional funding of \$15.0 million.

2.87 The Royal Australian Navy Central Canteens Board (RANCCB) operates a number of business around Australia including holiday parks, canteen services, merchandise shops, and a fortnightly raffle. RANCCB restructured its operations, reduced staff and terminated casual employees, accessed business interruption insurance and used significant cash reserves as part of managing its reduction in revenue.

2.88 The Bundanon Trust (the Trust) manages property and a collection of artworks gifted to the Australian Government by Arthur and Yvonne Boyd. The Trust is partially funded by Australian Government grants and earns income from artistic programs, education, collection and property-management related activities. As a result of the COVID-19 pandemic and the 2019-20 bushfires there was significant disruption to the Trust's operations. The Trust received additional funding from the Australian Government to relocate artwork totalling \$1.0 million.

2.89 The Australian Government stimulus package announced on 12 March 2020 included measures covering industries such as tourism, agriculture and education. The Director of National Parks waived \$4.2 million in entry fees and \$0.4 million in tour operating licences and permit operator packages in 2019–20 and received \$4.6 million additional funding under the *Assistance for Severely Affected Regions (Special Appropriation) (Coronavirus Economic Resource Package) Act 2020*.

2.90 The Great Barrier Reef Marine Park Authority received \$8.8 million funding through *Appropriation Act (No.5) 2020–21* and \$2.6 million from the *Assistance for Severely Affected Regions (Special Appropriation) (Coronavirus Economic Response Package) Act 2020* to cover the revenue lost due to the COVID-19 pandemic.

2.91 The Sydney Harbour Federation Trust (the Trust) relies upon revenue from tenants, holiday accommodation, events and programming to sustain its operations. The Trust revenue reduced by approximately \$2.4 million during 2019–20 compared to 2018–19. This was due to the impact of the COVID-19 pandemic on activity in the final quarter of the year. In April 2020, the Government approved the Trust to utilise \$13.8 million held in term deposits from the sale of properties to support the Trust's response to the COVID-19 crisis. In addition, a further \$9.2 million was made available for priority capital works projects.

35 The Hon Michael McCormack MP (Deputy Prime Minister, Minister for Infrastructure, Transport and Regional Development).

36 As at 30 June 2020, domestic flight waivers totalling \$92.5 million have been recognised by Airservices.

2.92 As a result of the COVID-19 pandemic Voyages Indigenous Tourism Australia Pty Ltd's total own-source revenue decreased by \$52.4 million in 2019–20 due to reductions in the occupancy rate and average room rate of the entity's hotels. The reduction in revenue impacted the 30 June 2020 fair value of the Ayers Rock Resort which is valued on a discounted future cash flow basis. A letter of support was provided by the parent entity (Indigenous Land and Sea Corporation) and an Emphasis of Matter has been included in the auditor's report of Voyages Indigenous Tourism Australia Pty Ltd and Indigenous Land and Sea Corporation.

Audit findings

2.93 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 2.7.³⁷

Table 2.7: 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.
Significant legislative breach (L1)	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.
Other non-compliance with Legislation (L2)	Other instances of non-compliance with legislation the entity is required to comply with.
Non Compliance with Subordinate Legislation (L3)	Instances of non-compliance with subordinate legislation, such as the PGPA Rules.

Source: ANAO reporting policy.

2.94 A summary of findings identified for the period ended 30 June 2020 by category is presented in Table 2.8.

³⁷ Definitions of each category of audit finding is available at <https://www.anao.gov.au/financial-statement-audit-information>.

Table 2.8: Audit findings by category for the period ended 30 June 2020

Category	Significant	Moderate	Minor	Main areas of weakness
IT control environment	–	8	40	<ul style="list-style-type: none"> security management, particularly, user access and monitoring of privileged users; and change management process.
Compliance and quality assurance frameworks	–	6	20	<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	–	3	13	<ul style="list-style-type: none"> management of inventory balances; management and monitoring of assets including stocktakes, work in progress and capitalisation; and processes supporting the valuation and assessment of impairment of assets.
Revenue, receivables and cash management	–	1	13	<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	–	2	16	<ul style="list-style-type: none"> management of leave entitlements; documentation and oversight of activities supporting payroll functions.
Purchases and payables management	–	2	4	<ul style="list-style-type: none"> authorisation and oversight of expenditure; and segregation of duties.
Other audit findings	2	–	12	<ul style="list-style-type: none"> governance and compliance relating to engagement and termination of staff, staff remuneration and Board operations processing of journal transactions; financial arrangements for intercompany transactions and charging costs between Departmental and Administered funding; management of delegations; and governance arrangements with third parties.
Total	2	22	118	

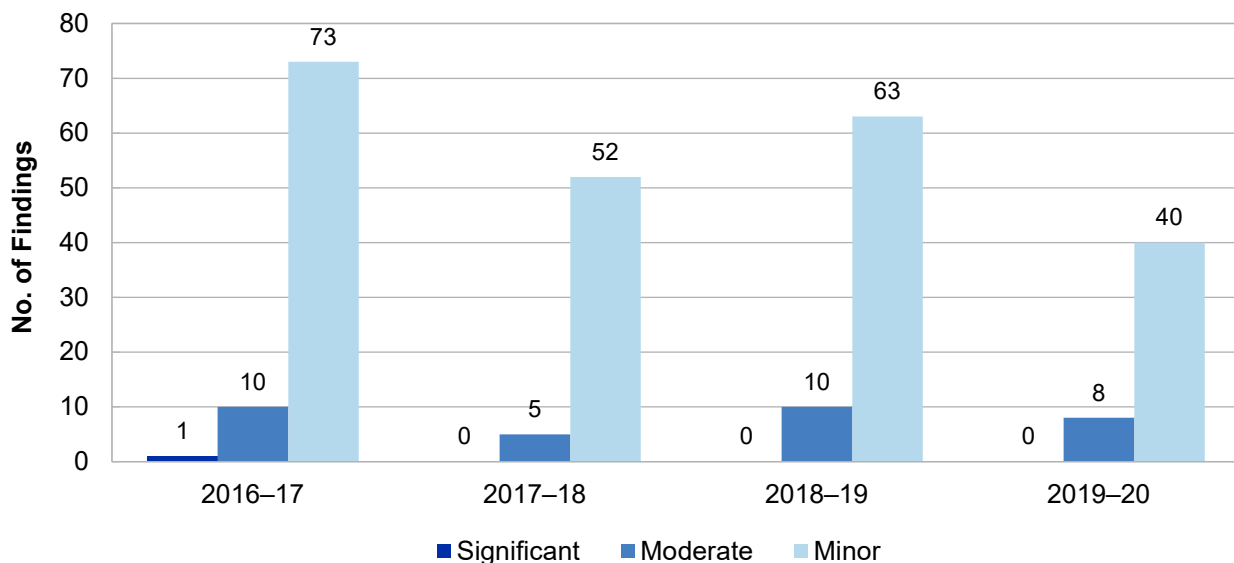
Source: ANAO compilation of findings.

2.95 In addition to the findings reported in Table 2.8 three legislative breaches were reported during 2019–20. Of these, one is significant (L1) and two are non-significant (L3). The significant legislative breach relates to the Northern Land Council and remains unresolved from the prior year.

Information technology control environment

2.96 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 2.10: IT control environment audit findings 2016–17 to 2019–20



Source: ANAO data.

2.97 Seven new moderate findings were reported during 2019–20.³⁸ One moderate finding remains unresolved from 2018–19.³⁹

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

2.99 Of the minor findings, 18 were raised in prior years. Four of these minor findings raised in prior years have been unresolved for two or more years.

38 Further details regarding the moderate findings can be found in the entity results section in Chapter 5 for: Australian National University; High Court of Australia; Services Australia; and the Departments of Defence, Health, and Finance.

39 For further details relating to the unresolved moderate finding, refer to the Department of Defence section in chapter 5 from paragraph 5.3.22.

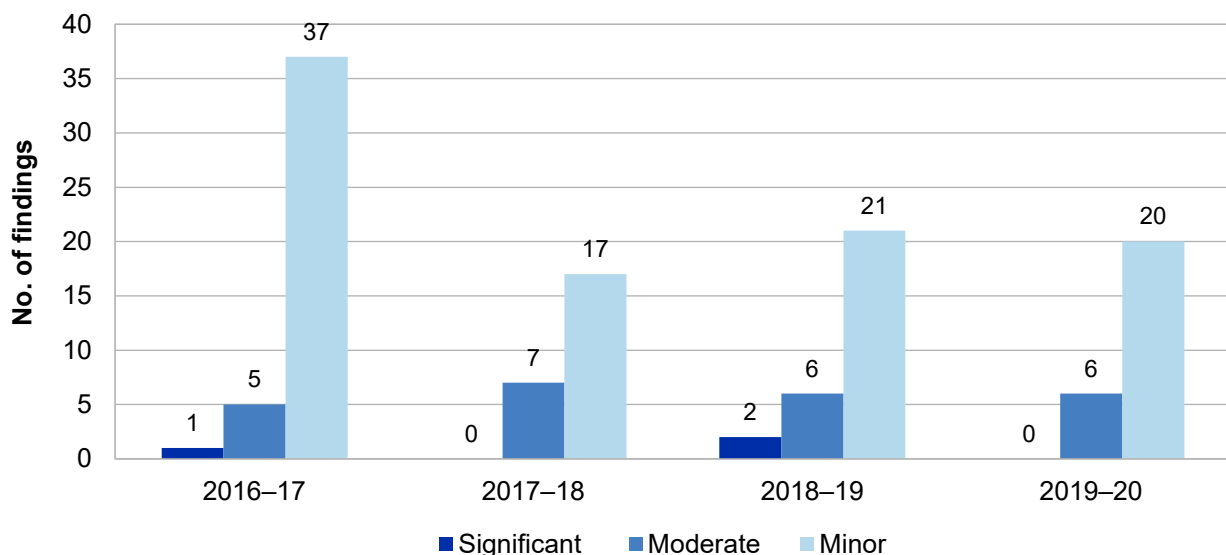
2.100 User access management includes the processes and procedures to ensure that only authorised users are granted access to systems and data, and that access is removed when it is no longer required. Four of the moderate findings relate to weaknesses in the user access management.⁴⁰

2.101 IT security continues to remain the most common area of weakness in the IT control environment, with almost 65 per cent of findings relating to this area, and 88 per cent 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 being appropriately managed.

Compliance and quality assurance frameworks

2.102 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 free from material misstatement.

Figure 2.11: Compliance and quality assurance framework audit findings 2016–17 to 2019–20



Source: ANAO data.

2.103 The six moderate findings reported during 2019–20 relate to assurance over administered programs, weaknesses in quality assurance processes supporting financial statement preparation and management of staff leave.⁴¹ Two moderate findings remain unresolved from prior years.⁴²

⁴⁰ For further details please refer to the entity results section in Chapter 5 for: Services Australia; and the Departments of Defence; Finance; and Health.

⁴¹ Further details regarding the moderate findings can be found in the entity results section in Chapter 5 for: Australian Nuclear Science and Technology Organisation; Australian Trade and Investment Commission; the Department of Home Affairs; Kakadu Tourism (GLC) Pty Ltd; Moorebank Intermodal Company Limited; and the National Disability Insurance Agency.

⁴² For further details refer to chapter 5 paragraph 5.9.20 for the Australian Nuclear Science and Technology Organisation and paragraph 5.10.68 for Moorebank Intermodal Company Limited.

Of the three moderate findings raised in 2019–20, one finding was raised relating to a 2018–19 financial statements audit that was finalised on 30 September 2020.⁴³ In addition, one moderate finding relates to the downgrade of a prior year significant finding.⁴⁴

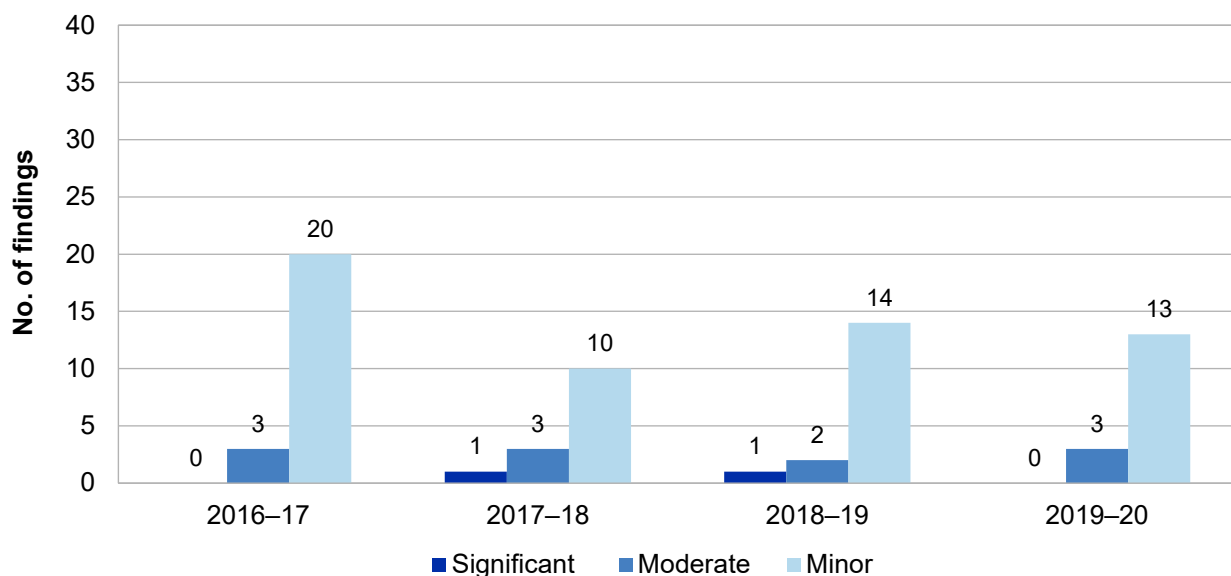
2.104 Of the minor findings, 12 were raised in prior years. Two of these minor findings raised in prior years have been unresolved for two years.

2.105 Overall there has been a decrease in financial statements preparation findings compared to the prior year, however this is accompanied by an increase in the total value of audit adjustments. In addition, the timeliness of financial statements preparation has decreased. Further details can be found in paragraphs 2.30 to 2.39.

Accounting and control of non-financial assets

2.106 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.

Figure 2.12: Accounting and control of non-financial asset audit findings 2016–17 to 2019–20



Source: ANAO data.

2.107 Two new moderate findings were reported in 2019–20. One related to the management of the national medical stockpile by the Department of Health and one was an upgrade of a prior year minor finding relating to asset policy and procedures in place at Australian Signals Directorate. The moderate finding first reported in 2017–18 to the Department of Defence remains open.⁴⁵

43 The finding raised in 2019–20 that relates to a 2018–19 financial statements audit is for Kakadu Tourism (GLC) Pty Limited. For further details refer to chapter 5 paragraph 5.12.48.

44 For further details refer to chapter 5 paragraph 5.8.8 for the Department of Home Affairs.

45 For further details refer to chapter 5 paragraph 5.3.6 for the Department of Defence

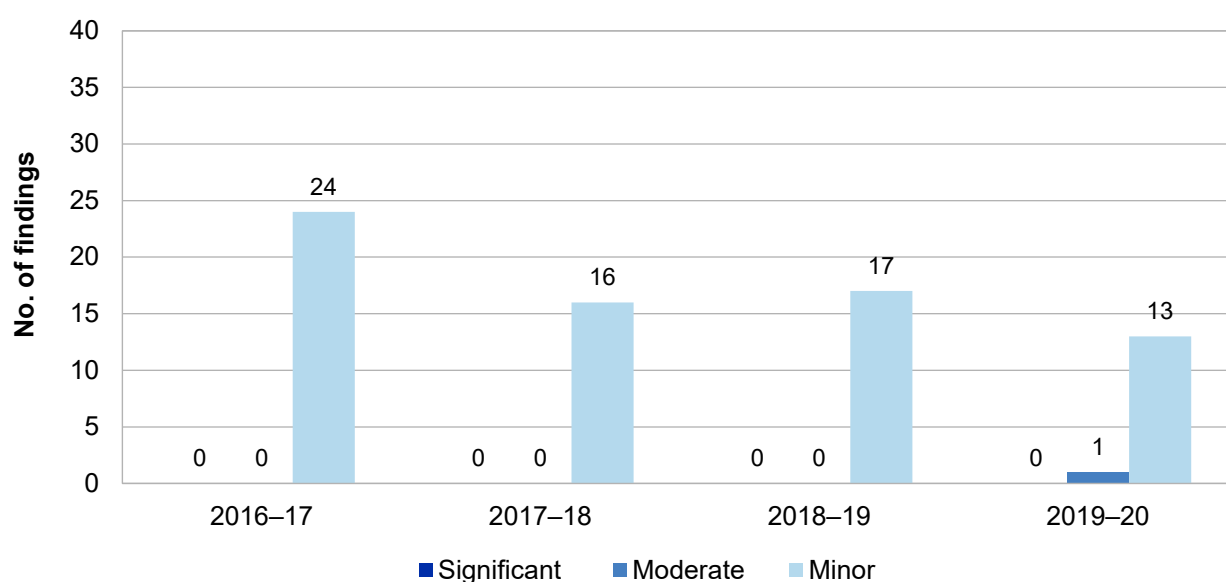
2.108 The thirteen minor findings in this category for the 2019–2020 period relate to:

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

Revenue, receivables and cash management

2.109 Revenue and receivables include 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.

Figure 2.13: Revenue, receivables and cash management findings 2016–17 to 2019–20



Source: ANAO data.

2.110 There is one new moderate audit finding reported in this category in 2019–20 relating to the completeness of bank accounts at the Australian National University. One of the thirteen minor findings remains unresolved from the prior year.

2.111 Seven of the open minor findings relate to revenue and receivables controls. Weaknesses in this category include:

- timeliness and completeness of reconciliations; and
- processes supporting completeness and accuracy of revenue reported including assessment and implementation of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not For Profit Entities*.

2.112 The six remaining open minor findings relate to cash management controls. Cash controls are core processes expected to be in a mature state at every entity. The weaknesses in this category include:

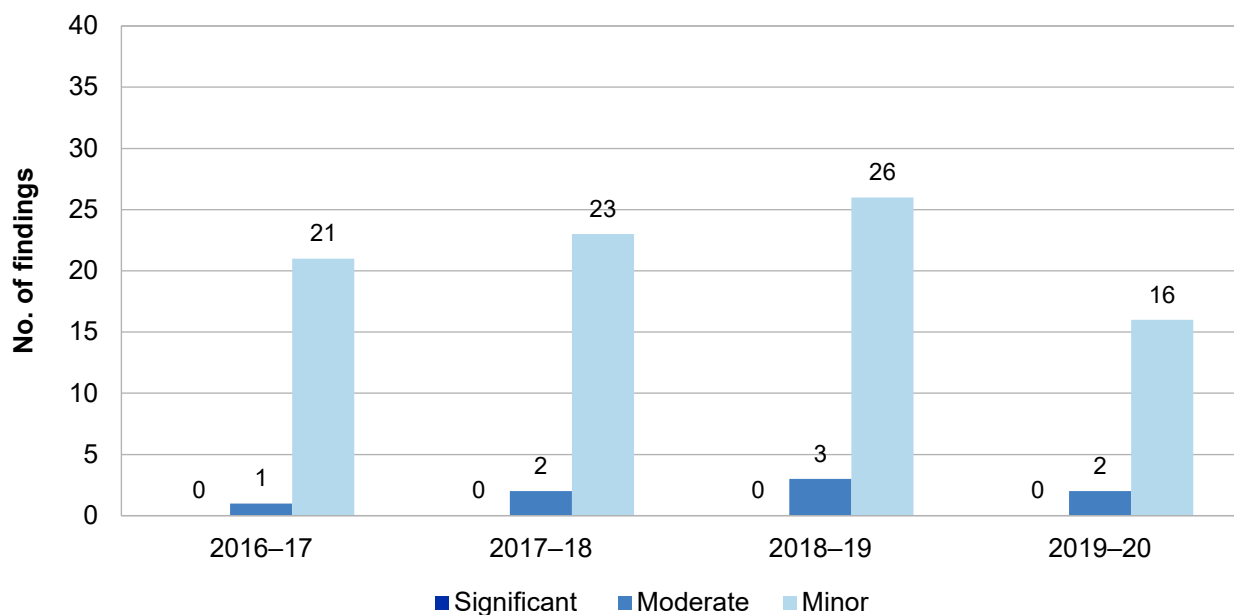
- timeliness and completeness of reconciliations; and
- bank account withdrawal processes and the management of account signatories.

Human resource financial processes

2.113 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.

2.114 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 2.14: Human resources financial processes audit findings 2016–17 to 2019–20



Source: ANAO data.

2.115 The moderate audit findings open at the end of 2019–20 related to weakness in the management of staff leave and controls in payroll processes.⁴⁶

2.116 Of the 16 unresolved minor findings at the end of 2019–20, eight were raised in the current year. Findings related to weaknesses identified in the management of leave balances, commencements and terminations, payroll variances and related party reporting. One minor finding has been unresolved since 2015–16.

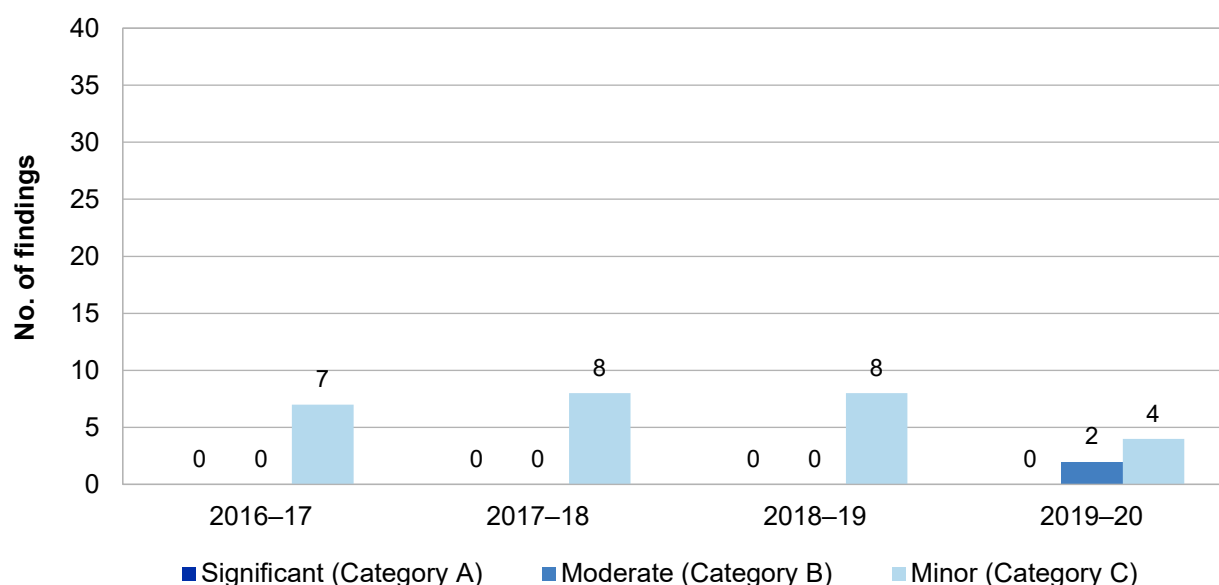
Purchases and payables management

2.117 Purchases and payables are payments to, or due to, suppliers including contractor and consultancy expenses, lease payments and general administrative payments. These expenses

⁴⁶ Further details of the audit findings can be found in entity results section in Chapter 5 for: the Department of Home Affairs; and Northern Land Council.

typically comprise the second most significant departmental expenditure item of entities after employee benefits.

Figure 2.15: Purchases and payables management audit findings 2016–17 to 2019–20



Source: ANAO data.

2.118 The two new moderate findings relate to segregation of duties deficiencies at the Department of Defence and the expenditure control environment at the Great Barrier Reef Marine Park Authority.⁴⁷

2.119 Of the four minor audit findings unresolved at 2019–20, two were raised during 2019–20. Common weaknesses in this category over the four year period between 2016–17 and 2019–20 are:

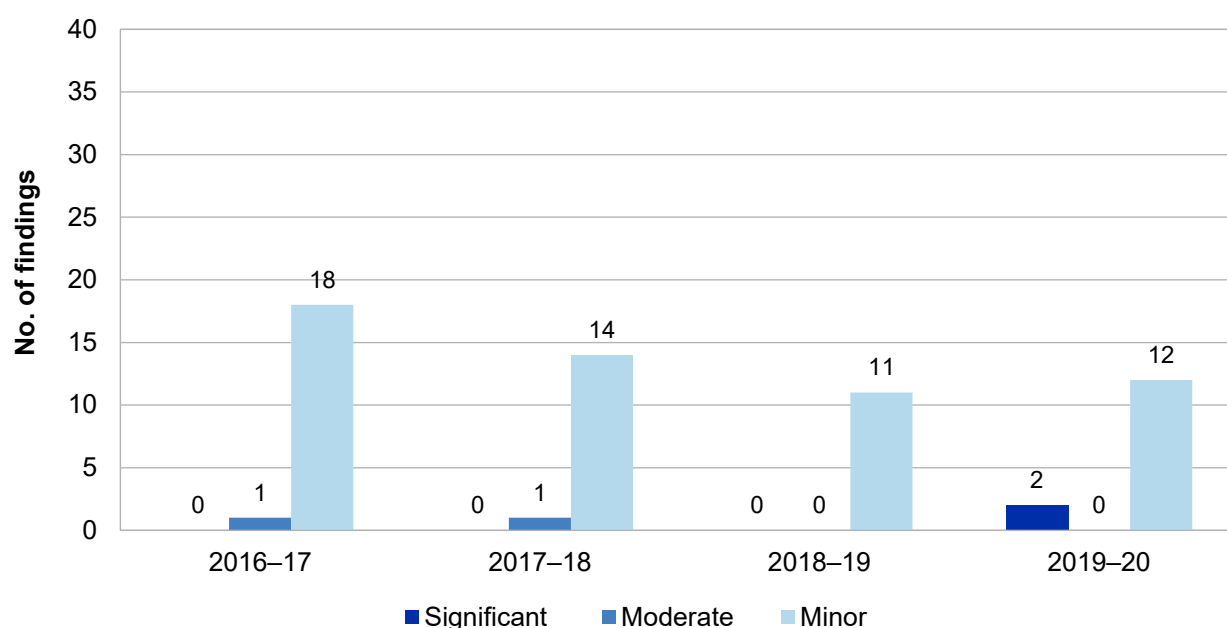
- procurement and contract management;
- processes supporting the authorisation of expenditure, including maintaining proper segregation of duties;
- accrual management; and
- maintenance of vendor records and payment controls.

Other audit findings

2.120 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.

⁴⁷ Further details regarding the findings can be found in the entity results section of Chapter five for: the Department of Defence; and the Great Barrier Reef Marine Park Authority.

Figure 2.16: Other audit findings 2016–17 to 2019–20



Source: ANAO data.

2.121 The significant audit findings are new findings related to Aboriginal Hostels Limited (AHL) and the Australian Securities and Investments Commission (ASIC). The significant finding for AHL relates to the governance arrangements of the Board in addition to human resources and procurement deficiencies. The ANAO identified deficiencies in the governance of the former CEO's termination and recruitment of employees, management of conflicts of interest and procurement controls. Further details are included at paragraph 5.12.44.

2.122 The significant finding for ASIC relates to payments to key management personnel. The ANAO identified payments relating to the Chair and one Deputy Chair that appeared to fall outside of the Remuneration Tribunal limits. The ANAO also identified significant deficiencies in the procurement process surrounding the payments made for the benefit of the Chair. Further details are included at paragraph 5.14.45.

2.123 Eight of the minor findings reported in 2019–20 are new and four remain unresolved from the prior year. The findings in this category relate 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;
- charging of costs between departmental and administered fund sources; and
- fraud risk assessments and reporting of fraud to those charged with governance.

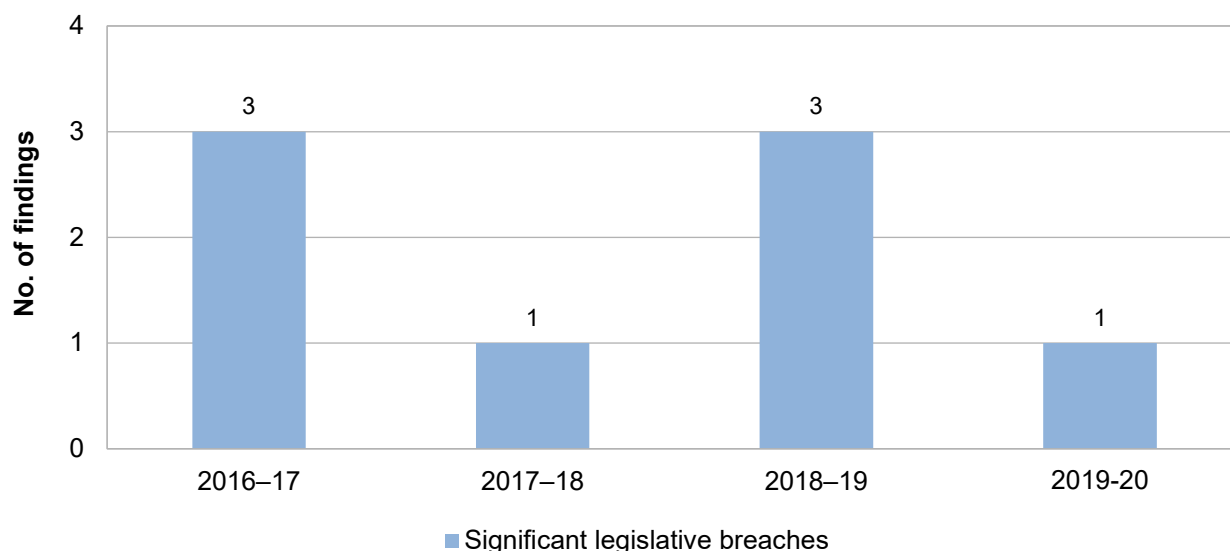
Legislative compliance

2.124 In accordance with ANAO policy, significant legislative breaches are reported to Parliament consistent with the reporting of significant and moderate audit findings.⁴⁸ Significant

⁴⁸ Definitions of each category of audit finding is available at <https://www.anao.gov.au/financial-statement-audit-information>.

legislative breaches 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.

Figure 2.17: Significant legislative breaches 2016–17 to 2019–20



Source: ANAO data.

2.125 There was one significant breach reported during 2018–19 that remained unresolved during 2019–20. The unresolved finding relates to the Northern Land Council's failure to fulfil its responsibilities in relation to the requirement for funds in its royalty trust account to be distributed to traditional owners within agreed timeframes.

2.126 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 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. Instances of non-compliance continue to occur as not all of the funds in the Council's royalty trust account had been distributed to traditional owners, within the agreed timeframe.

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.

Summary of developments

The expectation is that the COVID-19 pandemic will continue to impact on the work of the ANAO, for example, changes to work arrangements are likely to increase the use of remote access when conducting audits. It is also expected that audits will continue to face challenges such as the increased uncertainty associated with asset valuations and a limited capacity to undertake physical compliance activities such as stocktakes.

Following on from the successful adoption of three new or revised accounting standards for revenue and leases in 2019–20, there are no significant changes in accounting standards applicable to Commonwealth entities for 2020–21.

Australian Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures* was revised and re-issued for 2020–21. The revised standard places increased emphasis on the need for auditors to consider management's assessment of estimation uncertainty and use of judgement.

The auditing of performance information is an emerging area of interest for both national and international auditing standard setters. This chapter provides an update on ANAO's work in developing a performance audit framework.

This chapter includes a summary of the ANAO's quality assurance framework. The quality assurance framework is designed to provide the Auditor-General with reasonable assurance that the ANAO complies with its policies and procedures, applicable legal and regulatory requirements, and that reports issued by the ANAO are appropriate in the circumstances. The quality assurance framework emphasises that quality audits are reliant on the strength of the ANAO's independence and quality control processes.

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 sector and not-for-profit private sector. 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 2020–21 are illustrated in Appendices 3 and 4 of this report.

Changes to the Australian public sector reporting framework

The COVID-19 pandemic

3.6 The ANAO's experience with 2019–20 financial statements audits identified particular challenges for entities when dealing with material uncertainties arising in asset valuations and in performing physical compliance activities such as inventory stocktakes. Due to travel restrictions and lock downs, ANAO staff were restricted in their ability to physically access entities' premises leading to the increased use of remote access to entity financial management and relevant operational systems. Remote access allowed audit teams to undertake their audit work without the need to be onsite. It is expected that this increased use of remote access will continue in the 2020–21 audit cycle and Commonwealth entities will need to plan for the ongoing impact of the COVID-19 pandemic on their 2020–21 financial statements and the audit of those financial statements.

3.7 The Government's increasing utilisation of online services in supporting the response to major events such as COVID-19 necessitates that those charged with governance understand their information and data risks along with the need to protect critical information from malicious actors. As the IT control environment remains the category that consistently has the most number of financial audit findings, IT control and Commonwealth entity compliance with mandatory Australian Government cybersecurity frameworks will remain a particular focus of ANAO's audit work for 2020–21.

Performance framework

3.8 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. Since 2016–17, the ANAO has completed three performance audits covering elements of 10 individual entity performance statements.⁴⁹

3.9 The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, released September 2018, recommended the Finance Minister,

49 See Auditor-General Reports:

- No.58 2016–17, *Implementation of the Annual Performance Statements Requirements 2015–16*;
- No.33 2017–18, *Implementation of the Annual Performance Statements Requirements 2016–17*; and
- No.17 2018–19, *Implementation of the Annual Performance Statements Requirements 2017–18*.

in consultation with the Joint Committee of Public Accounts and Audit (JCPAA), should request that the Auditor-General pilot assurance audits of annual performance statements to trial an appropriate methodology for these audits.

3.10 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 2019⁵⁰, agreeing to the request and proposing to conduct pilot assurance audits of the 2019–20 performance statements of three entities; the Attorney-General’s Department, the Department of Social Security and the Department of Veterans’ Affairs.⁵¹

3.11 The ANAO has completed pilot assurance audits for the Attorney-General’s Department and the Department of Veterans’ Affairs and it is expected that assurance reports will be provided to the Minister for Finance in December 2020. The ANAO withdrew from the Department of Social Services pilot assurance audit as the performance criteria included in the Department’s 2019–20 Corporate Plan may not be sufficiently relevant, reliable and complete to measure the achievement of the Department’s purposes. In response, the Department has significantly revised the performance measures in its 2020–21 Corporate Plan adding targets and methodologies to each measure to better align with the requirements of the Commonwealth performance framework. The Auditor-General will also report to the JCPAA on the outcomes of the pilot.

Auditing under the performance framework

3.12 Assuring performance information is an emerging area of practice in the Australian and international audit profession. While assurance standards exist for the audit of non-financial historical information, more specific guidance from standard-setters is still in development. The International Auditing and Assurance Standards Board (IAASB) has established a project to develop non-authoritative guidance and provide leadership on Extended External Reporting (EER) Assurance. The project issued draft guidance in March 2020 for consultation and intends to issue a final iteration in March 2021. EER relates to various forms of reporting such as performance information, integrated reporting and other reporting by entities about matters additional to the information addressed in the financial statements.

3.13 In conducting its pilot audits of performance statements, the ANAO has applied ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000). The ANAO continues to refine its methodology for the conduct of these audits and to develop associated policy and guidance on the application of ASAE 3000 to the Commonwealth’s performance reporting framework. This work also considers the output from the IAASB EER assurance project.

3.14 The audit of performance statements is similar to financial statements audits in that the auditor’s overall objective is to form a view about whether the auditee’s statements accurately report on the delivery of activities by the entity. However performance statements reporting is not based on a detailed prescriptive framework supported by standards equivalent to the

50 <https://www.anao.gov.au/work/request/performance-statements-audit-pilot-program> [accessed on 2 November 2020].

51 <https://www.anao.gov.au/work-program/annual-performance-statements-audits-pilot-program> [accessed on 2 November 2020]

Australian Accounting Standards but rather a set of general principles. The performance framework is designed to allow for a diverse range of performance objectives, measures and results, originating from auditee systems and processes not previously subject to the rigors of audit. This presents audit challenges including the need for a methodology suited to supporting a consistent audit approach across entities when assessing the appropriateness and completeness of performance measures, and when forming an opinion over whether results are fairly reported.

3.15 The ANAO's methodology for performance statements audits is subject to the ANAO's overarching quality framework as described later in this chapter.

Auditor reporting

3.16 The auditor shares the result of the completed audit work with users through the auditor's report which includes the auditor's opinion on the preparation and fair presentation of the financial statements. Auditor reports are intended to be broadly consistent and comparable to promote the credibility of the audit process, the understanding by users of the scope and nature of an audit and also assist users to identify unusual circumstances when they are reported.

3.17 In recent years the ANAO has introduced reporting Key Audit Matters in auditor's reports in accordance with ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*. The ANAO's implementation of this standard is discussed in this report in Chapter 2. While the primary objective of Key Audit Matters reporting is to promote understanding about the work of auditors, an additional benefit is that it helps users to navigate the financial statements, serving as a roadmap to the higher risk areas of the financial statements.

3.18 Where appropriate, the auditor's report on the financial statements may 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.

3.19 Most commonly, an 'emphasis of matter' paragraph is a tool available to auditors to highlight important information. Such a 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.

3.20 The circumstances in which an emphasis of matter is required by the auditing standards include:

- (a) 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
- (b) 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.

3.21 The auditor is also required to exercise their judgement to determine if an emphasis of matter paragraph is required in other circumstances where a matter is fundamental to the users' understanding of the financial statements. This may include restatement of comparative information because of material prior period errors, entities whose financial statements are

prepared on a non-going concern basis and circumstances where the financial statements have disclosed significant areas of judgement or uncertainty where the impact is particularly significant.

3.22 For further information about 'other matter' and 'material uncertainty related to going concern' paragraphs, refer to Appendix 4.

Changes to auditing standards

3.23 In December 2018 the AUASB issued the revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* (ASA 540) which prescribes the auditor's responsibilities with respect to accounting estimates and their related disclosures, such as valuations of financial and non-financial assets and measurement of provisions and other liabilities. ASA 540 is the Australian adoption of the revised international auditing standard ISA 540 of the same name. The new standard will apply to ANAO audits of financial statements for the year ended 30 June 2021 and later years.

3.24 The significant revisions to the standard are intended to address two major threats to the quality of financial statement audits:

- (a) increasing complex business and accounting environment with respect to estimates, leading to the increased prevalence in financial statements of complex, higher-risk accounting estimates such as expected credit losses, insurance contracts, revenue recognition and lease recognition; and
- (b) recurring audit inspection findings with respect to audit quality over accounting estimates.

3.25 The standard emphasises and strengthens requirements for risk assessment, introducing new risk concepts of complexity, subjectivity and estimation uncertainty to assist auditors to identify the most important areas of audit effort and prescribing enhanced procedures with respect to understanding the entity, its environment and its internal control environment affecting estimation.

3.26 The standard also aims to drive audit quality by specifying more specific objective-based mandatory audit procedures, emphasising the importance of professional scepticism and enhancing the audit requirements for management disclosures.

3.27 The revised ASA 540 places emphasis on the need for auditors to understand and assess the risk that estimation uncertainty along with the use of management judgement may result in material misstatement in the financial statements. Entities should therefore expect that auditors are likely to seek evidence that management has identified and assessed significant estimation uncertainty risks. Where significant estimation uncertainty is identified auditors will want to review documentation supporting the methods, significant assumptions and data used by management to arrive at an estimate.

3.28 While audit committees are already expected to consider accounting estimates with significant judgement, closer attention by auditors in accordance with the revised ASA 540 may require management to provide additional information to audit committees around these areas. Audit Committees are likely to continue to see significant coverage of accounting estimates in closing letters and other communication from ANAO audit teams.

Changes to accounting standards

3.29 There are no new accounting standards expected to have a significant impact on Commonwealth entities' financial statements for 2020–21.

3.30 2019–20 saw the implementation of three new or significantly updated accounting standards: AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases*.

3.31 ANAO observed that entities that made use of the detailed guidance and support materials provided by the Department of Finance were able to transition to the new standards with relatively few issues. As with any major change or update in accounting standards, there were unforeseen issues such as differentiating between grants that support the objectives of the entity and grants that create an obligation to deliver goods or services to customers. The ANAO will continue to work with the Department of Finance to address identified issues for 2020–21.

Quality Assurance Framework and Reporting

ANAO Quality Assurance Framework

3.32 The quality of ANAO audit work is reliant on the strength of its independence and quality control processes. The ANAO defines audit quality as the provision of timely, accurate and relevant audits, performed independently in accordance with the Auditor-General Act, ANAO auditing standards and methodologies, which are valued by the Parliament. Delivering quality audits results in improved public sector performance through accountability and transparency.

3.33 The [ANAO Quality Assurance Framework and Plan 2019–20](#) is published on the ANAO website and articulates the system of quality control that the ANAO has established to support the delivery of high-quality audit work and enables the Auditor-General to have confidence in the opinions and conclusions in the reports prepared for the Parliament. The Framework is supported by the [Audit Quality Report 2019–20](#) which reports on our achievement against the Framework for the 2019–20 financial year, including the results of internal and external review activities.

3.34 The ANAO quality assurance framework complies with the requirements of Auditing Standard ASQC 1 – *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*. The framework encompasses a number of key elements including learning and development requirements, delegations framework, methodology development and review, an escalation framework for difficult or contentious matters or qualifications risk, both supervisory and arms' length internal review, and external review.

Ethics, independence and integrity

3.35 Ethical requirements, with a focus on independence are core to the quality framework. The fundamental principles of professional ethics as set out in APES 110 *Code of Ethics for Professional Accountants* are integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour. The ANAO maintains a continued focus on independence through the application of the ANAO Independence Policy that manages threats to independence in the conduct of the ANAO's work. In June 2020 the ANAO developed an Integrity Framework which provides an overarching structure to the existing ANAO integrity control

system, supporting our institution's integrity. The framework encompasses the ANAO Integrity Statement, which describes five key principles of integrity that staff at the ANAO uphold — independence, honesty, accountability, openness and courage.

Quality control and consultation processes

3.36 In the conduct of their work ANAO auditors apply a robust methodology to drive consistent quality and compliance with the ANAO Auditing Standards. The ANAO audit methodology incorporates policies regarding direction, supervision and review, consultation on significant technical and ethical issues, engagement quality control review of high risk audits and documentation of audit evidence and work performed.

Data Analytics 2020–21

3.37 The ANAO released its Data Analytics Strategy 2018–20 (Strategy) in March 2018, looking at how data analytics can be used to enhance audit quality and efficiency. The Strategy focuses on developing innovative and effective use of data analytics, building capability, generating new products, enhancing quality and increasing efficiency.

3.38 In 2020, the ANAO has continued to progress the goals of the Strategy by extending data analytics solutions to an increased number of entities, including:

- developing standardised solutions that are scalable, repeatable and transferable; and
- streamlining and standardising data acquisition processes with entities.

3.39 Building on learnings from the 2018–19 financial statements audit program, in 2019–20, 80 per cent of the audits of major entities conducted in-house involved the use of data analytics as part of their financial statements audits to enhance efficiency, quality and effectiveness, in particular by supporting the testing of entire population of data. This resulted in better identification of outliers and anomalies for target testing, providing audit assurance, and automation of processes with significant manual and repetitive elements.

3.40 The ANAO also developed a data analytics solution to audit the practices by which three major entities managed staff leave and whether they complied with relevant policies and procedures. Cross-data validation and recalculation techniques were applied to generate insights into how leave was managed using population datasets provided by individual entities.

3.41 Below are a number of case studies from the 2019–20 financial statements audit program where data analytics has been used in delivering efficient and effective audits.

Case study 1: Standardised HR analytic solution

3.42 The ANAO developed a standardised dashboard-based HR Analytics solution to confirm the completeness and accuracy of entities' payroll expenses. This approach supported a large number of financial statements audit teams using a routine data extract that entities prepared for the Australian Public Service Commission (APSC) in the 2019–20 cycle.

3.43 The solution standardised the calculations the ANAO perform each year, and was built to align with the substantive analytics procedures used to recalculate payroll expenses. This approach resulted in improved audit quality by providing a greater depth of analysis through the use of population data and a rigorous analytical approach. The use of a standardised solution

across multiple entities has provided efficiencies in terms of consistency in data collection, documentation and review processes.

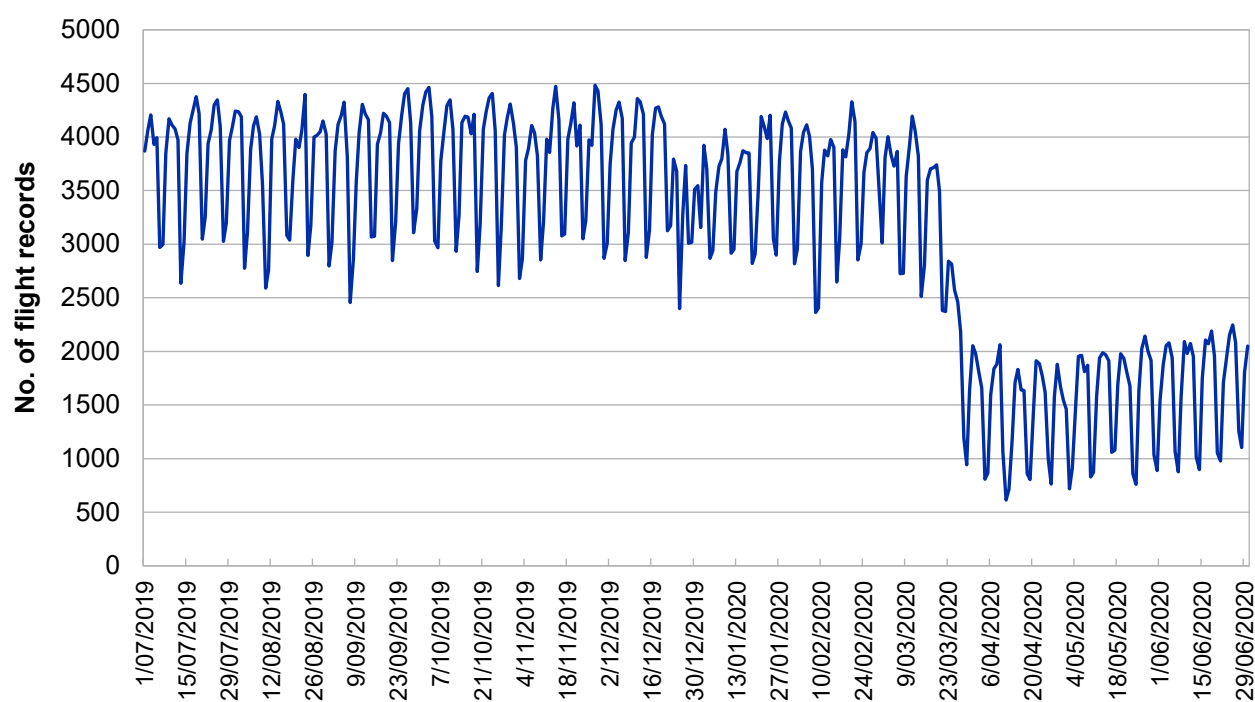
Case study 2: Streamlined Defence data acquisition

3.44 The ANAO worked with the Department of Defence to develop a process to streamline data extraction for journal testing as part of the financial statements audit, whereby Defence developed an automated tool that extracted data to ANAO's specification. By reducing the complexity of data acquisition, the ANAO can more effectively target specific risk areas, improving the audit outcomes. The streamlined process is expected to significantly reduce time spent on data collection in future audit cycles from days to hours. While the solution has been developed to address the particular challenges of the Defence audit data size and classification, the ANAO is planning to develop it into a standardised journal testing solution that could be applied to other major entities to drive future efficiency.

Case study 3: Provide assurance over entity's revenue

3.45 The ANAO developed a data analytics approach to provide assurance over the completeness and accuracy of Airservices Australia's revenue for the 2018–19 financial statements audit. The approach recalculated the revenue and provided assurance over 99.9 per cent of the revenue recognised in the entity's financial statements. In 2019–20, the approach was re-used with 50 per cent efficiency gain. The audit approach has remained unchanged despite COVID-19, providing further efficiencies. As the revenue model is based on recalculation (with assurance over the integrity of source transaction data), not prediction, the same level of assurance continued to be provided. Figure 3.1 shows an example of how flight records, used as the independent variable in the revenue recalculation, have changed over time in the last financial year.

Figure 3.1: Number of flight records from Airservices Australia's flight billing system from 1 July 2019 to 30 June 2020



Source: ANAO analysis

Future plan

3.46 The ANAO will continue to enhance audit efficiency, quality and effectiveness, by:

- identifying more opportunities to standardise common analytic solutions;
- deploying and embedding the data analytic solutions already developed in the normal work processes across financial statements audits; and
- growing capabilities in technology to respond to the digital transformation of the public sector.

4. Management of staff leave

Chapter coverage

This chapter examines whether three selected portfolio departments have established appropriate arrangements for managing staff leave, including compliance with legislation and entity policies and procedures.

As a result of the increase in findings relating to human resource management and administration across Australian Government entities during the period from 2015–16 to 2018–19 the ANAO undertook targeted assurance activities over the management of staff leave in three entities.

The chapter details:

- practices adopted by the three entities to identify and incorporate within employee frameworks, the leave requirements and conditions established within legislation, awards, and workplace agreements and determinations;
- results of ANAO analysis regarding the completeness and accuracy of leave transactions reported by the entities during the period 1 July 2018 to 31 December 2019; and
- monitoring and reporting controls that have been established by the three entities regarding compliance with related conditions, and assessment of the effectiveness of these controls.

Conclusion

The ANAO has concluded the three entities have adopted satisfactory practices to identify various requirements and conditions. The Department of the Prime Minister and Cabinet and the Department of the Treasury have established appropriate frameworks to address staff leave requirements and conditions. While the Department of Home Affairs has effective practices to identify requirements and conditions, there have been delays in formalising the leave policy to contain current information or requirements following the February 2019 Workplace Determination.

The analysis performed identified weaknesses in processes relating to staff leave and associated monitoring controls. Existing reporting by the three entities has not facilitated the identification of: rates of non-compliance with entity policies; weaknesses in monitoring controls and reporting; and patterns of attendance and leave that, if identified and addressed, may result in higher levels of attendance. This has resulted in inferior outcomes for the three entities from that intended by the related policies.

In particular, the analysis:

- identified that improvements can be made in the timeliness of submission and approval of leave requests and application of requirements including minimum and maximum entitlements;
- identified reliance on manual controls, including management by supervisors, was not sufficiently effective in the absence of appropriate monitoring and reporting; and
- demonstrated that employee behaviour is influenced by the policies adopted by entities.

Entities should further define mandatory requirements to align these with organisational and human resource objectives or alternatively, enhance the monitoring of manager discretion to achieve desired outcomes for organisations and staff.

Entities need to implement strategies to increase compliance by employees, strengthen related monitoring and reporting controls, and target identified non-compliance. This could include the adoption of data analysis tools.

The ANAO's observations impact entities' operations and financial reporting. In particular, leave being taken prior to approval being given impacts the ability for entities to effectively manage resources and deliverables, while also potentially overstating the related employee liability in the financial statements.

A moderate audit issue has been identified for the Department of Home Affairs relating to the management of staff leave. This audit issue is discussed further in paragraphs 5.8.20–5.8.24 of chapter 5. Minor audit issues were identified for the Department of the Prime Minister and Cabinet and the Treasury relating to non-compliance with leave policy and delays in leave requests and approvals respectively.

Introduction

4.1 Effective management of employee leave is important in the efficient utilisation of human resources. The benefits of the effective management, planning and application of leave include:

- achieving work life balance and wellbeing for employees through periodic use of recreational (annual) leave;
- reducing the use of personal leave, including for stress-related illness, through improving staff wellbeing as a result of regular periods of leave being taken;
- staff development through acting opportunities during periods of leave, thereby enhancing staff motivation, experience and supervisory and leadership skills as well as improving succession planning options;
- reducing the incidence of large periods of leave which may have a more noticeable impact on deliverables;
- managing annual expenses and liabilities at sustainable levels, as leave taken is accounted for as a reduction in liabilities not an expense on the statement of comprehensive income; and
- reducing the risk of undetected fraud through concealment by officers that minimise absences.

4.2 Human resource financial processes encompass the day-to-day management and administration of employee benefits inclusive of payroll and other entitlements, such as leave.

4.3 Employee benefits (including wages and salaries, superannuation, leave, separation and redundancies) represent the most significant departmental expenditure for most Commonwealth entities, and the inputs and estimates that contribute to the measurement of the associated liability are subject to management judgement. In 2019–20, leave and other entitlements represented \$3.8 billion (6.8 per cent) of Australian Government employee benefits expenses (\$55.3 billion) and \$11.0 billion (2.4 per cent) of Australian Government employee benefits liabilities (\$465.5 billion) as at 30 June 2020. This included a \$3.1 billion (6.0 per cent) increase in employee benefits expense and \$21.4 billion (4.8 per cent) increase for employee benefits liabilities from 2018–19.

4.4 Employee benefit transactions are high volume and involve both automated and manual processing. As a result, any control weaknesses can result in systematic errors increasing the risk of material misstatement of financial statements.

Previous financial audit findings for human resource financial processes

4.5 During the period from 2015–16 to 2018–19, the open audit findings relating to human resource financial processes reported by the ANAO increased from 2 moderate and 20 minor audit findings in 2015–16 to 3 moderate and 26 minor audit findings in 2018–19.⁵² The analysis of open findings by category of financial process at the completion of the ANAO's 2018–19 audits, shows the human resource financial process was the third highest category for moderate findings and the second highest category for minor findings.

4.6 As a result of the increase in findings relating to human resource financial processes, and the significance of these as a proportion of all financial statements audit findings, the ANAO undertook targeted assurance activities over the management of staff leave. The selection of the leave component of employee benefits was due to the relative complexities in entity management of leave compared to payroll.

Selected entities

4.7 Three financial statements audits were selected for further assessment of compliance of the management of leave accruals and balances with human resource policies and requirements. The results of the analysis will further inform the ANAO's assurance activities for future audits. The entities selected were: Department of Home Affairs; Department of the Prime Minister and Cabinet; and Department of the Treasury (the Treasury).

4.8 The annual reports of entities reported the following leave and other entitlements at 30 June 2020:

- Department of Home Affairs: \$282.7 million expense (8.4 per cent of departmental total expenses) and \$511.9 million liability (20.5 per cent of departmental total liabilities).
- Department of the Prime Minister and Cabinet: \$11.6 million expense (4.7 per cent of departmental total expenses) and \$40.8 million liability (23.4 per cent of departmental total liabilities).
- The Treasury: \$16.5 million expense (7.2 per cent of departmental total expenses) and \$63.2 million liability (31.0 per cent of departmental total liabilities).

4.9 Through this work, the ANAO has assessed whether:

- established framework and policy documents are clearly articulated and consistent with laws, regulations and agreed conditions;
- entities have implemented appropriate monitoring controls over the management of staff leave with results reported to appropriate levels of management; and
- the completeness and accuracy of leave accruals and adjustments are adequately supported by documentary or other evidence.

52 Auditor-General report No 20 (2019–20) *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*.

Frameworks, legislation and policies

4.10 The frameworks, legislation and policies of the three entities were identified within the Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* and summarised in Table 4.1.

Table 4.1: Employee condition frameworks, legislation and policies

Reference	Description
Fair Work Laws	<p>Establish minimum entitlements for all employees and includes the National Employment Standards.^a Key legislation that establish employee conditions for Australian Public Service employees include:</p> <ul style="list-style-type: none"> • <i>Fair Work Act 2009</i>; • <i>Maternity Leave (Commonwealth Employees) Act 1973</i>; • <i>Paid Parental Leave Act 2010</i>; • <i>Long Service Leave (Commonwealth Employees) Act 1976</i>; • <i>Remuneration Tribunal Act 1973</i>; • <i>Safety, Rehabilitation and Compensation Act 1988</i>; • <i>Public Service Act 1999</i>; and • <i>Parliamentary Service Act 1999</i>.
Awards	Establish minimum pay and conditions for an industry or occupation. ^a
Enterprise Agreements	Establish minimum pay and conditions for a particular workplace and are negotiated and approved through formal process. ^a
Employment Contracts	Provide additional conditions for an individual but cannot reduce or remove minimum entitlements. ^a
Practices adopted by entities to identify various requirements and conditions	<p>The Department of Home Affairs' Policy and Procedural Control Register details underpinning legislation and requirements, including those relating to staff leave.</p> <p>The Department of the Prime Minister and Cabinet has established a Leave Policy to complement the enterprise agreement. This policy details the purpose, authority and eligibility for leave including all legislative requirements.</p> <p>While the Treasury has not compiled a central registry of requirements and conditions, its' Legislative Compliance Policy and Framework establishes arrangements to monitor and record compliance with legislative obligations. This includes the identification of key legislation that relates to leave. Separate leave guidelines provide further detail of specific leave requirements and conditions.</p>
Employment frameworks established to address requirements and conditions	<p>The Department of Home Affairs' Policy and Procedural Control Register provides all leave related policy and procedural instructions, and forms part of its Policy and Procedural Controls Framework. This is complemented by: a Payroll Controls Framework; a human resource intranet site 'MyHR' for staff and includes the February 2019 Workplace Determination, procedural instructions, policies and fact sheets.</p> <p>The Department of the Prime Minister and Cabinet's Leave Policy outlines the administrative management of leave and is supported by a range of Frequently Asked Questions intranet pages for various leave types and a <i>Standard Operating Procedures – Leave</i> document for long service and maternity leave.</p> <p>The Treasury's Legislative Compliance Policy and Framework also identifies: first line control and compliance owners; related policy, procedures and delegations; education and awareness initiatives; assurance activities to evidence compliance; and responses to non-compliance. The Treasury has also established guidelines for: remuneration, leave, human resource delegations and particular leave types.</p>

Note a: www.fairwork.gov.au/employee-entitlements/national-employment-standards

Source: As referenced and ANAO analysis of entity requirements, conditions and frameworks.

4.11 The inclusion of appropriate arrangements within an organisation's employee agreement(s) and contracts is a key element in the management of staff leave entitlements. This includes facilitation of effective management of the financial implications, as well as the occupational health and safety implications through encouragement of regular annual leave use.

4.12 The enterprise agreement of each audited entity include provisions that detail employee leave entitlements and arrangements. These arrangements are supported by associated policy and guidance. To avoid accumulation of large balances, entities either require or encourage the utilisation of annual and flexible (commonly referred to as "flex") leave. Examples of leave provisions included in the enterprise agreements or workplace determination of the audited entities are shown in Table 4.2.

Table 4.2: Example staff leave conditions

Leave provisions (which will vary across particular entities)	
Maximum Entitlement of Annual Leave	Employees who have an annual leave credit in excess of 2 years accrual may be directed by their Manager to take leave to reduce their balance.
Purchase of Annual Leave	Approval may be obtained for an employee to purchase up to 8 weeks of additional leave per year.
Long Service Leave	Long service leave may be granted at either full or half pay, subject to operational requirements and the approval of the Secretary. Unless otherwise provided in legislation, periods of long service leave cannot be broken with weekends, public holidays or other periods of leave. The minimum period for which an Employee may be granted long service leave is 7 consecutive calendar days at full pay or 14 consecutive calendar days at half pay.
Flexible Leave and Minimum and Maximum Balances	Flexible leave is available to all APS Level employees. The maximum flexible leave credit carried over is the equivalent of the standard weekly working hours for the Employee, or the average weekly hours for part-time employees. The maximum flex debit is 10 hours.
Personal Leave	Full-time employees will accrue 18 days paid personal leave entitlement each year. Part-time employees, other than casual employees, will accrue personal leave on a pro-rata basis. Personal leave credits are cumulative.

Source: ANAO analysis of entity conditions.

4.13 The three entities selected were found to have effective practices to identify leave requirements and conditions established in legislation, awards, and workplace agreements and determinations. The Department of the Prime Minister and Cabinet and the Department of the Treasury have established appropriate frameworks to address staff leave requirements and conditions. While the Department of Home Affairs has effective practices to identify requirements and conditions, there have been delays in formalising the leave policy to contain current information or requirements following the February 2019 Workplace Determination.

Completeness and accuracy of leave accruals and adjustments

Annual leave and long service leave balances reported within the financial statements

4.14 Section 7 of the *Public Governance, Performance and Accountability (Financial Reporting Rule 2015)* requires Australian Government reporting entities to apply applicable Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB). This includes AASB 119 *Employee Benefits*, which requires the reporting of liabilities relating to annual (section 11) and long service leave (section 155). Table 4.3 shows the annual and long service leave provisions for the three entities for the period 30 June 2018 to 30 June 2020.

Table 4.3: Entity annual and long service leave provisions

Entity	30 June 2018	30 June 2019	30 June 2020
Department of Home Affairs			
Full-time equivalent (FTE) staffing level	14,181	13,781	13,806
Annual leave provision (average per staff member based on FTE staffing level)	\$146.2m (\$10,311)	\$140.4m (\$10,186)	\$157.3m (\$11,392)
Long service leave provision (average per staff member based on FTE staffing level)	\$294.2m (\$20,745)	\$329.3m (\$23,897)	\$353.6m (\$25,613)
Department of the Prime Minister and Cabinet			
FTE staffing level	1,906	1,897	962 ^a
Annual leave provision (average per staff member based on FTE staffing level)	\$26.5m (\$13,875)	\$26.0m ^b (\$13,681)	\$15.1m (\$15,653)
Long service leave provision (average per staff member based on FTE staffing level)	\$52.2m (\$27,379)	\$60.2m (\$31,758)	\$25.8m (\$26,772)
The Treasury			
FTE staffing level	845	958	1,019
Annual leave provision (average per staff member based on FTE staffing level)	\$17.7 m (\$20,962)	\$18.0m (\$18,761)	\$22.3m (\$21,874)
Long service leave provision (average per staff member based on FTE staffing level)	\$28.4m (\$33,563)	\$35.5m (\$37,060)	\$40.9m (\$40,121)

Note a: On 1 July 2019, the Indigenous Affairs functions transferred from the Department of the Prime Minister and Cabinet to the newly created National Indigenous Australians Agency (NIAA). This transfer was the primary reason for the reduction in the number of employees between 2019 and 2020.

Note b: The adjusted 30 June 2019 annual and long service leave provision values are \$13.1 million and \$25.0 million respectively when excluding staff transferred to the National Indigenous Australians Agency during 2019–20.

Source: ANAO analysis of entity advice of FTE staffing level at 30 June 2018, 30 June 2019 and 30 June 2020 and entity 2017–18 to 2019–20 annual reports and financial results.

4.15 The increases in long service leave provisions between 2018 and 2020 were influenced in part by declining long-term government bond rates used to value the related balances. Similar impacts on annual leave were not observed, as these are shorter-term liabilities.

4.16 The travel restrictions relating to the COVID-19 pandemic have in many cases resulted in staff leave balances increasing in 2019–20 as a result of many staff taking less leave than in previous years. The results of the targeted assurance activities detailed in paragraphs 4.17 – 4.70 were not impacted by the COVID-19 pandemic as these were performed over the period 1 July 2018 to 31 December 2019.

4.17 Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* identified non-compliance in the timeliness of submission and approval of leave requests. All entities assessed have a policy that requires certain leave types (including annual, long service, study and maternity leave) to be approved in advance of leave commencing and this be recorded on the human resource management information system (HRMIS). Each entity has envisaged there may be occasions where this is not practical including through injury, illness and emergency where personal leave entitlements are exhausted. The ANAO's analysis identified that the following proportions of those leave types where the HRMIS did not evidence approval in advance of that leave commencing:

- Department of Home Affairs – 30 per cent;
- Department of the Prime Minister and Cabinet – 24 per cent; and
- the Treasury – 18 per cent.

4.18 Further analysis of the above results are available in paragraphs 3.40 – 3.54 of Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities*. That report also identified a relationship between the proportions of unscheduled leave (including sick, carer and bereavement leave in addition to other types such as recreational, long service, maternity and study) with employee levels. The proportion of unscheduled leave use decreases with advancement of employee level.

4.19 Details of further analysis and instances of non-compliance with entity policies and guidance are outlined in the subsequent paragraphs.

Annual leave balances

4.20 Each of the three entities have conditions relating to excessive annual leave balances. The Department of Home Affairs and Department of the Prime Minister and Cabinet apply a threshold equivalent of two years' accrual (40 days), while the Treasury apply a threshold equivalent to three years' accrual (60 days).

4.21 While the Department of Home Affairs' Workplace Determination defines excessive annual leave balances as 40 days, the approach applied is less prescriptive than the other two entities. There is no policy regarding excess annual leave only that "...managers may direct an employee with more than two years leave credits to take an amount of leave up to one quarter of their annual leave credit at the time the direction is given." Without clear policy or guidance, it is not clear how the discretion of managers is being monitored to provide assurance that reasonable annual leave balances are being maintained for the well-being of staff and minimisation of associated risks. While the Department of Home Affairs has not demonstrated its

assessment that the excess annual leave was appropriate, this entity has advised it continues to monitor and manage excessive annual leave on a case-by-case basis.

4.22 Table 4.4 shows the proportion of staff with excess annual leave balances in the three entities at three dates – 1 July 2018, 30 June 2019 and 31 December 2019. This result is higher than that observed in Auditor-General Report No.4 2009–10 *The Management and Processing of Annual Leave*. In that report, the proportion of the staff in the audited organisations (Australian Taxation Office, the former Department of Broadband, Communications and Digital Economy and Australian Bureau of Statistics) with excess annual leave balances ranged from 1.0 per cent to 4.5 per cent for a single date selected for analysis.⁵³

Table 4.4: Excessive annual leave balances in the audited entities as at 1 July 2018, 30 June 2019 and 31 December 2019

Entity	Department of Home Affairs	Department of the Prime Minister and Cabinet	The Treasury
Number of staff with excess annual leave balances at only one of the three dates	1,203	338	117
Percentage of staff with excess annual leave balances at only one of the three dates	7.9%	14.4%	9.3%
Number of staff with excess annual leave balances at two consecutive dates	638	142	70
Percentage of staff with excess annual leave balances at two consecutive dates	4.2%	5.3%	5.6%

Source: ANAO analysis of individual leave balances within entities.

4.23 For comparative purposes, the following was observed if a 40 day threshold (consistent with the other two entities) was applied to the Treasury annual leave balances:

- 327 staff representing 25.6 per cent exceeded a 40 day annual leave balance for one of the three dates; and
- 199 staff representing 15.8 per cent exceeded a 40 day annual leave balance for consecutive dates.

4.24 Consistent with the highest threshold for identification of excessive annual leave balances, results indicate the Treasury has the highest comparable rates of significant leave balances and average annual leave liability per staff member based on FTE staff for 2018–2020 (as reported in Table 4.3).

4.25 The accumulation of high levels of annual leave balances as observed above reduces the benefits that are obtained from regular use of annual leave as detailed in paragraph 4.1. It also increases the liability carried by entities and may impact on future services provided when staff take accrued annual leave.

⁵³ Auditor-General Report No.4 2009–10 *The Management and Processing of Annual Leave*.

Purchased leave

4.26 Purchased leave is a mechanism where staff may purchase additional leave. The following shows the conditions each entity places on purchasing of leave:

Table 4.5: Purchased leave conditions

Entity	Department of Home Affairs	Department of the Prime Minister and Cabinet	The Treasury
Purchased leave can only be approved if applicant has no excess leave balance	Yes	No	No
Maximum annual purchase in 12 month period	40 days	40 days	20 days
Minimum use on each instance	No	5 days – Delegates can approve a reduction	Whole days
Period that purchased leave must be used within	12 months	12 months	12 months

Source: ANAO analysis of entity purchase leave conditions.

4.27 Entity specific controls relating to purchased leave include:

- the Department of Home Affairs' easySAP system is used for submission and approval of purchased leave and applies a preventative control to ensure a maximum of 40 days is purchased each year;
- the Department of the Prime Minister and Cabinet uses workflow approvals within its HRMIS and applies a purchased leave calculator to provide assurance that calculations are in accordance with policy; and
- the Treasury has implemented an audit process where purchased leave is audited 12 months after purchase to provide assurance over the accuracy of related calculations. The ANAO obtained assurance the audits are being performed by testing a sample of these with satisfactory results.

4.28 The following observations were made in the analysis of purchased leave:

- Department of Home Affairs:
 - 22 employees with 73 total instances (representing 0.8 per cent of instances of purchased leave taken) where purchased leave was approved when employees had excessive annual leave credits.
 - While the associated Procedural Instruction is currently in draft, the instances are inconsistent with the department's Fact Sheet for Excess Annual Leave. The Fact Sheet provides that it would be appropriate for the delegate not to approve the employee to access purchased leave until such time as their excess annual leave balance has been reduced.
 - The entity has advised that in individual circumstances, it may be appropriate for a manager to approve the purchasing of leave despite an employee having in excess of two years' worth of annual leave accrued and this did not represent non-

compliance with policies. However, support was not provided to evidence the appropriateness of the approval in the 73 instances identified.

- Department of the Prime Minister and Cabinet: eight employees with 59 total instances where the use of purchased leave was less than five days. This represented 14.3 per cent of staff that had purchased and used this leave. While a delegate can approve use below the five day minimum, the reasons for this approval were not documented.
- The Treasury: no audit issues were identified in testing.

Long service leave and prior service

4.29 An employee is eligible for long service leave in accordance with the *Long Service Leave (Commonwealth Employees) Act 1976*. Amongst other matters, this legislation provides for prior service that can be recognised and long service leave accrues at the rate of 0.3 months per year of service.

4.30 Common Australian Public Service conditions that have been adopted by the three entities include: the minimum period during which long service leave can be taken is seven calendar days at full pay (or 14 calendar days at half pay); and long service leave cannot be broken with other periods of leave, except as otherwise provided by legislation.

4.31 Procedures that were performed by the ANAO relating to long service leave included testing: the recognition of prior service; compliance with the legislative requirements relating to the minimum use of this leave; and whether other types of leave had inappropriately broken long service leave.

4.32 For the Department of Home Affairs, the ANAO selected a sample of 53 employees from the population of employees with prior service. Based on this sample, the following observations were made relating to management of long service leave:

- there were seven instances where the annual leave balance as per the prior service documentation did not agree to Home Affairs SAP HR; six instances where the prior service checklist, recognition of prior service or leave liability checklist was not reviewed and approved by the delegate; and one instance where the department could not locate the prior service documentation.
- there were 10 instances identified where the conditions relating to the minimum use of long service leave were not adhered to; and
- two employees broke their long service leave over a public holiday by using annual leave when the practice is not permitted under their conditions.

4.33 No matters of non-compliance relating to management of long service leave were identified for the Department of the Prime Minister and Cabinet.⁵⁴

54 Analysis of the application of the minimum use of long service leave was performed for all long service leave taken between 1 July 2018 to 31 December 2019 for the three selected entities and complemented by testing of any identified anomalies. Sample testing of 16 officers commencing at the Department of the Prime Minister and Cabinet and six for the Treasury was also performed to determine whether prior service had been appropriately recognised. The varying sample sizes relate to the number of commencements for each entity.

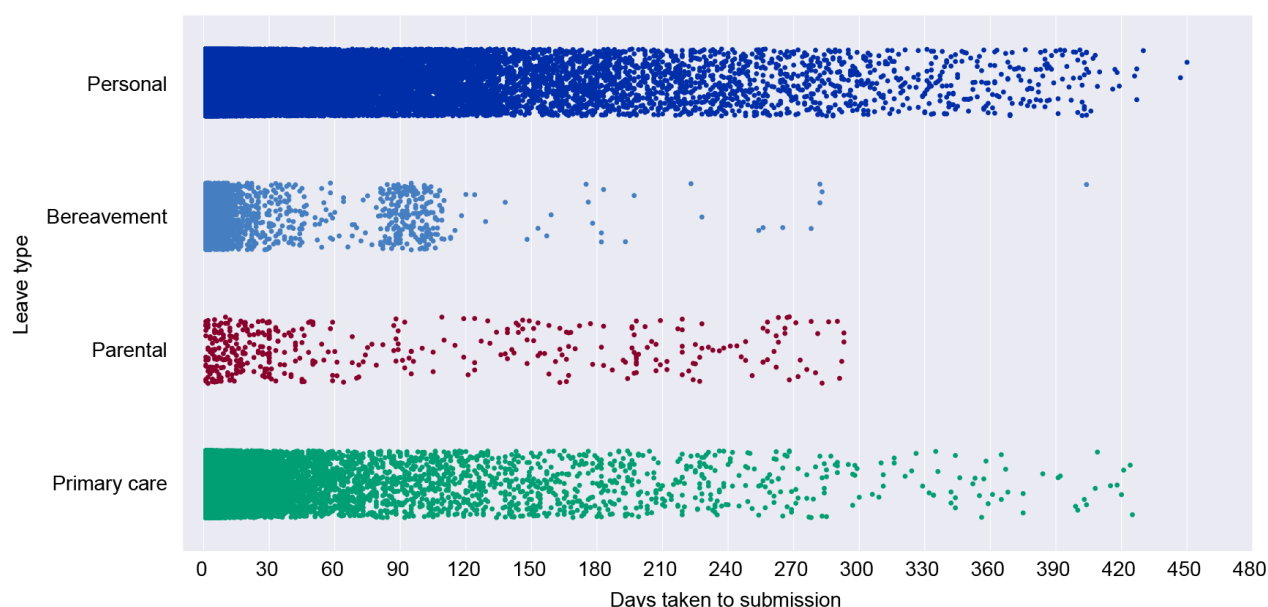
4.34 For the Treasury, 10 instances relating to six employees were identified where the conditions relating to the minimum use of long service leave were not adhered to.⁵⁵

Unscheduled leave utilisation

4.35 Unscheduled leave includes sick, carers, compassionate and other miscellaneous leave. The Australian Public Service Commission has reported that unscheduled absences have incrementally reduced between 2014–15 to 2016–17. The average rate of unscheduled absences across all Australian Public Service agencies was 11.4 days per year in 2016–17.⁵⁶

4.36 Figures 4.1–4.3 identify the distribution of the submission of personal leave taken for the three entities during the period 1 July 2018 to 31 December 2019. They show there were instances of significant delays in the submission of personal and carers leave applications by staff of the Department of Home Affairs and Department of the Prime Minister and Cabinet and personal leave applications for the Treasury. This is not consistent with the related policy that approval for this leave be obtained as soon as possible upon return to work for the Department of the Prime Minister and Cabinet and the Treasury, and within 30 days of returning to work for the Department of Home Affairs.

Figure 4.1: Department of Home Affairs' distribution of days taken for submission subsequent to the end date of unscheduled leave

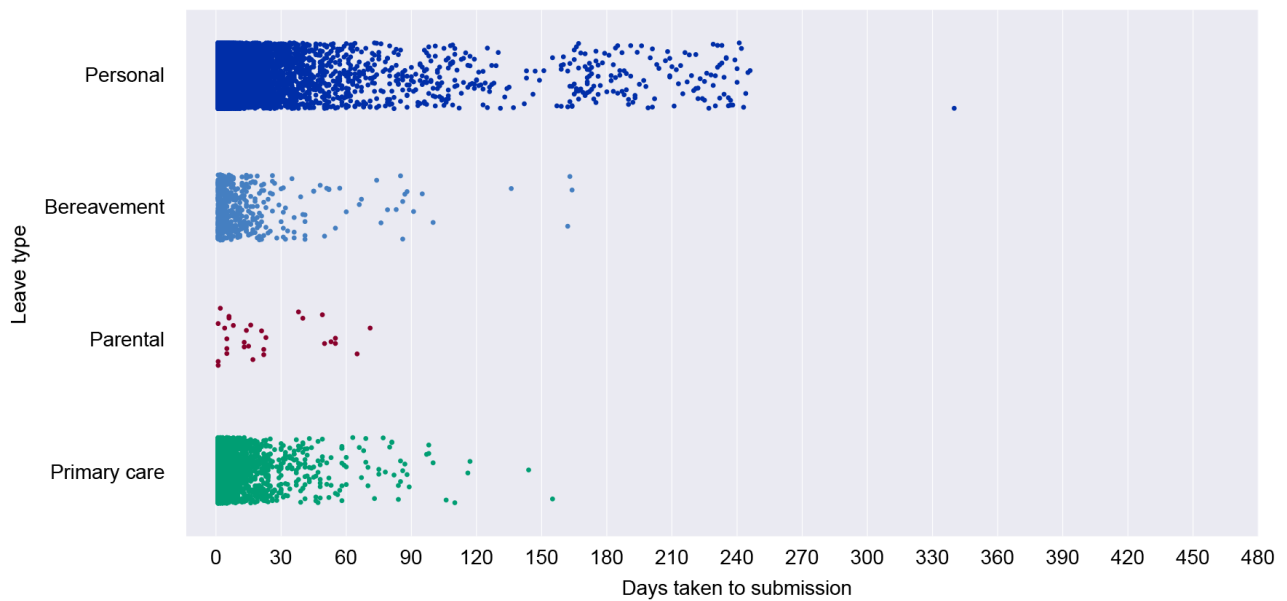


Source: ANAO analysis of individual leave submissions for the Department of Home Affairs.

55 *ibid.*

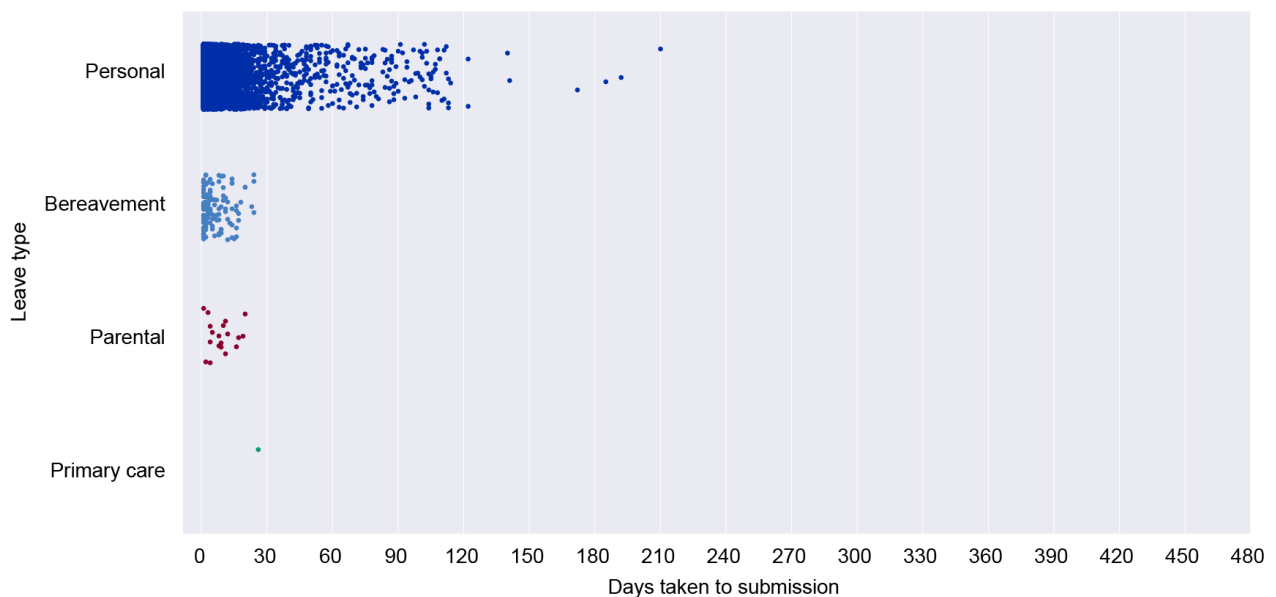
56 Australian Public Service Commission, *Unscheduled Absence* [Internet], Australian public Service Commission, Australia, 2018, available from <https://www.apsc.gov.au/unscheduled-absence> [accessed 7 November 2020].

Figure 4.2: Department of the Prime Minister and Cabinet’s distribution of days taken for submission subsequent to the end date of unscheduled leave



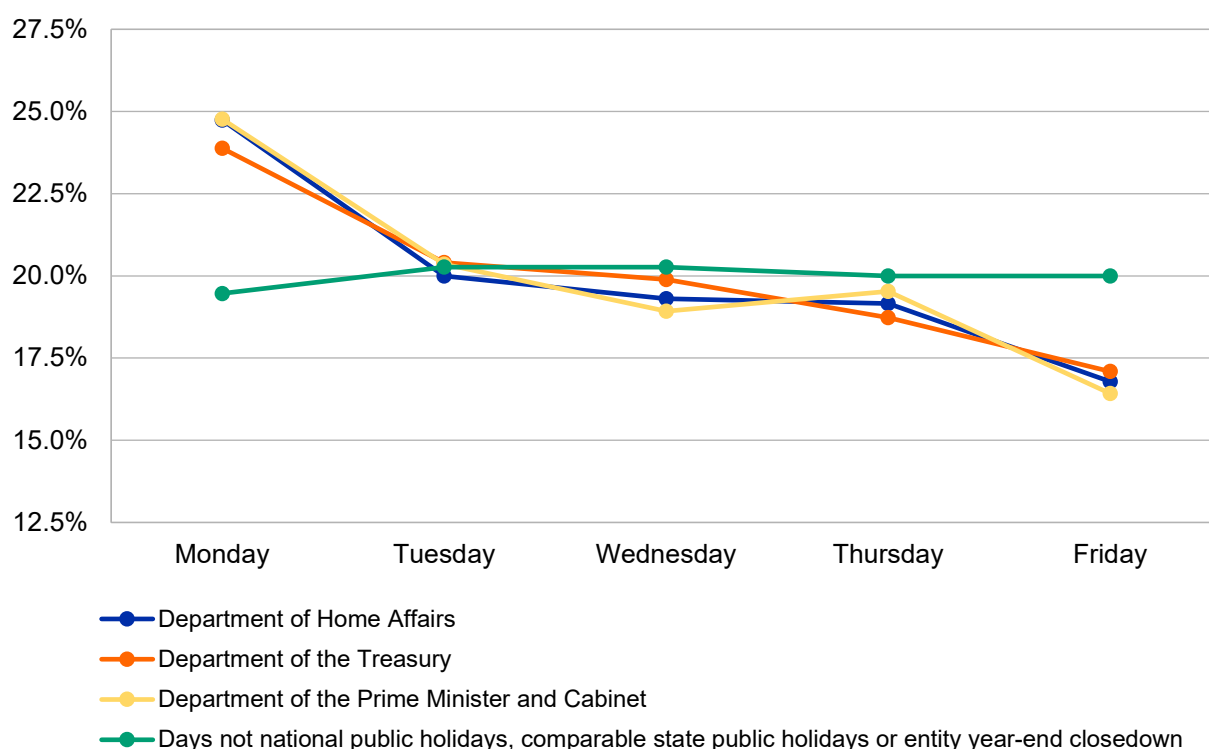
Source: ANAO analysis of individual leave submissions for the Department of the Prime Minister and Cabinet.

Figure 4.3: The Treasury’s distribution of days taken for submission subsequent to the end date of unscheduled leave



Source: ANAO analysis of individual leave submissions for the Treasury.

4.37 Figure 4.4 shows the proportion of personal leave that commenced on each business day for the three entities for the period 1 July 2018 to 31 December 2019. The result has identified a consistent trend between the three entities, with the highest proportion of personal leave commenced on Mondays, with relatively consistent levels but declining levels for Tuesday to Thursday and a further reduction for Friday.

Figure 4.4: Proportion of personal leave commencing on each business day

Source: ANAO analysis of personal leave taken by officers at the Department of Home Affairs, Department of the Prime Minister and Cabinet and the Treasury.

4.38 To provide the basis for comparison with entity results, Figure 4.4 includes the proportion of days of the week that are not national public holidays, comparable state public holidays or entity year-end closedown – a measure of available attendance days. The observed trend of reducing rates of commencement of personal leave for each subsequent day of the week suggests scope exists for exploration by entities to determine contributing factors and potential initiatives to increase attendance on Mondays in particular.

4.39 Analysis was also performed over the average use of personal (sick) leave by each full-time equivalent staff member for the three entities, including differentiating between those officers with excessive annual leave balances at the end of respective periods. The results of this analysis is shown in the following table.

Table 4.6: Average personal leave use for each full-time equivalent based on status of annual leave balance at the end of each respective period

Entity	Department of Home Affairs	Department of the Prime Minister and Cabinet	The Treasury
1 July 2018 to 30 June 2019			
Average personal leave taken for officers without an excessive annual leave balance at 30 June 2019	11.7 days	8.9 days	4.4 days
Average personal leave taken for officers with an excessive annual leave balance at 30 June 2019	9.2 days	6.1 days	3.9 days
Total average	11.6 days	8.6 days	4.4 days
1 July 2019 to 31 December 2019			
Average personal leave taken for officers without an excessive annual leave balance at 31 December 2019	6.4 days	4.2 days	2.5 days
Average personal leave taken for officers with an excessive annual leave balance at 31 December 2019	4.0 days	4.1 days	2.0 days
Total average	6.2 days	4.2 days	2.5 days

Source: ANAO analysis of personal leave taken and excessive leave balances as determined by entity policies. Based on officers employed by each department for the entire period (1 July 2018 to 30 June 2019 and 1 July to 31 December 2019 respectively).

4.40 The analysis identified consistent results across the periods 1 July 2018 to 30 June 2019 and 1 July to 31 December 2019 for the three entities. Entities were advised of the results to facilitate further analysis and to enable entities to consider whether there are actions that could be taken that may increase rates of attendance. The results included:

- considerable differences in the average personal leave taken between the three entities. Officers from the Department of Home Affairs averaged the most personal leave taken followed by the Department of the Prime Minister and Cabinet and the Treasury;
- officers from the Department of Home Affairs and the Treasury used proportionately more personal leave days during 1 July to 31 December 2019 than 1 July 2018 to 30 June 2019, suggesting seasonal factors or an escalation in the use of this leave; and
- fewer personal leave days taken by officers that held excessive annual leave balances at the end of the two periods compared to officers who did not hold excessive annual leave balances.

4.41 The following additional observations were made for the Department of Home Affairs:

- a sample of 50 instances of personal leave supported by a medical certificate identified: eight per cent of medical certificates had not been retained as required; 12 per cent of medical certificates could not be confirmed as the department was not able to present these; two per cent of instances where medical certificates could not be sighted by the ANAO due to circumstances for that employee; and two per cent of instance where the

leave was not approved within 30 days of the employee's return to work as required by policy; and

- the department does not have the ability to run a system report on the approval of additional personal leave where employees had exhausted their personal leave entitlements. This limitation prevented the ANAO from testing whether additional personal leave had been granted, as appropriate assurance could not be obtained over a manual listing maintained by the entity.

4.42 The Department of the Prime Minister and Cabinet does not require managers to document decisions made to waive the requirement to provide a medical certificate for personal leave exceeding two days. This represented 1.9 per cent of total personal leave taken.

4.43 The following observations were made for the Treasury:

- retention of medical certificates is not required; and
- a sample of 30 instances of leave supported by a medical certificate identified: 10 per cent of sample items where the certificate did not fully support the period of leave taken; and 47 per cent of sample items where the medical certificate was not retained.

4.44 Results of the testing performed by the ANAO indicate there is scope for staff and managers to further enhance compliance and management of requirements regarding personal leave.

Flexible leave balances

4.45 Flexible leave (commonly referred to as 'flex') is a formal system of providing APS 1 to APS 6 classification employees with flexible working arrangements through variable working hours, patterns and arrangements in these three entities. Conditions relating to flexible leave are contained within enterprise agreements including maximum credits and debits. Managers are responsible for monitoring the accuracy of time recording and flexible leave balances.

4.46 Other arrangements may be available for Executive Level officers including time off in lieu in particular circumstances.

4.47 Table 4.7 shows the results of the related analysis with entity conditions.

Table 4.7: Excessive flexible leave balances in the audited entities between 1 July 2018 and 31 December 2019

Entity	Department of Home Affairs	Department of the Prime Minister and Cabinet	The Treasury
Maximum credit for full-time staff	37.5 hours	Not applicable	38 hours
Maximum debit for full-time staff	(10 hours)	(7.6 hours)	(10 hours)
Number of employees non-compliant with required maximum credit and/or debit balances	1,952	53	61
Percentage of employees non-compliant with required maximum credit and/or debit balances	21.8%	4.9%	16.0%

Source: ANAO analysis of employee conditions and flexible leave balances at each entity.

4.48 For the Department of Home Affairs it was identified that six employees had accrued flexible leave each exceeding 600 hours while acting in an Executive Level 1 position – a position with no entitlement to flexible leave.

4.49 The following additional observations were made for the Department of Home Affairs:

- the Workplace Determination provides that the Secretary may approve a higher flexible leave credit carryover on a temporary basis with delegated approval provided to all officers at the Executive Level 1 and above positions. While the department did not demonstrate the identified instances were either of a temporary nature or appropriate, the department advised instances of excessive flex credits do not represent non-compliance with policy;
- the following staff levels held an average flexible leave balance that exceeded the maximum entitlement of 37.5 hours: APS 6 (78.7 hours); APS 5 (71.3 hours); APS 4 (56.1 hours); APS 3 (60.9 hours); and APS 2 (65.6 hours); and
- currently there is no compliance report being run or monitored centrally. While the Executive Dashboard provides information on staff leave balances, it does not provide information on the timely entry of information within the system.⁵⁷

4.50 For the Department of the Prime Minister and Cabinet, the following observations were made:

- a maximum flexible leave credit balance has not been established by the entity;
- if a similar maximum flexible leave credit to the other two entities had been applied (one week), 247 or 18.8 per cent of employees would have exceeded this. Including the percentage of non-compliance with the maximum debit balance (4.9%), this would have resulted in the highest rate of the three entities;
- the largest credit and debit balances were 705 hours and 57 hours respectively;
- APS 6 level staff held the highest average flexible leave balance with 30.0 hours; and
- the average flexible leave balance generally increased with advancement through the APS levels with the exception of the APS 4 level which recorded a higher average than the APS 5 level.

4.51 For the Treasury, the following observations were made:

- from October 2019, the Treasury has moved from the use of 'flex sheets' to maintaining time and flexible leave records on HRMIS automatically generated timesheets that are approved by managers;
- the largest credit and debit balances were 133.25 hours and 43.45 hours respectively;
- the average flexible leave balance for APS 4 level staff was 54.5 hours – exceeding the maximum entitlement; and
- the highest average flexible leave was at the APS 4 level and reduced with advancement of positions thereafter.

57 The Department of Home Affairs advised that a 'Flex Notification' program is currently under development for the timely entry of information and overdue flex sheets.

4.52 The results of the analysis suggest that establishing a policy regarding maximum credit balances impacts employee behaviour and the outcomes achieved.

Maternity and parental leave

4.53 The entitlement to maternity leave is provided under the *Maternity Leave (Commonwealth Employees) Act 1973*. Division 5 of Part 2-2 of the *Fair Work Act 2009* sets out the entitlements to parental leave.

4.54 For the Department of Home Affairs, the following observations were made:

- entitlements are managed by application of manual controls through the Human Resource area;
- weaknesses were identified in the retention of documentation supporting absences and the management of absences. This included the results of sample testing of 50 instances of maternity leave where 56 per cent of maternity leave checklists had not been reviewed by an independent officer as required;
- four instances from the population of maternity leave taken where the threshold for maternity leave to count as service was exceeded; and
- four instances from the population of maternity leave taken where entitlements to paid and unpaid paternity leave were exceeded.

4.55 No audit issues were identified in testing compliance with policies for the Department of the Prime Minister and Cabinet and the Treasury.

Analysis of attendance and accuracy of leave records

4.56 The ANAO intended to report on analysis of physical and network access data held by entities as a measure of evaluating the accuracy of reported attendance and leave by officers. This analysis was based on the assumption that where officers need to either access locations with physical security measures or require the use of computer networks to perform their duties, access of these would occur regularly for the days worked and evidence their attendance.

4.57 However, in conducting the analysis, a number of limitations associated with the data provided by entities influenced the reliability of results for the purpose of this testing. These limitations included:

- The Treasury's retention of network access data was limited to a specific number of days. This meant that the analysis for the Treasury was limited to: a period that was much shorter and varied from the remaining two entities; and covered the peak of COVID-19 pandemic restrictions where most staff were working from home and not using their physical access passes. This required greater reliance on the network access than was required for the other two entities.
- The use of network access by the Treasury staff was inconsistent with our assumption that network access login would occur on a daily basis and not retained over multiple days as was advised by the entity.
- The disparate and disperse nature of the Department of Home Affairs workforce means that: not all staff are required to regularly use physical and network access; and the complexity in obtaining all the physical access data for the various locations and associated building access management firms was considerable and unachievable within the timeframe of this audit.

4.58 Consequently, the results of this analysis is not reported.

4.59 Entities could consider the use of available access data records to analyse the accuracy of staff attendance and leave records. Automating this analysis could provide an efficient and effective solution and complement the assurance being obtained from supervisors.

4.60 The Protective Security Policy Framework (PSPF) assists Australian Government entities to protect their people, information and assets. It sets out government protective security policy and supports effective implementation of the policy by entities across the following outcomes: security governance; information security; personnel security; and physical security. PSPF Infosec 9 *Access to information* includes the following recommendations⁵⁸:

- Control access to operating systems through a secure log-on procedure.
- Display restricted access and authorised use only (or equivalent) warnings upon access to all entity ICT systems, and shut down inactive sessions after a defined period of inactivity.
- Consider restricting connection times to provide additional security for high-risk applications.

4.61 Benefits of logging out of a network and shutting down a computer include: timely receipt and installation of patches which enhance security and performance; negating the risk of power surges and network outages causing damage or loss of information; and reduced risk of unauthorised access. Unauthorised access can be obtained by a variety of measures including 'brute force' exploitation of weak passwords⁵⁹, use of memory when a BitLocker Drive Encryption or similar is enabled on the hard drive or when the machine is placed in sleep, hibernation or hybrid sleep states.

4.62 While the Departments of Home Affairs and the Prime Minister and Cabinet have policies and guidance that require logging off the network and shutting down of computers each day, the Treasury does not. There would be benefit in the Treasury establishing policies to enhance the security of its network and systems therein and to further facilitate investigations should a security issue arise.

Accuracy of leave accruals and adjustments

4.63 For each of the entities selected, for the purpose of assessing the accuracy of leave accruals and adjustments the ANAO has tested and obtained reliance on:

- information technology general controls. This encompasses access controls, change management and operational controls, and provides assurance over the reliability of data and reports, automated controls and functionality underlying business processes; and
- information technology application controls. These controls provide assurance over: application change management; business continuity; user access and privileged user management; and whether data is completely and accurately captured, processed and maintained. Aurion is used by the Department of the Prime Minister and Cabinet and the Treasury, while SAP-HR is used by the Department of Home Affairs.

4.64 The application controls testing included procedures relating to:

58 Protective Security Policy Framework – Infosec 9 Access to Information, October 2019, p.7.

59 A brute-force attack is a systematic approach to discover passwords by applying available combinations of letters, numbers, and symbols. This is often facilitated by automated tools that use wordlists and rulesets to target common passwords.

- consistency of the configuration of applications with workplace agreement conditions for staff leave including accrual of benefits for full-time and part time officers;
- effectiveness of leave approval controls;
- accuracy of deductions of approved leave from individual balances; and
- accuracy of financial value calculations.

4.65 The above testing has provided assurance that leave balances accurately report the accrual of entitlement and adjustment for periods of leave requested by officers and complements the analysis that has been performed across the various leave types.

4.66 From a financial reporting perspective, no material errors were identified.

Monitoring controls and reporting

4.67 The establishment of effective monitoring controls and reporting is particularly important in the management of staff leave due to the significance, number and complexity of requirements, conditions and related policy. The strength of such controls facilitates:

- the validation of rates of compliance, which is important given the reliance on supervisors as the primary control;
- targeted responses for non-compliance and management of human resources; and
- effective planning and utilisation of human resources.

4.68 Monitoring controls that are consistent across the three entities include:

- the use of a HRMIS to record, accrue and monitor leave. The use of the HRMIS facilitates significant reliance on automated or IT dependent controls. Automated controls apply established pre-conditions and all leave transactions require manager approval;
- localised management of staff, leave and attendance; and
- HRMIS functionality that supports the production of reports to manage staff leave.

4.69 Entity specific monitoring controls and reporting were detailed in Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* and summarised in Table 4.8 and complement other controls and reporting detailed in earlier paragraphs.

Table 4.8: Entity specific leave management monitoring controls and reporting

Monitoring Controls and Reporting	
Department of Home Affairs	<p>The department has established the following:</p> <ul style="list-style-type: none"> • an Executive Dashboard report as the primary mechanism for informing compliance with leave policy and procedures. This report facilitates the running of human resource related reports by governance bodies and Executive Level 2 officers and above, and includes functionality that enables data filtering for line areas and officers. Results and trends of key metrics within the report include: annual and long service leave; personal and miscellaneous (unscheduled) absences; and staff counts of those on leave, returning from leave and with excessive annual leave balances. The underlying data is automatically updated on a daily and monthly basis. • It is noted that monitoring of the use of the Executive Dashboard report is limited to the number of officers at each level that have used this tool since its implementation. This was reported to the People and Integrity Steering

Monitoring Controls and Reporting	
	<p>Committee in February and August 2019. The absence of monitoring and formal reporting of the frequency of individual usage inhibits the ability to assess stakeholder satisfaction with the information provided;</p> <ul style="list-style-type: none"> • key employee leave metrics, including significant leave balances and personal and miscellaneous absences, are presented to the Enterprise Business Committee (formerly Enterprise Operations Committee); and • specific issues regarding staff leave (including significant leave balances and unscheduled absences) are reported to the People and Integrity Steering Committee as considered appropriate by the First Assistant Secretary of the People Division. There were three instances reported in the period 1 July 2018 to 31 December 2019.
Department of the Prime Minister and Cabinet	<p>The department has established the following:</p> <ul style="list-style-type: none"> • a toolkit entitled Attendance Management - Manager's Guide to assist managers in the management of attendance and unscheduled leave; • an Operational HR Dashboard for SES managers to view a range of staff statistics for their areas, including significant annual leave and flex balances, unscheduled absences and leave requests pending approval; and • provision of information to the Executive Board on compliance with leave policies during periods when monitoring is seen as more critical and when 'hot topics' are identified by the Chief Operating Officer. There is no regular reporting of key leave management metrics to the Executive Board.
The Treasury	<p>The Treasury has established the following which the Treasury has advised applies a risk based approach:</p> <ul style="list-style-type: none"> • while not all controls are fully contained within the HRMIS, guidelines are used by managers to fulfil their responsibilities; • approval of particular leave by the human resources section (for example personal leave) and second review of compliance with guidelines by this section for particular types of leave; and • the establishment of a People Dashboard, that assists in the identification of human resource management issues and is provided to the Deputy Secretary of Corporate and Foreign Investment Group by the People and Organisational Strategy Branch. The Dashboard is distributed to the Executive Board on a monthly basis and extended this to Division Heads and Chief Advisers from March 2020. Further circulation of the Dashboard, including parts thereof, to others is determined by the Deputy Secretary.

Source: ANAO analysis of entity monitoring controls and reporting.

4.70 Through the analysis of compliance with entity conditions provided in paragraphs 4.17 – 4.66, the ANAO has identified instances of non-compliance with policy and guidance that was not previously identified by entities. The prevalence of identified instances and the risks these represent, indicate scope exists for enhanced monitoring controls and reporting by entities. This would facilitate timely response to risks as they arise and enhance the management of human resources.

5. Results of financial statements audits by portfolio

Chapter coverage

This chapter outlines the results of the audits of the 2019–20 financial statements of individual entities by portfolio based on arrangements existing at 30 June 2020.

The chapter also details an overview of the portfolio and each material^(a) entity's primary role in the portfolio as well as:

- a summary of financial performance that provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items and commentary regarding significant movements;
- the number of audit differences reported to all entities within the portfolio;
- a summary of the 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 2019–20 and previous years for all entities.

Audit results

Two significant and 22 moderate audit findings were reported in 2019–20 (2018–19: three significant and 21 moderate), and one significant legislative breaches (2018–19: three).

Note a: Three subsidiary entities classified by the Department of Finance as material are consolidated into parent entities. These entities are: ANSTO Nuclear Medicine Pty Ltd (consolidated into Australian Nuclear Science and Technology Organisation); CSIRO General Partner Pty Ltd (consolidated into Commonwealth Scientific and Industrial Research Organisation); and Voyages Indigenous Tourism Australia (consolidated into Indigenous Land and Sea Corporation).

5.0.1 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.

5.0.2 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:

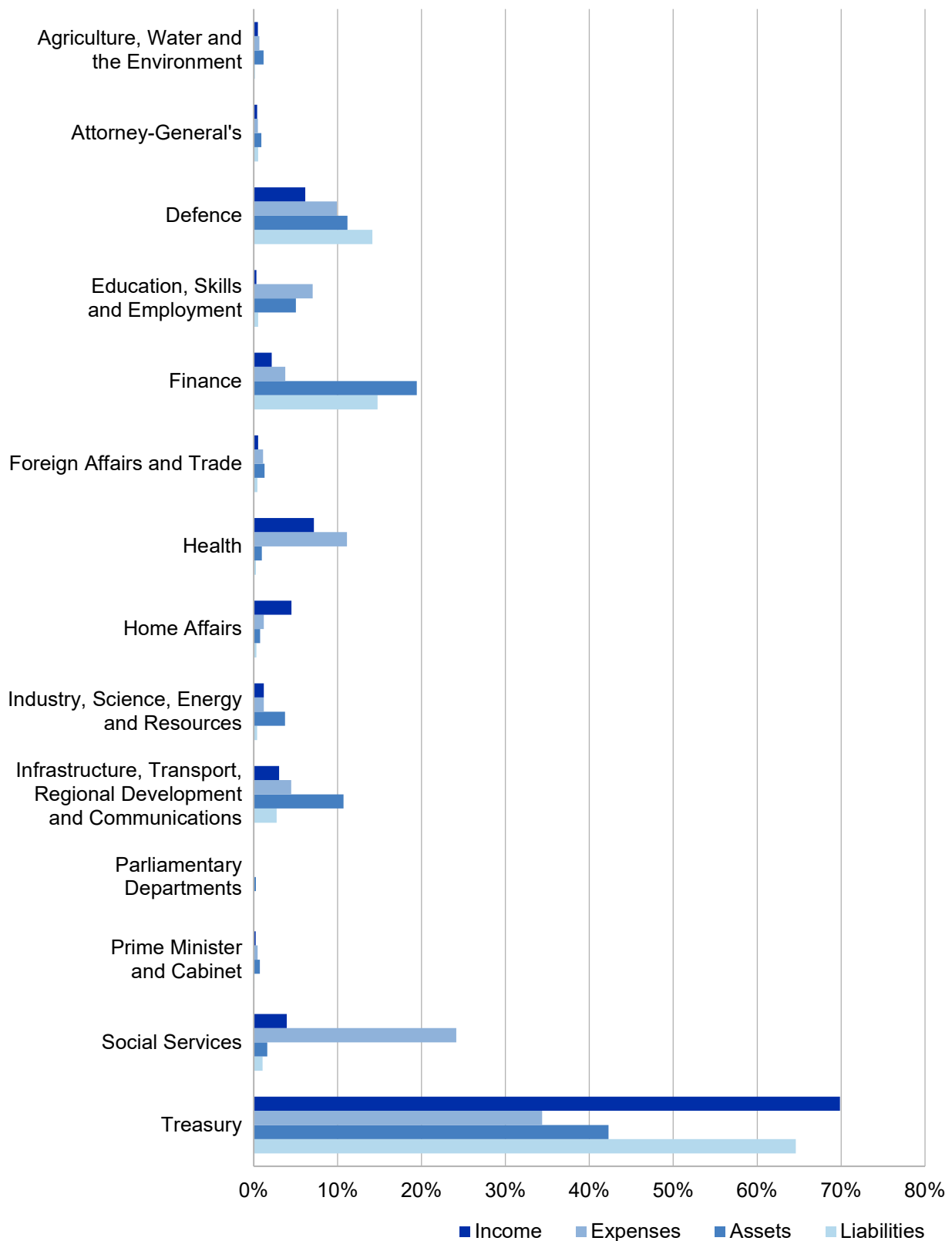
- obtaining knowledge of the entity and its environment;
- reviewing the operation of internal controls;

- undertaking analytical reviews;
- testing a sample of transactions and account balances and/or conducting data analytics over entire populations; and
- confirming significant year end balances with third parties.

5.0.3 Where a performance audit was tabled during 2019–20 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 2020 and relevant to the financial management or administration of entities will inform the ANAO’s 2020–21 financial statements audits risk identification process.

5.0.4 Figure 5.0.1 provides each portfolio’s contribution, as a percentage of the Australian Government’s 2019–20 Consolidated Financial Statements (CFS).

Figure 5.0.1: Portfolio's contribution as a percentage of the Australian Government's 2019–20 Consolidated Financial Statements



Source: ANAO analysis of 2019–20 CFS.

5.0.5 This chapter reflects portfolio arrangements at 30 June 2020 as established by the December 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 2019–20 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;
 - an overview of any significant financial management impact as a result of the COVID-19 pandemic;
 - a summary of financial performance that provides a comparison of the 2018–19 and 2019–20 key financial statement items and commentary regarding significant movements;
 - key areas of financial statements risk including those areas identified as key audit matters (KAM)⁶⁰; and
- the status of significant and moderate audit findings reported during 2019–20 and previous years for all entities.

5.0.6 Table 5.0.9 presents a summary of significant and moderate findings reported at 30 June 2020 and 30 June 2019 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 moderate⁶¹ audit finding reported to the Department of Home Affairs; and the moderate audit finding reported to Services Australia. Table 5.0.9 does not include significant legislative breaches. One significant legislative breach was reported in relation to the Northern Land Council (paragraphs 5.12.54 – 5.12.60).

60 For further details on KAM refer to Chapter 2 paragraphs 2.40 – 2.47.

61 This finding was downgraded to a moderate finding in the current year from a significant finding in the prior year.

Table 5.0.9: Significant and moderate audit findings by portfolio and entity

Portfolio	Entity	30 June 2020		30 June 2019	
		New findings ^a	Repeat/ unresolved findings ^b	New findings ^a	Repeat/ unresolved findings ^b
Agriculture, Water and the Environment	Department of Agriculture, Water and the Environment	–	–	1	–
	Bureau of Meteorology	–	–	1	–
	Director of National Parks	–	–	–	1
	Great Barrier Reef Marine Park Authority	1	–	–	–
Attorney-General's	High Court of Australia	2	–	–	–
Defence	Department of Defence	1	2	1	1
	Australian Signals Directorate	1	–	–	–
	Defence Housing Australia	–	–	1	–
Education, Skills and Employment	Department of Education, Skills and Employment	–	–	3 ^c	–
	Australian National University	2	–	–	–
Finance	Department of Finance	1	–	–	–
Foreign Affairs and Trade	Australian Trade and Investment Commission	1	–	–	–
Health	Department of Health	2	–	1	–
	Australian Digital Health Agency	–	–	1	–
	National Health and Medical Research Council	–	–	–	1
Home Affairs	Department of Home Affairs	1	1	1	–
	Australian Federal Police	–	–	–	2

Portfolio	Entity	30 June 2020		30 June 2019	
Industry, Science, Energy and Resources	Australian Nuclear Science and Technology Organisation	–	1	–	1
	Clean Energy Regulator	–	–	–	1
Infrastructure, Transport, Regional Development and Communications	Infrastructure, Transport, Regional Development and Communications	–	–	1 ^d	1 ^d
	Australian Broadcasting Corporation	–	–	1	–
	Moorebank Intermodal Company Limited	–	1	–	1
Prime Minister and Cabinet	Aboriginal Hostels Limited	1	–	–	–
	Kakadu Tourism (GLC) Pty Ltd	1	–	–	–
	Northern Land Council	–	1	2	–
Social Services	National Disability Insurance Agency	1	–	–	1
	Services Australia	2	–	–	–
Treasury	Australian Securities and Investments Commission	1	–	–	–
Total		18	6	14	10

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.

Note c: 2018–19 figures include two findings that were identified in the former Department of Employment, Skills, Small and Family Business.

Note d: 2018–19 figures are findings that were identified in the former Department of Communications and the Arts.

Source: 2019–20 and 2018–19 ANAO correspondence.

5.1 Agriculture, Water and the Environment 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, Water and the Environment	Yes	Moderate	✓	16 Sept 20	16 Sept 20	□
Bureau of Meteorology	Yes	Low	✓	28 Aug 20	31 Aug 20	□
Director of National Parks	No	Moderate	✓	1 Oct 20	1 Oct 20	□
Great Barrier Reef Marine Park Authority	No	Low	✓	4 Sept 20	4 Sept 20	◆
Rural Industries Research and Development Corporation	No	Low	E	28 Sept 20	29 Sept 20	Nil

✓: auditor's report not modified

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2019–20 interim audit phase, now downgraded or resolved
E: auditor's report contains an emphasis of matter.

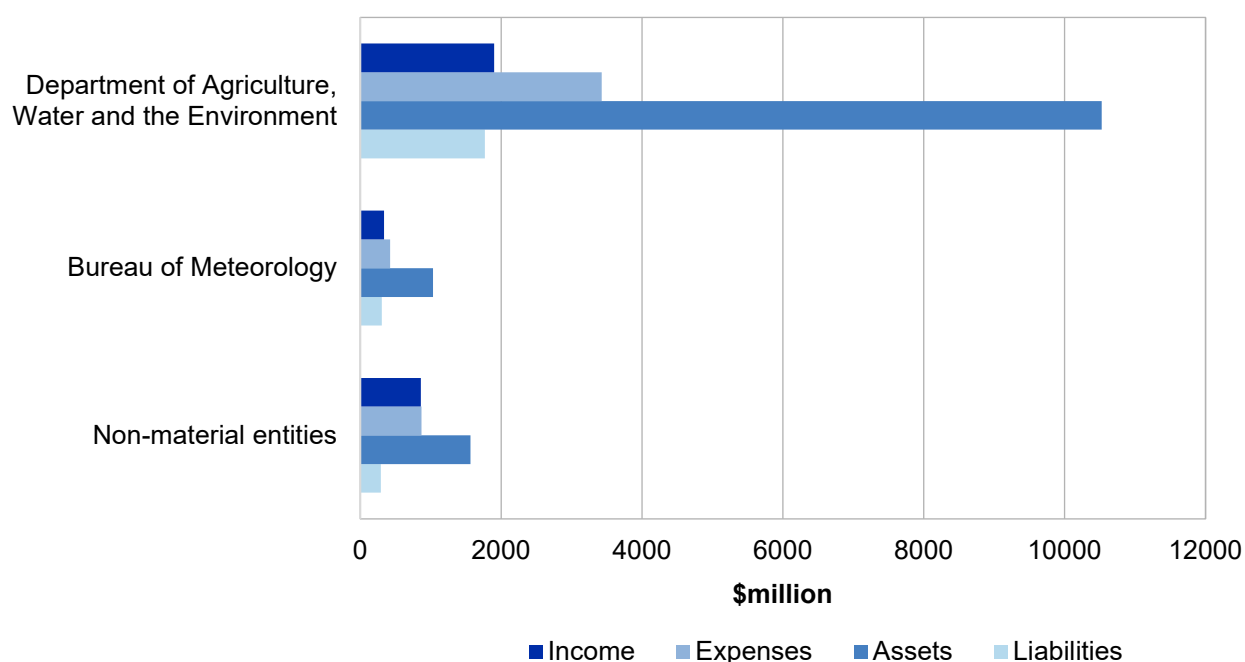
Portfolio overview

5.1.1 The Agriculture, Water and the Environment portfolio is responsible for advising the government and implementing programs with respect to the environment, meteorological services, and Australia's agricultural, fisheries, food, forestry and water resources industries. The portfolio is also responsible for protecting matters of national environmental significance and protecting 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.

5.1.2 As a result of the Administrative Arrangement Order effective 1 February 2020, the Department of Agriculture, Water and the Environment was created from a merger of the Department of Agriculture and the environment functions from the Department of the Environment and Energy.

5.1.3 Figure 5.1.1 shows the Agriculture, Water and the Environment portfolio's income, expenses, assets and liabilities.

Figure 5.1.1: Agriculture, Water and the Environment portfolio's income, expenses assets and liabilities



Source: 2019–20 CFS.

5.1.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Agriculture, Water and the Environment portfolio.

Table 5.1.1: The number of audit differences for entities in the Agriculture, Water and the Environment portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Agriculture, Water and the Environment	4	2	6	–	1	1
Australian Fisheries Management Authority	–	–	–	3	1	4
Australian Pesticides and Veterinary Medicines Authority	–	5	5	–	6	6
Bureau of Meteorology	–	–	–	3	–	3
Director of National Parks	1	–	1	–	–	–
Fisheries Research and Development Corporation	–	1	1	–	–	–

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Grains Research and Development Corporation	–	4	4	–	5	5
Great Barrier Reef Marine Park Authority	–	3	3	1	–	1
Murray-Darling Basin Authority	–	–	–	1	–	1
Regional Investment Corporation	–	3	3	2	10	12
Rural Industries Research and Development Corporation	–	1	1	–	–	–
Sydney Harbour Federation Trust	–	2	2	3	1	4
Wine Australia	1	–	1	–	–	–

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

5.1.5 The following section provides a summary of the 2019–20 financial statements audit results for the Department of Agriculture, Water and the Environment, other material entities and findings related to non-material entities in the portfolio.

Department of Agriculture, Water and the Environment

5.1.6 The Department of Agriculture, Water and the Environment (DAWE) is responsible for developing and implementing policies and programs to promote more sustainable, productive, internationally competitive and profitable Australian agricultural, food and fibre industries; safeguarding Australia's animal and plant health; managing the conservation, protection and sustainability of Australia's natural resources, biodiversity, ecosystems, environment and heritage; advancing Australia's interests in the Antarctic; and improving the health of rivers and freshwater ecosystems and water use efficiency.

5.1.7 Consistent with the Australian Government's response to the Australian Bushfires and the COVID-19 pandemic, DAWE has implemented a number of measures aimed at supporting members of the Australian public who are likely affected by these events. These measures included a range of stimulus packages for:

- Bushfire Response Package – Bushfire Wildlife Recovery Program;
- Additional Support for Farm Household Support Income Support Recipients (Coronavirus supplement);
- COVID-19 Response Package; and
- COVID-19 Economic Stimulus – Stimulus Payments (Payments to Households to support growth).

5.1.8 Payments for these measures commenced from during quarter three and four of 2019–20 and will continue into the 2020–21 financial year where applicable.

Summary of financial performance

5.1.9 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by DAWE, and includes commentary regarding significant movements between years contributing to overall performance.

5.1.10 As a result of the Administrative Arrangements Orders that commenced on 1 February 2020, all functions of the former Department of Agriculture (DoA) were transferred to the renamed Department of Agriculture, Water and the Environment and the environment functions and energy functions of the former Department of the Environment and Energy (DoEE) were transferred to the Department of Industry, Science, Energy and Resources. As a result of this change, DAWE prepared financial statements in 2019–20 that encompassed the results of both Agriculture and Environment as consolidated balances for the period 1 July 2019 to 30 June 2020.

Table 5.1.2: Key departmental financial statements items

Key financial statements items	2019–20 DAWE (\$m)	2018–19 ^a DoEE (\$m)	2018–19 ^a DoA (\$m)
Net (cost of)/contribution by services	(950.2)	(542.9)	(407.2)
Revenue from government	818.5	403.9	391.8
Surplus/deficit attributable to the Australian Government	(131.7)	(138.9)	(15.4)
Total other comprehensive income/(loss)	(17.9)	(54.3)	–
Total comprehensive loss attributable to the Australian Government	(149.7)	(193.3)	(15.4)
Total assets	1,846.1	966.9	355.7
Total liabilities	1,493.2	799.8	239.9
Total equity	352.9	167.1	115.8

Note a: The 2018–19 comparative figures displayed are for the former DoEE and DoA.

Source: DAWE's audited financial statements for the year ended 30 June 2020.

5.1.11 Total net cost of services has remained consistent with the following offsetting movements:

- revenue from contracts with customers was \$35.5 million lower compared to the prior year, due to a combination of factors including a decrease in import and export cost recovery charges that occurred with imports and exports declining post the COVID-19 pandemic, the termination of a service order with the Department of Home Affairs for an aircraft sub-lease for travel to and from Antarctica and a reduction in COAG Energy Council contribution revenue as a result of the transfer of the energy function; and
- a reduction in expenses relating to the provision for restoration obligations in the Antarctic. As at 30 June 2019, there was a large increase in key economic and engineering

assumptions, such as shipping costs, particularly in relation to Antarctic solid waste disposal sites. There was a smaller increase in these assumptions as at 30 June 2020.

5.1.12 Total assets increased by \$523.5 million primarily due to the initial application of AASB 16 *Leases* (AASB 16) and the associated right-of-use assets of \$420.4 million and the capitalisation of \$25.2 million for the build of the new Antarctic icebreaker, the RSV Nuyina, which is expected to commence science and resupply operations in 2021.

5.1.13 Total liabilities increased by \$453.5 million primarily due to the recognition of finance lease liabilities of \$425.5 million on initial application of AASB 16. In addition, the provision for restoration obligations in the Antarctic increased by \$43.2 million. This increase reflects a lower discount rate compared to the prior year and unwinding of the provision due to the passage of time.

Table 5.1.3: Key administered financial statements items

Key financial statements items	2019–20 DAWE (\$m)	2018–19 ^a DoEE (\$m)	2018–19 ^a DoA (\$m)
Total expenses	2,035.1	607.0	1,755.3
Total income	758.7	638.8	856.9
Net (cost of)/contribution by services	1,276.4	(31.8)	898.4
Total other comprehensive income/(loss)	52.5	3,775.2	110.6
Total comprehensive income/(loss)	(1,223.9)	3,807.0	(787.9)
Total assets administered on behalf of Government	8,677.8	26,110.0	2,956.9
Total liabilities administered on behalf of Government	275.4	55.1	178.0
Net assets	8,402.4	26,054.9	2,778.8

Note a: The 2018–19 comparative figures displayed are for the former DoEE and DoA.

Source: DAWE's audited financial statements for the year ended 30 June 2020.

5.1.14 DAWE manages water entitlements to achieve the Government's environmental policy objectives. As a result of the Machinery of Government changes, the accounting treatment for water entitlements changed. The former DoA recognised the transfer of water entitlements to the former DoEE as expenses and the former DoEE recognised the receipt of the water entitlements as resources received free of charge. As water entitlements are now wholly managed by DAWE, the inter-entity transfer no longer occurs.

5.1.15 The decrease in total expenses due to water entitlement transfers, as discussed above, was partially offset by an increase in the concessional loan discount expense of \$121.2 million. The higher concessional loan expense reflects the increased volume of loan commitments made by the Regional Investment Corporation in 2019–20 and an increase in the average concessional discount applied to each loan, due to the two year interest free period offered on most loans.

5.1.16 The decrease in total income was also partly due to a \$94.1 million decline in agricultural levies and charges, reflecting lower production and prices as a result of environmental factors such as drought and fire, and economic factors such as exchange rates, demand and supply and the COVID-19 pandemic.

5.1.17 Total assets administered on behalf of the Government decreased by \$20,389.1 million due to the transfer of the energy functions to the Department of Industry, Science, Energy and Resources.

Key areas of financial statements risk

5.1.18 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 DAWE'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 2019–20 are provided in Table 5.1.4, 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 5.1.4: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> revenue from contracts with customers \$405.3 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; and complex cost recovery arrangements.
<i>Administered</i> levies fees and charges \$474.3 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.
<i>Departmental</i> other provisions \$754.5 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.
<i>Administered</i> water entitlements \$4.0 billion	Valuation of water entitlement assets KAM	Higher	<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.
<i>Administered</i> loans (component of trade, taxation and other receivables) \$1.0 billion	Valuation of loans to the State and Territory Governments and farm businesses 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;

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> the level of estimation involved in determining any potential impairment of loans; and subsequent management of loans to farm businesses is undertaken by a third party (the State or Territory Government, or the Regional Investment Corporation), under a service level agreement with DAWE. The third party is responsible for entering into loan agreements with eligible farm businesses, the approval of recipients, and the ongoing monitoring and maintenance of the loans.

Source: ANAO 2019–20 audit results, and DAWE's audited financial statements for the year ended 30 June 2020.

Audit results

5.1.19 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.1.5: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1 ^a	–	(1)	–
Total	1	–	(1)	–

Note a: The moderate audit finding was first reported to Parliament in Auditor-General Report No.46 of 2018–19 *Interim Report on Key Financial Controls of Major Entities*. It was transferred from the former Department of Agriculture and relates to processes now facilitated by DAWE following the machinery of government changes.

Source: ANAO 2019–20 audit results.

5.1.20 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that DAWE's 2019–20 financial statements were not materially misstated.

Resolved moderate audit finding

Weaknesses in change management controls

5.1.21 Change management is a key component of the control environment, supporting the controlled progression of changes to systems and processes. During 2018–19 the ANAO identified 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.

5.1.22 DAWE implemented a revised change management policy in October 2019 that addressed the effective design of change management controls. The revised change management controls were implemented during 2019–20. As part of the final audit phase, testing performed over a sample of changes confirmed that the change management controls were operating effectively. The ANAO has assessed that this finding has been appropriately resolved.

Bureau of Meteorology

5.1.23 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

5.1.24 The following section provides a comparison of the 2018–19 and 2019–20 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 5.1.6: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Revenue from government	263.3	231.7
Net (cost of)/contribution by services	(348.2)	(313.7)
Surplus/(deficit) attributable to the Australian Government	(84.9)	(82.1)
Total other comprehensive income/(loss)	58.9	–
Total comprehensive income/(loss) attributable to the Australian Government	(26.0)	(82.1)
Total assets	1 033.6	773.5
Total liabilities	307.0	184.7
Total equity	726.6	588.8

Source: Bureau of Meteorology's audited financial statements for the year ended 30 June 2020.

5.1.25 Net cost of services increased as a result of an increase in depreciation expenses for the current year due to the recognition of \$118.6 million in right-of-use assets as a result of the application of AASB 16. This was partially offset by a decrease in employee expenses, in particular leave and other entitlements and an increase in the capitalisation of staffing costs related to capital projects.

5.1.26 The increase in revenue from government was a result of new funding in respect of the New Policy Proposal related to the Disaster Preparedness Initiative and additional funding of

\$23.0 million to supplement the loss of income from the suspension of the aviation sector in response to the COVID-19 pandemic.

5.1.27 The increase in total assets predominantly relates to an increase in non-financial assets of \$276.6 million. The increase includes the recognition of \$118.6 million of right-of-use assets in accordance with AASB 16, a revaluation increment of \$58.9 million from an independent valuation of property, plant and equipment, and \$203.7 million additions of plant and equipment and intangibles in 2019–20 as part of an on-going improvement in BOM's ICT systems and business processes. This was partially offset by a \$12.3 million decrease in appropriation receivables.

5.1.28 Total liabilities have predominately increased due to first time recognition of lease liabilities of \$123.8 million.

Table 5.1.7: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	–	(0.8)
Total revenue	–	0.3
Surplus/(deficit) attributable to the Australian Government	–	(0.5)
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	–	(0.5)
Total assets	–	0.1
Total liabilities	0.4	0.5
Net assets/(liabilities)	(0.4)	(0.4)

Source: Bureau of Meteorology's audited financial statements for the year ended 30 June 2020.

5.1.29 In 2018–19 the Bureau ceased activities in relation to the sale of third party advertising which was reported as administered activities. There has been no further administered activity in 2019–20.

Key areas of financial statements risk

5.1.30 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 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 2019–20 are provided in Table 5.1.8. No significant or moderate audit findings were identified relating to these key areas of risk. No financial statements risks were identified relating to the COVID-19 pandemic.

Table 5.1.8: 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 \$461.3 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 \$178.7 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.
Revenue from contracts with customers \$74.1 million Contract liabilities \$45.3 million Right-of-use assets \$118.6 million Lease liabilities \$123.8 million	First time application of new accounting standards	Moderate	<ul style="list-style-type: none"> various revenue streams are generated through multiple channels, requiring assessment against recognition and measurement criteria of relevant Australian Accounting Standards which can require judgement; and considerable number of leases with varying terms and conditions, and a high level of manual input required.

Source: ANAO 2019–20 audit results, and Bureau of Meteorology's audited financial statements for the year ended 30 June 2020.

Audit results

5.1.31 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.1.9: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1	–	(1) ^a	–
Total	1	–	(1)	–

Note a: The moderate audit finding relating to underpayment of superannuation on certain allowances was first reported to Parliament in Auditor-General Report No.20 of 2019–20 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*. This was downgraded to a minor audit finding in 2019–20.

Source: ANAO 2019–20 audit results.

Resolved moderate audit finding

Underpayment of superannuation on certain allowances

5.1.32 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. During 2019–20, the Bureau of Meteorology settled this matter and put in place policies and procedures to address the on-going risk of underpayment of superannuation on certain allowances.

5.1.33 The Bureau of Meteorology is continuing to progress the assessment of the value of the potential impact of underpayment of superannuation in relation to other former and current employees. The finalisation of the assessment remains as a minor finding.

Comments on non-material entities**Director of National Parks**

5.1.34 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.

Resolved moderate audit finding

5.1.35 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. This audit issue remained unresolved in 2018–19 financial year.

5.1.36 During the 2019–20 financial year, DNP made significant progress by developing an Asset Management Policy and Strategy, including Asset Management and Maintenance Plans. As a result of these actions this audit issue was downgraded to a minor audit finding in the 2019–20 audit process. The ANAO will assess the effectiveness of DNP's implementation of new asset management policy, strategy and road maintenance plans during the 2020–21 financial statements audit.

Great Barrier Reef Marine Park Authority

5.1.37 The Great Barrier Reef Marine Park Authority (the Authority) is a non-corporate Commonwealth entity and operates as a statutory agency under the Great Barrier Reef Marine Park Act 1975. The Authority is responsible for the long-term protection of the Great Barrier Reef for all Australians and the international community through the care and development of the Marine Park.

New moderate audit finding

Expenditure control environment

5.1.38 As part of the 2019–20 financial statements audit, the ANAO tested the operational effectiveness of controls related to procurement processes and IT access controls. The following weaknesses were identified:

- purchase requisitions to confirm the approval of the commitment of public money did not exist in several instances;
- evidence did not exist to confirm that expenditure incurred for employment agency suppliers had been reviewed or approved by a financial delegate confirming that the services had been rendered prior to payment;
- documentation did not exist to confirm that changes to employee and supplier masterfile data are reviewed on a regular basis by an independent reviewer; and
- access rights associated with the financial institution online platform were not reviewed and the vendor payment file was not securely stored prior to uploading to the financial institution online platform.

5.1.39 The weaknesses identified increase the risk of fraud and or error in the expenditure control environment. The ANAO recommended the Authority review current processes to confirm that invoices are evidenced as reviewed and approved for prior to payment; and access and security of data be reviewed so that access to payment files and the online banking platform are appropriately managed to protect the integrity of the payment function.

5.1.40 The Authority agreed to the recommendation and advised during the final phase of the audit that they had commenced remedial action to strengthen the control framework. The ANAO will assess the Authority's progress in resolving the finding as part of the 2020–21 financial statements audit.

Rural Industries Research and Development Corporation

5.1.41 The Rural Industries Research and Development Corporation (trading as 'AgriFutures') was established to increase knowledge that fosters sustainable, productive and profitable new and existing rural industries and further understanding of national rural issues through research and development in government-industry partnership. AgriFutures receives matching funding from the Department of Agriculture, Water and the Environment based on sections of the *Primary Industry Research & Development Act 1989*.

Emphasis of matter

5.1.42 The auditor's report for AgriFutures' financial statements included an emphasis of matter paragraph to draw attention to the correction of a prior period error. Sections of the legislation providing the matching funding were applied incorrectly between 2014–15 and 2018–19 and resulted in underpayment to AgriFutures. \$21.4 million was received in 2019–20 to resolve the underpayment. Corrections were made to the 2018–19 revenue from government, trade and other receivables and equity.

5.2 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	✓	6 Oct 20	6 Oct 20	Nil
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	Moderate	✓	12 Oct 20	12 Oct 20	Nil
Comcare	Yes	Moderate	✓	21 Sept 20	22 Sept 20	Nil
High Court of Australia	Yes	Low	✓	8 Sept 20	8 Sept 20	◆
National Archives of Australia	Yes	Low	✓	31 Aug 20	1 Sept 20	Nil

✓: auditor's report not modified

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

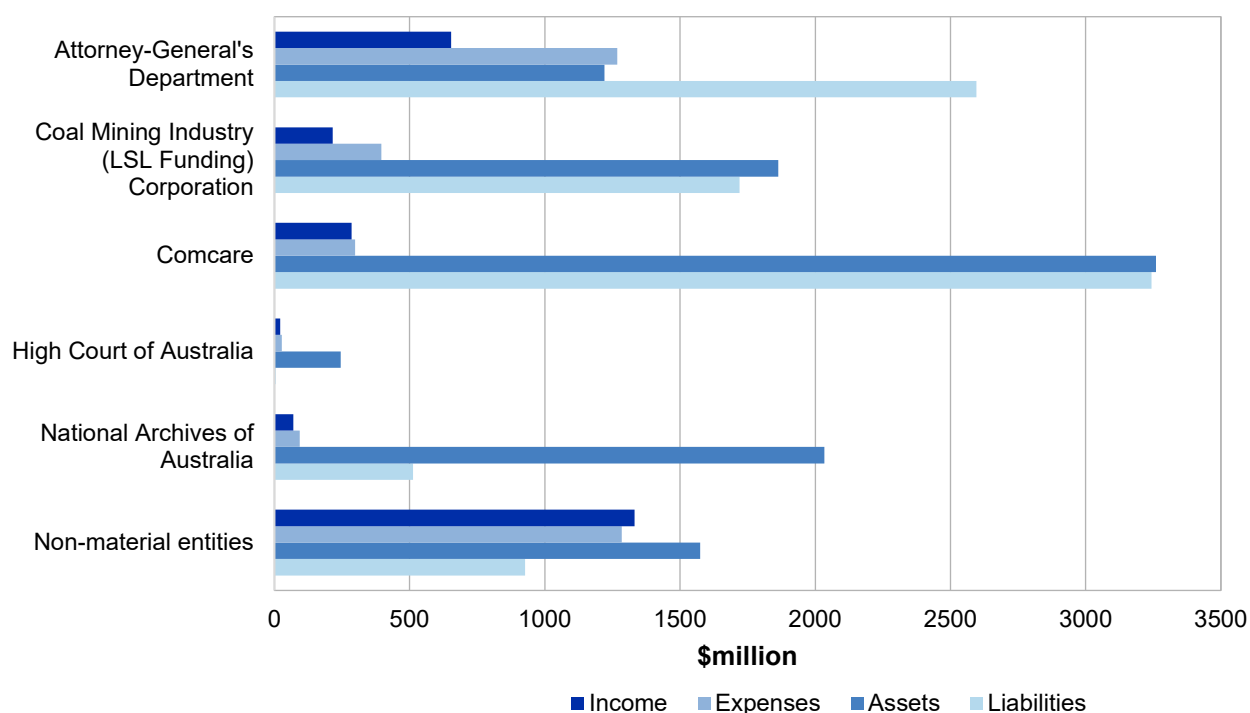
Portfolio overview

5.2.1 The Attorney-General's portfolio responsibilities encompass legal services; national security; industrial relations; work health and safety; rehabilitation and compensation; integrity and anti-corruption matters; the Commonwealth justice system including courts, tribunals, justice policy and legal assistance; regulation and reform; protecting and promoting human rights; government records management; and support for Royal Commissions.

5.2.2 The Attorney-General's Department (AGD) is the lead entity in the portfolio. Following the machinery of government changes announced in May 2019, AGD is responsible for Australia's law, justice, and integrity frameworks and facilitating jobs growth through policies and programs that promote fair, productive and safe workplaces. Through the Australian Government Solicitor, AGD also provides legal services to the Commonwealth.

5.2.3 Figure 5.2.1 shows the Attorney-General's portfolio's income, expenses, assets and liabilities.

Figure 5.2.1: Attorney-General's portfolio's income, expenses, assets and liabilities



Source: 2019–20 CFS.

5.2.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Attorney-General's portfolio.

Table 5.2.1: The number of audit differences for entities in the Attorney-General's portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Attorney-General's Department	-	-	-	2	-	2
Administrative Appeals Tribunal	3	-	3	-	4	4
Australian Building and Construction Commission	-	1	1	-	-	-
Australian Financial Security Authority	-	-	-	-	1	1
Australian Human Rights Commission	-	-	-	-	1	1
Australian Law Reform Commission	2	1	3	1	3	4

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Coal Mining Industry (Long Service Leave Funding) Corporation	–	–	–	2	–	2
Comcare	–	–	–	–	1	1
Federal Court of Australia	–	1	1	1	1	2
Fairwork Ombudsman	1	1	2	–	–	–
National Archives of Australia	–	1	1	–	–	–
Office of Parliamentary Counsel	–	–	–	1	–	1
Office of the Australian Information Commissioner	–	–	–	–	2	2
Office of the Commonwealth Ombudsman	–	1	1	2	1	3
Office of the Inspector-General of Intelligence and Security	–	2	2	–	3	3

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

5.2.5 The following sections provide a summary of the 2019–20 financial statements audit results for the AGD, other material entities and findings related to non-material entities in the portfolio.

Attorney-General's Department

5.2.6 The role of the AGD is to contribute towards a just and secure society through the maintenance of Australia's law, justice, and integrity frameworks and to facilitate jobs growth through policies and programs that promote fair, productive and safe workplaces. This work helps people to thrive and succeed in a prosperous, fair and cohesive nation. AGD also supports the Attorney-General as the First Law Officer to protect and promote the rule of law, to provide strong oversight and accountability and to act as the principal legal advisor to government.

Summary of financial performance

5.2.7 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by AGD, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.2.2: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(221.0)	(124.5)
Revenue from government	213.0	131.1
Income tax expense/(benefit)	0.2	(1.0)
Surplus/(deficit) attributable to the Australian Government	(7.6)	5.6
Total other comprehensive income/(loss)	–	–
Total comprehensive income attributable to the Australian Government	7.6	5.6
Total assets	593.8	224.1
Total liabilities	459.4	123.7
Total equity	134.4	100.4

Source: AGD's audited financial statements for the year ended 30 June 2020.

5.2.8 The increase in revenue from government of \$81.9 million is primarily due to the transfer of industrial relations functions and programs following the machinery of government changes of 29 May 2019. Net cost of services increased by \$96.5 million due to an increase in employee benefits expenses and the proportional increase in leave and other entitlements; increases in depreciation expenses relating to the recognition of the right-of-use assets and act of grace payments.

5.2.9 Total assets increased mainly due to right-of-use assets valued at \$322.5 million following the introduction of AASB 16; a \$36.3 million increase in appropriation receivables includes the impact of the transfer of industrial relations functions and programs; and a \$10.3 million increase in cash and cash equivalents.

5.2.10 Total liabilities increased due to:

- \$329.3 million of lease liabilities following the introduction of AASB 16; this was offset by a \$24.7 million reduction in operating lease expenses which contributed to the decrease in supplier payables; and
- a \$30.5 million increase in employee provisions is primarily a result of an increase in staff numbers associated with the transfer of industrial relations functions combined with the impact from the 2019–20 actuarial review of employee liabilities.

Table 5.2.3: Key administered financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	(897.9)	(413.2)
Total income	293.1	20.2
Surplus/(deficit)	(604.8)	(393.0)
Total other comprehensive income/(loss)	(79.4)	(0.1)
Total comprehensive income/(loss) attributable to the Australian Government	(684.3)	(393.1)
Total assets administered on behalf of Government	626.0	788.4
Total liabilities administered on behalf of Government	2,136.3	2,222.7
Net assets/(liabilities)	(1,510.3)	(1,434.3)

Source: AGD's audited financial statements for the year ended 30 June 2020.

5.2.11 Total expenses increased as a result of a number of factors including:

- an increase of \$148.3 million in personal benefit expenses relating to payments under the fair entitlements guarantee special appropriation to provide financial assistance to certain unpaid employment entitlements;
- an increase of \$135.6 million in levies expenditure driven by the transfer of industrial relations functions and programs;
- an increase of \$101.0 million for administered grant expenses primarily relating to the Family Relationships Services Program and payments from special appropriations for the *Safety and Rehabilitation and Compensation Act 1998* and asbestos related claims;
- \$55 million payments to Comcare to fund claims relating to asbestos and safety, rehabilitation and compensation matters; and
- \$14.2 million increase in employee benefits reflecting the full year impact of the Disability Royal Commission and the Bushfire Royal Commission.

5.2.12 Total income has increased largely due to a \$135.2 million increases in levies revenue relating to the collection of payroll levy from employers under the *Coal Mining Industry (Long Service Leave) Payroll Levy Collection Act 1992* and a \$136.6 million increase in personal benefit recoveries representing amounts recovered by the fair entitlements guarantee recovery team from pursuing directors and auditors to reimburse payments made under the scheme.

5.2.13 Total assets decreased primarily due to a reduction in investments in particular the investment in the Coal Mining Industry (Long Service Leave Funding) Corporation which decreased by \$165.4 million. Total liabilities decreased as a result of a reduction in the amount of payables by the Commonwealth to Comcare for worker's compensation claims of \$98.0 million.

Key areas of financial statements risk

5.2.14 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 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 2019–20 are provided in Table 5.2.4. No significant or moderate audit findings were identified relating to these key areas of risk.

5.2.15 As part of the year-end audit the ANAO reviewed IT general controls and key governance and assurance processes established by the AGD to manage the changes in response to the COVID-19 pandemic.

Table 5.2.4: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>All financial statement line items</i>	Completeness and accuracy of disclosures relating to the Machinery of Government changes that transferred functions to the department	Moderate	<ul style="list-style-type: none"> • risk associated with the accurate calculation and valuation of balances transferred to the department; and • required financial statement disclosures.
<i>Administered</i> Fair Entitlements Guarantee (FEG) Scheme Personal benefits \$ 175.7 million FEG liabilities are a component of personal benefits liabilities \$0.2 million	Accuracy and occurrence of administered personal benefits expenses	Moderate	<ul style="list-style-type: none"> • risks relating to claims eligibility, calculation of benefit amounts and subsequent payments; and • the value of debts and liabilities that are recognised relating to the FEG Scheme.
<i>Departmental</i> rendering of services \$147.6 million goods and services receivables (component of trade and other receivables \$38.3 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 is subject to management judgement.

Source: ANAO 2019–20 audit results, and AGD's audited financial statements for the year ended 30 June 2020.

Audit results

5.2.16 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Coal Mining Industry (Long Service Leave Funding) Corporation

5.2.17 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.

Summary of financial performance

5.2.18 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by Coal LSL, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.2.5: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(324.5)	(237.0)
Revenue from government	147.3	134.5
Surplus/(deficit) attributable to the Australian Government	(177.1)	(102.5)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(177.1)	(102.5)
Total assets	1,862.7	1,836.9
Total liabilities	1,720.2	1,528.9
Total equity	142.6	308.0

Source: Coal LSL's audited financial statements for the year ended 30 June 2020.

5.2.19 The net cost of services increase is mainly due to the decrease of \$112.2 million in investment revenue as a result of changes in the fair value of investments and interest income from unit trust investments as a result of impacts that included the COVID-19 pandemic. This was slightly offset by the decrease of \$24.7 million in total expenses as a result of a lower increase in the Coal long service leave provision compared to 2018–19.

5.2.20 Total liabilities increased primarily due to a \$191.3 million increase in provisions as a result of coal workers accruing more leave in 2019–20 and the decrease of the 5 year government bond rate used in calculating the value of the provision.

Key areas of financial statements risk

5.2.21 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 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 2019–20 are provided in Table 5.2.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.2.6: 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 \$1.8 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 \$1.7 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.

Source: ANAO 2019–20 audit results, and Coal LSL's audited financial statements for the year ended 30 June 2020.

Audit results

5.2.22 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Comcare

5.2.23 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 the risk of harm. This also includes the management of a comprehensive workers' compensation scheme and the Commonwealth common law liabilities for asbestos compensation.

Summary of financial performance

5.2.24 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by Comcare, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.2.7: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net contribution by services	22.7	56.3
Revenue from government	61.2	60.3
Available funding from movement in claims provision	(92.9)	(117.0)
Deficit attributable to the Australian Government	(9.0)	(0.4)
Total other comprehensive income	(0.1)	0.4
Total comprehensive income/(loss) attributable to the Australian Government	(9.2)	–
Total assets	3,260.3	3,366.3
Total liabilities	3,243.1	3,343.3
Total equity	17.2	23.0

Source: Comcare's audited financial statements for the year ended 30 June 2020.

5.2.25 The decrease in the net contribution by services was largely due to a reduction in revenue from contracts with customers of \$78.5 million primarily attributable to premium revenue that is no longer collected from the Australian Capital Territory (ACT) Government. This is offset by an increase of \$42.5 million attributable to changes in gains arising from the movements of workers' compensation claims and asbestos-related disease claims provisions. These gains reflect changes in economic assumptions including inflation and discount rates impacting on the actuarial valuation.

5.2.26 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 available funding from movement in claims provision.

5.2.27 Total assets decreased primarily due to a reduction of \$98.0 million in appropriations receivable, mainly attributed to a decrease in common law asbestos-related disease claims provision.

5.2.28 The reduction in total liabilities was mainly due to a decrease of \$107.3 million in the common law asbestos-related disease claims provision as a result of the current year actuarial valuation.

Key areas of financial statements risk

5.2.29 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 2019–20 are provided in Table 5.2.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.2.8: 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 \$2,029.2 million common law asbestos related disease claims provision \$829.6 million workers' compensation claims expense \$193.3 million common law asbestos related disease claims expense. \$23.6 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 \$163.3 million regulatory contribution \$19.2 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 2019–20 audit results, and Comcare's audited financial statements for the year ended 30 June 2020.

Audit results

5.2.30 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

High Court of Australia

5.2.31 The High Court of Australia (the 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

5.2.32 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the Court, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.2.9: Key financial statements items

Key departmental financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(23.9)	(22.1)
Revenue from government	15.6	15.5
Surplus/(deficit) attributable to the Australian Government	(8.3)	(6.6)
Total other comprehensive income	3.8	7.6
Total comprehensive income/(loss) attributable to the Australian Government	(4.5)	1.0
Total assets	245.0	244.1
Total liabilities	4.1	3.9
Total equity	241.0	240.2

Source: The High Court's audited financial statements for the year ended 30 June 2020.

5.2.33 The decrease in the total comprehensive loss attributable to the Australian Government related to revaluations which did not increase significantly compared to prior year.

Table 5.2.10: Key administered financial statements items

Key administered financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	–	–
Total income	1.7	2.2
Surplus/(deficit) after income tax	1.7	2.2
Total other comprehensive income after income tax	–	–
Total comprehensive income/(loss)	1.7	2.2
Total assets administered on behalf of Government	–	–
Total liabilities administered on behalf of Government	0.2	–
Net assets/(liabilities)	0.2	–

Source: The High Court's audited financial statements for the year ended 30 June 2020.

5.2.34 The Court's administered income relates to its hearing and filing fees. The hearing and filing fees remained relatively stable between 2018–19 and 2019–20, reflecting normal business activities. The increase in liabilities is a result of the transition to AASB 15 *Revenue from Contracts with Customers* which resulted in the recognition of unearned income associated with hearing fees.

Key areas of financial statements risk

5.2.35 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 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 2019–20 are provided in Table 5.2.11. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.2.11: 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 and buildings \$213.5 million	Valuation of land & buildings	Moderate	<ul style="list-style-type: none"> the valuation of land involves the exercise of judgement due to the restricted nature and unique characteristic of the land; and the valuation of buildings is subject to judgement due to the limited availability of observable inputs for the valuation due to the building's special purpose and heritage listing and the volume of individually significant components of the building which have different replacement costs and remaining useful lives.
Administered Fees and charges \$1.7 million	Completeness of fees and charges income	Moderate	<ul style="list-style-type: none"> transition year for the lodgement of e-forms and documents and the payment of fees online. This increases the risk that information contained in the financial management information system is not complete.

Source: ANAO 2019–20 audit results, and the High Court's audited financial statements for the year ended 30 June 2020.

Audit results

5.2.36 The following table summarises the status of the audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.2.12: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	–	2	–	2
Total	–	2	–	2

Source: ANAO 2019–20 audit results.

New moderate audit findings

Security management

5.2.37 Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts 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.

5.2.38 The ANAO identified a number of weaknesses in the effectiveness of the High Court's management of privileged users and access controls as part of the interim audit, including:

- a review of activities performed by privilege users was not performed;
- privileged accounts had internet access;

- processes were not implemented to revalidate that standard access to systems remained appropriate;
- instances where individuals were provided with privilege user access to the financial management information system (FMIS) to perform routine operations; and
- non-compliance with the Court's password policy.

5.2.39 During the final audit, the ANAO confirmed that separate user accounts had been established for the users of the financial management information system (FMIS), the Court had implemented monitoring controls in relation to the activities performed by the privileged users in the FMIS and that a network change had occurred to ensure compliance with the Court's password policy.

5.2.40 The Court advised the ANAO that they will investigate the implementation of security changes that will negate the need for administrator accounts to have access to the internet. The Court also advised that management will consider the implementation of a review for activities performed by privileged users and the implementation of processes to confirm that users continue to have appropriate access to systems, applications and data in line with business requirements.

Change management

5.2.41 Change management is a critical component of the information technology (IT) control environment, supporting the controlled progression of changes to IT systems. The implementation of a change management process provides management with assurance that data and calculations within systems that support decision-making and financial reporting can be relied upon.

5.2.42 As part of the interim audit, the ANAO identified that processes to formally review the change management register were not implemented. The ANAO also noted that the activities of two generic user accounts to implement changes were not logged and monitored.

5.2.43 During the final audit, the ANAO confirmed that the generic user accounts had been disabled. The ANAO were advised by the Court that the change register will be reviewed on a monthly basis for appropriateness and completeness. The ANAO will review these processes as part of the 2020–21 financial statement audit.

National Archives of Australia

5.2.44 The National Archives of Australia 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; to authorise the retention and disposal of records; to preserve records of national archival value; and to make material publicly available.

Summary of financial performance

5.2.45 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the National Archives, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.2.13: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(84.6)	(76.6)
Revenue from government	67.6	62.5
Surplus/(deficit) attributable to the Australian Government	(17.0)	(14.0)
Total other comprehensive income/(loss)	–	16.5
Total comprehensive income/(loss) attributable to the Australian Government	(17.0)	2.5
Total assets	2,033.9	1,545.1
Total liabilities	512.7	28.8
Total equity	1,521.2	1,516.3

Source: The National Archive's audited financial statements for the year ended 30 June 2020.

5.2.46 Net cost of services increased due to the changes from AASB 16 including an increase in depreciation of \$23.1 million on right-of-use assets, increase in finance costs of \$12.0 million on lease liabilities offset by a reduction of operating lease rentals.

5.2.47 The movement in asset and liabilities is primarily due to the initial recognition of right-of-use assets of \$486.4 million and leases liabilities \$495.1 million in 2019–20. Movements in other balances reflect normal business activities.

Key areas of financial statements risk

5.2.48 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 Archive'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 2019–20 is provided in Table 5.2.14. No significant or moderate audit findings were identified relating to the key area of risk.

Table 5.2.14: 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 \$1.48 billion	Valuation of the archival collection	High	<ul style="list-style-type: none"> The complex and unique nature of the archival collection.
Accounting for leases \$0.50 billion	Implementation of AASB 16	High	<ul style="list-style-type: none"> Represented a significant change in accounting for operating leases. Number of significant property leases across Australia.

Source: ANAO 2019–20 audit results, and the National Archive's audited financial statements for the year ended 30 June 2020.

Audit results

5.2.49 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

5.3 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	✓	1 Oct 20	1 Oct 20	▲◆
Australian Signals Directorate	Yes	Moderate	✓	6 Oct 20	6 Oct 20	◆
Australian War Memorial	Yes	Low	✓	14 Aug 20	17 Aug 20	Nil
Defence Housing Australia	Yes	Moderate	✓	27 Aug 20	28 Aug 20	□
Department of Veterans' Affairs	Yes	Moderate	✓	3 Sept 20	4 Sept 20	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

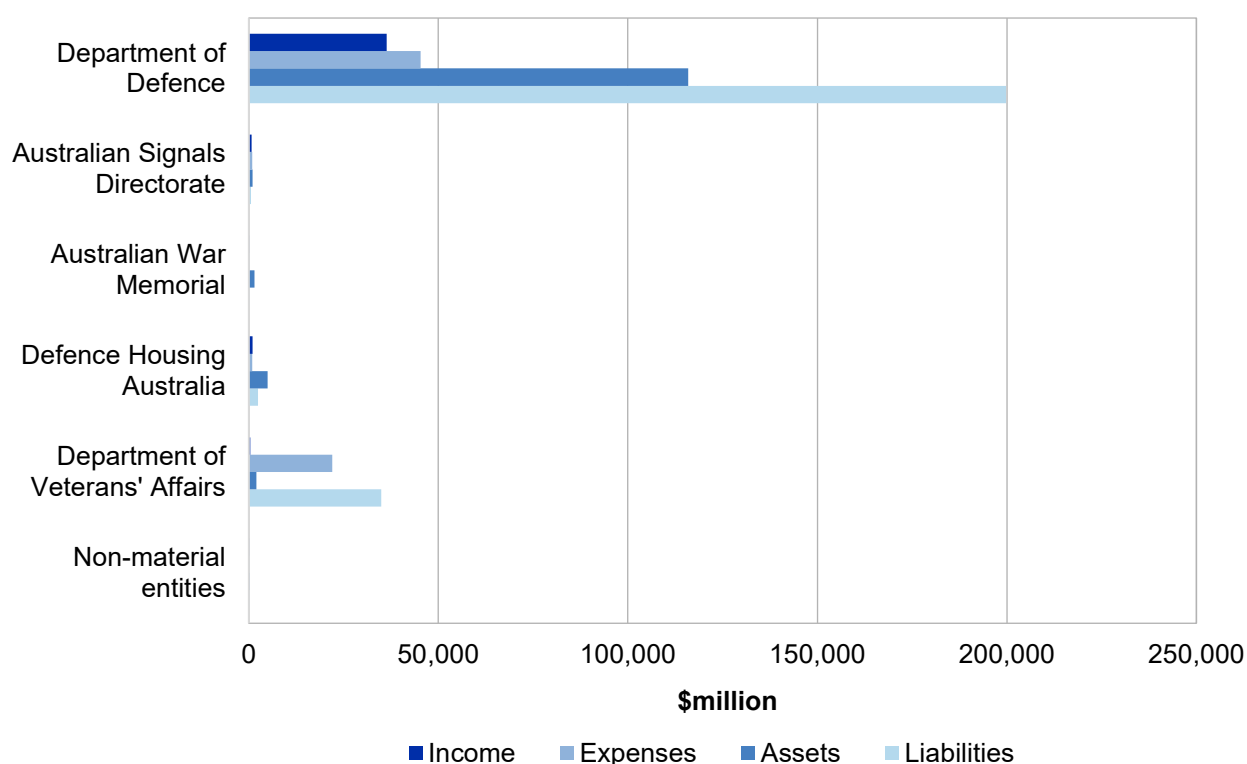
□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2019–20 interim audit phase, now downgraded or resolved

Portfolio overview

5.3.1 The Defence portfolio includes a number of entities that together are responsible for the defence of Australia and its national interests. The principal entities within the Defence portfolio are the Department of Defence, the Australian Signals Directorate and Defence Housing Australia. The portfolio also contains the Department of Veterans' Affairs (DVA) and associated bodies, including the Australian War Memorial (AWM). DVA is the primary service delivery entity with responsibility for implementing programs to assist the veteran and ex-service communities.

5.3.2 The Department of Defence, including the Australian Defence Force, 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. In 2019–20, support for the community and civilian authorities included support to state and territory emergency authorities through Operation Bushfire Assist, including through a compulsory call-out of Reserve brigades; and a range of activities to support state and territory authorities during Operation COVID-19 Assist and related support provided by the department to other parts of the Australian Public Service.

5.3.3 Figure 5.3.1 shows the Defence Portfolio's income, expenses, assets and liabilities.

Figure 5.3.1: Defence portfolio's income, expenses, assets and liabilities

Source: 2019–20 CFS

5.3.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Defence portfolio.

Table 5.3.1: The number of audit differences for entities in the Defence portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Defence	16	6	22	12	10	22
Army and Air Force Canteen Service	–	–	–	1	–	1
Australian Military Forces Relief Trust Fund	–	–	–	–	2	2
Australian Signals Directorate	2	–	2	–	1	1
Australian Strategic Policy Institute Limited	–	3	3	1	4	5
Australian War Memorial	–	–	–	–	–	–
Defence Housing Australia	1	–	1	2	–	2

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
– Defence Service Homes Insurance Scheme	–	2	2	–	–	–
Royal Australian Air Force Veterans' Residences Trust Fund	–	–	–	–	3	3
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

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

5.3.5 The following sections provide a summary of the 2019–20 financial statements audit results for Defence and other material entities.

Department of Defence

5.3.6 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 Australian Government.

5.3.7 In support of the Australian Government's response to the COVID-19 pandemic, Defence provided assistance with:

- Med-Con Pty Ltd in Victoria to increase surgical mask production;
- re-opening and supporting the North-West Regional Hospital in Tasmania;
- specialist technical support including diagnostic platform development, virus survivability and fate research, pandemic modelling and trials of a potential COVID-19 prophylactic; and
- contact tracing, and supporting quarantine arrangements and police border controls across the States and Territories.

Defence also supported COVID-19 response activities in the Pacific region through the Defence Cooperation Program.

Summary of financial performance

5.3.8 The following section provides a comparison of the 2018–19⁶² and 2019–20 key departmental and administered financial statements items reported by Defence and includes commentary regarding significant movements between years contributing to overall performance.

62 The Department of Defence restated the 2018–19 comparatives in the 2019–20 financial statements. Table 5.3.2 reflects the restated balances.

Table 5.3.2: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m) ^a
Net (cost of)/contribution by services	(34,040.2)	(32,410.7)
Revenue from government	34,290.2	32,525.8
Surplus/(deficit) attributable to the Australian Government	250.0	115.2
Total other comprehensive income	105.8	1,150.2
Total comprehensive income/(loss) attributable to the Australian Government	355.8	1,265.4
Total assets	112,274.9	105,867.6
Total liabilities	11,468.6	9,431.3
Total equity	100,806.3	96,436.3

Note a: Defence has had a prior year adjustment and Table 5.3.2 has been adjusted to reflect the changes.

Source: Defence's audited financial statements for the year ended 30 June 2020.

5.3.9 Net cost of services increased mainly due to employee benefits which increased by \$420.1 million due to a 1.3 per cent higher headcount and increased salary across APS staff and military personnel; as well as an increase in supplier expenses of \$1.5 billion consistent with increased funding as part of Defence's COVID-19 industry stimulus initiatives; and settlement of legal claims for \$212.5 million.

5.3.10 Total assets increased mainly due to the recognition of the right-of-use assets on initial application of AASB 16 of \$1.2 billion for building assets and \$265.5 million for other plant and equipment. Asset additions of \$11.0 billion have also been recognised, largely comprising of specialist military equipment of \$8.8 billion. This has been partially offset by depreciation of \$6.3 billion.

5.3.11 Total liabilities increased by \$2.0 billion due to an increase in payables by \$208.7 million as a result of increased project activity where there is a significant lead time between work being performed and invoice payments; the recognition of lease liabilities of \$1.4 billion on initial application of AASB 16; and an increase in employee leave provisions by \$371.3 million.

Table 5.3.3: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m) ^a
Total expenses	9,928.6	8,528.9
Total income	1,470.2	1,511.3
Surplus/(deficit)	(8,458.5)	(7,017.6)
Total other comprehensive income/(loss)	625.0	(45,932.1)
Total comprehensive income/(loss)	(7,833.5)	(52,949.7)
Total assets administered on behalf of Government	3,678.7	3,801.1
Total liabilities administered on behalf of Government	188,305.8	182,139.8
Net assets/(liabilities)	(184,627.1)	(178,338.7)

Note a: Defence has had a prior year adjustment and Table 5.3.3 has been adjusted to reflect the changes.

Source: Defence's audited financial statements for the year ended 30 June 2020.

5.3.12 Total expenses increased due to a \$1.4 billion increase in employee benefit expenses as a result of interest rates falling throughout the year.

5.3.13 Total assets decreased mainly due to a reduction in the value of the Commonwealth's investment in Defence Housing Australia of \$177.5 million.

5.3.14 Administered liabilities increased due to an \$8.8 billion increase within the Military Superannuation and Benefits Scheme provision as a result of the ongoing accrual of benefits and interest and changes in economic assumptions, including the reduction in the discount rate. This increase has been partially offset by a decrease in the Defence Force Retirement and Death Benefits Scheme provision of \$3.5 billion as a result of changes to the actuarial assumptions used to calculate the provision and lower pension increases than assumed.

Key areas of financial statements risk.

5.3.15 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 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 2019–20 are provided in Table 5.3.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 5.3.4: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> specialist military equipment (SME) \$71.8 billion	Accuracy and valuation of the SME balance which includes platform assets in use and under construction and	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

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
	spare parts for these assets KAM (valuation)		<p>costs of assets with a similar capability in the absence of an active market;</p> <ul style="list-style-type: none"> 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.
<i>Administered</i> employee provisions \$188.2 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.
<i>Departmental</i> inventory \$7.4 billion including explosive ordnance (EO), fuel and 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.
<i>Departmental</i> general assets \$29.6 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.
<i>Departmental</i> lease assets and lease liabilities. \$2.9 billion	Recognition and measurement of right-of-use assets and lease liabilities, in relation to requirements of AASB 16	Moderate	<ul style="list-style-type: none"> the completeness of management's identification and assessment of leases for transition to AASB 16. These are complex and include leasing arrangements for properties and equipment which includes military equipment such as Satellites and Naval Vessels; and the accuracy of the measurement of right-of-use assets and lease liabilities due to the complexity of these agreements.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental and Administered</i> all financial statements items	Accuracy and completeness of information processed by complex IT systems which are critical to key elements of financial statements	Moderate	<ul style="list-style-type: none"> a number of complex IT systems which hold and generate information critical to financial statements; IT systems which are bespoke or heavily customised for Defence; and ongoing major IT reform projects which include Enterprise Resource Planning increasing Defence's IT risk profile.

Source: ANAO 2019–20 audit results, and Defence's audited financial statements for the year ended 30 June 2020.

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

- Auditor-General Report No.6 2020–21 *Design and Implementation of the Defence Export Strategy*;
- Auditor-General Report No.24 2019–20 *Defence's Management of its Public Communications and Media Activities*;
- Auditor-General Report No.22 2019–20 *Future Submarine Program—Transition to Defence*; and
- Auditor-General Report No.19 2019–20 *2018–19 Major Projects Report*.

5.3.17 These reports identified issues around the governance, risk management and quality assurance practices of Defence. Similar issues were noted in the financial statements audit and have been raised as minor findings involving a number of key accounting and business processes.

Audit results

5.3.18 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.3.5: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Significant (A)	1	–	(1) ^a	–
Moderate (B)	1	2 ^a	–	3
Total	2	2	(1)	3

Note a: The significant audit finding was downgraded to a moderate audit finding during the 2019–20 interim audit phase. A discussion of this finding can be found in the Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2019–20 audit results

5.3.19 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that Defence's 2019–20 financial statements were not materially misstated.

New moderate audit finding

Segregation of duties deficiencies within the procurement function

5.3.20 During 2019–20, the ANAO identified a lack of segregation between the critical procurement functions involving the creation/modification of vendor data, the raising and approval of a purchase order, the goods receipting function, and the payment authorisation process. The segregation of duties weaknesses related to procurements which were not subject to panel arrangements. The lack of segregation of duties increases the risk of fraud and/or financial loss.

5.3.21 The ANAO recommended Defence implement a range of system automated controls to prevent officers from performing incompatible procurement functions. Defence has advised that it has already implemented a number of controls with effect from 1 July 2020. The ANAO will review these processes as part of the 2020–21 audit cycle.

Unresolved moderate audit findings

Management and monitoring of SME balances in ROMAN and MILIS

5.3.22 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.

5.3.23 In 2019–20 Defence continued its remediation of this issue, by:

- matching a significant number of ROMAN and MILIS transactions and validating price differences between the two systems;
- undertaking a comprehensive review and remediation of a portion of the aged unreconciled balances between ROMAN and MILIS;
- implementing a number of controls for the ongoing monitoring of unvalidated transactions between ROMAN and MILIS; and
- improving the governance arrangements and monitoring over ROMAN and MILIS.

5.3.24 At the conclusion of the 2019–20 audit, there remained a large unreconciled variance between ROMAN and MILIS which requires further investigation and remediation. The ANAO will continue to monitor Defence's progress in addressing this issue as part of the 2020–21 audit cycle.

Monitoring and management of accounts with privileged access

5.3.25 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.

5.3.26 The ANAO identified weaknesses in logging and monitoring controls over privileged user access across six financial processing systems which capture data used for financial statements preparation.

5.3.27 During 2019–20, Defence provided evidence to the ANAO showing that weaknesses in a number of its IT systems had been remediated. However, the ANAO noted that remediation for three key financial processing systems is planned for early 2021. The ANAO will review the implementation of Defence’s logging and monitoring controls in the remaining IT systems as part of the 2020–21 audit cycle.

Australian Signals Directorate

5.3.28 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, cybersecurity and offensive cyber operations, as directed by government. The Australian Cyber Security Centre, which is a part of ASD, provides support to government and the Australian community to improve Australia’s cyber resilience. ASD became a prescribed agency on 1 July 2018. Prior to this, ASD existed within the Department of Defence.

Summary of financial performance

5.3.29 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by ASD and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.3.6: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(863.1)	(774.8)
Revenue from government	763.9	743.5
Surplus/(deficit) attributable to the Australian Government	(99.2)	(31.3)
Total other comprehensive income/(loss)	18.1	11.3
Total comprehensive income/(loss) attributable to the Australian Government	(81.1)	(20.0)
Total assets	994.3	452.6
Total liabilities	574.3	127.3
Total equity	420.0	325.3

Source: ASD’s audited financial statements for the year ended 30 June 2020.

5.3.30 Net cost of services have increased mainly due to employee benefits expenses increasing by \$22.4 million as a result of an increase in annual leave and average salaries; an increase in depreciation expenses reflecting the roll out of projects during the period; and an increase of \$28.1 million in write down and impairment of assets due to review and remediation of work in progress which no longer meets the definition of an asset or capitalisation thresholds were no longer met.

5.3.31 Revenue from government increased as a result of new policy proposals being funded and indexation from the previous period.

5.3.32 Total assets and liabilities increased primarily due to the initial application of AASB 16 and the recognition of the associated right-of-use asset of \$402.4 million and the corresponding lease liability of \$379.6 million.

Key areas of financial statements risk

5.3.33 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 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 Table 5.3.7.

Table 5.3.7: Key areas of financial statements risk

Relevant financial statement item	Key areas of risk	Audit risk rating	Factors contribution to the risk assessment
<i>Departmental</i> Plant and equipment \$290.6 million Buildings and infrastructure \$466.3 million Intangibles \$26.0 million Depreciation and amortisation expenses \$131.5 million	Measurement and recognition 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 (Department of Defence)	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.

Source: ANAO 2019–20 audit results, and ASD's audited financial statements for the year ended 30 June 2020.

Audit results

5.3.34 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.3.8: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	–	1 ^a	–	1
Total	–	1	–	1

Note a: The moderate audit finding was upgraded during 2019–20 from a minor audit finding identified during 2018–19.

Source: ANAO 2019–20 audit results.

5.3.35 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that ASD's 2019–20 financial statements were not materially misstated.

New moderate audit finding

Asset Capitalisation and Monitoring Process

5.3.36 During 2018–19 the ANAO identified a minor audit finding relating to the asset management and accounting framework within ASD. This finding and recommendations made related to the development of a specific asset management and accounting framework relevant to ASD's outcomes and financial statement preparation process on the creation of the agency as a standalone entity on 1 July 2018.

5.3.37 In the 2019–20 audit the ANAO identified an additional weakness in the asset management and accounting framework relating to assets under construction. At 30 June 2020 a material and large proportion of the asset under construction balance was identified as being completed, however, the necessary accounting process to transfer the assets developed to agency's asset register had not occurred, but the assets had been operationally in service and being used by ASD. In order to accurately reflect depreciation expenses incurred on these in use assets ASD conducted a manual process to estimate the transfer of these assets to the asset register. The ANAO considers the timely transfer of assets under construction to the asset register as a key control that supports the accuracy and reliability of the financial statements, internal and external budget processes and effectiveness of the control over and custody of assets held.

5.3.38 The ANAO recommended that ASD implement additional (and more timely) monitoring procedures to identify completed assets under construction for transfer to the asset register and to undertake additional training and awareness activities to support asset custodians in meeting their financial management responsibilities. ASD have advised the ANAO it will undertake these remediation activities during 2020–21. The ANAO will review the effectiveness of these activities as part of the 2020–21 audit.

Australian War Memorial

5.3.39 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

5.3.40 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the AWM, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.3.9: Key financial statements items

Key financial statement items	2019–20 (\$m)	2017–18 (\$m)
Net (cost of)/contribution by services	(43.7)	(50.5)
Revenue from government	46.4	50.9
Surplus/(deficit) attributable to the Australian Government	2.7	0.4
Total other comprehensive income/(loss)	0.1	(36.2)
Total comprehensive income/(loss) attributable to the Australian Government	2.8	(35.8)
Total assets	1,491.4	1,451.9
Total liabilities	13.0	13.3
Total equity	1,478.4	1,438.6

Source: AWM's audited financial statements for the year ended 30 June 2020.

5.3.41 The reduction in net cost of services was due to reductions in cleaning and travel expenses mainly associated with less activity due to the COVID-19 pandemic, slightly offset by an increase of own source revenue of \$1.7 million mainly from an increase in donations and sponsorships. Revenue from government decreased by \$4.5 million and includes the impact of the efficiency dividend.

Key areas of financial statements risk

5.3.42 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 2019–20 are provided in Table 5.3.10. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.3.10: 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 \$1,164.6 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 2019–20 audit results, and AWM's audited financial statements for the year ended 30 June 2020.

Audit results

5.3.43 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Defence Housing Australia

5.3.44 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

5.3.45 The following section provides a comparison of the 2018–19 and 2019–20 key financial statement items reported by the DHA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.3.11: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total income	922.8	935.5
Total expenses	863.1	879.1
Profit before tax	59.7	56.4
Income tax expense	17.1	15.5
Net profit after income tax	42.7	40.9
Other comprehensive income	–	–
Total comprehensive income	42.7	40.9
Total assets	3,899.3	2,314.7
Total liabilities	2,427.5	747.2
Total equity	1,471.8	1,567.5

Source: DHA's audited financial statements for the year ended 30 June 2020.

5.3.46 The decrease in income was mainly attributable to the decrease in sale of inventories as a result of holding back of inventory stock for investment purposes.

5.3.47 The decrease in total expenses related to the net impact of the decrease in housing services lease rentals and increase in depreciation and finance costs due to the initial application of AASB 16. In addition, there has been a decrease in the cost of inventories sold which correlates to the decrease in sales. This was offset by an increase in the write-down and impairment of assets as a result of divesting of property not required for Defence provisioning purposes.

5.3.48 The movement in asset and liabilities is primarily due to the initial recognition under AASB 16 of right-of-use assets in investment properties and property, plant and equipment of \$1.6 billion and the increase in leases liabilities of \$1.6 billion.

Key areas of financial statements risk

5.3.49 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 2019–20 are provided in Table 5.3.12.

Table 5.3.12: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Inventories \$755.3 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 uncertainty associated with the market data, including the impact of COVID-19, 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.
Investment properties \$2,629.6 million	Impairment 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; judgement to determine the correct classification of investment properties as either held for sale or non-current assets; and the impact of COVID-19 on the market which impacts on the valuation.
	Initial implication of AASB 16	Higher	<ul style="list-style-type: none"> AASB 16 is effective on 1 July 2019. Significant right-of-use (ROU) assets have been capitalised where DHA leases investment properties from third parties for provisioning to Defence; and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> complex calculations and judgements are involved to determine the ROU asset value and the corresponding lease liability balance.
Revenue \$917.4 million	Revenue recognition and the initial implication of AASB 15 <i>Revenue from Contracts with Customers</i>	Moderate	<ul style="list-style-type: none"> the nature and number of the revenue streams and complexity of transactions and systems used to capture and record the financial information; the number of revenue streams and volume and complexity of transactions increases the risk around the appropriateness of the recognition of revenue; and the splitting of income between revenue under AASB 15 and leasing income under AASB 16 involves judgements and assumptions.

Source: ANAO 2019–20 audit results, and DHA's audited financial statements for the year ended 30 June 2020.

Audit results

5.3.50 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.3.13: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1	–	(1)	–
Total	1	–	(1)	–

Source: ANAO 2019–20 audit results.

Resolved moderate finding

Completeness and Accuracy of Lease Data

5.3.51 During 2018–19, 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's 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.

5.3.52 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 (around 13,000 leases). This work had not been completed as at the date of signing of the 2018–19 financial statements.

5.3.53 As noted in 2018–19, on receipt of the results of the work performed on the entire lease portfolio, management would 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. Management had developed a remediation plan and was implementing this plan in 2018–19 which was expected to be concluded in the 2019–20 financial year.

5.3.54 In 2019–20, the ANAO noted that management implemented preventative controls in order to prevent new errors from entering datasets, system enhancements to user access controls, the user interface and other control improvements which support, restrict and limit manual data entry and business process adjustments. The final error rate identified from the contract firm review was 2.6% with a net impact that was not material. These errors were subsequently corrected. Management was able to locate all the leases and therefore have considered that there has been no breach of section 41 of the *Public Governance, Performance and Accountability Act 2013*. Based on the above, this finding is now resolved.

Department of Veterans' Affairs

5.3.55 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

5.3.56 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the DVA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.3.14: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(422.3)	(411.8)
Revenue from government	360.4	374.8
Income tax – competitive neutrality	–	–
Surplus/(deficit) attributable to the Australian Government	(62.0)	(37.0)
Total other comprehensive income	2.9	2.0
Total comprehensive income/(loss) attributable to the Australian Government	(59.1)	(35.0)
Total assets	368.3	309.0
Total liabilities	310.5	220.5
Total equity	57.9	88.5

Source: DVA's audited financial statements for the year ended 30 June 2020.

5.3.57 The movement in assets and liabilities is primarily due to the initial recognition of right-of-use assets of \$116.6 million and lease liabilities of \$117.6 million on implementation of AASB 16.

Table 5.3.15: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	21,520.0	20,742.0
Total income	19.0	17.0
Surplus/(deficit)	(21,501.0)	(20,725.0)
Total other comprehensive income	6.0	(35.0)
Total comprehensive income/(loss)	(21,495.0)	(20,760.0)
Total assets administered on behalf of Government	1,664.0	1,659.0
Total liabilities administered on behalf of Government	34,638.0	23,789.0
Net assets/(liabilities)	(32,974.0)	(22,130.0)

Source: DVA's audited financial statements for the year ended 30 June 2020.

5.3.58 The increase in total expenses of \$778 million is mainly attributed to the increase in the military compensation provision of \$768 million following an actuarial review and an increase in health care payments of \$1.5 billion driven by increased claims by veterans.

5.3.59 The increase in total liabilities is due to the actuarial review of personal benefit and health care provisions of \$10.8 billion and the increased as a result of changes in the discount rate.

Key areas of financial statements risk

5.3.60 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 2019–20 are provided in Table 5.3.16, including the area which was considered to be Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.3.16: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> personal benefit and healthcare provisions \$34.4 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

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> completeness of data used to derive the valuation.
<i>Administered</i> personal benefits expense \$11.7 billion health care expenses \$9.7 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; 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.

Source: ANAO 2019–20 audit results, and DVA's audited financial statements for the year ended 30 June 2020.

Audit results

5.3.61 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

5.4 Education, Skills and Employment 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, Skills and Employment	Yes	Moderate	✓	3 Sept 20	4 Sept 20	□
Australian Research Council	Yes	Low	✓	7 Sept 20	7 Sept 20	Nil
Australian National University	No	Moderate	✓ [⌚]	3 Apr 20	14 Apr 20	◆

✓: 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 2019–20 interim audit phase, now downgraded or resolved

⌚: financial year end date other than 30 June 2020

Portfolio overview

5.4.1 The Education, Skills and Employment portfolio is responsible for creating an inclusive and prosperous Australia by maximising opportunity through education, skills (including training policy and regulation) and employment policy.

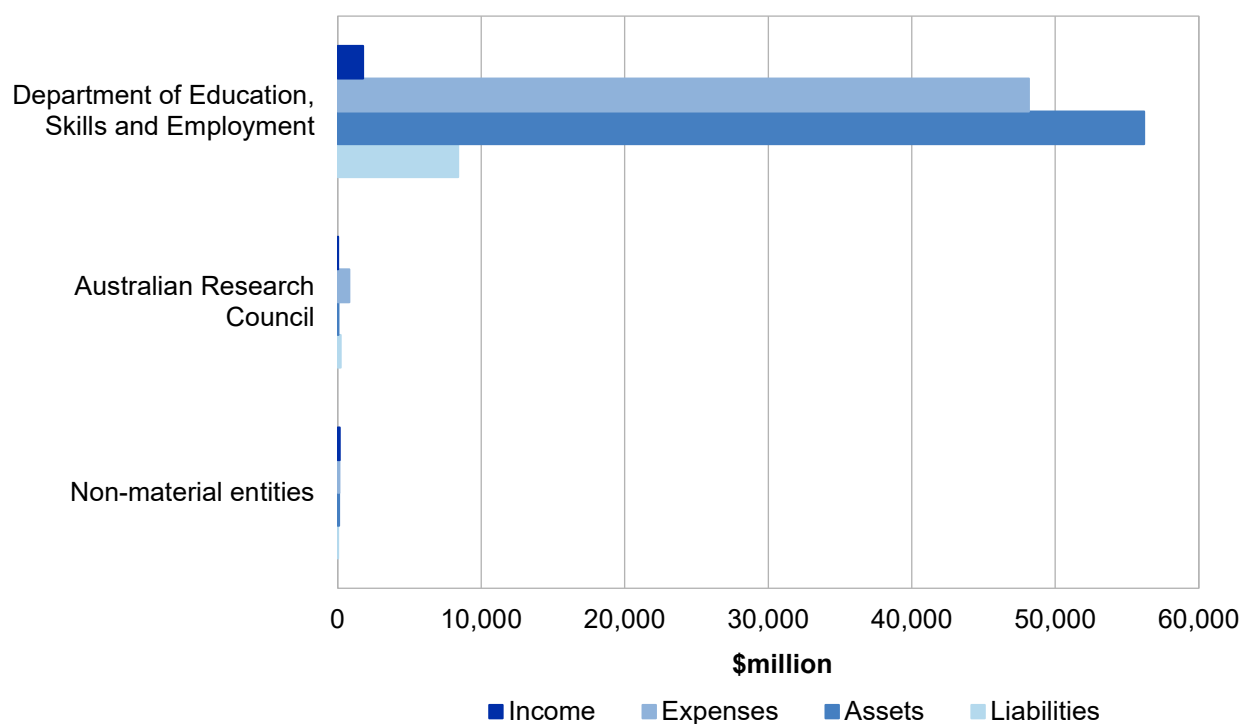
5.4.2 The Department of Education, Skills and Employment (DESE) is the lead entity in the portfolio and is responsible for ensuring Australians can experience the social wellbeing and economic benefits that quality education, skills and employment provide.

5.4.3 In May 2019, a machinery-of-government change transferred the skills and training functions from the Department of Education and Training to the Department of Employment, Skills, Small and Family Business, and transferred the industrial relations functions from the Department of Employment, Skills, Small and Family Business to the Attorney-General's Department.

5.4.4 Effective 1 February 2020, a further machinery-of-government change consolidated the Department of Employment, Skills, Small and Family Business with the Department of Education, forming the Department of Education, Skills and Employment.

5.4.5 The main impacts of the COVID-19 pandemic on the operations of DESE include stimulus funding of \$1.3 billion to support small business to retain their apprentices and trainees, and measures to reduce the financial pressures facing the early childhood sector.

5.4.6 Figure 5.4.1 shows the Education, Skills and Employment portfolio's income, expenses, assets and liabilities.

Figure 5.4.1: Education, Skills and Employment portfolio's income, expenses, assets and liabilities

Source: 2019–20 CFS.

5.4.7 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the DESE portfolio.

Table 5.4.1: The number of audit differences for entities in the DESE portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Education, Skills and Employment	–	2	2	5	5	10
Australian Research Council	–	–	–	1	3	4
Australian Skills Quality Authority	–	1	1	–	–	–
Australian Curriculum, Assessment and Reporting Authority	–	2	2	–	–	–
Australian National University	–	2	2	2	1	3
– ANU Enterprise Pty Limited	1	2	3	–	–	–

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
– Australian Scientific Instruments Pty Ltd	–	1	1	2	–	2
Australian Institute for Teaching and School Leadership Limited	1	–	1	1	–	1

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

5.4.8 The following sections provide a summary of the 2019–20 financial statements audit results for all material entities within the DESE portfolio and significant or moderate findings relating to non-material entities.

Department of Education Skills and Employment

5.4.9 The Department of Education, Skills and Employment (DESE) is responsible for ensuring Australians can experience the social wellbeing and economic benefits that quality education, training and employment provide.

5.4.10 The department was formerly known as the Department of Education and largely merges the functions of that entity with the now abolished Department of Employment, Skills, Small and Family Business (Employment).

5.4.11 The Administrative Arrangements Order (AAO) of 29 May 2019 renamed the then Department of Jobs and Small Business — to become the Department of Employment, Skills, Small and Family Business and also transferred responsibility for skills, vocational education and training from the then Department of Education. An amending AAO on 8 August 2019 also transferred legislation relating to vocational student loans to Employment. A further AAO on 5 December 2019, effective 1 February 2020, resulted in the cessation of Employment with the employment and skills functions transferred back to DESE. Other functions transferred to the Industry, Attorney-General's, and the Prime Minister and Cabinet portfolios.

5.4.12 Consistent with the Australian Government's response to the COVID-19 pandemic, the Department of Education, Skills and Employment has implemented a number of measures aimed at supporting members of the Australian public who are likely affected by the pandemic. These measures include:

- \$1.3 billion in additional funding to support small businesses to retain apprentices and trainees. This stimulus measure operated as a 50 per cent wage subsidy paid to eligible small businesses from 1 January to 30 September 2020. The criteria included that the apprentice or trainee must have been in an Australian apprenticeship with a small business as at 1 March 2020; and
- business continuity payments being introduced from April 2020, in lieu of the Child Care Subsidy program, consisting of base payments and supplementary payments in certain circumstances. These payments complemented JobKeeper payments administered by the Australian Taxation Office as they were designed to assist child care centres continue as viable businesses during the downturn in business activities as a result of the COVID-19 pandemic.

Summary of financial performance

5.4.13 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by DESE and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.4.2: Key departmental financial statements items

Key financial statements items	2019–20 DESE (\$m)	2018–19 ^a Education (\$m)	2018–19 ^a Employment (\$m)
Net (cost of)/ contribution by services	(757.3)	(385.4)	(387.4)
Revenue from government	673.0	365.0	335.0
Surplus/ (deficit) attributable to the Australian Government	(84.4)	(20.4)	(52.4)
Total other comprehensive income	—	1.0	0.2
Total comprehensive loss attributable to the Australian Government	(84.4)	(19.4)	(52.3)
Total assets	899.6	168.4	346.9
Total liabilities	592.5	114.0	129.8
Total equity	307.1	54.4	217.1

Note a: The 2018–19 comparative figures displayed are for the former Department of Education and the former Department of Employment, Skills, Small and Family Business.

Source: DESE's audited financial statements for the year ended 30 June 2020.

5.4.14 Net cost of services decreased by \$15.5 million as a result of a reduction in supplier costs associated with the impact of AASB 16, and Machinery of Government changes which resulted in reduced costs of IT services and a reduction in staff levels in the new merged entity. These reductions were partially offset by an increase in depreciation on right-of use building assets due to the adoption of AASB 16.

5.4.15 Revenue from government decreased by \$27.0 million due to funding transferred to other agencies following the AAOs of 29 May 2019 and 5 December 2019.

5.4.16 The increase in assets and liabilities is primarily due to increase of \$375.5 million of right-of-use assets and \$381.2 million of lease liabilities following the introduction of AASB 16.

Table 5.4.3: Key administered financial statements items

Key financial statements items	2019–20 DESE (\$m)	2018–19 ^a Education (\$m)	2018–19 ^a Employment (\$m)
Total expenses	47,251.9	39,238.0	2,116.9
Total income	950.9	6,953.2	297.1
Surplus/ (deficit)	(46,301.1)	(32,284.8)	(1,819.8)
Total other comprehensive income/ (loss)	(112.1)	225.1	–
Total comprehensive income/ (loss)	(46,413.2)	(32,059.6)	(1,819.8)
Total assets administered on behalf of Government	55,299.5	53,568.6	1,078.0
Total liabilities administered on behalf of Government	7,804.2	7,956.1	126.0
Net assets	47,495.3	45,612.5	951.9

Note a: The 2018–19 comparative figures displayed are for the former Department of Education and the former Department of Employment, Skills, Small and Family Business.

Source: DESE's audited financial statements for the year ended 30 June 2020.

5.4.17 Total expenses increased by \$5.9 billion mainly due to an increase in grant payments of \$2.8 billion, including non-government school grants brought forward from 2020–21, and an increase of \$2.9 billion in fair value losses associated with higher education and vocational student loans that are not expected to be repaid.

5.4.18 The decrease in income relates to the \$5.6 billion fair value gain that was recognised in 2018–19 for the Higher Education Loan Program (HELP), which was assessed as a fair value loss in 2019–20 as discussed above.

5.4.19 The increase in assets was primarily due to a \$481.7 million increase in receivables, including advances and loans for higher education and vocational students, and trade support loans. The value of these receivables at year-end was determined using actuarial assessments which relied on assumptions regarding the collectability of repayments based on future employment and salary rates, and discount factors, that contain a significant degree of uncertainty and are influenced by the economic environment.

5.4.20 The \$278.0 million reduction in total liabilities is primarily associated with a decrease of \$180.0 million in the present value of the Commonwealth's total superannuation liabilities in respect of current and former university employees who are members of state superannuation schemes.

Key areas of financial statements risk

5.4.21 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 DESE'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 2019–20 are provided in Table 5.4.4, 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 5.4.4: 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 \$46.3 billion HELP impairment \$16.6 billion Fair value losses \$2.6 billion HELP loans interest income \$713.7 million	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 DESE such as: the Australian Taxation Office; universities; and other third parties.
Administered Provisions: HESP \$7.1 billion Other receivables: HESP \$362.0 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: Assistance to families with children \$8.1 billion Personal benefits receivable \$390.3 million Personal benefits provisions \$405.6 million Quantifiable contingent liabilities: \$315.3 million	Accuracy and valuation of assistance to families with children KAM	Higher	<ul style="list-style-type: none"> complex legislation and administration arrangements that apply to child care personal benefits; accounting and disclosure of year-end balances which are contingent on the lodgement of recipient's income tax returns; 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 Department 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 DESE; and reliance on customised reports to prepare financial statements balances.

Source: ANAO 2019–20 audit results, and DESE's audited financial statements for the year ended 30 June 2020.

5.4.22 The following Auditor-General Reports were tabled during 2019–20:

- No.33 2019–20 *Tertiary Education Quality and Standard Agency's Regulation of Higher Education*.
- No.10 2019–20 *Design and Governance of the Child Care Package*.

5.4.23 While these reports did not include recommendations regarding risks to DESE's financial administration as it relates to the financial statements, the observations of these reports were considered in designing audit procedures.

Audit results

5.4.24 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.4.5: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	2	–	(2)	–
L1	–	1	(1)	–
Total	2	1	(3)	–

Source: ANAO 2019–20 audit results.

5.4.25 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the DESE's 2019–20 financial statements were not materially misstated.

Resolved moderate audit findings

Monitoring of Database Activity

5.4.26 IT databases supporting core departmental applications were managed and maintained at the then Department of Employment, Skills, Small and Family Business for both entities (Education and Employment), with each entity maintaining responsibility for its own data. This finding applied to the databases supporting the financially significant applications for both entities in the 2018–19 audit.

5.4.27 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.

5.4.28 During the interim audit phase of the 2019–20 audit, the ANAO reviewed the progress that DESE had made to address this finding. DESE implemented a tool to analyse the logs and report exceptions for manual review and follow up. An assessment was also done across the financially significant systems to identify the key database tables and fields to be monitored. DESE piloted the new process, along with new standard operating procedures, before implementing a wider rollout. The ANAO assessed the design of these controls as effective to address the risks identified, subject to further audit testing of implementation and operating effectiveness during the final audit phase.

5.4.29 During the 2019–20 final audit phase, the ANAO confirmed that DESE is logging and monitoring database activity and standard operating procedures were also piloted before extending the processes to other key IT systems. Problems were reported with the privileged user controls over some applications that were resolved in June 2020 and DESE has advised that the controls are now in place. On that basis, the finding has been downgraded to a minor rated finding, and the ANAO will again review operating effectiveness during the 2020–21 interim audit.

Unauthorised Network Access

5.4.30 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.

5.4.31 The account remained active as a result of the Exit Advice Notification (EAN) not being finalised when the employee terminated. Further testing identified additional cases where the EAN process was not followed, as well as other instances where network access had not been disabled on cessation of employment.

5.4.32 The ANAO undertook testing over employee terminations during the final audit phase in 2018–19. This testing identified six terminated staff that did not have their access removed. In all cases, the account had not been disabled.

5.4.33 In response to this finding, DESE has implemented a daily automated procedure to identify employees who have ceased employment and ensure that their network account is disabled. During the 2019–20 interim audit phase the ANAO undertook testing over terminations and identified a small number of exceptions where there was a delay between employment cessation and the disabling of the network account. These occurred before the automated procedure had been put in place. The ANAO therefore downgraded the finding and conducted further testing during the 2019–20 final audit. Testing during the final audit phase confirmed that the controls implemented are effective and the finding has been resolved.

Resolved L1 legislative compliance finding

S83 Breach – GST on payments to non-government schools

5.4.34 DESE makes payments to non-government schools in accordance with the *Australian Education Act 2013* (AE Act). GST has historically been included in the payments since the introduction of GST in 2000. Legal advice obtained by DESE confirmed the AE Act did not provide authority for inclusion of GST in the amounts paid to non-government schools. The Department

identified GST to the value of \$14.6 billion included in the payments to non-government schools over a period of 20 years.

5.4.35 To address this issue, DESE acted to ensure the appropriate legislative amendments via the *Australian Education Amendment (Direct Measure of Income) Act 2020*. The Department also obtained the appropriate approvals to waive technical debt associated with the GST amounts.

5.4.36 The ANAO agreed with the assessment that the lack of a valid appropriation for the inclusion of GST in the payments to non-government schools was a significant legislative breach and recommended that appropriate disclosures be made in the Department's 2019–20 financial statements, including quantification of the amount of the breaches, and changes to the relevant legislation and internal processes within the Department. This finding has now been resolved.

Australian Research Council

5.4.37 The Australian Research Council (ARC) advises the Australian Government on research matters, administers the National Competitive Grants Program, a significant component of Australia's investment in research and development, and has responsibility for Excellence in Research for Australia (ERA).

Summary of financial performance

5.4.38 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by ARC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.4.6: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(24.7)	(23.8)
Revenue from government	21.2	21.4
Surplus/(deficit) attributable to the Australian Government	(3.5)	(2.4)
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(3.5)	(2.4)
Total assets	41.5	33.5
Total liabilities	18.1	9.9
Total equity	23.5	23.6

Source: ARC's audited financial statements for the year ended 30 June 2020.

5.4.39 The movement in assets and liabilities is primarily due to the initial recognition of right-of-use assets of \$11.2 million and lease liabilities of \$11.2 million in 2019–20 due to the implementation of the revised AASB 16.

Table 5.4.7: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	(782.9)	(707.1)
Total income	10.1	10.4
Surplus/(Deficit)	(772.8)	(696.7)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	(772.8)	(696.7)
Total assets administered on behalf of Government	0.3	0.7
Total liabilities administered on behalf of Government	194.2	181.8
Net assets/(liabilities)	(193.8)	(181.1)

Source: ARC's audited financial statements for the year ended 30 June 2020.

5.4.40 The increase in total expenses is primarily driven by a \$79.2 million increase in grant payments to State and Territory governments mainly due to a number of new grants offered under the Discovery and Linkage Programs. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

5.4.41 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 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 2019–20 are provided in Table 5.4.8. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 5.4.8: 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 \$779.3 million	Completeness and accuracy of grants payments	Moderate	<ul style="list-style-type: none"> administered grant expenses are significant to ARC's financial statements, and the whole-of-government; 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; the disconnect between the financial statements reporting period and the grants program reporting period, with the latter being on a calendar year basis, resulting in a significant grant liability as at 30 June; and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> the self-assessment nature of grants management by recipients, which is monitored by an external compliance program – the Institutional Reviews.
Computer software at \$9.4 million	Valuation of intangible assets	Moderate	<ul style="list-style-type: none"> issues in relation to the annual impairment reviews undertaken, including an absence of appropriate documentation to support assessments undertaken; and management assumptions to support the useful life assessments for intangible assets.

Source: ANAO 2019–20 audit results, and ARC’s audited financial statements for the year ended 30 June 2020.

Audit results

5.4.42 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Comments on non-material entities

Australian National University

5.4.43 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.

New moderate audit findings

Data integrity post the ANU data breach

5.4.44 In June 2019, it became public that there were cyber intrusions to the ANU’s systems and data. It was revealed that this access included a presence in the Enterprise System Domain (ESD) where data was held for the financial system and the human resources/payroll system (PeopleSoft). Two key steps that are considered better practice following a confirmed exposure to breach system data are: to force all users to reset passwords; and to undertake a form of validation to ensure that data within the system has not been altered.

5.4.45 The ANU is in the process of developing a standard operating document to address the risk of any future breaches. This document is being developed by the Chief Information Security Officer in conjunction with the Chief Information Officer and the Chief Financial Officer. The ANAO will review the implementation and effectiveness of standard operating procedures as part of the audit of the financial statements for the year ending 31 December 2020.

Completeness of bank accounts in the general ledger

5.4.46 The ANU has a large number of bank accounts valued at \$120 million in the December 2019 financial statements. During the audit process of verifying bank accounts to external confirmations, the ANAO noted that a bank account which had been opened during 2019 and had a balance of 15,000 Euros was not reflected in ANU’s financial management information system.

5.4.47 Further investigations indicated that the bank account had been opened without following due processes surrounding opening of new bank accounts. The ANAO considers that these actions represent a significant control breakdown and the policies and procedures relating to this process should be reinforced with all management and staff to prevent any recurrence of this finding. The ANAO will review the effectiveness of controls surrounding opening of a new bank account as part of the audit of the financial statements for the year ending 31 December 2020.

5.5 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	✓	28 Aug 20	28 Aug 20	◆
ASC Pty Ltd	Yes	Moderate	✓	27 Aug 20	27 Aug 20	Nil
Australian Naval Infrastructure Pty Ltd	Yes	Moderate	✓	23 Sept 20	23 Sept 20	Nil
Future Fund Management Agency and the Board of Guardians	Yes	Moderate	✓	29 Sept 20	30 Sept 20	Nil

✓: auditor's report not modified

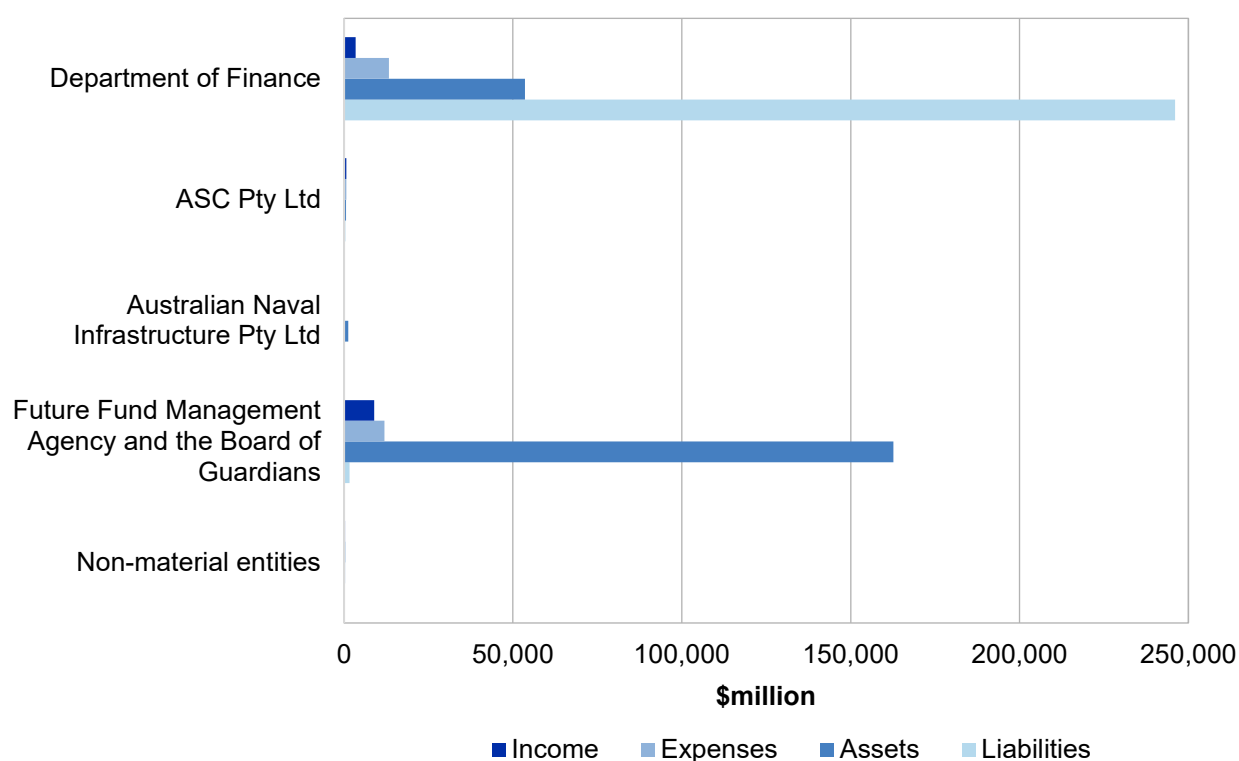
◆: new significant or moderate issues and/or legislative matters noted

Portfolio overview

5.5.1 The Finance portfolio is responsible for a range of finance-related functions, including providing the Australian Government with budget policy advice, responsibility for superannuation arrangements for government employees, and asset sales.

5.5.2 The Department of Finance (Finance) is the lead entity in the portfolio and is responsible for supporting the government's budget process and the development and implementation of the government's regulatory frameworks for public sector resource management, governance and accountability. The department is also responsible for the preparation of the consolidated financial statements of the Australian Government, which includes the whole-of-government and the general government sector financial statements and the Australian Government's financial outcome.

5.5.3 Figure 5.5.1 shows the Finance portfolio's income, expenses, assets and liabilities.

Figure 5.5.1: Finance portfolio's income, expenses, assets and liabilities

Source: 2019–20 CFS.

5.5.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Finance portfolio.

Table 5.5.1: The number of audit differences for entities in the Finance portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Finance	–	–	–	–	4	4
ASC Pty Ltd	–	1	1	–	1	1
– ASC AWD Shipbuilder Pty Ltd	–	1	1	–	2	2
Australian Electoral Commission	1	2	3	–	–	–
Future Fund Management Agency and the Board of Guardians	1	–	1	–	–	–
Independent Parliamentary Expenses Authority	–	–	–	–	2	2

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

5.5.5 The following sections provide a summary of the 2019–20 financial statements audit results for the Department of Finance, and other material entities.

Department of Finance

5.5.6 Finance is responsible for supporting the government’s budget process and the development and implementation of the government’s regulatory frameworks for public sector resource management, governance and accountability. The department is also responsible for the preparation of the consolidated financial statements of the Australian Government, which includes the whole-of-government and the general government sector financial statements and the Australian Government’s financial outcome. In addition, the department provides shared services through the Service Delivery Office.

5.5.7 Consistent with the Australian Government’s response to the COVID-19 pandemic, Finance has implemented a number of measures aimed at supporting members of the Australian public who are likely effected by the pandemic. These measures include:

- working with the Treasury to design and deliver relief and recovery measures;
- ensuring the necessary financing for essential government services by developing appropriation bills, delivering Advances to the Finance Minister for urgent and unforeseen expenditure and supporting business through rent relief policy for commercial tenants in Commonwealth properties and updated procurement guidance; and
- ensuring Australians had access to essential information through the Commonwealth’s COVID-19 advertising campaign, hosted the Department of Health and Smart Traveller websites, and enabled connectivity across government through the support of the National Telepresence System and GovTEAMS technology.

Summary of financial performance

5.5.8 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by Finance, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.5.2: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(345.8)	(238.4)
Revenue from government	283.8	259.0
Income tax equivalent	(3.7)	(4.1)
Surplus/(deficit) attributable to the Australian Government	(65.7)	16.5
Total other comprehensive income/(loss)	(4.5)	162.3
Total comprehensive income/(loss) attributable to the Australian Government	(70.3)	178.8
Total assets	3,653.7	3,071.9
Total liabilities	1,304.7	731.6
Total equity	2,349.0	2,340.3

Source: Finance's audited financial statements for the year ended 30 June 2020.

5.5.9 Finance is the Australian Government's general insurer through the Comcover scheme. For 2019–20, Finance's net cost of services increased due to higher insurance claims experience of \$69.1 million.

5.5.10 The increase in revenue from government is due to additional budget measures including \$4.8 million for the Modernisation Fund re-profile and additional estimates funding of \$15.6 million for the Shared Services Transformation Initiative (GovERP).

5.5.11 Assets increased due to special account cash held relating to Comcover of \$154.3 million mainly as a result of additional equity injection and \$32.8 million relating to the property special account mainly due to divestment proceeds. There was an increase of \$450.8 million right-of-use assets due to the implementation of AASB 16.

5.5.12 Liabilities increased due to outstanding insurance claims driven by adverse weather events, including the January 2020 Canberra hailstorm and the 2019–20 bushfires. There was an increase of \$462.2 million in lease liabilities due to the implementation of AASB 16.

Table 5.5.3: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	11,415.4	11,653.7
Total income	2,377.3	2,600.1
Surplus/(deficit)	(9,038.1)	(9,053.6)
Total other comprehensive income/ (loss)	(5,346.8)	(46,146.7)
Total comprehensive income/(loss)	(14,384.9)	(55,200.3)
Total assets administered on behalf of Government	49,913.7	40,990.3
Total liabilities administered on behalf of Government	244,760.7	235,466.0
Net liabilities	194,847.0	194,475.7

Source: Finance's audited financial statements for the year ended 30 June 2020.

5.5.13 Total expenses decreased due to a decrease in superannuation expense and a reduction in investment fund distributions compared to the prior year including from the DisabilityCare Australia Fund and the Medical Research Future Fund.

5.5.14 Total income decreased due to market conditions which resulted in lower dividend distributions and interest earnings.

5.5.15 The increase in total assets is predominately associated with the growth in the investment funds to \$44.2 billion from \$37.1 billion, largely due to additional contributions received, partially offset by the distributions described above.

5.5.16 Total liabilities increased by \$9.3 billion primarily as a result of an increase of \$8.7 billion in superannuation provisions driven by a reduction in the discount rates applied to the provision balance calculations.

Key areas of financial statements risk

5.5.17 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 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 2019–20 are provided in Table 5.5.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 5.5.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered superannuation provision \$241.8 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 \$590.6 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) \$2.0 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 2019–20 audit results, and Finance's audited financial statements for the year ended 30 June 2020.

Audit results

5.5.18 The following table summarises the status of the audit finding reported by the ANAO in 2019–20.

Table 5.5.5: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2019–20 audit results.

5.5.19 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that Finance's 2019–20 financial statements were not materially misstated.

New moderate audit finding

Privileged user logging and monitoring

5.5.20 The Service Delivery Office (SDO) is a business unit within Finance and is one of the providers of shared services for Australian Government entities. The SDO provides corporate

transactional and technical services to Finance including: payroll administration, accounts payable, accounts receivable and credit cards.

5.5.21 Privileged user accounts (managed by the SDO) include powerful access to IT applications and networks for server administrators and database administrators. These accounts include access to applications and supporting databases which can be used to bypass security controls and make changes, either to system settings or directly to data. These accounts should be restricted to appropriate personnel, attributable to a single person, and activities should be logged and monitored.

5.5.22 The ANAO identified a number of weaknesses in the effectiveness of the SDO's management of privileged users, including:

- not all privileged users were subject to logging and monitoring controls; and
- the post-activity review of privileged user activity was not always undertaken on a timely basis.

5.5.23 These weaknesses increase the risk that inappropriate activity will not be detected. Unauthorised access to key financial systems has the potential to compromise the confidentiality and integrity of financial and other sensitive data and circumvent key business controls.

5.5.24 The ANAO recommended that the SDO:

- assess the appropriateness of each privileged account's account type to limit the number of privileged accounts that can be potentially logged into by users;
- ensure that monitoring controls are enforced over all privileged accounts; and
- perform routine checks on these monitoring controls for the SDO to gain assurance that these controls are operating effectively.

5.5.25 The SDO commissioned an independent review of systems, including privileged user access for the 2019–20 financial year. The results of the independent review, provided subsequent to audit testing, did not identify any privileged user access resulting in inappropriate, accidental or malicious changes to data in the 2019–20 financial year. The SDO has advised it is undertaking action to address the weaknesses identified by the ANAO. The ANAO will assess SDO's remediation activities as part of the 2020–21 audit.

ASC Pty Ltd

5.5.26 ASC Pty Ltd (ASC) supports Australia's naval capabilities. ASC built Australia's Collins Class submarines and Air Warfare Destroyers (AWD) for the Royal Australian Navy (RAN) and is responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines through the in-service support contract.

5.5.27 ASC is also part of the alliance-based contract arrangement to deliver three air warfare destroyers for the RAN. This alliance is made up of the Department of Defence, representing the Australian Government, ASC as the lead shipbuilder, and Raytheon Australia as the mission systems integrator. This program is winding down as the final destroyer was delivered to the RAN on 28 February 2020.

5.5.28 On 10 August 2018, ASC established a new subsidiary, ASC OPV Shipbuilder Pty Ltd. This company is constructing the first two ships in Australia's new fleet of modern offshore patrol vessels (OPVs).

Summary of financial performance

5.5.29 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by ASC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.5.6: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	643.6	699.8
Total income	675.9	743.0
Income tax expense	9.7	12.9
Profit/(loss) after income tax	22.6	30.3
Total other comprehensive income/(loss) after income tax	(0.4)	(0.2)
Total comprehensive income/(loss) after income tax	22.2	30.1
Total assets	532.1	432.4
Total liabilities	385.9	298.1
Net assets/(liabilities)	146.3	134.3

Source: ASC's audited financial statements for the year ended 30 June 2020.

5.5.30 The decrease in income and expenses mainly due to lower activity on the Air Warfare Destroyer program.

5.5.31 The movement in asset and liabilities is primarily due to the initial recognition of right-of-use assets of \$137.5 million and lease liabilities \$139.9 million under AASB 16.

Key areas of financial statements risk

5.5.32 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 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 2019–20 are provided in Table 5.5.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.5.7: 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 \$675.9 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.

Source: ANAO 2019–20 audit results, and ASC's audited financial statements for the year ended 30 June 2020.

5.5.33 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

5.5.34 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Australian Naval Infrastructure Pty Ltd

5.5.35 Australian Naval Infrastructure Pty Ltd (ANI) was established to acquire, hold, manage and develop the infrastructure and related facilities used in connection with the Commonwealth's continuous Naval Shipbuilding Plan. The infrastructure held by ANI at Osborne in South Australia is used by Luerssen Australia Pty Ltd for the construction of two offshore patrol vessels; ASC Shipbuilding Pty Ltd for the Hunter Class Frigate Program and by ASC Pty Ltd for maintenance of the Collins class submarines under contract arrangements with the Commonwealth, represented by the Department of Defence.

5.5.36 ANI is a proprietary company limited by shares registered under the Corporations Act 2001. The Commonwealth, represented by the Minister for Finance and Minister for Defence jointly owns shares in ANI.

5.5.37 ANI has recently completed a \$535.0 million project to expand the surface shipyard at Osborne in support of the Hunter Class Frigate Program, and is also modernising existing facilities. In conjunction with Naval Group and the Commonwealth, ANI is developing a new submarine yard that will be utilised for construction of the Attack class submarines.

Summary of financial performance

5.5.38 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the ANI, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.5.8: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	42.6	33.0
Total income	19.1	21.4
Income tax benefit/(expense)	5.4	3.4
Profit/(loss) after income tax	(18.1)	(8.2)
Total other comprehensive income after income tax	34.9	–
Total comprehensive income after income tax	16.8	(8.2)
Total assets	1,252.4	921.3
Total liabilities	70.3	76.7
Net assets/(liabilities)	1,182.2	844.5

Source: ANI's audited financial statements for the year ended 30 June 2020.

5.5.39 The increase in expenses of \$9.6 million is primarily due to a downward revaluation of land, \$6.3 million of which was reflected in profit and loss, and the disposal of obsolete assets (\$4.1 million).

5.5.40 The decrease 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.

5.5.41 Assets increased in 2019–20 as a result of capital expenditure of \$305.9 million on building shipyards and an upwards revaluation of buildings and infrastructure of \$52.0 million.

5.5.42 Liabilities decreased in 2019–20 as a result of a decline in the amount owing to construction contractors as work approaches completion.

Key areas of financial statements risk

5.5.43 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 2019–20 are provided in Table 5.5.9.

Table 5.5.9: 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 (PPE) \$1,146.6 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

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Lease income \$16.3m	Accuracy of lease income	Moderate	<ul style="list-style-type: none"> significant holdings as lessor introduction of new accounting standard AASB 16

Source: ANAO 2019–20 audit results, and ANI's audited financial statements for the year ended 30 June 2020.

Audit results

5.5.44 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Future Fund Management Agency

5.5.45 The Future Fund Board of Guardians, supported by the Future Fund Management Agency (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 *DisabilityCare Australia Fund Act 2013*, the *Medical Research Future Fund Act 2015*, the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*, the *Emergency Response Fund Act 2019*, and the *Future Drought Fund Act 2019*, for the benefit of future generations of Australians.

Summary of financial performance

5.5.46 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the Future Fund, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.5.10: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	271.6	242.7
Total income	(1,102.3)	17,038.6
Income tax expense	54.5	65.0
Surplus/(deficit)	(1,428.5)	16,727.4
Total other comprehensive income	–	–
Total comprehensive income	(1,428.5)	16,727.4
Total assets	162,282.2	163,615.7
Total liabilities	1,236.0	1,141.1
Net assets/(liabilities)	161,046.2	162,474.6

Source: the Future Fund's audited financial statements for the year ended 30 June 2020.

5.5.47 Expenses have increased in 2019–20, driven by increases in fees charged by the Future Fund's custodian of \$5.5 million and other expenses of \$27.1 million. Custody fees increased due to the growth in funds under management throughout the financial year and an increase in the volume

of transactions and number of investments. Other expenses were higher due to the growth in information technology and investment data related expenditure. The increase in custody fees and other expenses was partially offset by a reduction in performance fees incurred on investments of \$12.4 million.

5.5.48 Total income decreased by \$18.1 billion primarily due to a reduction of \$3.5 billion in dividends and imputation credits received and losses on financial instruments of \$4.2 billion compared to gains of \$9.7 billion in the prior year.

5.5.49 Assets decreased due to a decrease in investments of \$2.13 billion attributed to the COVID-19 pandemic and the associated market volatility as well as a sale of some private equity investments during the year. This reduction was partially offset by an increase in cash of \$1.4 billion.

5.5.50 Liabilities increased due to an increase in derivative liabilities which was partially offset by a reduction in payables for unsettled purchases of investment securities.

Key areas of financial statements risk

5.5.51 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 2019–20 are provided in Table 5.5.11, 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 5.5.11: 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 \$72.0 billion	Valuation of private market investments KAM	Higher	<ul style="list-style-type: none"> The size of the investments and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.
Administered Investments \$84.6 billion	Valuation of public market investments	Moderate	<ul style="list-style-type: none"> The size of the investments and the reliance on the valuation undertaken by the custodian.

Source: ANAO 2019–20 audit results, and Future Fund's audited financial statements for the year ended 30 June 2020.

Audit results

5.5.52 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audit.

5.6 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 20	3 Sept 20	Nil
Australian Trade and Investment Commission	No	Low	✓	2 Oct 20	2 Oct 20	◆
Export Finance Australia	Yes	Moderate	✓	20 Aug 20	21 Aug 20	Nil

✓: auditor's report not modified

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

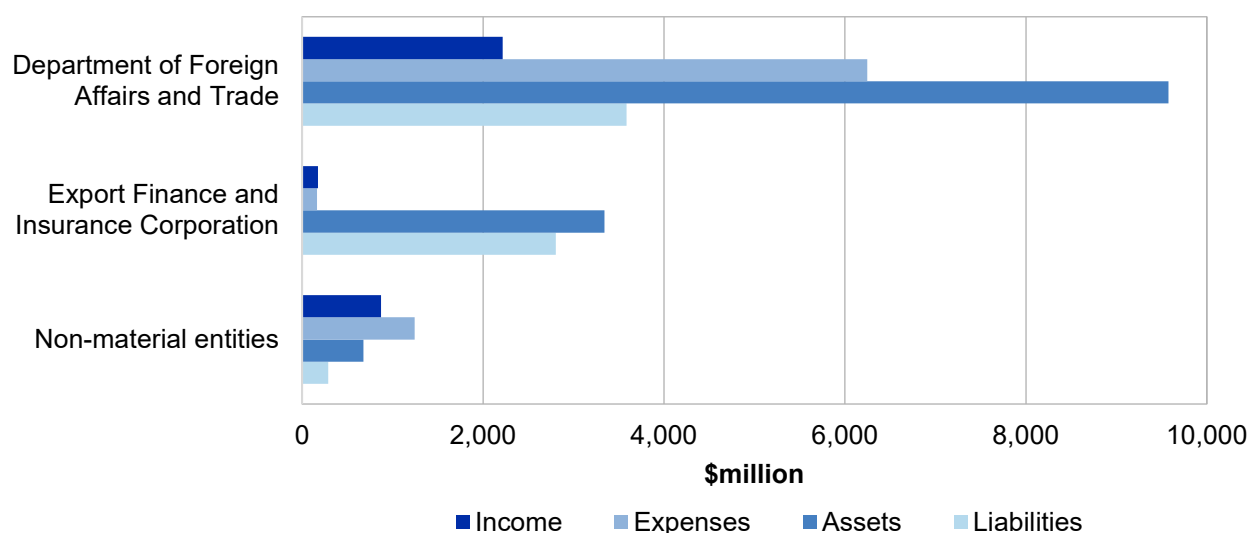
Portfolio overview

5.6.1 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.

5.6.2 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, for leading the Australian Government's international efforts to shape the regional and international environment, and for supporting the welfare of Australians overseas.

5.6.3 Figure 5.6.1 shows the Foreign Affairs and Trade portfolio's income, expenses, assets and liabilities.

Figure 5.6.1: Foreign Affairs and Trade portfolio's income, expenses, assets and liabilities



Source: 2019–20 CFS.

5.6.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit

differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Foreign Affairs and Trade portfolio.

Table 5.6.1: The number of audit differences for entities in the Foreign Affairs and Trade portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Foreign Affairs and Trade	1	–	1	1	3	4
Australian Centre for International Agricultural Research	–	2	2	–	4	4
Australian Trade and Investment Commission	–	1	1	–	–	–
Export Finance Australia	–	–	–	–	1	1
Tourism Australia	–	2	2	1	–	1

Source: Audit differences reported to entities in the Foreign Affairs Portfolio.

5.6.5 The following sections provide a summary of the 2019–20 financial statements audit results for DFAT, and other material entities.

Department of Foreign Affairs and Trade

5.6.6 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, for leading the Australian Government’s international efforts to shape the regional and international environment, and for supporting the welfare of Australians overseas.

5.6.7 Consistent with the Australian Government’s response to the COVID-19 pandemic, DFAT has implemented a number of measures aimed at supporting members of the Australian public who are likely effected by the pandemic. These measures have largely focussed on assisting with the COVID-19 repatriation of Australian citizens overseas.

Summary of financial performance

5.6.8 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by DFAT, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.6.2: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(1,668.5)	(1,632.7)
Revenue from government	1,473.2	1,439.2
Surplus/(deficit) attributable to the Australian Government	(195.3)	(193.5)
Total other comprehensive income	131.3	220.5
Total comprehensive income/(loss) attributable to the Australian Government	(64.0)	27.0
Total assets	6,192.1	4,978.6
Total liabilities	1,626.6	488.1
Total equity	4,565.5	4,490.5

Source: DFAT's audited financial statements for the year ended 30 June 2020.

5.6.9 Total assets and liabilities increased due to the initial recognition of right-of-use assets of \$1.2 billion and the corresponding lease liability of \$1.2 billion associated with AASB 16.

Table 5.6.3: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	4,404.7	4,063.5
Total income	583.7	647.1
Net cost of services	(3,820.9)	(3,416.4)
Total other comprehensive income	140.6	240.8
Total comprehensive income/(loss)	(3,680.3)	(3,175.6)
Total assets administered on behalf of Government	3,385.5	3,241.0
Total liabilities administered on behalf of Government	1,960.6	1,648.2
Net assets	1,424.9	1,592.8

Source: DFAT's audited financial statements for the year ended 30 June 2020.

5.6.10 Total income decreased primarily as a result of the decrease in passport revenues due to the limitations on overseas travel as a result of COVID-19 pandemic.

5.6.11 The increase in expenses is due to increased new multilateral contributions required and the fair value adjustment on multilateral liabilities. 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 grant 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.

Key areas of financial statements risk

5.6.12 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 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 2019–20 are provided in Table 5.6.4, 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 5.6.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> land and buildings \$3.7 billion	Valuation of the department's overseas property portfolio KAM	Higher	<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.
<i>Departmental</i> sale of goods and rendering of services \$152.5 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.
All financial statement line items	Completeness and accuracy of financial information associated with overseas posts KAM	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.
<i>Departmental</i> right-of-use assets \$1.2 billion lease liabilities \$1.2 billion	Completeness and accuracy of right-of-use assets and lease liabilities.	Moderate	<ul style="list-style-type: none"> • the significant number and value of lease contracts DFAT is party to; • the judgement used in determining whether the lease meets the requirements for recognition; and • the completeness of the data used.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> International Development Association and Asian Development Fund assets \$2.6 billion Multilateral replenishments payable \$1.7 billion	Valuation of contributions to international organisations	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.

Source: ANAO 2019–20 audit results, and DFAT's audited financial statements for the year ended 30 June 2020.

Audit results

5.6.13 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Export Finance Australia

5.6.14 From 1 July 2019, the Export Finance and Insurance Corporation (EFIC) began trading under the new name of Export Finance Australia. In April 2019, changes to the Export Finance and Insurance Corporation Act 1991 provided a \$1 billion increase in callable capital and a new overseas infrastructure financing power. This enables Export Finance Australia to both finance more and larger projects, and expand its capabilities to regional infrastructure projects that have a broad national benefit for Australia, including for Australian businesses. The role and mandate continues to evolve.

5.6.15 Export Finance Australia is the government's export credit agency. It provides financial expertise and solutions to drive sustainable growth that benefits Australia and its partners. Through loans, guarantees, bonds and insurance options, Export Finance Australia enables small to medium-sized enterprises, large corporates and governments to take on export-related opportunities, win business, grow internationally and achieve export success, and support infrastructure development in the Pacific region and beyond.

5.6.16 Consistent with the Australian Government's response to the COVID-19 pandemic, Export Finance Australia has implemented a number of measures aimed at supporting members of the Australian public who are likely effected by the pandemic. These measures include additional lending programs aimed at helping previously profitable Australian exporters whose business have been impacted by COVID-19 pandemic. This program totals \$500 million and will be issued through the National Interest account.

Summary of financial performance

5.6.17 The following section provides a comparison of the 2018–19 and 2019–20 key departmental 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 5.6.5: Commercial account financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	163.7	200.2
Total income	179.7	237.0
Net profit/(loss) before tax equivalent	16.0	36.8
Income tax equivalent charge	4.8	11.0
Net profit/(loss) available to the Commonwealth	11.2	25.8
Total other comprehensive income/(loss)	–	61.7
Total comprehensive income/(loss) for the period available to the Commonwealth	11.2	87.5
Total assets	3,340.4	3,359.2
Total liabilities	2,803.3	2,819.9
Total equity	537.1	539.3

Source: Export Finance Australia's audited financial statements for the year ended 30 June 2020.

5.6.18 The decrease in income and expenses is reflective of normal business activity and attributable to decrease in average interest rates on investments and borrowings over the period. This is consistent with interest rate movements seen in the wider market. The decrease in total other comprehensive income is attributable to a revaluation increment for land and buildings which was recognised in prior years.

Table 5.6.6: National interest account financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	19.2	16.8
Total income	51.7	50.9
National Interest Account attributable to the Australian Government	32.5	34.1
Total assets administered on behalf of Government	851.0	370.9
Total liabilities administered on behalf of Government	851.0	370.9
Net assets	–	–

Source: Export Finance Australia's audited financial statements for the year ended 30 June 2020.

5.6.19 The offsetting increases in total assets and total liabilities is due to the additional loans that were issued to Papua New Guinea during 2019–20 as well as some other small loans. Loans from the commercial account represent \$832.3 million of the national interest account liabilities as at 30 June 2020.

Key areas of financial statements risk

5.6.20 The ANAO completed appropriate audit procedures on all material items as part of the 2019–20 audit. 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 2019–20 are provided Table 5.6.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.6.7: 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 \$2.1 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 which has increased due to COVID-19.
Commercial account financial instruments financial assets \$3.2 billion financial liabilities \$2.7 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.
Commercial and National Interest Account Total net interest income \$19.7m	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 2019–20 audit results, and EFIC’s audited financial statements for the year ended 30 June 2020.

Audit results

5.6.21 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Comments on non-material entities

Australian Trade and Investment Commission

5.6.22 The Australian Trade and Investment Commission (Austrade) is responsible for promoting Australian trade, investment and education to the world, as well as helping secure Australia's tourism industry. It undertakes this responsibility by promoting Australian exports and international education, strengthen the Australia's tourism sector, and attract investment into Australia.

New moderate audit finding

Timeliness of financial statement preparation

5.6.23 During the final phase of the audit, the ANAO identified that there were inadequate resources to provide completed financial statements and associated supporting workpapers. This lead to significant changes in the financial statement disclosures and late adjustments but also a deficiency in the timely preparation of workpapers to support the financial statements and associated notes.

5.6.24 We note that the Australian Trade and Investment Commission had provided additional resourcing to financial statements preparation including the introduction of a soft close. These efforts were offset against the need for additional resourcing requirements for new programs and the need to implement new accounting standards.

5.6.25 The Australian Trade and Investment Commission will undertake a lessons learnt, and the development of a more granular plan for the completion of the 2020–21 financial statements.

5.7 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	✓	7 Sept 20	9 Sept 20	◆
Australian Digital Health Agency	No	High	✓	28 Sept 20	29 Sept 20	□
National Blood Authority	Yes	Low	✓	2 Sept 20	3 Sept 20	Nil
National Health and Medical Research Council	Yes	Low	✓	26 Aug 20	26 Aug 20	□

✓: auditor's report not modified

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

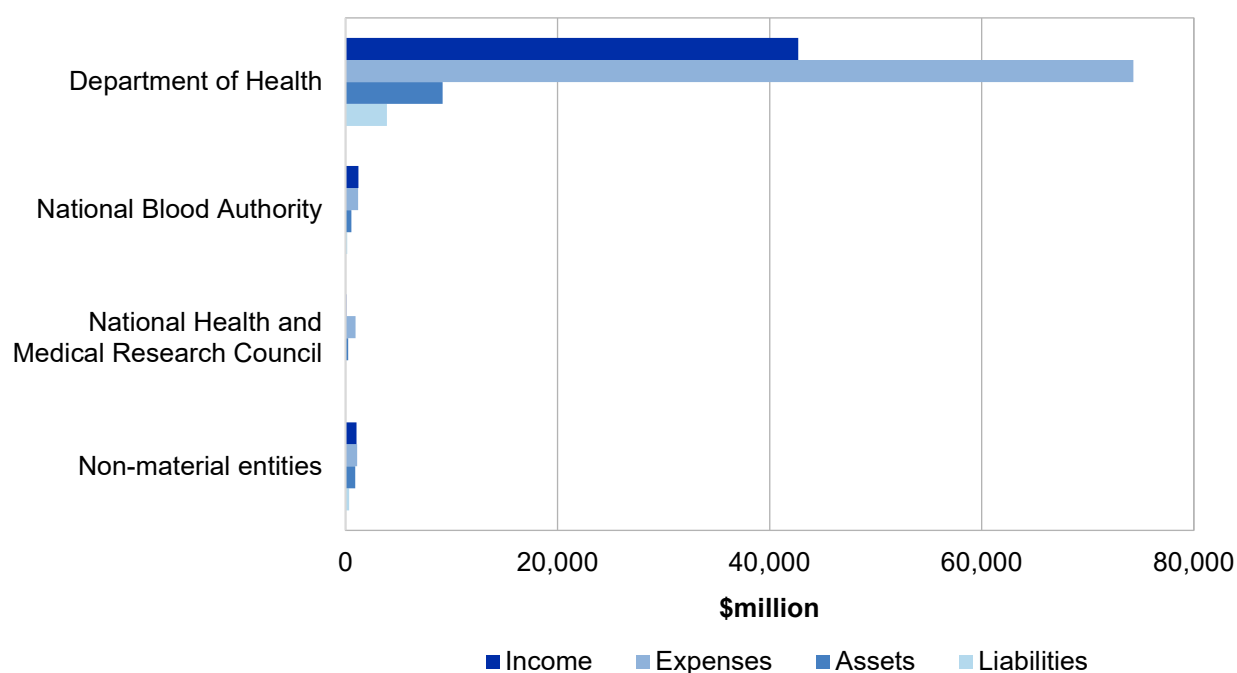
□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2019–20 interim audit phase, now downgraded or resolved

Portfolio overview

5.7.1 The Health portfolio works towards achieving better health and wellbeing for all Australians, now and for future generations.

5.7.2 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.

5.7.3 Figure 5.7.1 shows the Health portfolio's income, expenses, assets and liabilities.

Figure 5.7.1: Health portfolio's income, expenses, assets and liabilities

Source: 2019–20 CFS.

5.7.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Health portfolio.

Table 5.7.1: The number of audit differences for entities in the Health portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Health	4	–	4	–	1	1
Aged Care Quality and Safety Commission	–	2	2	2	–	2
Australian Commission on Safety and Quality in Health Care	–	–	–	–	1	1
Australian Digital Health Agency	–	–	–	2	1	3
Australian Institute of Health and Welfare	–	1	1	1	1	2
Australian Sports Anti-Doping Authority	–	–	–	–	3	3
Australian Sports Commission	–	–	–	–	1	1
Cancer Australia	–	1	1	–	–	–

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Food Standards Australia New Zealand	–	–	–	2	5	7
Independent Hospital Pricing Authority	2	–	2	1	1	2
National Blood Authority	–	9	9	–	1	1
National Health Funding Body	–	3	3	1	–	1
National Mental Health Commission	–	1	1	1	–	1
Australian Organ and Tissue Donation and Transplantation Authority	–	1	1	–	–	–
Professional Services Review Scheme	–	1	1	1	–	1
Australian Sports Foundation Limited	1	–	1	–	–	–

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

5.7.5 The following sections provide a summary of the 2019–20 financial statements audit results for Health, other material entities and findings related to non-material entities in the portfolio.

Department of Health

5.7.6 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.

5.7.7 Consistent with the Australian Government’s response to the COVID-19 pandemic, Health implemented a range of measures aimed at supporting members of the Australian public who were likely to be impacted by the COVID-19 pandemic. These measures included increased purchasing for the National Medical Stockpile, the expansion of the Telehealth function of the Medicare Benefits Scheme and program, additional support for senior Australians in Aged Care and Home Care, additional support to hospitals in diagnosing and treating COVID-19, and the expansion of mental health support and treatment.

5.7.8 To deliver these measures, Health implemented changes to Governance arrangements and key internal controls which included establishment of COVID-19 Governance working group with responsibility for oversight of portfolio initiatives implemented relating to the response to COVID-19 and the temporary transfer and redeployment of 234 staff to assist with the National Incident Response team, at the centre of the Government’s COVID-19 response.

Summary of financial performance

5.7.9 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by Health, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.7.2: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(714.9)	(733.9)
Revenue from government	674.0	705.4
Surplus/(deficit) attributable to the Australian Government	(40.9)	(28.5)
Total other comprehensive income/(loss)	(0.4)	–
Total comprehensive income/(loss) attributable to the Australian Government	(41.3)	(28.5)
Total assets	1,051.6	419.0
Total liabilities	870.9	335.4
Total equity	180.7	83.6

Source: Health's audited financial statements for the year ended 30 June 2020.

5.7.10 Net cost of services has marginally improved primarily due to a \$8.4 million increase in the amount of fees collected by the Therapeutic Goods Administration for the year compared to the prior year, a \$23.4 million decrease in employee benefits due to a decrease in staff numbers and the lower bond rate adjustment in leave expenses as well as a \$29.0 million decrease in supplier expenses primarily due to the de-recognition of operating lease expenses due to the application of AASB 16. This was also offset by an increase of \$65.1 million in depreciation expense as a result of application of AASB 16.

5.7.11 Revenue from government decreased as a result of \$24.9 million grant funding revenue recognised in the prior year that was funded out of current year's budget funding, and \$2.2 million appropriation transfer for the Aged Care Quality and Safety Commission employee entitlements this was offset by additional funding of \$9.1 million provided in response to COVID-19.

5.7.12 The increase in assets and liabilities is due to the initial application of AASB 16 and the recognition of the associated right-of-use assets of \$568.1 million and lease liabilities of \$579.4 million.

Table 5.7.3: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	73,387.1	69,710.6
Total income	41,803.1	39,501.2
Surplus/(deficit)	(31,584.0)	(30,209.4)
Total other comprehensive income/(loss)	33.2	(61.2)
Total comprehensive income/(loss)	(31,550.8)	(30,270.6)
Total assets administered on behalf of Government	6,427.1	3,471.4
Total liabilities administered on behalf of Government	3,039.1	2,975.4
Net assets/(liabilities)	3,388.0	496.0

Source: Health's audited financial statements for the year ended 30 June 2020.

5.7.13 The increase in expenses was primarily due to \$660.4 million additional support provided for Home and Residential aged care related subsidies in line with additional funding provided in the 2019–20 budget, \$330.0 million COVID-19 specific expenditure primarily in the Primary Health Care and the Health Protection and Emergency Response programs. In addition, a \$2.3 billion increase in personal benefits primarily reflecting increases in Medicare funding of \$605.8 million to strengthen the system with lower out of pocket expenses, a \$764.3 million increase in the Pharmaceutical Benefits Scheme (PBS) due to investment in new medicine listings and \$878.8 million additional investment in aged care funding. These personal benefit expenses were partially matched by higher revenue for Medicare and PBS funding.

5.7.14 The increase in assets is primarily due to the \$1.9 billion increase in inventories and prepayments associated with the National Medical Stockpile (NMS) as part of the Government's emergency response to the COVID-19 pandemic.

Key areas of financial statements risk

5.7.15 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 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 2019–20 are provided in Table 5.7.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 5.7.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered subsidies \$13.4 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered personal benefits \$48.6 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.
Administered recoveries \$2.8 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.
Administered personal benefits provisions \$972 million subsidies provision \$458.0 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.
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.
Administered Inventory \$907 million	Accuracy, existence and completeness of inventory balances	Moderate	<ul style="list-style-type: none"> • significant increase in the purchasing activity of personal protective equipment inventory resulting in the balance being material to the financial statements • higher number and wider variety of inventory items being managed raising the risk over accurate recording of the balance • complexity and management expertise required to assess and identify impaired or obsolete items
Departmental Revenue from contracts with customers \$191.1 million	Estimation of Revenue related to the Therapeutic Goods Administration	Moderate	<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.

Source: ANAO 2019–20 audit results, and Health's audited financial statements for the year ended 30 June 2020.

Audit results

5.7.16 The following table summarises the status of the audit finding reported by the ANAO in 2018–19 and 2019–20.

Table 5.7.5: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1	2	(1)	2
Total	1	2	(1)	2

Source: ANAO 2019–20 audit results.

5.7.17 For the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the Department's 2019–20 financial statements were not materially misstated.

New moderate audit findings

User Access Controls – Terminated Users

5.7.18 During the 2019–20 interim audit, the ANAO's testing identified weaknesses in the Health's security controls relating to terminated users being removed or suspended on the same day as they no longer have legitimate requirement for access. During the final phase the ANAO identified that there were a number of users who retained access to the SAP system post termination and a small number of these had accessed the system to print, email and access HR self-service post termination.

5.7.19 Health has implemented the Staff Admin system, which collects corporate data from SAP and authoritative sources of truth, in order to share identify information and controls access to Health's systems in a reliable and consistent way. The system removes the need to manually enter information to IT systems, reducing the risk of error or misconfiguration. In January 2020 the staff admin de-provisioning functionality was implemented; this removes access automatically when a staff member's end date is reached. De-provisioning of an account prior to a staff member's end date or for ongoing APS is reliant on the manager submitting the request to off board in SAP which is consistent with requirements in Health's policy. Enhancements to SAP are underway to notify the IT Security Advisor when a user account is terminated prior to a staff member's expected last working day. Upon receipt the account will be terminated and a review of relevant account loges will ensure that no unauthorised access occurred after their last working date. This will be assessed as part of the 20-21 financial statement audit process.

National Medical Stockpile – recording and management

5.7.20 During the 2019–20 final audit, the ANAO's testing identified weaknesses in Health's recording and management of the National Medical Stockpile (NMS). These included: the inventory management system supporting the NMS not being fit for purpose; absence of reconciliations between the Health FMIS and inventory records and financial reporting by product and location for the last quarter of the financial year; a number of errors in the manually entered excel inventory register; and lack of frequency in stock taking processes, delays in provisions of stock take methodology and timely resolution of stock take variation.

5.7.21 Health will seek to develop a solution incorporating reconciliations between Health FMIS and warehouse vendor records and a rolling program for stock take that best suits the nature of the stock pile.

National Blood Authority

5.7.22 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

5.7.23 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the NBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.7.6: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(6.0)	(6.4)
Revenue from government	5.7	5.7
Surplus/(deficit) attributable to the Australian Government	(0.3)	(0.7)
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(0.3)	(0.7)
Total assets	13.3	11.5
Total liabilities	5.1	3.9
Total equity	8.2	7.6

Source: NBA's audited financial statements for the year ended 30 June 2020.

5.7.24 Total assets and liabilities increased as a result of the initial application of AASB 16 and the associated recognition of right-of-use assets of \$1.6 million and interest bearing liabilities of \$1.6 million. Total liabilities was slightly offset by a decrease in trade payables of \$0.7 million.

Table 5.7.7: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	1,177.6	1,196.1
Total income	1,214.4	1,207.9
Surplus/(deficit)	36.8	11.8
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	36.8	11.8
Total assets administered on behalf of Government	549.9	510.0
Total liabilities administered on behalf of Government	160.0	57.7
Net assets/(liabilities)	390.2	452.3

Source: NBA's audited financial statements for the year ended 30 June 2020.

5.7.25 Expenses decreased due to a decrease in demand for blood products which in turn resulted in higher inventory levels contributing to the increase in assets.

5.7.26 Liabilities increases as a result of the application of AASB 15 *Revenue from Contracts with Customers* and the subsequent recognition of deferred revenue under the new standard. The revenue has been deferred as the conditions attached from the contributions from the Commonwealth and States and Territories in relation to the delivery of blood services has not been met at year end.

Key areas of financial statements risk

5.7.27 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 2019–20 is provided in Table 5.7.8. No significant or moderate audit findings were identified relating to the key area of risk.

Table 5.7.8: 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 \$114 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 2019–20 audit results, and NBA's audited financial statements for the year ended 30 June 2020.

Audit results

5.7.28 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

National Health and Medical Research Council

5.7.29 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

5.7.30 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the NHMRC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.7.9: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(32.3)	(38.6)
Revenue from government	37.5	37.6
Surplus/(deficit) attributable to the Australian Government	5.2	(1)
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	5.2	(1)
Total assets	56.4	27.4
Total liabilities	35.3	13.7
Total equity	21.1	13.7

Source: NHMRC's audited financial statements for the year ended 30 June 2020.

5.7.31 The decrease in net cost of services mainly due to an increase in revenue from the Department of Health for managing increased grant activity on their behalf.

5.7.32 Assets and liabilities have mainly increased as a result of the recognition of \$24.0 million right-of-use assets and \$24.0 million lease liabilities on application of AASB 16.

Table 5.7.10: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	909.9	894.7
Total income	5.7	7.8
Deficit	(904.1)	(886.9)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	(904.1)	(886.9)
Total assets administered on behalf of Government	198.9	243.0
Total liabilities administered on behalf of Government	11.1	5.8
Net assets/(liabilities)	187.8	237.2

Source: NHMRC's audited financial statements for the year ended 30 June 2020.

5.7.33 Total expenses increased due to \$13.0 million increase in Medical Research Grants. Total assets has decreased due to a reduction in cash as a result of increased grants from the transition to new grants program and grant payments made for Boosting Dementia Research.

Key areas of financial statements risk

5.7.34 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 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 2019–20 are provided in Table 5.7.11.

Table 5.7.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered grant expenses \$901.6 million	Management and accounting of grant expenditure	Moderate	<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.
Departmental intangibles \$18.7 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.

Source: ANAO 2019–20 audit results, and NHMRC's audited financial statements for the year ended 30 June 2020.

Audit results

5.7.35 The following table summarises the status of the audit finding reported by the ANAO in 2018–19 and 2019–20.

Table 5.7.12: Status of audit finding

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1	–	(1)	–
Total	1	–	(1)	–

Source: ANAO 2019–20 audit results.

Resolved moderate audit finding

User access management – monitoring of third party access to IT systems

5.7.36 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.

5.7.37 NHMRC implemented a centralised logging solution, which allows logging of administrative privilege activities. The implementation of event-based alerts, dashboards and

scheduled reports are periodically reviewed, and the log analysis and monitoring functionality is being used to generate reports to perform targeted reviews to address IT operational and financial risks.

Comments on non-material entities

Australian Digital Health Agency

5.7.38 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.

Resolved significant audit findings

Integrity of Financial Reporting

5.7.39 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 to Digital Health’s financial statements being identified by the ANAO.

5.7.40 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; ensuring appropriate approval of invoices and receipting of goods and services before invoices are processed.

5.7.41 During 2019–20, Digital Health effectively implemented these recommendations. As a result, the prior year audit finding has been resolved.

5.8 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	✓	07 Sept 20	08 Sept 20	◆▲
Australian Federal Police	Yes	Moderate	✓	16 Sept 20	16 Sept 20	□
Australian Security Intelligence Organisation	Yes	Moderate	✓	06 Aug 20	06 Aug 20	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 2019–20 interim audit phase, now downgraded or resolved

Portfolio overview

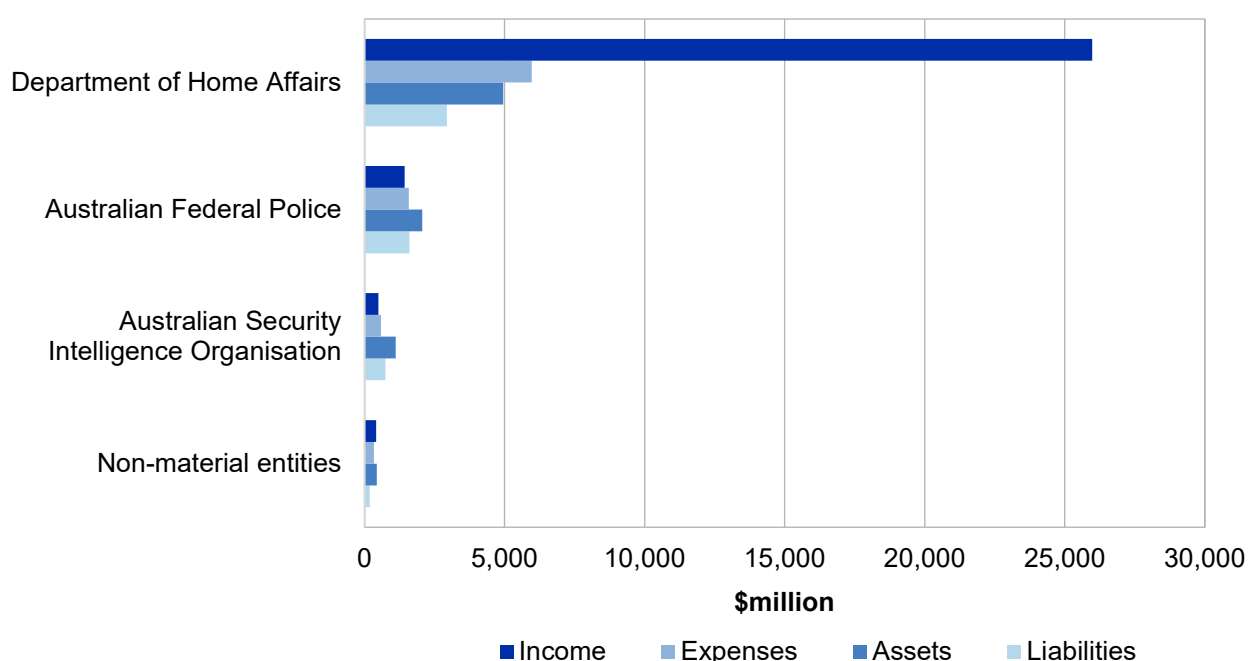
5.8.1 The Home Affairs portfolio brings together Australia's federal law enforcement, national and transport security, criminal justice, cybersecurity, border, immigration and citizenship, emergency management, multicultural affairs, and settlement services functions and agencies.

5.8.2 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, facilitating international trade and collecting border revenue. It 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, and cyber policy coordination, as well as emergency management and natural disaster assistance.

5.8.3 On 5 March 2020, the Australian Government activated the National Coordination Mechanism (NCM) in response to the spread of COVID-19. The NCM operates through the Department of Home Affairs and, together with the states and territories, coordinates the whole-of-government response to issues outside the direct health management of COVID-19.

5.8.4 The department also includes the Australian Border Force, which is responsible for border, investigatory, 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, including compliance, is critical.

5.8.5 Figure 5.8.1 shows the Home Affairs portfolio's income, expenses, assets and liabilities.

Figure 5.8.1: Home Affairs portfolio's income, expenses, assets and liabilities

Source: 2019–20 CFS.

5.8.6 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Home Affairs portfolio.

Table 5.8.1: The number of audit differences for entities in the Home Affairs portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Home Affairs	1	2	3	5	1	6
Australian Criminal Intelligence Commission	–	–	–	1	–	1
Australian Federal Police	–	2	2	–	4	4
Australian Institute of Criminology	–	–	–	2	–	2
Australian Security Intelligence Organisation	–	2	2	–	2	2
Australian Transaction Reports and Analysis Centre	1	3	4	3	–	3

Source: Audit differences reported to entities in the Home Affairs portfolio.

5.8.7 The following sections provide a summary of the 2019–20 financial statements audit results for Home Affairs, and other material entities.

Department of Home Affairs

5.8.8 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.

5.8.9 Consistent with the Australian Government's response to the COVID-19 pandemic, the Department of Home Affairs implemented a number of measures aimed at supporting members of the Australian public. This has included:

- establishment of the NCM to coordinate and facilitate nationally consistent approaches to non-health related planning and responses to the COVID-19 pandemic. This included addressing complex issues such as the movement of resources, sector personnel and goods across domestic borders, supporting vulnerable people and managing the repatriation of Australian citizens, permanent residents and their immediate relatives to Australia;
- establishment of the Supermarket Taskforce that brought together major supermarket executives, relevant peak bodies, states, territories and local authorities to discuss and resolve issues supermarkets were facing due to COVID-19 and to ensure all Australians could continue to access essential items;
- implementation of enhanced biosecurity and border control measures for trade and travel;
- working with the Department of Foreign Affairs and Trade and Department of Health to bring Australians home on Government-assisted repatriation flights;
- establishment of quarantine facilities; and
- implementation of a new regime to manage an exemptions process which permitted international travel in a limited set of circumstances.

5.8.10 While this has not resulted in any payments to the Australian public or changes to existing financial management internal controls, the department has reprioritised workflows to facilitate the above initiatives.

Summary of financial performance

5.8.11 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by Home Affairs, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.8.2: Key departmental financial statements items

Key departmental financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(3,148.4)	(3,008.6)
Revenue from government	2,723.9	2,663.9
Surplus/(deficit) attributable to the Australian Government	(424.5)	(344.7)
Total other comprehensive income	32.9	3.2
Total comprehensive income/(loss) attributable to the Australian Government	(391.6)	(341.5)
Total assets	3,669.3	2,145.8
Total liabilities	2,500.7	914.9
Total equity	1,168.6	1,230.9

Source: Home Affairs' audited financial statements for the year ended 30 June 2020.

5.8.12 The movement in net cost of services predominantly relates to an increase in employee benefits of \$32.4 million, write-down and impairment of non-financial assets of \$26.3 million and financial costs of \$20.8 million.

5.8.13 The increase in total assets and liabilities is predominantly the result of the first time recognition of right-of-use assets of \$1.6 billion and \$1.7 billion of lease liabilities as a result of AASB 16. The increase in liabilities was partially offset by the de-recognition of \$101.4 million in lease incentives and \$24.2 million in operating lease payables on transition to AASB 16.

Table 5.8.3: Key administered financial statements items

Key administered financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	2,582.9	2,044.8
Total income	23,030.3	20,007.4
Surplus/(deficit)	20,447.3	17,962.6
Total other comprehensive income	(42.6)	6.8
Total comprehensive income/(loss)	20,404.7	17,969.4
Total assets administered on behalf of Government	1,286.1	1,745.0
Total liabilities administered on behalf of Government	438.4	441.1
Net assets/(liabilities)	847.7	1,303.9

Source: Home Affairs' audited financial statements for the year ended 30 June 2020.

5.8.14 Total expenses increased as a result of:

- supplier expenses increasing by \$193.7 million predominantly in relation to an increase in support and settlement services driven by a transfer of functions into the Department from 1 July 2019 as a result of machinery of government changes. This included settlement services for refugees and humanitarian migrants of \$126.0 million from Department of Social Services and adult migrant education of \$218.0 million transferring from the

Department of Education. The increase is partially offset by a reduction in garrison and accommodation expenses of \$181.0 million as a result of the transition arrangements for offshore management in Papua New Guinea;

- an increase of \$163.6 million in personal benefits payments made to victims of natural disasters as a result of an increase in natural disasters in 2019–20, in particular the extended bushfire season; and
- gifting grants and contributions increasing by \$163.2 million, mainly due to the first time payment of \$47.8 million under the Remote Airport Screening Fund and payment of \$42.5 million relating to settlement engagement and transition support responsibilities that were assumed by the Department under a machinery of government change from 1 July 2019. Other increases related to higher payments made for the Safer Communities and National Aerial Firefighting initiatives and the gifting of the Bomana Immigration Centre to the Government of Papua New Guinea valued at \$21.7 million.

5.8.15 Administered income increased mainly due to a \$3.6 billion increase in customs duty largely as a result of the implementation of changes from 1 July 2019 relating to duty collected on tobacco as a result of the *Black Economy Package – combating illicit tobacco*. The increase in customs duty was partially offset by a reduction in visa application charges by \$173.3 million and passenger movement charges by \$328.7 million. The reduction in these revenue streams was the result of international travel restrictions in response to the COVID-19 pandemic.

5.8.16 Total assets decreased predominately due to a \$331.7 million decrease in taxation receivable as a result the implementation of changes from 1 July 2019 relating to tobacco and a decrease of \$189.2 million in non-financial assets as a result of annual depreciation charges of \$105.6 million, write-downs of \$48.2 million, a revaluation decrement of \$42.6 million resulting from an independent valuation of property, plant and equipment in 2019–20 and gifting of public property of \$21.7 million.

Key areas of financial statements risk

5.8.17 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 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 2019–20 are provided in Table 5.8.4, including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 5.8.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> customs duty revenue \$19.5 billion taxation receivable - customs duty \$122.0 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

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> the complexity of the information technology (IT) environment used to manage customs duty.
<i>Administered</i> visa application charges \$2.2 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.
<i>Administered</i> services rendered - detention (component of supplier expenses) \$1.7 billion	Accuracy of detention and regional processing centres expenses 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; and 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.
<i>Administered</i> SRSS personal benefits expenses (a component of personal benefits expenses) \$428.3 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 Services Australia and other providers; and the self-assessment nature of the personal benefits process.
<i>Administered</i> Non-financial assets relating to detention and regional processing centres (i.e. excluding computer software and prepayments) \$855.0 million	Valuation of detention and regional processing centres	Moderate	<ul style="list-style-type: none"> 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.
<i>Departmental</i> employee benefits expense \$1.6 billion employee provisions \$516.4 million	Completeness and accuracy of employee entitlements	Moderate	<ul style="list-style-type: none"> selected Home Affairs staff are entitled to a range of allowances, subject to a number of conditions; 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered and Departmental</i> 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).

Source: ANAO 2019–20 audit results, and Home Affairs' audited financial statements for the year ended 30 June 2020.

Audit results

5.8.18 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.8.5: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Significant (A)	1	–	(1) ^a	–
Moderate (B)	–	2 ^a	–	2
Total	1	2	1	2

Note a: The significant audit finding relating to Visa and Citizenship Quality Management was first reported to Parliament in Auditor-General Report No. 20 of 2019–20 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*. This was downgraded to a moderate audit finding and reported to Parliament in Auditor-General Report No.38 of 2019–20 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2019–20 audit results.

5.8.19 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the Home Affairs' 2019–20 financial statements were not materially misstated.

New and unresolved moderate audit findings

Management of Staff Leave

5.8.20 As detailed in Chapter 4, in 2019–20 the ANAO undertook targeted assurance activities over the management of staff leave within Home Affairs. The activities were performed to facilitate an assessment of compliance of the management of leave accruals, and balances with human resource policies and requirements. The areas assessed are outlined at chapter four, paragraph 4.9.

5.8.21 The 2019–20 audit identified:

- Home Affairs leave policy has not been updated to include current leave information or the requirements and conditions under the 8 February 2019 *Department of Home Affairs Workplace Determination 2019*;
- the Policy and Procedural Control Register (which includes all underpinning legislation and requirements, including specific requirements relating to staff leave and link to specific controls relating to leave) is not up to date to reflect the Department's controls;

- 30 per cent of leave taken for foreseeable leave types (including annual, long service, purchased, study, time off in lieu, maternity and parental leave) was not supported by evidence within the HRMIS of approval in advance of that leave commencing – as required by the Home Affairs leave policy;
- 18,181 instances of non-compliance with the department's policy that unforeseeable leave types (personal leave, bereavement, primary care, parental care and miscellaneous leave) be approved or resolved within 30 days of the employee returning to work. Furthermore, 8,947 were approved more than 90 days after the last day of leave;
- 7.9 per cent of employees held excessive annual leave balances as defined by the workplace determination (i.e. exceeding 40 days) and 21.8 per cent of employees held an excessive flexible leave balance as defined by the workplace determination (i.e. maximum credit of 37.5 hours and maximum debit of 10 hours); and
- inconsistencies in the application of other policies and procedures.

5.8.22 Home Affairs' employee benefit transactions are high volume and involve both automated and manual processing. While Home Affairs has identified supervisor assurance as the primary control in the management of staff leave, the number of exceptions noted and anomalies identified relating to instances of non-compliance to relevant policies and procedures observations may indicate monitoring and reporting controls were not effective in identifying weaknesses in associated controls and instances of non-compliance to relevant policies and procedures.

5.8.23 The ANAO concluded that the control weaknesses pose potential moderate operational and financial reporting risks and recommends that Home Affairs:

- update leave policies to include current leave information or the requirements and conditions under the 8 February 2019 *Department of Home Affairs Workplace Determination 2019*;
- implement strategies to increase compliance by employees;
- further enhance its Policy and Procedural Control Register and link to specific controls relating to leave. This will refine the Department's current processes and controls, including identifying any manual controls that can be automated; and
- strengthen monitoring and reporting controls, including: enhancement of the Executive Dashboard reporting; provide further assurance over rates of compliance; and facilitate consistency in application of leave entitlements, targeted responses for non-compliance and effective planning and utilisation of human resources.

5.8.24 Home Affairs has agreed to the recommendations however, disagreed with the rating of the finding.

Visa and Citizenship Quality Management

5.8.25 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 in 2014.

5.8.26 The 2018–19 audit identified:

- throughout the international posts and visa program areas, there was 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 significantly reduced oversight of activities being undertaken;
- Home Affairs was not able to demonstrate sufficient reporting to either the Executive or 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 was out of date.

5.8.27 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 was 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.

5.8.28 During 2019–20, Home Affairs progressed drafting of revised assurance framework documents and has commenced stakeholder consultation; implemented an assurance activity procedural instruction; commenced the development of program Quality Management Plans; significantly enhanced the compliance rate by location of required sample rates; implemented reporting and monitoring activities; completed system enhancements; commenced the development of processes to be applied where control frameworks were ineffective and commenced a process to leverage results to inform decision making.

5.8.29 While redeploying resources to COVID-19 critical areas, Home Affairs has made significant progress in addressing recommendations during 2019–20. The ANAO will continue to assess progress made by Home Affairs during the 2020–21 audit.

Australian Federal Police

5.8.30 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 and external territories, combatting transnational serious organised crime and terrorism, disrupting crime offshore, supporting regional security, and protecting Australian interests and assets.

5.8.31 Consistent with the Australian Government's response to the COVID-19 pandemic, the AFP implemented a number of measures aimed at supporting members of the Australian public who are likely effected by the pandemic. These measures include:

- management of airport and cruise ship arrivals and quarantine of Australians returning from overseas;
- focus on innovative disruption techniques to combat emerging fraud relating to COVID-19 stimulus response packages;
- deploying members to the Northern Territory Police Force to help protect remote and vulnerable Indigenous communities;
- maintaining a physical presence at Centrelink offices (at the request of Services Australia) and at shopping centres and supermarkets;
- increased patrols to ensure that citizens adhered to social distancing measures and were complying with lawful public health orders and government instructions; and
- supported enforcement of state border checks when requested.

5.8.32 In delivering these measures, the AFP did make significant changes to internal controls or key governance arrangements.

Summary of financial performance

5.8.33 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the AFP and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.8.6: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(1,264.8)	(1,216.8)
Revenue from government	1,128.3	1,103.3
Surplus/(deficit) attributable to the Australian Government	(136.5)	(113.5)
Total other comprehensive income	22.9	–
Total comprehensive income/(loss) attributable to the Australian Government	(113.6)	(113.5)
Total assets	2,055.2	976.7
Total liabilities	1,602.5	560.7
Total equity	452.7	416.0

Source: AFP's audited financial statements for the year ended 30 June 2020.

5.8.34 The increase in revenue from government is mainly due to new funding for national security measures.

5.8.35 The movement in asset and liabilities is primarily due to the recognition of \$1.0 billion of right-of-use assets and \$1.0 billion of leases liabilities associated with AASB 16.

Table 5.8.7: Key administered financial statements items

Key administered financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	8.1	14.5
Total income	0.9	0.5
Surplus/(deficit) after income tax	(7.2)	(14.0)
Total other comprehensive income after income tax	–	–
Total comprehensive income/(loss)	(7.2)	(14.0)
Total assets administered on behalf of Government	0.1	0.1
Total liabilities administered on behalf of Government	1.0	1.1
Net assets/(liabilities)	(0.9)	(1.1)

Source: AFP's audited financial statements for the year ended 30 June 2020.

5.8.36 Decrease in total administered expenses due to a \$2.4 million decrease in general office expenses as a result of low value radio communication equipment purchases associated with the Papua New Guinea (PNG) Asia-Pacific Economic Cooperation (APEC) program in 2018–19 and a \$3.5 million decrease in training expenses as a result of the PNG controlled outcome training program and the fire and rescue Solomon Islands Police Development Program not being run in 2019–20.

Key areas of financial statements risk

5.8.37 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 2019–20 are provided in Table 5.8.8.

Table 5.8.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental employee benefits \$943.7 million employee provisions \$417.2 million	Recognition and measurement of payroll.	Moderate	<ul style="list-style-type: none"> size and complex nature of the payroll function. Payroll expenses include a large number of sworn personnel, variable and extended work hours (i.e. penalty rates) and a wide variety of allowances; and the identification of an underpayment of superannuation on certain allowances.
All financial statement line items	Operating effectiveness of IT general controls (ITGCs).	Moderate	<ul style="list-style-type: none"> unresolved audit findings from prior years.

Source: ANAO 2019–20 audit results, and AFP's audited financial statements for the year ended 30 June 2020.

Audit results

5.8.38 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.8.9: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	2	–	(2) ^a	–
Total	2	–	(2)	–

Note a: The moderate audit finding relating to the underpayment of superannuation on certain allowances was downgraded to a minor audit finding.

Source: ANAO 2019–20 audit results

5.8.39 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the AFP's 2019–20 financial statements were not materially misstated.

Resolved moderate audit findings

Underpayment of superannuation on certain allowances

5.8.40 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.

5.8.41 The AFP is continuing to progress the superannuation project. Whilst there is a sizable number of remaining reviews to be completed for impacted members to fully remediate the known underpayment of superannuation, the project is expected to be well advanced during 2020–21 to quantify the actual liability and commence settlement of these liabilities ahead of 30 June 2021. The ANAO will review the progress of this work as part of the 2020–21 financial statements audit.

5.8.42 The ANAO identified that there remained issues relating to the underpayment of superannuation on certain allowances that AFP are continuing to address. As a result of the progress observed by the ANAO in relation to defining an appropriate provision and the program of work underway, this finding has been downgraded to a minor finding.

FMIS user access provisioning and termination

5.8.43 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 was to be undertaken with periodic reviews of access, and implementation of monitoring of users with this access 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.

5.8.44 AFP engaged an external consultant to assist in the preparation of a position paper, outlining the mitigating controls in place to address the risk that people are given incorrect access

to the FMIS. This position paper was provided to ANAO on 11 August 2020. The paper lists compensating controls in place as part of standard business processes. The compensating controls in place are appropriate to mitigate a material misstatement in the financial statements.

Australian Security Intelligence Organisation

5.8.45 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

5.8.46 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the ASIO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.8.10: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net cost of/(contribution by) services	563.1	553.7
Revenue from government	473.0	435.2
Surplus/(deficit) attributable to the Australian Government	(90.1)	(118.5)
Total other comprehensive income/(loss)	20.5	–
Total comprehensive income/(loss) attributable to the Australian Government	(69.6)	(118.5)
Total assets	1,113.0	477.0
Total liabilities	744.7	134.1
Total equity	368.3	342.9

Source: ASIO's audited financial statements for the year ended 30 June 2020.

5.8.47 The increase in net cost of services is due to a \$15.0 million increase in employee benefits expenses as a result of increasing the total number of employees to meet operation needs. The increase in revenue from government relates to a number of budget measures that increased the total resourcing available to ASIO.

5.8.48 Assets increased as a result of \$79.0 million investment in property, plant and equipment to support operations; a \$24.4 million increase in trade and other receivables reflecting undrawn appropriations, largely as a result of delays in capital projects due to COVID-19 and the recognition of \$605.8 million right-of-use in accordance with AASB 16.

5.8.49 The increase in liabilities for the period mainly relates the recognition of lease liabilities of \$618.5 million in accordance with AASB 16.

Key areas of financial statements risk

5.8.50 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 2019–20 is provided in Table 5.8.11. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 5.8.11: 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 \$287.1 million employee leave provisions \$96.5 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 2019–20 audit results, and ASIO audited financial statements for the year ended 30 June 2020.

Audit results

5.8.51 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

5.9 Industry, Science, Energy and Resources 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, Science, Energy and Resources	Yes	Moderate	✓	31 Aug 20	31 Aug 20	Nil
Australian Nuclear Science and Technology Organisation	Yes	Moderate	E	13 Oct 20	13 Oct 20	▲
Australian Nuclear Science and Technology Organisation Nuclear Medicine Pty Ltd	Yes	Moderate	E	4 Nov 20	5 Nov 20	Nil
Clean Energy Finance Corporation	Yes	Moderate	✓	20 Aug 20	20 Aug 20	Nil
Clean Energy Regulator	No	Moderate	✓	25 Sept 20	25 Sept 20	□
Commonwealth Scientific and Industrial Research Organisation	Yes	Moderate	✓	07 Sept 20	07 Sept 20	Nil
Geoscience Australia	Yes	Low	✓	04 Sept 20	05 Sept 20	Nil
Snowy Hydro Limited	Yes	Moderate	✓	31 Aug 20	31 Aug 20	Nil

✓: auditor's report not modified

E: Auditor's report contains an emphasis of matter

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

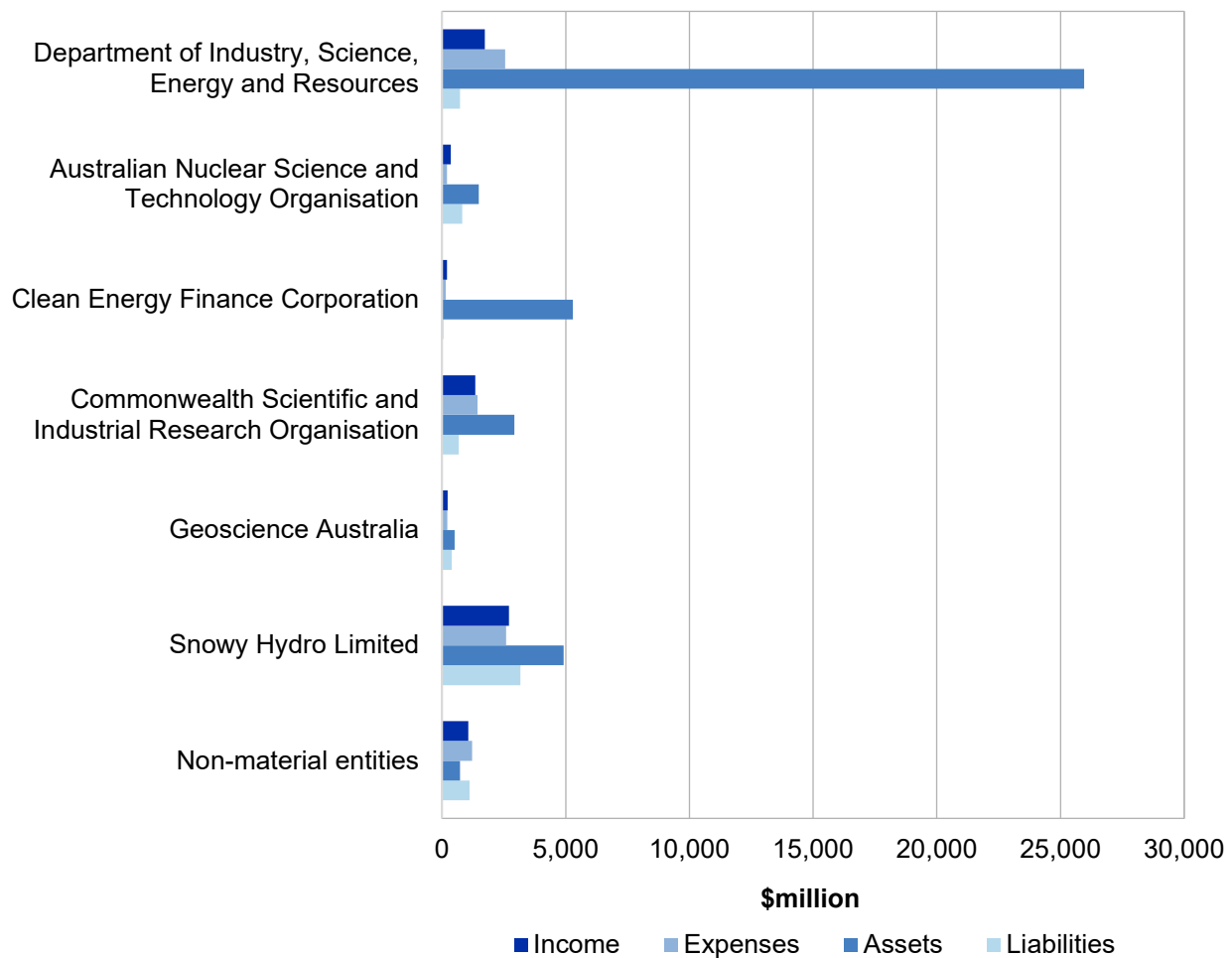
□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2019–20 interim audit phase, now downgraded or resolved

Portfolio overview

5.9.1 The Industry, Science, Energy and Resources portfolio is responsible for supporting science and its commercialisation; growing business investment and improving business capability; developing Northern Australia; streamlining regulation; developing and implementing a national response to climate change; improving Australia's energy supply, efficiency, quality, performance and productivity; and facilitating the growth of small and family business.

5.9.2 The Department of Industry, Science, Energy and Resources (Industry) is responsible for supporting science and its commercialisation; growing business investment and improving business capability; developing Northern Australia; streamlining regulation; developing and implementing a national response to climate change; improving Australia's energy supply, efficiency, quality, performance and productivity; and facilitating the growth of small and family business.

5.9.3 Figure 5.9.1 shows the Industry, Science, Energy and Resources Portfolio's income, expenses, assets and liabilities.

Figure 5.9.1: Industry, Science, Energy and Resources portfolio's income, expenses, assets and liabilities

Source: 2019–20 CFS.

5.9.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Industry, Science, Energy and Resources portfolio.

Table 5.9.1: The number of audit differences for entities in the Industry portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Industry, Science, Energy and Resources	–	3	3	3	3	6
Australian Nuclear Science and Technology Organisation	3	6	9	–	–	–
– ANSTO Nuclear Medicine Pty Ltd	–	3	3	–	3	3

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Clean Energy Finance Corporation	4	–	4	2	–	2
Commonwealth Scientific and Industrial Research Organisation	–	–	–	–	1	1
– National ICT Australia Limited	–	1	1	–	2	2
– Science and Industry Endowment Fund	–	–	–	–	1	1
Clean Energy Regulator	1	–	1	–	1	1
Climate Change Authority	–	–	–	–	1	1
IP Australia	–	–	–	–	1	1
National Offshore Petroleum Safety and Environmental Management Authority	–	3	3	–	2	2

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

5.9.5 The following sections provide a summary of the 2019–20 financial statements audit results for Industry and other material entities.

Department of Industry, Science, Energy and Resources

5.9.6 The Department of Industry, Science, Energy and Resources (Industry) is responsible for supporting science and its commercialisation; growing business investment and improving business capability; developing northern Australia; streamlining regulation; developing and implementing a national response to climate change; improving Australia’s energy supply, efficiency, quality, performance and productivity; and facilitating the growth of small and family business.

5.9.7 As a result of the Administrative Arrangement Order (AAO) effective 1 February 2020, the Department of Industry, Science, Energy and Resources was created from a merger of the Department of Industry, Innovation and Science; the energy and climate change functions (excluding climate science and adaptation) from the Department of the Environment and Energy; and small business functions from the Department of Employment, Skills, Small and Family Business. The new department continues to operate a grants hub and shared service centre, which provides other Commonwealth entities with administrative support, including grants administration and payments processing; human resources and financial transactions processing; and the management information systems to support these processes.

5.9.8 Consistent with the Australian Government’s response to the COVID-19 pandemic, Industry has implemented a number of measures aimed at supporting members of the Australian public who are likely effected by the pandemic. These measures include supporting access to personal protective and medical equipment, helping to ensure ongoing access to secure energy supplies, and addressing impediments in critical supply chains.

5.9.9 In delivering these measures, Industry did not make significant changes to internal controls or key governance arrangements.

Summary of financial performance

5.9.10 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by Industry, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.9.2: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(519.7)	(423.4)
Revenue from government	474.0	397.8
Surplus/(deficit) attributable to the Australian Government	(45.7)	(25.6)
Total other comprehensive income	8.6	0.7
Total comprehensive income/(loss) attributable to the Australian Government	(37.1)	(24.9)
Total assets	706.9	348.3
Total liabilities	504.8	165.7
Total equity	202.1	182.6

Source: Industry's audited financial statements for the year ended 30 June 2020.

5.9.11 Net cost of services increased due to an increase in employee benefits of \$61.0 million and supplier expenses of \$13.7 million as a result of the AAO; and an increase in depreciation and amortisation expenses of \$33.2 million following implementation of AASB 16. The increase in net costs of services was slightly off-set by increases in revenue as a result of the AAO by \$8.0 million and revenue generated from the shared services centre by \$13.0 million. Revenue from government increased by \$76.2 million due to the gain of functions as a result of the AAO.

5.9.12 Total assets increases due to an increase of \$318.1 million land and buildings a result of the implementation of AASB 16, increase in cash of \$20.6 million mainly due to the increased appropriation due to the AAO, increase in receivables of \$25.1 million due to increased National Measurement Institute analytical testing.

5.9.13 The increase in liabilities is primarily due to the application of AASB 16 and the associated recognition of lease liabilities of \$316.7 million.

Table 5.9.3: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	1,923.3	1,704.2
Total income	1,604.7	1,489.1
Surplus/(deficit)	(318.6)	(215.1)
Total other comprehensive income (loss)	(219.2)	(204.1)
Total comprehensive income/(loss)	(537.8)	(419.2)
Total assets administered on behalf of Government	25,246.9	3,650.6
Total liabilities administered on behalf of Government	226.5	103.3
Net assets/(liabilities)	25,020.4	3,547.3

Source: Industry's audited financial statements for the year ended 30 June 2020.

5.9.14 Total expenses largely increased as a result of the AAO, increase in supplier expenses of \$47.4 million, increase in payments to corporate Commonwealth of \$154.4 million and an increase in finance costs of \$71.1 million as a result of four new concessional loans from the Northern Australia Infrastructure Facility. This was slightly offset by a decrease in grant expenditure of \$61.8 million due to less demand and a reduction in milestone achievements attributed to the effects of COVID-19 pandemic.

5.9.15 Total income increased as a result of the AAO with the recognition of dividends from Snowy Hydro Limited of \$109.3 million. In addition, in preparation for closure of the Ranger Uranium Mine during the year ending 30 June 2021 Industry brought to account security funds for the rehabilitation of the Ranger Uranium Mine increasing income by \$454.0 million. This was partially offset by a reduction in Royalty revenue of \$434.7 million as a result of lower petroleum commodity prices due to global price volatility attributable to the COVID-19 pandemic.

5.9.16 As a result of the AAO, assets increased by \$21.6 billion. Cash assets increased by \$5.9 billion with the inclusion of the Clean Energy Finance Corporation Special Account and Ranger Rehabilitation Special Account, while Investments increased by \$15.6 billion with the inclusion of Snowy Hydro Limited, the Clean Energy Finance Corporation and the Australian Renewable Energy Agency.

5.9.17 Liabilities increased by \$123.2 million predominately as a result of the new Fuel Security Program purchase of crude oil reserves valued at \$86.4 million, an increase in supplier payables of \$22.4 million as a result of the AAO, and increase in loan commitments of \$56.5 million as a result of four new concessional loans from the Northern Australia Infrastructure Facility. This increase in liabilities was off-set by a reduction in grants payable of \$32.7 million due to less demand and a reduction in milestone achievements attributed to the effects of COVID-19 pandemic.

Key areas of financial statements risk

5.9.18 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

2019–20 are provided in Table 5.9.4, 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 5.9.4: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered royalties revenue \$969.8 million 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 \$104.9 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 cash based transactions.
Administered other investments \$18.9 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.
Administered loans (a component of trade and other receivables \$130.5 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 \$340.5 million Grants payable \$32.1 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 2019–20 audit results, and Industry's audited financial statements for the year ended 30 June 2020.

Audit results

5.9.19 There were no significant or moderate unresolved audit findings at the conclusion of the 2019–20 financial statements audit.

Australian Nuclear Science and Technology Organisation

5.9.20 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

5.9.21 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by ANSTO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.9.5: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(157.5)	(698.0)
Revenue from Government	281.9	214.2
Income tax benefit/(expense)	(0.2)	(0.1)
Surplus/(deficit) attributable to the Government	124.5	(484.0)
Total other comprehensive income/(loss)	(2.7)	(53.8)
Total comprehensive income/(loss) attributable to the Australian Government	121.6	(537.9)
Total assets	1,473.7	1,397.1
Total liabilities	900.2	1,026.4
Total equity	573.4	370.7

Source: ANSTO's audited financial statements for the year ended 30 June 2020.

5.9.22 Net cost of services decreased as a result of the \$114.6 million decrease in impairment expenses compared to 2018–19 when the ANM Mo-99 production facility was impaired and a \$301.6 million decrease in the decommissioning expense, with a gain of \$146.1 million being recognised in 2019–20. This was slightly offset by a \$36.7 million decrease in the sale of goods and rendering of services.

5.9.23 Revenue from government increased by \$67.8 million mainly relating to the Strengthening the Australian Nuclear Science and Technology Organisation measure.

5.9.24 Liabilities have decreased primarily as a result of the rephasing of planned decommissioning works to align with expected funding with the impact of reducing the decommissioning provision.

Key areas of financial statements risk

5.9.25 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 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 2019–20 are provided in Table 5.9.6.

Table 5.9.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Decommissioning provision \$745.4 million	Valuation of the decommissioning provision including radioactive waste	Moderate	<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.
Property, plant and equipment \$1,121.4 million intangible assets \$54.8 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.
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.
Total own-source revenue \$87.0 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.

Source: ANAO 2019–20 audit results, and ANSTO's audited financial statements for the year ended 30 June 2020.

Audit results

5.9.26 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.9.7: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1	–	–	1
Total	1	–	–	1

Source: ANAO 2019–20 audit results

Unsolved moderate audit findings

Financial statement process and position papers preparation process

5.9.27 As part of the year-end 2017–18 financial statements process it was agreed with ANSTO management that improvements were required 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. While progress was made by management in 2018–19 and 2019–20, there continued to be significant audit differences particularly in relation to the measurement of ANSTO’s decommissioning provisions. Accounting position papers from management did not always appropriately support assumptions used for significant areas of estimation and judgement, and accounting position papers were not provided to audit committee or the ANAO in a timely manner. As a result the finding remains unresolved and will be reviewed as part of the 2020–21 financial statements audit.

Emphasis of Matter

5.9.28 In the calculation of the decommissioning provision as at 30 June 2019, and previous years, cash flows were discounted using a rate that was identified as an error in accordance with AASB 108 *Accounting Policies, Changes in accounting estimates and errors*. ANSTO restated the prior year comparatives in the 2019–20 financial statements and provided appropriate disclosures. As a result, the 2019–20 auditor’s report contains an Emphasis of Matter drawing attention to the disclosure within the financial statements which describes the error in the calculation of the amounts reported for the decommissioning provision.

Australian Nuclear Science and Technology Organisation Nuclear Medicine Pty Ltd

5.9.29 ANSTO Nuclear Medicine Pty Ltd (ANM) is a wholly owned subsidiary of the Australian Nuclear Science and Technology Organisation (ANSTO). ANM was established to own and operate the new Molybdenum 99 (Mo-99) production facility at ANSTO’s campus.

Emphasis of matter

5.9.30 The auditor’s report for ANM’s financial statements included an emphasis of matter paragraph to draw attention to the notes of the financial statements which indicates that a material uncertainty exists that may cast significant doubt on ANM’s ability to continue as a going concern.

Clean Energy Finance Corporation

5.9.31 The Clean Energy Finance Corporation (CEFC) is a corporate Commonwealth entity established under the *Clean Energy Finance Corporation Act 2012*. The 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.

5.9.32 The CEFC seeks to mobilise capital investment in renewable energy, low-emissions technology and energy efficiency in Australia through commercial loans, concessional loans, equity investments and loan guarantees.

5.9.33 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 2020, the responsible ministers have also strongly encouraged the CEFC Board to prioritise investments that support reliability and security of electricity supply and make available from its original \$10 billion of funding, 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;
- \$200 million for debt and equity investment through the Clean Energy Innovation Fund;
- \$100 million for an Australian Recycling Investment Fund; and
- \$300 million in concessional finance through the Advancing Hydrogen Fund.

Summary of financial performance

5.9.34 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the CEFC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.9.8: Key financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	149.6	216.8
Revenue from government	1.9	–
Surplus/(deficit) attributable to the Australian Government	153.8	218.8
Total other comprehensive income	(7.0)	(0.1)
Total comprehensive income/(loss) attributable to the Australian Government	146.8	218.7
Total assets	5,291.6	4,891.4
Total liabilities	64.7	71.3
Total equity	5,226.9	4,820.1

Source: CEFC's audited financial statements for the year ended 30 June 2020.

5.9.35 The decrease in the net contribution by services is due to the increase in the impairment provision on loans and receivables primarily as a result of changes in industry specific factors including the impact of lower electricity prices on electricity related investments and the COVID-19 pandemic on property investments.

5.9.36 Total assets increased as a result of the increase in cash and cash equivalent of \$497.4 million as CEFC was unable to deploy all investments which were forecast mainly due to the Covid-19 pandemic.

Key areas of financial statements risk

5.9.37 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 2019–20 are provided in Table 5.9.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.9.9: 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 \$204.9 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 \$2.3 billion Other debt securities \$1.4 billion Other financial assets \$520.8 million Provision for concessional loans \$4.1 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 clean energy 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 \$5.1 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 2019–20 audit results, and CEFC's audited financial statements for the year ended 30 June 2020.

Audit results

5.9.38 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Commonwealth Scientific and Industrial Research Organisation

5.9.39 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

5.9.40 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by CSIRO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.9.10: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(797.1)	(871.9)
Revenue from government	837.9	834.6
Surplus/(deficit)	40.8	(37.3)
Total other comprehensive income	(176)	15.7
Total comprehensive income/(loss)	40.6	(21.6)
Total assets	3,057.2	2,853.5
Total liabilities	675.4	554.3
Total equity	2,381.8	2,299.2

Source: CSIRO's audited financial statements for the year ended 30 June 2020.

5.9.41 The decrease in the net cost of services is primarily related to the increase in gains of \$109.6 million compared to the prior year as a result of the valuation of equity instruments increasing by \$86.6 million.

5.9.42 The movement in assets and liabilities is primarily due to the initial recognition of right-of-use assets of \$191.3 million and lease liabilities of \$116.7 million on implementation of AASB 16.

Key areas of financial statements risk

5.9.43 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 2019–20 are provided in Table 5.9.11. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.9.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p>Revenue from contracts with customers – Rendering of Services \$406.3 million</p> <p>Trade and Other Receivables – Contract Assets \$31.9 million</p> <p>Suppliers – Contract Liabilities \$160.8 million</p>	<p>Completeness and accuracy of research project revenue and associated measurement of WIP and unearned revenue and Implementation of revenue in accordance with the amended account standard AASB 15 <i>Revenue</i>; and AASB 1058 <i>Income from Not-for Profit Entities</i></p>	Moderate	<ul style="list-style-type: none"> revenue is recorded with reference to contracted milestones and the stage of completion; the degree of judgement involved across a number of revenue from a variety of sources and funding models; the degree of judgement involved across a number of revenue from a variety of sources and funding models; and implementation of first time adoption of new accounting standards.
<p>Work in progress (a component of plant and equipment) \$559.2 million</p>	<p>Completeness and classification of ongoing asset capital projects</p>	Moderate	<ul style="list-style-type: none"> degree of judgement involved to ensure that relevant accounting standards are met and values do not exceed fair value; and balance is susceptible to errors of judgement.
<p>Carrying amount of right-of-use assets – Land and buildings \$189.2 million</p> <p>Lease liability \$116.7 million</p>	<p>Valuation and completeness of right-of-use assets and the associated liability due to the implementation of first time adoption of new accounting standard AASB 16</p>	Moderate	<ul style="list-style-type: none"> first time adoption of AASB 16; and the completeness of management's identification of leases and the selection of the appropriate accounting treatment under the transition provisions in AASB 16.
<p>Land and buildings \$1,608.2 million</p> <p>Plant and equipment \$559.2 million</p> <p>Investment properties \$49.4 million</p>	<p>Valuation of land and buildings, investment properties, and plant and equipment</p>	Moderate	<ul style="list-style-type: none"> the valuation requires significant judgement as investment properties and land and buildings can be specialised in nature with no readily available market reference points; and balances are sensitive to movements in assumptions adopted in the underlying valuation models and are subject to possible impairment.
<p>Provision for remediation (Woomera site) \$40.5 million</p>	<p>Valuation of the provision for remediation</p>	Moderate	<ul style="list-style-type: none"> inherent uncertainty associated with remediation works to be undertaken on waste material located at a remote location; and significant judgement required in the selection of the valuation model's assumptions.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Unlisted companies (a component of other investments) \$291.4 million	Valuation and disclosure of unlisted companies		<ul style="list-style-type: none"> the valuation requires significant judgement as these start-up entities are not publicly listed due to their diverse nature and being early stage development and funding arrangements.

Source: ANAO 2019–20 audit results, and CSIRO's audited financial statements for the year ended 30 June 2020.

Audit results

5.9.44 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Geoscience Australia

5.9.45 Geoscience Australia is Australia's pre-eminent public sector geoscience organisation and the nation's trusted advisor on the geology and geography of Australia. Geoscience Australia's work covers the Australian continent, the Australian marine jurisdiction and responsible jurisdictions in Antarctica. Geoscience Australia applies geoscientific capabilities to the opportunities and challenges that face the nation, to inform and support government, industry, decision makers and the public.

Summary of financial performance

5.9.46 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by Geoscience, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.9.12: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(181.5)	(182.8)
Revenue from government	191.3	184.4
Surplus/(deficit) attributable to the Australian Government	9.9	1.6
Total other comprehensive income	2.4	–
Total comprehensive income/(loss) attributable to the Australian Government	12.3	1.8
Total assets	507.4	144.9
Total liabilities	395.9	112.7
Total equity	111.6	32.2

Source: Geoscience's audited financial statements for the year ended 30 June 2020.

5.9.47 Revenue from government increased as a result of a \$6.9 million increase in government appropriations to support the continuation of the Exploring for the Future program, to map minerals, energy and groundwater potential in Northern Australia and South Australia, and

Digital Earth Australia, which uses satellite spatial data to help detect physical changes across the environment.

5.9.48 Total assets and liabilities increased mainly as result of recognising \$323.6 million right-of-use asset and \$329.0 million lease liabilities associated with the application of AASB 16.

5.9.49 Total liabilities was slightly offset by a decrease in other payables of \$15.7 million due to the de-recognition of the lease incentive straight-lining liability of \$13.0 million, decrease in unearned revenue from Commonwealth and state government income of \$1.5 million and decrease in staff redundancies payable of \$0.9 million compared to the prior year.

Key areas of financial statements risk

5.9.50 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 Geoscience'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 2019–20 are provided in Table 5.9.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.9.13: 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 \$3.2 million Plant and equipment \$35.8 million	Valuation of collections / plant and equipment	Moderate	<ul style="list-style-type: none"> Valuation of non-financial assets requires judgement and accounting estimation; Non-financial assets also includes positioning assets gifted from the Western Australian Government as part of the National Positioning Infrastructure project.
Unearned income from contracts with customers \$26.8 million	Deferred revenue and related income	Moderate	<ul style="list-style-type: none"> Recognition of revenue related to long-term contracts and the relevant deferred revenue balances at 30 June 2020 is a relatively complex process and requires judgement.

Source: ANAO 2019–20 audit results, and Geoscience's audited financial statements for the year ended 30 June 2020.

Audit results

5.9.51 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Snowy Hydro Limited

5.9.52 Snowy Hydro Limited (Snowy Hydro) is a government business enterprise whose primary business includes energy generation activities to supply the National Electricity Market and operating as a retail energy provider to over one million customers through the Red Energy and Lumo Energy brands. Snowy Hydro's energy generation capacity of 5,500 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 that will add 2,000 megawatts of on-demand generation and approximately 350,000 megawatt hours of large-scale storage to the National Energy Market.

Summary of financial performance

5.9.53 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by Snowy Hydro, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.9.14: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total revenue	2,710.3	2,869.5
Total expenses	2,594.3	2,393.5
Income tax expense	34.8	143.8
Profit for the period	81.2	332.2
Other comprehensive income	(140.3)	(85.6)
Total other comprehensive income attributable to the Australian Government	(59.1)	246.6
Total assets	4,912.9	4,119.3
Total liabilities	3,162.9	2,092.4
Total equity	1,750.0	2,026.9

Source: Snowy Hydro's audited financial statements for the year ended 30 June 2020.

5.9.54 Total revenue decreased due to a \$123.9 million decrease in generation revenue for the period, reflecting the drier conditions and forecast in the Snowy Mountains which decreased water flow and electricity generation and decreased electricity spot prices in the national electricity market in the second half of the financial year, partially offset by an \$58.3 million increase in retail electricity and gas revenue from Red and Lumo Energy due to an increase in the total number of customers contracted for utility supply and an increase in customer pricing.

5.9.55 Total profit decreased due to a \$204.4 million change in the value of financial instruments reflecting changes in the key valuation inputs into valuation models, including future electricity spot prices and the impact of decreased revenue as outlined above.

5.9.56 Total other comprehensive income decreased due to the impact of market changes on exchange and interest rate hedges recorded through other comprehensive income. As the hedges were placed against future rate increases, which did not eventuate due to the impact of the COVID-19 pandemic on the market these hedges are recorded in a liability position at 30 June 2020.

5.9.57 The increase in assets is due mainly to further construction activity for Snowy 2.0 during the period with a total of \$386.3 million in project costs capitalised and \$22.5 million in borrowing costs capitalised. This expenditure also impacted the balance of GST receivable and deferred tax assets, which increased commensurate with the increased expenditure on construction activity that is partially recoverable for tax purposes in future reporting periods.

5.9.58 The increase in liabilities is primarily due to the drawdown of the \$587.1 million loan facilities to fund construction of Snowy 2.0; and a \$204.4 million change in the value of financial instruments. The increase in liability position for financial instruments reflects the impact of changes in key inputs in the valuation model for these derivative contracts, particularly the decreased electricity prices expected to be received by Snowy Hydro under future contracts, based on estimated future electricity spot prices, and due to the impact of COVID-19 pandemic on financial markets which decreased interest rates and exchange rates at 30 June 2020.

Key areas of financial statements risk

5.9.59 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 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 2019–20 are provided in Table 5.9.15. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.9.15: 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 \$266.1 million Other Financial Liabilities \$781.1 million Decrease in the fair value of financial instruments \$204.4 million Decrease in other comprehensive income \$201.3 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. Some of the inputs were impacted by the economic effects of the COVID-19 pandemic.
Environmental certificate assets \$70.5 million	Valuation of renewable energy certificates	Higher	<ul style="list-style-type: none"> increased level of judgement applied by Snowy Hydro in determining the appropriate accounting treatment for renewable energy certificates and their valuation at balance date.
Trade receivables \$433.5 million (includes unbilled receivable of \$247.0 million)	Completeness and accuracy of the impairment of retail debtors	Higher	<ul style="list-style-type: none"> level of judgement applied by management in determining the estimate of expected life time credit loss on trade and other receivables. Management was required to consider the economic impact of events such as natural disasters and the COVID-19

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Allowance for doubtful debts \$40.4 million			pandemic in making these judgements which increased estimation uncertainty.
Capitalised customer acquisition costs \$110.2 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 \$247.0 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 \$1.1 billion	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 impairment model which requires assumptions to be made related to future cash flows and discount rates.

Source: ANAO 2019–20 audit results, and Snowy Hydro's audited financial statements for the year ended 30 June 2020.

Audit results

5.9.60 There were no significant or moderate audit findings arising from the 2019–20 and 2018–19 financial statements audits.

Comments on non-material entities

Clean Energy Regulator

5.9.61 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.

Resolved moderate audit finding

Privileged user management

5.9.62 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.

5.9.63 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.

5.9.64 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.

5.9.65 The ANAO noted in 2018–19 that significant progress was 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. However, as these controls were not embedded for a sufficient period to demonstrate ongoing operating effectiveness during the 2018–19 audit cycle, the ANAO required confirmation that the remaining risks were addressed during testing in 2019–20.

5.9.66 In 2019–20, the ANAO performed a follow up of this finding. Based on testing performed at final, sufficient evidence of the operating effectiveness of the monitoring processes was obtained to verify that previous issues were resolved and hence the finding was closed.

5.10 Infrastructure, Transport, Regional Development and Communications 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, Regional Development and Communications	Yes	Moderate	✓	2 Oct 20	2 Oct 20	□
Airservices Australia	Yes	Moderate	✓	16 Sept 20	18 Sept 20	Nil
Australian Broadcasting Corporation	Yes	Moderate	✓	25 Aug 20	25 Aug 20	□
Australian Communications and Media Authority	Yes	Low	✓	3 Sept 20	4 Sept 20	Nil
Australian Postal Corporation	Yes	Moderate	✓	20 Aug 20	20 Aug 20	Nil
Australian Rail Track Corporation	Yes	High	✓	15 Oct 20	15 Oct 20	Nil
Moorebank Intermodal Company Limited	Yes	High	✓	17 Sept 20	18 Sept 20	▲
National Capital Authority	Yes	Low	✓	31 Aug 20	1 Sept 20	Nil
National Gallery of Australia	Yes	Moderate	✓	24 Aug 20	25 Aug 20	Nil
National Library of Australia	Yes	Low	✓	14 Aug 20	17 Aug 20	Nil
NBN Co Limited	Yes	High	✓	6 Aug 20	6 Aug 20	Nil
WSA Co Ltd	Yes	Moderate	✓	24 Aug 20	24 Aug 20	Nil

✓: auditor's report not modified

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2019–20 interim audit phase, now downgraded or resolved

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

Portfolio overview

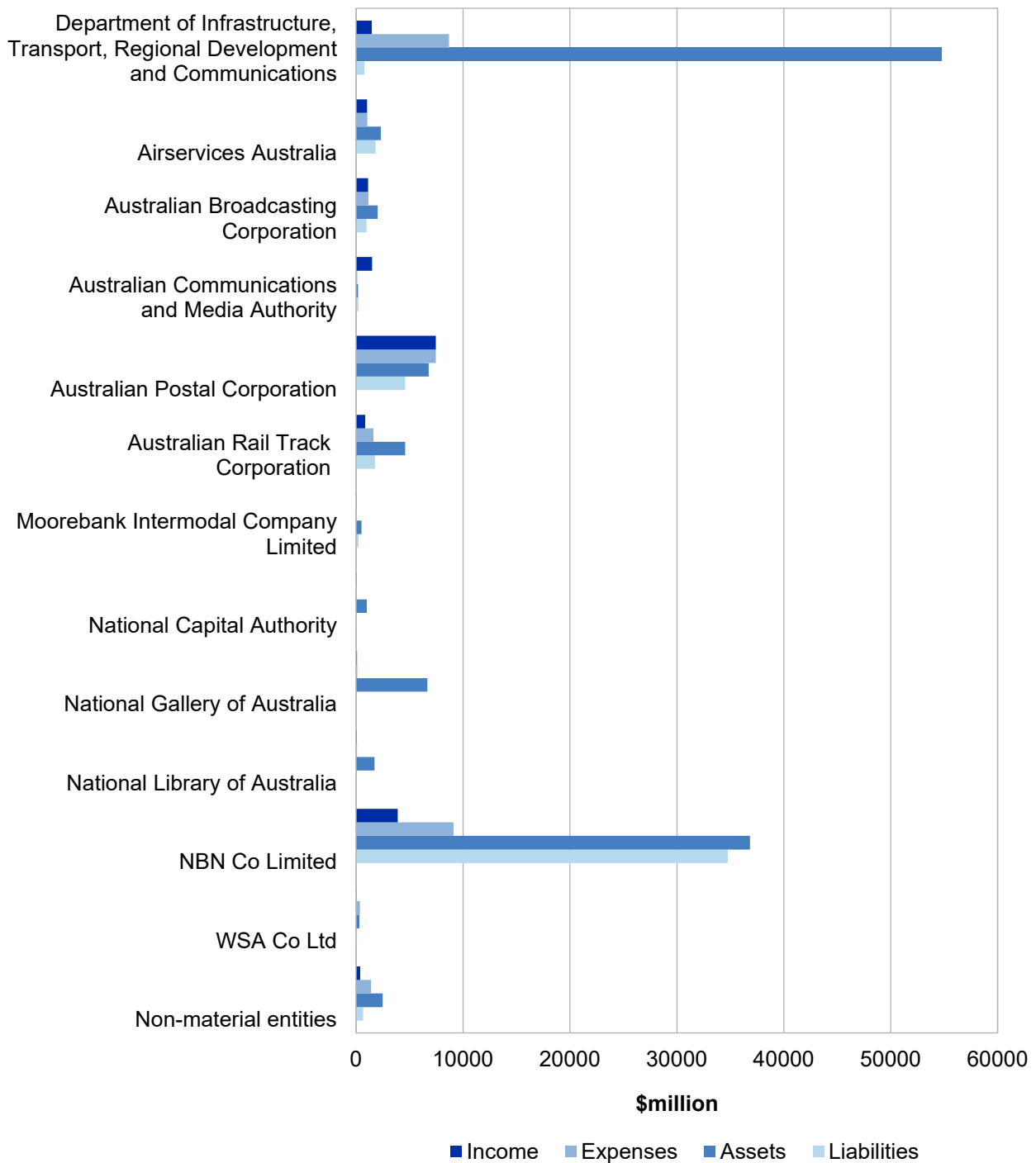
5.10.1 The Department of Infrastructure, Transport, Regional Development and Communications is the lead entity in the portfolio and supports the Australian Government's policies on infrastructure investments, regions and connecting Australians, and also supports an environment in which all Australians can access and benefit from communication services, creative experiences and culture.

5.10.2 The department was renamed by the Administrative Arrangements Order of 5 December 2019, with effect from 1 February 2020. The department combines the functions of

the previous Department of Communications and the Arts and the previous Department of Infrastructure, Transport, Cities and Regional Development.

5.10.3 Figure 5.10.1 shows the Infrastructure, Transport, Regional Development and Communications portfolio income, expenses, assets and liabilities.

Figure 5.10.1: Infrastructure, Transport, Regional Development and Communications portfolio's income, expenses, assets and liabilities



Source: 2019–20 CFS.

5.10.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Infrastructure portfolio.

Table 5.10.1: The number of audit differences for entities in the Infrastructure portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Infrastructure Transport, Regional Development and Communications ^a	–	–	–	4	2	6
Airservices Australia	–	–	–	–	1	1
Australian Broadcasting Corporation	–	5	5	1	–	1
Australia Business Arts Foundation	–	3	3	1	–	1
Australian Communications and Media Authority	–	1	1	1	4	5
Australian Film and Television Radio School	1	–	1	–	2	2
Australian Maritime Safety Authority	–	1	1	1	2	3
Australian Postal Corporation	1	–	1	–	–	–
Australian Rail Track Corporation	1	2	3	–	5	5
Australian Transport Safety Bureau	–	3	3	–	3	3
Bundanon Trust	2	4	6	1	–	1
Civil Aviation Safety Authority	–	–	–	–	1	1
Moorebank Intermodal Company Limited	2	2	4	2	3	5
National Capital Authority	1	–	1	1	2	3
National Film and Sound Archive	1	2	3	2	1	3
National Library of Australia	–	1	1	–	2	2
National Museum of Australia	–	1	1	–	1	1

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
National Portrait Gallery of Australia	1	–	1	2	–	2
National Transport Commission	1	1	2	–	3	3
NBN Co Limited	–	1	1	–	–	–
Special Broadcasting Service Corporation	–	–	–	1	–	1
WSA Co Ltd	–	2	2	–	2	2

Note a: The 2018–19 adjusted and unadjusted audit differences comprises the total reported audit differences for the former Department of Infrastructure, Transport, Cities and Regional Development and the former Department of Communications and the Arts.

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

5.10.5 The following sections provide a summary of the 2019–20 financial statements audit results for the Department of Infrastructure, Transport, Regional Development and Communications and other material entities.

Department of Infrastructure, Transport, Regional Development and Communications

5.10.6 The Department of Infrastructure, Transport, Regional Development and Communications (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; providing advice on population policy; implementing the national policy on cities; promoting an innovative and competitive communications sector; participation in and access to Australia's arts and culture through developing and supporting cultural expression; and supporting governance arrangements in the Australian territories.

5.10.7 Consistent with the Australian Government's response to the COVID-19 pandemic, Infrastructure has implemented a number of measures aimed at supporting members of the Australian public who are likely effected by the pandemic. These measures include:

- coordinated the administration of the Australian Governments \$1.0 billion 'Relief and Recovery' fund which was established for the purpose to provide rapid relief to the regions, communities and industry sectors most affected by the pandemic (across a number of areas);
- as part of the \$1.0 billion 'Relief and Recovery' fund, support for the aviation sector mainly through provision of cash subsidies, including for the purposes of keeping critical air routes open and to assist regional air service operators in maintaining financial viability (\$298.0 million funding committed);
- as part of the \$1.0 billion 'Relief and Recovery' fund, support to the creative arts sector mainly through provision of grant funding to assist regional and indigenous artists to develop new work and to support artists crew and music workers (\$27.0 million funding committed);

- supported the Australian Territories through the pandemic, through economic assistance in the form of grant funding for infrastructure projects and through increased health and specialist advice capacity.

5.10.8 To deliver these measures, Infrastructure made changes to internal controls and key governance arrangements including:

- implementing a temporary COVID-19 organisational structure which prioritised Infrastructure's response to COVID-19 impacted industries, regions and communities and the delivery of stimulus and support measures, balanced against the need to continue critical services and regulatory activities; and
- following this prioritisation seconded 125 staff to Services Australia to assist with the delivery of the Australian Government's emergency payments measures.

Summary of financial performance

5.10.9 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by Infrastructure, and includes commentary regarding significant movements between years contributing to overall performance.

5.10.10 A change to the Administrative Arrangements Orders, effective 1 February 2020, transferred all functions of the then Department of Communications and the Arts (Communications) to Infrastructure, and Communications was abolished. Infrastructure assumed responsibility for all outcomes and funding previously administered by Communications. As a result of this change, Infrastructure prepared financial statements in 2019–20 that encompassed the results of both Infrastructure and Communications as consolidated balances for the period 1 July 2019 to 30 June 2020.

Table 5.10.2: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 ^a Infrastructure (\$m)	2018–19 ^a Communications (\$m)
Net (cost of)/ contribution by services	(395.6)	(225.7)	(113.0)
Revenue from government	364.6	210.0	107.8
Surplus/ (deficit) attributable to the Australian Government	(31.0)	(15.7)	(5.2)
Total other comprehensive income	1.3	0.1	–
Total comprehensive loss attributable to the Australian Government	(29.7)	(15.6)	(5.2)
Total assets	396.4	177.2	93.0
Total liabilities	246.0	65.7	39.7
Total equity	150.4	111.5	53.3

Note a: The 2018–19 comparative figures displayed are for the former Department of Communications and the Arts and the Department of Infrastructure, Transport, Cities and Regional Development.

Source: Infrastructure's audited financial statements for the year ended 30 June 2020.

5.10.11 The increase in the net cost of services and revenue from government is due to \$12.0 million additional supplementation grants for the Arts portfolio entities and \$34.2 million emergency drought funding for the Drought Community Support Initiative.

5.10.12 The movement in assets and liabilities is primarily due to the increase of \$132.3 million of right-of-use assets and \$133.5 million of lease liabilities following the introduction of AASB 16. Fluctuations in other balances are considered to be a result of normal activities.

Table 5.10.3: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 ^a Infrastructure (\$m)	2018–19 ^a Communications (\$m)
Total expenses	8,272.6	4,760.5	2,433.5
Total income	1,145.9	563.5	401.7
Surplus/ (deficit)	(7,127.7)	(4,197.0)	(2,031.8)
Total other comprehensive income/ (loss)	4,297.7	(1,014.3)	(4,833.0)
Total comprehensive income/ (loss)	(2,829.0)	(5,211.3)	(6,864.8)
Total assets administered on behalf of Government	54,343.2	8,732.0	34,978.0
Total liabilities administered on behalf of Government	541.4	211.5	355.3
Net assets	53,801.8	8,520.5	34,622.8

Note a: The 2018–19 comparative figures displayed in this table is the consolidated result of the former Department of Communications and the Arts and the Department of Infrastructure, Transport, Cities and Regional Development.

Source: Infrastructure's audited financial statements for the year ended 30 June 2020.

5.10.13 Total administered expenses increased mainly due to aviation subsidy payments of \$608.6 million to support the aviation industry through the COVID-19 pandemic; and a \$489.1 million increase in grants expenses mainly due to additional grant funding rounds as a result of announced budget measures, including for the 'Roads to Recovery' program.

5.10.14 Total administered income increased mainly due to \$277.2 million additional interest generated on loans and advances. Drawdowns were made from the Westconnex motorway and NBN Co Limited loan facilities, therefore increasing the principal on which interest is calculated. The increase was partially offset by a \$70.6 million decrease in dividends received from corporate entities, such as Airservices Australia, in the Infrastructure portfolio due to the impact of the COVID-19 pandemic on trading conditions and profitability of these entities (from which dividends are declared).

5.10.15 Total assets increased by \$10.6 billion mainly due to an increases in advances and loans paid, particularly the significant NBN Co Limited loan facility where the NBN Co continued to access the loan during the period and drew an additional \$6.4 billion in principal. In addition there was a \$5.0 billion increase in the fair value of administered investments mainly as a result of:

- a \$5.1 billion increase in the value of NBN Co Limited with the change in valuation technique moving from the net assets method to the discounted cash flow model;

- a \$856.8 million decrease in the value of Airservices Australia and the Australian Rail Track Corporation given the impacts of the COVID-19 pandemic on its revenue sources, which are a primary input in the discounted cash flow valuation model; and
- a \$368.4 million increase in the value of the Australian Postal Corporation due to an increase in demand for parcel services due to the COVID-19 pandemic.

5.10.16 The increase in liabilities reflects the \$47.4 million increased expenses for subsidies payable as support measures for the aviation industry.

Key areas of financial statements risk

5.10.17 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 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 2019–20 are provided in Table 5.10.4, including areas considered Key Audit Matters (KAM) by the ANAO.

Table 5.10.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Investments – NBN Co Limited \$13.8 billion	Valuation of the Australian Government's investment in NBN Co Limited KAM	Higher	<ul style="list-style-type: none"> • Infrastructure adopted a different valuation technique from the previous period, with the revised technique focused on an income approach (previously recorded as a net assets investment). This required Infrastructure to develop an appropriate valuation model to estimate the fair value of NBN Co Limited. The adoption of the income approach in 2019–20 is considered appropriate given the transition of NBN Co Limited to an operational focus (and cash flows), from a primarily construction focus in previous periods; • the adopted valuation technique, a discounted cash flow model, is characterised by increased complexity and application of judgement. The use of this model requires Infrastructure to make significant judgements in the selection of assumptions and inputs, such as projected future cash flows, weighted average cost of capital, terminal values and discount rates that are based on primarily unobservable data; and the sensitivity of the valuation model to changes in the selection of key assumptions applied to the model, and • the significance of the balance of the investment in NBN Co Limited to the Australian Government's financial statements.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Investments – Australian Postal Corporation, Australian Rail Track Corporation and Airservices Australia \$5.9 billion	Valuation of the Australian Government's investment in the Australian Postal Corporation, Australian Rail Track Corporation and Airservices Australia KAM	Higher	<ul style="list-style-type: none"> valuations 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 projected future cash flows, weighted average cost of capital, terminal values and discount rates that are based on primarily unobservable data; level of estimation uncertainty created in the estimation of future cash flows, as noted above, due to the economic impacts of the COVID-19 situation, particularly on the revenue generating activities of each entity, specifically Airservices Australia given the exposure of revenues to international travel; and complexities in selecting the appropriate valuation approach to account for the valuation of the Australian Rail Track Corporation due to the construction and delivery of the \$9.1 billion Inland Rail project being undertaken by the company.
<i>Administered</i> advances and loans \$21.5 billion loan interest revenue \$735.6 million	Recognition and measurement of loans and advances KAM	Moderate	<ul style="list-style-type: none"> the significance of the balance of the loans administered by Infrastructure, mainly the \$19.5 billion facility available to NBN Co Limited, and the \$2.0 billion facility available to the proponents of the Westconnex Motorway project; level of management judgement involved in calculating expected credit losses including the recoverability of the loans at balance date. Particularly, for the loan to NBN Co Limited this is 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 complexity of the valuation and required calculations for loan balances which attract concessional terms, including the level of estimation required to determine the appropriate market rate for the concessional component of new loans.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
National Partnership Payments \$4.4 billion as reported as grants expenses by the Department of the Treasury	Occurrence of National Partnership Payment expenses	Moderate	<ul style="list-style-type: none"> complex and financially significant programs subject to detailed legislative conditions particularly imposed by the <i>National Land Transport Act 2014</i> and the 'Notes on Administration' which provide guidance to support the programs; and level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements.
<i>Administered</i> grants expense \$4.8 billion grants payable \$44.4 million	Occurrence of grant expenses	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.
Impacts all financial statements line items	Accuracy, completeness and validity of data in the Financial Management Information System (FMIS) implemented by Communications on 1 July 2019	Moderate	<ul style="list-style-type: none"> complexity of the process to implement a new FMIS by Communications given the complexity of the accounting processes and balances recorded; and increase in risk of misstatement where internal controls supporting the implementation, such as change management and privileged user access, do not operate effectively.
Impacts all financial statements line items	Machinery of Government changes, particularly the valuation and reporting of assets and liabilities transferred to and from Infrastructure as a result of such changes	Moderate	<ul style="list-style-type: none"> significance of the transfer of assets, liabilities, revenue and expenses from Communications to Infrastructure which will increase the complexity of the financial statements preparation process; and timely recognition and alignment of accounting policies for assets, liabilities, revenue and expenses transferred to Infrastructure.

Source: ANAO 2019–20 audit results, and Infrastructure's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.18 As previously noted in Auditor-General Report No.38 2019–20 *Interim Report on Key Controls of Major Entities* the ANAO's interim audit procedures identified weaknesses in the governance process and framework for the management of changes and privileged users within the FMIS implemented by Communications on 1 July 2019. As a result of these weaknesses the ANAO

adjusted the audit approach to mainly focus on substantive tests of detail in order to obtain sufficient and appropriate audit evidence in the absence of an effective control framework for transactions and balances initiated through the Communications FMIS. From 1 July 2020 the FMIS is no longer in use, and all transactions are now processed through the existing Infrastructure FMIS.

5.10.19 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.10.5: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	2 ^a	–	(2) ^b	–
Total	2	–	(2)	–

Note a: The two moderate findings included in the closing position for 2018–19 have been transferred from Communications. These findings relate to continuing processes now administered by Infrastructure following machinery of government changes.

Note b: The moderate audit finding ‘risk management practices relating to NBN Co’s loan facility’ was resolved at the interim phase of the audit as reported in ANAO Report No.38 2019–20 *Interim Report on Key Controls of Major Entities*.

Source: ANAO 2019–20 audit results.

Resolved moderate audit finding

Documentation of significant estimates and judgements

5.10.20 During 2018–19 the ANAO identified that Communications did not adequately compile documentation to support the accounting position adopted on key material estimates and judgments, relating mainly to the Australian Government’s investment in and loan to NBN Co Limited. Accounting position papers provided by Communications did not adequately address the application of the relevant accounting standard/s, consideration of alternative assumptions or outcomes, justification for the assumptions used and Communication’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.

5.10.21 In 2019–20, following the transfer in of Communications’ functions, Infrastructure took steps to address this finding and strengthen the planning and execution of the financial statement preparation process. Infrastructure implemented the following processes to address the risks identified in this finding:

- developed a timely and comprehensive financial statements preparation plan that included a detailed risk assessment, including on areas of accounting practice relating to estimation and judgement, which informed the financial statement preparation process; and
- critically documented significant accounting judgements in accounting position papers, including the valuation of administered investments, impairment of loans and advances, supported where appropriate by external technical or professional advice and subjected the judgements made to an appropriate governance and approval process, including review by a sub-committee of the Audit and Risk Committee.

5.10.22 As a result of the actions taken to address the finding the ANAO considers the finding to have been resolved.

Airservices Australia

5.10.23 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.

5.10.24 Consistent with the Australian Government's response to the COVID-19 pandemic, Airservices was involved in a number of measures aimed at supporting the Australian airline industry and the financial sustainability of Airservices. These measures included the government's decision to waive \$92.5 million in charges to airlines and receipt of government funding in lieu of reduced airways revenue due to the COVID-19-related downturn in aviation traffic. The government funding included \$250.0 million in 2019–20 with a further \$581.8 million due to be received in 2020–21. This has not resulted in any payments to the Australian public or changes to existing financial management internal controls.

Summary of financial performance

5.10.25 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by Airservices, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.6: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total income	1,021.5	1,127.1
Total expenses	1,058.0	1,039.3
Income tax expense	(11.5)	25.4
Profit/(loss) after income tax	(25.1)	62.4
Total other comprehensive income/(loss) after tax	(30.1)	(17.6)
Total comprehensive income/(loss)	(55.1)	44.8
Total assets	2,312.2	2,039.4
Total liabilities	1,815.5	1,289.7
Total equity	496.7	749.7

Source: Airservices' audited financial statements for the year ended 30 June 2020.

5.10.26 Total income has been significantly impacted by the COVID-19 pandemic with a reduction of approximately \$348.0 million of revenue from charges to external customers offset by receipt of \$250.0 million from government to supplement this reduced revenue.

5.10.27 Total expenses increased due to a \$20.0 million increase in impairment losses associated with expected credit losses on overseas debts as a result of the COVID-19 pandemic and

an increase in \$11.0 million depreciation expense mainly associated with the recognition of right-of-use assets, slightly offset by less write-down and impairment of assets compared to the prior year.

5.10.28 Total assets increased primarily as a result of assets under construction additions of \$294.5 million associated mainly with the replacement of the existing air traffic management system, and the recognition of \$134.3 million of right-of-use assets under AASB 16. This was partially offset by a \$152.4 million of depreciation and amortisation on these assets. A decrease in the value of defined benefit superannuation scheme assets of \$66.9 million and trade and other receivables of \$93.9 million was partially offset by an increase in cash and equivalents of \$136.1 million.

5.10.29 Total liabilities has increased mainly due to Airservices borrowing \$475.0 million to provide funds during the pandemic and the \$117.0 million recognition of lease liabilities under AASB 16.

Key areas of financial statements risk

5.10.30 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 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 2019–20 are provided in Table 5.10.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.10.7: 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 \$745.7 million	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 \$957.9 million assets under construction \$501.0 million intangibles \$87.4 million	Management, recognition and valuation of assets under construction, and existing, completed property, plant and equipment and intangibles	Higher	<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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Fair value of defined benefit plan assets \$842.4 million present value of the defined benefit obligation \$698.8 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.
Other financial assets \$17.4 million Borrowings \$1.2 billion Unused Credit Facilities \$715.0 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.
Aviation Rescue and Fire Firefighting Services (ARFFS) decontamination provision \$59.3 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.
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 2019–20 audit results, and Airservices' audited financial statements for the year ended 30 June 2020.

Audit results

5.10.31 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Australian Broadcasting Corporation

5.10.32 The Australian Broadcasting Corporation (ABC) is responsible for informing and 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

5.10.33 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the ABC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.8: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	1,135.6	1,149.1
Net cost of services	1,070.7	1,043.2
Revenue from government	1,062.2	1,045.9
Surplus/(deficit) attributable to the Australian Government	(8.5)	2.7
Total other comprehensive income/(loss)	(10.0)	35.6
Total comprehensive income/(loss) attributable to the Australian Government	(18.4)	38.3
Total assets	2,017.5	1,401.8
Total liabilities	964.2	330.1
Total equity	1,053.3	1,071.7

Source: ABC's audited financial statements for the year ended 30 June 2020.

5.10.34 The increase in net cost of services is driven predominately by a reduction in insurance recoveries revenue of \$37.5 million associated with building works for the ABC's Ultimo building.

5.10.35 Total revenue from government increased by \$16.4 million reflecting the indexation of funding to the ABC to continue to support local news and current affairs services and the impact of the pause in indexation on ABC's operational funding. The movement in revenue from government is also a result of the additional efficiency savings associated with savings in back office operations.

5.10.36 The increase in assets is a result of the initial recognition of right-of-use assets associated with the transition to AASB 16. As at 30 June 2020, the ABC recognised right-of-use assets associated with land of \$22.4 million, buildings of \$4.5 million and plant and equipment of \$628.7 million. The increase in total liabilities is a result of \$635.8m lease liabilities associated with implementation of AASB 16.

Key areas of financial statements risk

5.10.37 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 2019–20 are provided in Table 5.10.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.10.9: 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 \$712.9 million	Valuation and accuracy of land and buildings and assets held for sale	Significant	<ul style="list-style-type: none"> valuations are sensitive to changes in the assumptions used in the valuation models, and contain highly specialised components.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total assets inventories \$105.1 million	Valuation and accuracy of program inventory	Significant	<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 lease liability \$635.8 million Total assets right-of-use assets \$655.6 million	Accuracy and completeness of transition to AASB 16	Lower	<ul style="list-style-type: none"> 2019–20 was the first year of adoption of AASB 16. The transition to the new standard involves specific transition financial statement disclosures, new on-going financial statement disclosures and new on-going processes and controls surrounding the capture and calculation of amounts under the new standard.

Source: ANAO 2019–20 audit results and ABC's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.38 The following table summarises the status of the audit finding reported by the ANAO in 2018–19 and 2019–20.

Table 5.10.10: Status of audit finding

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1	–	(1) ^a	–
Total	1	–	(1)	–

Note a: The moderate audit finding relating to security management has been downgraded to a minor audit finding.

Source: ANAO 2019–20 audit results.

Resolved moderate audit finding

Security management

5.10.39 As part of the 2018–19 audit, the ANAO tested the effectiveness of the ABC's management of users and access controls, including for privileged users, and identified weaknesses in relation to the management of: domain and enterprise users; SAP HR users; and SAP Finance application users. The ANAO also identified weaknesses in relation to management of user access controls.

5.10.40 During the 2019–20 audit, the ANAO assessed the ABC's progress in resolving the weaknesses previously reported. The ANAO confirmed: all users with privileged access to the SAP Finance application (including users with the ability to implement changes) were appropriate; domain and enterprise administrator user accounts had been disabled appropriately; and SAP HR user accounts had been appropriately removed. The ANAO also confirmed that user access reviews had been completed.

5.10.41 The ANAO identified that weaknesses remained relating to the maintenance of evidence to confirm the completeness and accuracy of privileged user access reviews. As a result of the progress observed by the ANAO, this finding has been downgraded to a minor finding.

Australian Communications and Media Authority

5.10.42 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

5.10.43 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the ACMA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.11: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(107.2)	(102.1)
Revenue from government	96.0	90.2
Surplus/(deficit) attributable to the Australian Government	(11.2)	(11.9)
Total other comprehensive income/(loss)	0.6	(0.4)
Total comprehensive income/(loss) attributable to the Australian Government	(10.6)	(12.3)
Total assets	118.6	66.3
Total liabilities	82.1	28.6
Total equity	36.6	37.7

Source: ACMA's audited financial statements for the year ended 30 June 2020.

5.10.44 The increase in the net cost of services relates to a \$1.8 million increase in employee benefits due to an increase in average staffing levels and a reduction in the government bond rate in addition to a \$2.5 million increase in contractors expense due to work on the eSafety program.

5.10.45 The movement in asset and liabilities is primarily due to the recognition of \$52.2 million of right-of-use assets and \$53.4 million of lease liabilities associated with AASB 16.

Table 5.10.12: Key administered financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	10.7	13.8
Total income	1,415.3	705.1
Surplus/(deficit) after income tax	1,404.6	691.3
Total comprehensive income/(loss)	1,404.6	691.3
Total assets administered on behalf of Government	57.5	563.5
Total liabilities administered on behalf of Government	131.2	108.9
Net assets/(liabilities)	(73.7)	454.6

Source: ACMA's audited financial statements for the year ended 30 June 2020.

5.10.46 In 2019–20 total income increased as result of ACMA receiving the full proceeds from the sale of the spectrum access licences of \$852.9 million. As the sale was finalised in 2019–20 no accrued revenue for the licences was recognised as it had been in 2018–19 therefore resulting in a decrease in total assets administered on behalf of the Government. The increase in total income was partially offset by lower taxes and finance income, thereby resulting in an overall increase in income of \$710.2 million.

5.10.47 Total expenses decreased as a result of \$0.5 million less IT and communications expenditure in-line with the funding profiles of the administered budget measures for ACMA and a \$4.7 million decrease in impairment expenses as a result of bad debtors previously recognised as part of the impairment provision being recovered in 2019–20.

5.10.48 The increase in total liabilities administered on behalf of the government was due to the \$21.8 million increase in unearned revenue balances relating to radio communication licence fees paid up front which is primarily due to industry demand and timing of payments.

Key areas of financial statements risk

5.10.49 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 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 2019–20 is provided in Table 5.10.13. No significant or moderate audit findings were identified relating to this key area of risk.

Table 5.10.13: 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 \$1,415.3 million receivables and accrued revenue \$57.5 million payables – unearned income \$131.2 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 2019–20 audit results, and ACMA's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.50 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Australian Postal Corporation

5.10.51 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.

5.10.52 Consistent with the Australian Government's response to the COVID-19 pandemic, Australia Post has implemented a number of measures aimed at supporting members of the Australian public who are likely effected by the pandemic. These measures include:

- regulatory relief to Australia Post until 30 June 2021 in recognition of the operating constraints on the business as a result of the COVID-19 pandemic including:
 - extending the required delivery time for regular intrastate letters to up to five business days after the day of posting;
 - adjusting the delivery schedule (for metropolitan areas only) from every business day to every second business day, but with no change to delivery frequency in rural or remote areas; and
 - suspending the priority letters service.
- priority letters were processed and delivered as regular letters; and
- all delayed letter samples impacted by COVID-19 were included in the service performance result for the financial year ending June 2020 and therefore were not removed under a force majeure event; impacting the performance results from March to June 2020.

Summary of financial performance

5.10.53 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by Australia Post, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.14: Key financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total revenue and income	7,499.2	6,989.8
Total expenses	7,445.6	6,948.7
Profit/(loss) before income tax	53.6	41.1
Income tax benefits/(expenses)	(10.7)	(0.5)
Net profit/(loss) for the year	42.9	40.6
Total other comprehensive income/(loss)	(110.6)	(22.6)
Total comprehensive profit/(loss) for the year	67.7	18.0
Total assets	6,785.3	5,542.7
Total liabilities	4,582.2	3,229.6
Total equity	2,203.1	2,313.1

Source: Australia Post's audited financial statements for the year ended 30 June 2020.

5.10.54 Australia Post reported a decrease in total comprehensive income during 2019–20 which is reflective of the re-measurement of the Australia Post Superannuation Scheme defined benefit plans amounting to a loss of \$161.7 million. This is offset by its corresponding tax effect of \$48.5 million. This loss was further offset by the increase in the effective portion of fair value changes of \$2.3 million (before tax) relating to the revaluation of derivatives designated in cash flow hedges. The fluctuations in other balances reflect normal business activities.

5.10.55 The 2019–20 income tax expense in the current period has been impacted by tax benefits arising from non-assessable gains in the sale of properties (\$8.9 million) offset by non-deductible impairment of goodwill (\$3.1 million). The remainder of the increase is attributable to the increase in profits year on year.

5.10.56 The increase in assets was primarily attributed to the recognition of right-of use assets recorded on balance sheet as a result of the implementation of AASB 16. As a consequence of the AASB 16 implementation, there was also the recognition of Deferred Tax Assets as a result of bringing lease liabilities onto the balance sheet. The fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

5.10.57 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 2019–20 are provided in Table 5.10.15, 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 5.10.15: 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 \$92.2 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 \$507.7 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 \$626.9 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.
lease liabilities \$1,130.9 million and right-of-use assets of \$1,032.2 million	Accounting for AASB 16 and its disclosures KAM	Moderate	<ul style="list-style-type: none"> the significance of these balances to the financial statements as well as the complexity and judgments involved in the transition and application of AASB 16.

Source: ANAO 2019–20 audit results, and Australia Post's audited financial statements for the year ended 30 June 2020.

5.10.58 The following performance audit report was tabled during 2019–20 relevant to the financial management or administration of Australia Post:

- Auditor-General Report No.1 2019–20 *Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities*.

5.10.59 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

5.10.60 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Australian Rail Track Corporation

5.10.61 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 construction of 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 network. Inland Rail is a 1,700-kilometer rail line that will link Brisbane and Melbourne through regional Australia. Inland Rail is the largest rail freight infrastructure project ever undertaken in Australia.

Summary of financial performance

5.10.62 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by ARTC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.16: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	1,628.9	1,261.5
Revenue	852.3	847.7
Income tax expense	83.7	34.6
Profit/(loss) attributable to the Australian Government	(860.3)	(448.4)
Total other comprehensive income/(loss)	(29.5)	(138.5)
Total comprehensive income/(loss) attributable to the Australian Government	(889.8)	(586.9)
Total assets	4,405.2	4,599.0
Total liabilities	1,578.8	1,285.1
Total equity	2,826.5	3,313.9

Source: ARTC's audited financial statements for the year ended 30 June 2020.

5.10.63 Total expenses increased by \$367.4 million, contributing to the total loss recorded by ARTC, mainly due to impairment of non-financial assets recognised at fair value (refer to paragraph 5.10.64) and the continuing delivery of Inland Rail which increased project costs.

5.10.64 The decrease in total assets is mainly due to the valuation of property, plant and equipment, with ARTC recognising \$766.5 million of impairment charges during 2019–20. 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 2019–20 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 expected as a result of the impact of the COVID-19 pandemic resulting in weakening demand; and
- the increased expenditure on Inland Rail assets and reflecting the future cash flows and returns to ARTC in relation to this investment.

5.10.65 Total liabilities increased by \$293.7 million due to a number of factors including: the recognition of a lease liability of \$83.4 million due to AASB 16, \$125.0 million receipts from government for grant funded projects recognised as revenue over the life of the underlying infrastructure constructed with grant proceeds, and \$109.7 million drawdown of borrowings to support ARTC's capital and operating needs including contributions to the Inland Rail project.

Key areas of financial statements risk

5.10.66 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 2019–20 are provided in Table 5.10.17. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.10.17: 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 \$3.9 billion Impairment expenses \$366.6 million	Valuation of infrastructure assets	Higher	<ul style="list-style-type: none"> • the fair value of infrastructure assets is estimated using a complex discounted cash flow model; • the fair value model is subject to increased judgement and is sensitive to changes in assumptions, including forecasts of business performance, cash flows in future years and discount rates; and • in 2019–20, ARTC were required to make judgements around the impact of the COVID-19 situation on future cash flows and revenue growth, which materially impacted the calculated fair value.
Impairment expenses \$399.9 million	Recognition and valuation of assets under construction for the Inland Rail network	Higher	<ul style="list-style-type: none"> • judgement and estimation required by ARTC in apportioning capital and operating costs across the whole of term construction of the Inland Rail given the nature of the project, significance of the investment value and expected future returns on investment; and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> judgement and estimation applied in determining whether assets for Inland Rail are impaired. ARTC estimate impairment on these assets using a complex discounted cash flow model which incorporates management's judgements on future cash flows, revenue and discount rates.
Access Revenue \$761.2 million Trade receivables \$72.6 million	Completeness of access 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 (net) \$85.2 million Income tax expense \$83.7 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.
Deferred income – government grants \$657.8 million grant Income \$48.8 million	Occurrence and 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; and the nature of some grants from government means that ARTC recognise revenue (in accordance with the accounting standards) over a significant period of the operating life of an asset constructed.
Impacts multiple financial statements line items	Complexity of IT environment	Moderate	<ul style="list-style-type: none"> complexity and number of IT systems that support the recognition and processing of transactions and balances which have significant impact on the preparation of the financial statements.

Source: ANAO 2019–20 audit results, and ARTC's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.67 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Moorebank Intermodal Company Limited

5.10.68 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 has 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).

5.10.69 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

5.10.70 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by MIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.18: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	52.9	113.2
Total revenue	17.9	1.1
Income tax benefit	8.2	30.4
Income/(loss) for the year	(26.8)	(81.7)
Total other comprehensive income/(loss)	8.2	12.2
Total income/(loss) for the year	(18.6)	(69.5)
Total assets	515.3	450.5
Total liabilities	220.2	208.3
Total equity	295.2	242.2

Source: MIC's audited financial statements for the year ended 30 June 2020.

5.10.71 The increase in total revenue is due to the opening of the Moorebank import-export freight terminal, with the rail link generating finance lease income of \$9.1 million and a gain of \$7.5 million as a result of the fair value recognition of the rail access finance lease from 1 July 2019.

5.10.72 Total liabilities have increased as a result of 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 agreements and construction of Moorebank Avenue. The increase is a result of higher than forecast construction costs, which have been offset by the outflow of costs against this liability during the financial year. Total expenses decreased from the prior year reflecting the smaller increase in the total liability for the land and site preparation.

5.10.73 Total assets have increased due to \$30.7 million additional capitalised costs; and valuation increases in both the rail access lease asset of \$7.5 million and the Precinct Land Trust of \$15.0 million

Key areas of financial statements risk

5.10.74 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 2019–20 are provided in Table 5.10.19. MIC continues to have an unresolved moderate risk finding relating to the support and quality assurance over the financial statement close process.

Table 5.10.19: 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 \$209.1 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.
Non-financial assets – equity accounted investments \$180.0 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 – finance lease \$170.1 million	Valuation of the finance lease receivable for rail access charges	Moderate	<ul style="list-style-type: none"> valuation of the rail access lease is subject to judgements and estimates associated with a discounted cash flow methodology, including future cash flows, rates of return and discounting.
Deferred tax assets \$72.7 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 2019–20 audit results, and MIC's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.75 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.10.20: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1	–	–	1
Total	1	–	–	1

Source: ANAO 2019–20 audit results.

5.10.76 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that the MIC's 2019–20 financial statements were not materially misstated.

Unresolved moderate audit finding

Support and Quality Assurance over the financial statement close process

5.10.77 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 2019–20 final audit.

5.10.78 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 2020–21 audit.

National Capital Authority

5.10.79 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

5.10.80 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the NCA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.21: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(12.2)	(17.9)
Revenue from government	10.4	17.2
Surplus/(deficit) attributable to the Australian Government	(1.8)	(0.7)
Total other comprehensive income	(0.1)	–
Total comprehensive income/(loss) attributable to the Australian Government	(1.9)	(0.7)
Total assets	24.0	22.8
Total liabilities	6.6	5.8
Total equity	17.4	17.0

Source: NCA's audited financial statements for the year ended 30 June 2020.

5.10.81 The reduction in net cost of services is primarily due to the reclassification of \$8.0 million costs of maintaining national land in the Australian Capital Territory from departmental to administered to provide consistency with the recognition of the underlying property.

Table 5.10.22: Key administered financial statements items

Key financial statements items	2018–19 (\$m)	2018–19 (\$m)
Total expenses	42.4	37.1
Total income	22.8	23.6
Surplus/(deficit)	(19.6)	(13.5)
Total other comprehensive income	129.2	6.4
Total comprehensive income/(loss)	109.6	7.1
Total assets administered on behalf of Government	969.5	846.6
Total liabilities administered on behalf of Government	30.0	27.3
Net assets/(liabilities)	939.5	819.3

Source: NCA's audited financial statements for the year ended 30 June 2020.

5.10.82 Total expenses increased due to the reclassification of the costs relating to the national land from departmental to administered. In 2019–20 NCA also reported a one-off increase of \$3.1 million to develop a business case for upgrading the Commonwealth Avenue Bridge through strengthening, widening and safety barrier replacement. These effects were partially offset by lower impairment expenses following large adjustments in the previous financial year.

5.10.83 The reduction in total income predominantly relates to reductions in parking revenue and associated fines during periods of 'working from home' arrangements associated with the COVID-19 pandemic. These reductions were partially offset by an increase in cost recovery revenue following the transfer of estate costs to administered.

5.10.84 The increase in total assets was primarily due to a \$129.2 million revaluation increment on land, property, plant and equipment and \$22.8 million of asset additions.

Key areas of financial statements risk

5.10.85 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 2019–20 are provided in Table 5.10.23. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.10.23: 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 \$21.1 million Departmental other payables \$3.2 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 \$967.6 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 2019–20 audit results, and NCA's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.86 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

National Gallery of Australia

5.10.87 The National Gallery of Australia (the Gallery) 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

5.10.88 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the Gallery, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.24: Key financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(61.8)	(56.5)
Revenue from government	59.2	45.8
Surplus/(deficit) attributable to the Australian Government	(2.6)	(10.7)
Total other comprehensive income/(loss)	299.3	–
Total comprehensive income/(loss) attributable to the Australian Government	296.7	(10.7)
Total assets	6,665.1	6,345.4
Total liabilities	13.5	12.4
Total equity	6651.6	6,333.0

Source: The Gallery's audited financial statements for the year ended 30 June 2020.

5.10.89 The increase in net cost of services is largely due to \$4.6 million increase in supplier expenses and a \$3.4 million increase in employee expenses. Employee expenses increased primarily as a result of redundancy provisions recognised in accordance with the recently announced operational restructure. Supplier expenses increased largely as a result of in-kind support for exhibition productions for the Know My Name campaign.

5.10.90 The Gallery received additional government revenue of \$12.7 million for support whilst there was a decline in commercial revenue due to the COVID-19 pandemic.

5.10.91 Total assets increased predominantly as a result of a \$179.5 million increase in value of collection assets and \$118.4 million increase in the value of land and buildings. In addition, there was an increase in investments, with the Gallery investing the funding received in advance from government in term deposits. Total liabilities increased due to the provision for redundancies and offset by a decrease in payables due to reduced activity.

Key areas of financial statements risk

5.10.92 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 2019–20 are provided in Table 5.10.25. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.10.25: 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 \$6,159.3 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Buildings \$401.2 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 2019–20 audit results, and the Gallery's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.93 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

National Library of Australia

5.10.94 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

5.10.95 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the Library, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.26: Key financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(63.4)	(61.3)
Revenue from government	(54.5)	(54.7)
Surplus/(deficit) attributable to the Australian Government	(8.8)	(6.7)
Total other comprehensive income/(loss)	(7.5)	–
Total comprehensive income/(loss) attributable to the Australian Government	(16.4)	(6.4)
Total assets	1,705.0	1,710.0
Total liabilities	18.1	14.6
Total equity	1,687.0	1,695.1

Source: The Library's audited financial statements for the year ended 30 June 2020.

5.10.96 The increase in net cost of services is driven by a reduction in own source revenue of \$2.1 million as a result of a reduction in sales from the closure of the library bookshop as a result of the COVID-19 pandemic and a reduction in interest revenue from investments due to lower interest rates.

5.10.97 The decrease in assets is due to the decline in the value of Heritage and Cultural Assets of \$20.5 million, partially offset by an increase in the building value of \$5.3 million due to a revaluation that extended the useful life of the building and its components, as well as an increase of \$5.2 million in collection intangibles driven by the digitisation of the existing collection.

5.10.98 Total liabilities increased due to an increase in other payables of \$1.3 million driven by an increase in unearned income and the recognition of lease liabilities of \$1.3 million associated with the implementation of AASB 16.

Key areas of financial statements risk

5.10.99 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 2019–20 is provided in Table 5.10.27.

Table 5.10.27: 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 \$1.29 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 2019–20 audit results, and the Library's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.100 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits

NBN Co Limited

5.10.101 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*.

5.10.102 To support its customers and the community during COVID-19 pandemic, NBN Co:

- established a \$150.0 million fund to connect low income households with home schooling needs, support emergency and essential services, and assist small and medium sized business and residential customers facing financial hardship;
- enabled every Australian internet provider to order increased nbn network capacity of up to 40 per cent at no additional cost; and
- introduced initiatives, to support customers in regional and remote communities through increased data download limits for customers on Sky Muster services and for customers on Sky Muster Plus services, increased the range of applications that do not account to monthly data quotas.

Summary of financial performance

5.10.103 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the NBN Co, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.28: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Total income	3,881.0	2,858.0
Total expenses	9,119.0	7,737.0
Profit/(Loss) before income tax	(5,238.0)	(4,879.0)
Income tax benefit/(expense)	(1.0)	1.0
Net Profit/(loss) for the year	(5,239.0)	(4,878.0)
Total other comprehensive gain/(loss)	2.0	3.0
Total comprehensive loss for the year	(5,237.0)	(4,875.0)
Total assets	36,850.0	32,757.0
Total liabilities	34,750.0	25,420.0
Total equity	2,100.0	7,337.0

Source: NBN Co's audited financial statements for the year ended 30 June 2020.

5.10.104 In 2019–20, NBN Co generated revenue and income of \$3.9 billion and reported a net loss of \$5.2 billion, after taxation. Revenue increased by \$1.0 billion primarily driven by higher activations during the year (1.8 million premises). Net loss after taxation increased due to higher subscriber costs resulting from an increase in brownfield activations, and a higher depreciation and amortisation expense in line with the increase in network assets and intangible assets.

5.10.105 As at 30 June 2020, NBN Co reported total assets of \$36.9 billion, an increase of \$4.1 billion primarily due to an increase in network assets and intangible assets as the initial build was predominately completed, and the recognition of \$1.5 billion in additional right-of-use assets due to the application of AASB 16.

5.10.106 As at 30 June 2020, NBN Co reported total liabilities of \$34.8 billion, an increase of \$9.4 billion primarily due to the increases in borrowings, including the drawdown of \$6.4 billion from the Government loan facility and \$1.0 billion of working capital facilities, as well as an increase in lease liabilities of \$2.3 billion due to the application of AASB 16 and the recognition of incremental leases aligned with the progression of the roll out.

5.10.107 As at 30 June 2020, the contributed equity of \$29.5 billion has been offset by accumulated losses of \$27.4 billion.

Key areas of financial statements risk

5.10.108 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 2019–20 are provided in Table 5.10.29, 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 5.10.29: 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 \$33.7 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 \$0.9 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 their respective stage of completion at reporting date.
Subscriber costs \$2.4 billion Network assets \$33.4 billion Lease liabilities \$10.9 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 \$3.6 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 2019–20 audit results, and NBN Co's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.109 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

WSA Co Limited

5.10.110 WSA Co Limited was established to construct and operate Western Sydney International (Nancy-Bird Walton) 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.

5.10.111 The Australian Government plans 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. Bulk earthworks to prepare the airport site for stage one construction commenced in early 2020.

Summary of financial performance

5.10.112 The following section provides a comparison of the 2018–2019 and 2019–20 key financial statements items reported by WSA Co, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.10.30: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	364.3	252.9
Total revenue	0.9	0.9
Income tax benefit	–	–
Income/(loss) for the year/period	(363.5)	(252.0)
Total other comprehensive income	–	–
Total comprehensive income/(loss)	(363.5)	(252.0)
Total assets	295.5	117.9
Total liabilities	91.7	55.8
Total equity	203.8	62.1

Source: WSA Co's audited financial statements for the year ended 30 June 2020.

5.10.113 Total expenses increased as a result of increased site preparation activity, primarily earthworks, of \$90.5m and \$12.3m of expenses related to site decontamination.

5.10.114 The total comprehensive loss 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 2019–20 WSA Co received \$405.5 million of this funding from the Commonwealth. These funds are recorded as share capital and were not recognised in the statement of comprehensive income.

5.10.115 The increase in total assets of \$177.6 million is mainly due to increases in:

- the capitalisation of assets under construction in accordance with WSA Co's capitalisation policy. During 2019–20 significant construction and earthworks commenced on the airport site resulting in higher levels of expenditure and capitalisation of work in progress (\$129.5 million); and

- an equivalent increase in the balance of cash drawn and held in the WSA Co bank account (funded by the equity subscription agreement) to allow for additional working capital for the payment of larger invoices associated with increased activity and volume of earthworks and other construction activities (\$38.5 million).

5.10.116 The increase in total liabilities mainly relates to the provision for decontamination of the airport site. WSA Co have recognised a provision for remediation equal to the estimated expenses that will be incurred in performing required remediation activities at the airport site (mainly asbestos contamination from earlier land use).

Key areas of financial statements risk

5.10.117 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 2019–20 are provided in Table 5.10.31. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.10.31: 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 \$162.8 million supplier expenses \$300.8 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 method of project delivery; and • quantum of expenditure and attribution of expenditure that will be incurred in the construction of the airport.
Decontamination provision \$50.3 million decontamination expenses \$37.0 million	Recognition of provision for decontamination 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 and the actual 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 2019–20 audit results, and WSA Co's audited financial statements for the year ended 30 June 2020.

Audit results

5.10.118 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

5.11 Parliamentary Departments

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued
Department of Parliamentary Services	Yes	Moderate	✓	22 Sept 20	22 Sept 20

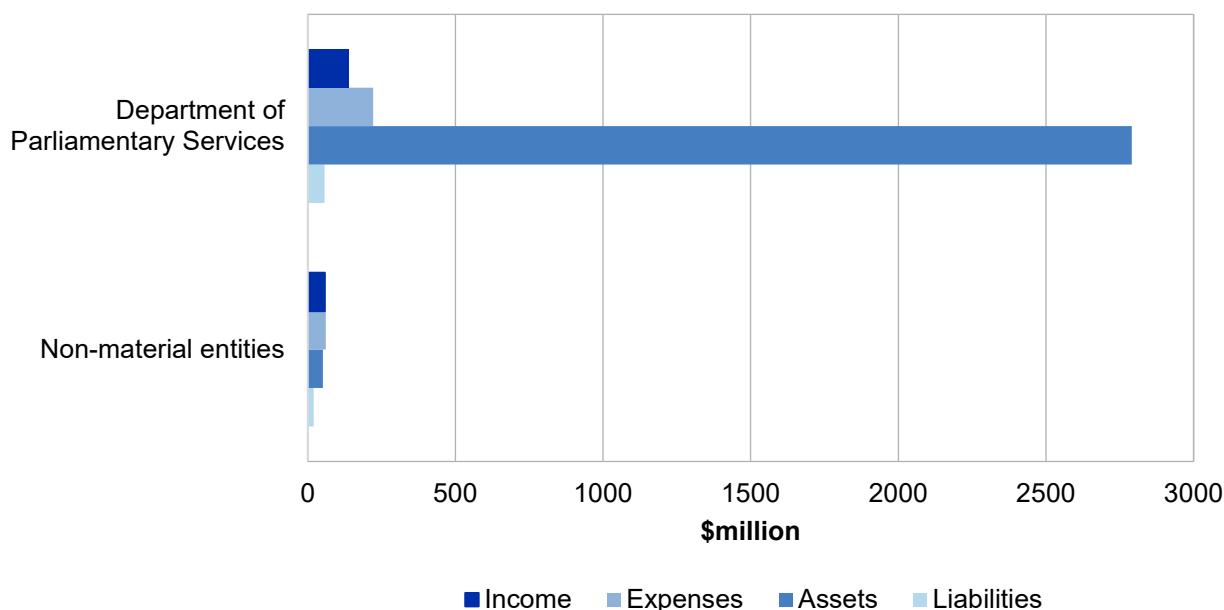
✓: auditor's report not modified

Portfolio overview

5.11.1 The Parliamentary Departments support the operation of the Parliament of Australia, its committees and members. There are four parliamentary entities: the Department of Parliamentary Services; the Department of the Senate; the Department of the House of Representatives; and the Parliamentary Budget Office.

5.11.2 Figure 5.11.1 shows the Parliamentary Departments' income, expenses, assets and liabilities.

Figure 5.11.1: Parliamentary Departments' income, expenses, assets and liabilities



Source: 2019–20 CFS.

5.11.3 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Parliamentary Departments.

Table 5.11.1: The number of audit differences for entities in the Parliamentary Departments

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Parliamentary Services	–	–	–	1	1	2
Department of the Senate	–	–	–	–	2	2
Parliamentary Budget Office	–	1	1	–	1	1

Source: Audit differences reported to entities in the Parliamentary Departments.

5.11.4 The following sections provide a summary of the 2019–20 financial statements audit results for the Department of Parliamentary Services, and findings related to non-material entities in the portfolio.

Department of Parliamentary Services

5.11.5 The Department of Parliamentary Services (DPS) is responsible for supporting the Parliament through the provision of a range of services, including library, Hansard, broadcasting, telecommunications, building security and maintenance.

Summary of financial performance

5.11.6 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by DPS, and includes commentary regarding significant movements between years contributing to overall performance.

5.11.7 Changes introduced in response to the COVID-19 pandemic have impacted DPS operations in the following ways:

- reduction in revenue due to the closure of Australian Parliament House (APH) resulting in lower than anticipated catering and events functions. There was also a reduction in related supplier costs;
- increase in Information and Communication Technology (ICT) supplier costs due to transition to increased functionality for a remote working environment; and
- increase in APH cleaning costs.

Table 5.11.2: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(155.3)	(148.5)
Revenue from government	124.7	126.3
Surplus/(deficit) attributable to the Australian Government	(30.7)	(22.1)
Total other comprehensive income/(loss)	(0.2)	0.4
Total comprehensive income/(loss) attributable to the Australian Government	(30.9)	(21.7)
Total assets	123.0	132.0
Total liabilities	36.8	32.0
Total equity	86.2	100.0

Source: DPS's audited financial statements for the year ended 30 June 2020.

5.11.8 Net cost of services has increased due to reduced revenue as a result of the closure of Australian Parliament House (APH) resulting in lower than anticipated catering and events functions, increase in Information and Communication Technology (ICT) supplier costs due to transition to increased functionality for a remote working environment; and an increase in APH cleaning costs.

5.11.9 The decrease in total assets is mainly due to continued depreciation of non-financial assets. All other fluctuations in balances reflect normal business activities.

Table 5.11.3: Key administered financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	53.1	50.9
Total income	5.5	0.0
Surplus/(deficit)	(47.6)	(50.9)
Total other comprehensive income/(loss)	25.2	88.0
Total comprehensive income/(loss)	(22.4)	37.1
Total assets administered on behalf of Government	2,668.0	2,596.2
Total liabilities administered on behalf of Government	19.6	5.8
Net assets/(liabilities)	2,648.4	2,590.3

Source: DPS's audited financial statements for the year ended 30 June 2020.

5.11.10 Total income increased during 2019–20 as an artwork piece was reclassified from asset held in trust to heritage and cultural assets. In addition, DPS undertook an asset valuation during 2019–20 that resulted in an increment for buildings and other plant and equipment of \$25.0 million against an increase of \$88.0 million in the prior year.

Key areas of financial statements risk

5.11.11 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2019–20 is provided in Table 5.11.4, and is considered a Key Audit Matters (KAM) by the ANAO.

Table 5.11.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> 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 2019–20 audit results, and DPS's audited financial statements for the year ended 30 June 2020.

Audit results

5.11.12 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

5.12 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	✓	21 Sep 20	22 Sep 20	Nil
National Indigenous Australians Agency	Yes	Moderate	✓	7 Sep 20	8 Sep 20	Nil
Indigenous Business Australia	Yes	Moderate	✓	2 Nov 20	2 Nov 20	Nil
Indigenous Land and Sea Corporation	Yes	Moderate	E	25 Sep 20	28 Sep 20	Nil
Aboriginal Hostels Limited	No	Moderate	✓	13 Nov 20	17 Nov 20	◆
Kakadu Tourism (GLC) Pty Ltd	No	Moderate	✓	23 Sept 20	30 Sept 20	◆
Northern Land Council	No	Moderate	—	—	—	▲L□
National Australia Day Council Ltd	No	Low	Q	27 Oct 20	27 Oct 20	Nil
Voyages Indigenous Tourism Australia Pty Ltd	Yes	High	E	17 Sep 20	18 Sep 20	Nil

✓: 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

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

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

Q: audit report contains qualification.

E: auditor's report contains an emphasis of matter.

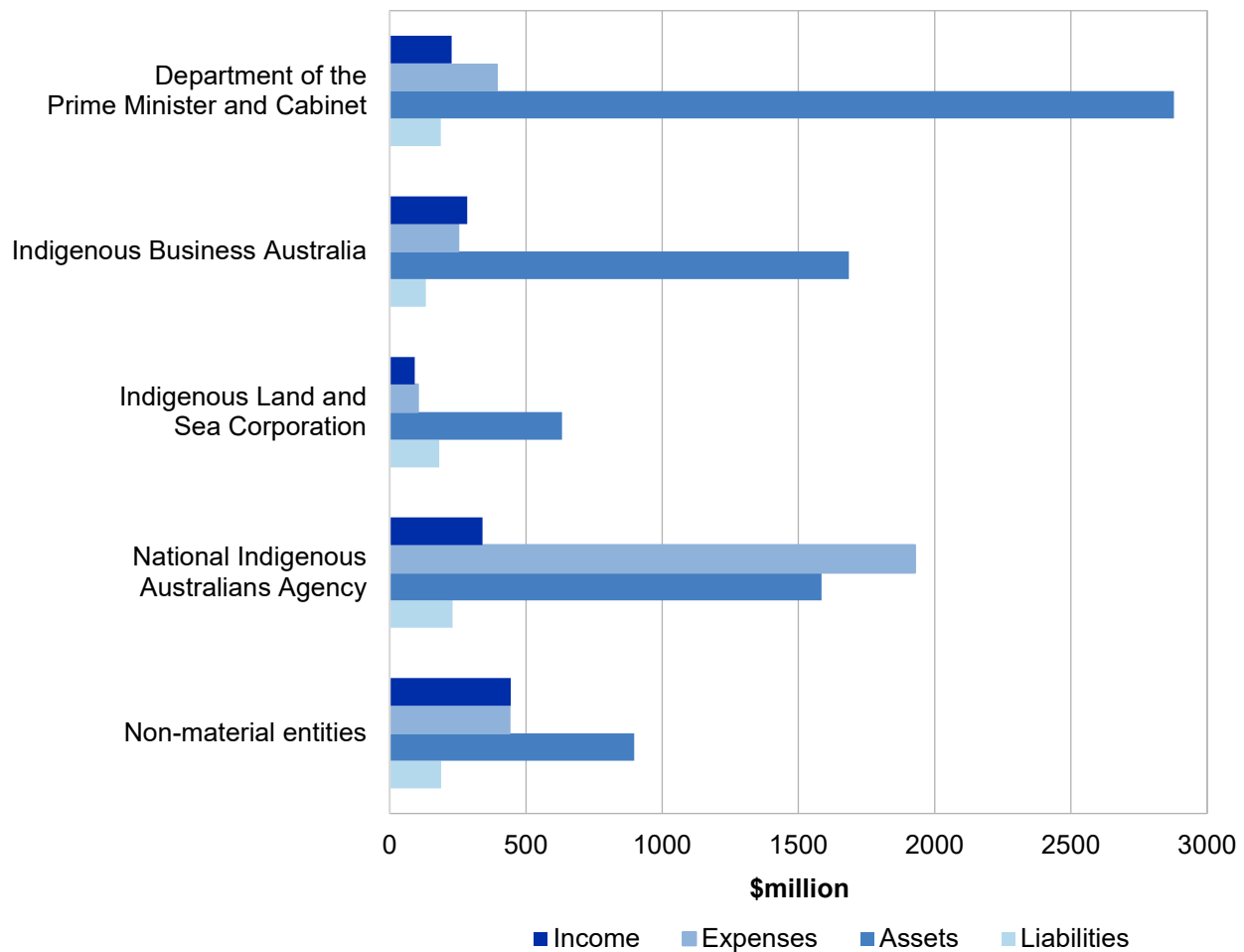
□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2019–20 interim audit phase, now downgraded or resolved

Portfolio overview

5.12.1 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, and providing services to Indigenous Australians.

5.12.2 The Department of the Prime Minister and Cabinet (PM&C) is the lead entity in the portfolio. The department's key purposes in 2019–20 were: to support the Prime Minister as the head of the Australian Government and the Cabinet and to provide advice on major domestic policy and international national security matters. The department also supported the National COVID-19 Co-ordination Commission and the National Bushfire Recovery Agency.

5.12.3 Figure 5.12.1 shows the Prime Minister and Cabinet portfolio's income, expenses, assets and liabilities.

Figure 5.12.1: Prime Minister and Cabinet portfolio's income, expenses, assets and liabilities

Source: 2019–20 CFS.

5.12.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those entities, within the Prime Minister and Cabinet portfolio, that had audit differences.

Table 5.12.1: The number of audit differences for entities in the Prime Minister and Cabinet portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of the Prime Minister and Cabinet	1	1	2	–	3	3
Aboriginals Benefit Account	–	–	–	–	1	1
Aboriginal Hostels Limited	1	1	2	–	2	2

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Anindilyakwa Land Council	–	1	1	1	–	1
Australian Institute of Aboriginal and Torres Strait Islander Studies	1	–	1	1	1	2
Australian Public Service Commission	1	2	3	–	–	–
Central Land Council	1	1	2	1	–	1
Indigenous Land and Sea Corporation	1	8	9	–	1	1
Indigenous Business Australia	–	–	–	–	1	1
- IBA Retail Property Trust	–	–	–	–	1	1
- Ikara Wilpena Enterprises Pty Ltd	–	–	–	–	4	4
- Indigenous Real Estate Investment Trust ^a	–	–	–	2	–	2
- Tennant Creek Foodbarn Partnership	–	–	–	–	2	2
- Tennant Creek Land Holding Trust ^a	–	–	–	–	1	1
- Wilpena Pound Aerodrome Services Pty Ltd ^a	–	–	–	–	1	1
- Primary Partners Pty Ltd	–	–	–	–	1	1
- National Centre of Indigenous Excellence Ltd	–	1	1	–	–	–
- Voyages Indigenous Tourism Australia Pty Ltd	–	2	2	–	2	2
National Australia Day Council Ltd	1	–	1	–	–	–
National Indigenous Australians Agency	1	2	3	–	–	–
Northern Land Council ^a	–	–	–	3	3	6
Office of National Intelligence	–	–	–	–	1	1
Old Parliament House	–	1	1	–	2	2
Outback Stores Pty Ltd	–	2	2	–	1	1

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Tiwi Land Council	–	–	–	–	1	1
Torres Strait Regional Authority	–	3	3	–	2	2
Workplace Gender Equality Agency	–	–	–	1	–	1
Wreck Bay Aboriginal Community Council	1	–	1	1	–	1

Note a: As at the 24 November 2020 the financial statements audits were not finalised.

Source: Audit differences reported to entities in the Prime Minister and Cabinet portfolio.

5.12.5 The following sections provide a summary of the 2019–20 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 the Prime Minister and Cabinet

5.12.6 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 for public service stewardship.

5.12.7 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.

5.12.8 Consistent with the Australian Government's response to the COVID-19 pandemic, the Department of the Prime Minister and Cabinet has hosted the National COVID-19 Commission Advisory Board (formerly the National COVID-19 Co-ordination Commission) since its announcement on 25 March 2020. The Board coordinates advice to the Australian Government on actions to anticipate and mitigate the economic and social impacts of the global COVID-19 pandemic. The activities of the Board are funded from the appropriations to the Department.

Summary of financial performance

5.12.9 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by PM&C, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.12.2: Key departmental financial statements items

Key departmental financial statement items	2019–20 (m)	2018–19 (\$m)
Net (cost of)/contribution by services	(178.3)	(431.8)
Revenue from government	165.4	404.9
Surplus/(deficit) attributable to the Australian Government	(13.0)	(26.9)
Total other comprehensive income	0.5	2.8
Total comprehensive income/(loss) attributable to the Australian Government	(12.4)	(24.1)
Total assets	235.8	262.0
Total liabilities	174.4	149.0
Total equity	61.4	113.0

Source: PM&C's audited financial statements for the year ended 30 June 2020.

5.12.10 On 1 July 2019 the Indigenous Advancement function transferred to the newly created NIAA as a result approximately half of the former PM&C staff and Regional Network staff were transferred to NIAA which contributed to the overall reduction in the net cost of services of \$253.5 million.

5.12.11 Revenue from government decreased by \$239.5 million as a result of the reduction in PM&C appropriations to reflect the transfer of staff and its Regional Network to NIAA on 1 July 2019.

5.12.12 The movement in assets mainly reflects the transfer of \$140.0 million of assets to NIAA and the recognition of \$116.6 million right-of-use assets as required by AASB 16. The increase in liabilities mainly reflects the \$66.8 million transfer of employee leave provisions and other liabilities to NIAA and the \$119.5 million recognition of lease liabilities as required by AASB 16.

Table 5.12.3: Key administered financial statements items

Key administered financial statement items	2019–20 (m)	2018–19 (\$m)
Total expenses	146.4	1,705.6
Total income	0.7	78.4
Surplus/(deficit)	(145.7)	(1,627.2)
Total other comprehensive income/(loss)	26.0	89.9
Total comprehensive income/(loss)	(119.7)	(1,537.3)
Total assets administered on behalf of Government	2,650.3	3,619.7
Total liabilities administered on behalf of Government	20.7	54.8
Net assets/(liabilities)	2,629.6	3,564.8

Source: PM&C's audited financial statements for the year ended 30 June 2020.

5.12.13 Total expenses decreased due to the transfer of the Indigenous function to NIAA on 1 July 2019. As part of this transfer, NIAA is now responsible for grants and payments to Aboriginal

Land Councils and the Indigenous Land and Sea Corporation. Total expenditure on those grants and payment in 2018–19 was \$1,524.5 million. Total expenses for PM&C in 2019–20 mainly related to the payment of grants to Commonwealth entities and companies in the PM&C Portfolio.

5.12.14 Total income and total assets reduced as the investments of the Aboriginals Benefit Account transferred to NIAA on 1 July 2019. Consequently interest on those investments is now earned by NIAA instead of PM&C.

Key areas of financial statements risk

5.12.15 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 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 2019–20 are provided in Table 5.12.4, including the areas which were 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 5.12.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> Asset \$140.7m Liabilities \$66.8m <i>Administered</i> Assets \$82.5m Liabilities \$35.0m	Existence, completeness and valuation of assets and liabilities transferred to the National Indigenous Australians Agency KAM	Moderate	<ul style="list-style-type: none"> the transfer of a significant portion of PM&C assets and liabilities to NIAA creates the risks that not all assets or liabilities are correctly identified or are transferred at the wrong amounts.
<i>Administered</i> investments in Commonwealth entities \$2.6 billion	Valuation of investments KAM	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.

Source: ANAO 2019–20 audit results, and PM&C's audited financial statements for the year ended 30 June 2020.

Audit results

5.12.16 There were no significant or moderate audit findings arising from the 2019–19 or 2019–20 financial statements audits.

Indigenous Business Australia

5.12.17 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

5.12.18 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the IBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.12.5: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	20.8	33.3
Revenue from government	9.5	9.7
Surplus/(deficit) before income tax on continuing operations	30.3	43.0
Surplus/(deficit) attributable to non-controlling interest	30.3	13.6
Surplus/(deficit) attributable to the Australian Government	30.0	29.4
Total other comprehensive income/(loss)	(1.0)	(0.9)
Total comprehensive income/(loss) attributable to the Australian Government	29.0	28.5
Total assets	1,684.5	1,570.3
Total liabilities	132.0	76.6
Total equity	1,552.5	1,493.7

Source: IBA's audited financial statements for the year ended 30 June 2020.

5.12.19 Net contribution by services decreased as a result an increase in supplier expenses of \$8.7 million due to the acquisition of the Tennant Creek BP Service Station; which also increased depreciation and amortisation expenses of \$3.1 million and a \$7.3 million increase in write-down and impairment of assets. This was offset by an increase in own source revenue of \$7.1 million due to additional operational revenue from the service station.

5.12.20 Total assets increased due to an increase of \$16.9 million for land and buildings as a result of initial recognition of AASB 16; \$31.7m increase in investment properties; an increase in cash held of \$23.0 million due to the funds relating to loan settlements and increases in home and enterprise loans of \$53.0 million.

5.12.21 Total liabilities increased by \$55.5 million due to \$25.0 million borrowing by a subsidiary acquired for a new acquisition, initial recognition of interest bearing liabilities of \$13.3 million under AASB 16 and payables of \$20.8 million that includes funds held for the COVID-19 financial support package.

Key areas of financial statements risk

5.12.22 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 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 2019–20 are provided in Table 5.12.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.12.6: 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 \$967.0 million Loans – Business Development and Assistance Program \$28.4 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 \$967.0 million Loans – Business Development and Assistance Program \$28.4 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.
Loans – Home Ownership Program \$967.0 million Loans – Business Development and Assistance Program \$28.4 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 \$166.4 million Property, plant and equipment \$20.3 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

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> unaudited management accounts are used for valuation of unlisted investments in associated entities.

Source: ANAO 2019–20 audit results, and IBA's audited financial statements for the year ended 30 June 2020.

Audit results

5.12.23 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Indigenous Land and Sea Corporation

5.12.24 The Indigenous Land and Sea Corporation's (ILSC's) purpose is to assist Aboriginal and Torres Strait Islander people to acquire and manage land so as to provide economic, environmental, social and cultural benefits; and to provide land management assistance to support the delivery of sustainable benefits from land acquisition. The ILSC's purpose also includes investing in water-based projects to generate social, cultural, environmental and economic opportunities that land and water ownership can bring to Indigenous Australians.

Summary of financial performance

5.12.25 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by ILSC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.12.7: Key financial statement items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(56.3)	(42.4)
Revenue from government	62.7	62.0
Surplus/(deficit) before income tax attributable to the Government	6.4	19.5
Income tax expenses/(benefit)	1.4	6.7
Surplus/(deficit) attributed to the Government	5.0	12.8
Total other comprehensive income/(loss)	(35.8)	13.4
Total comprehensive income/(loss) attributable to the Australian Government	(30.8)	26.2
Total assets	809.8	875.5
Total liabilities	361.3	397.2
Total equity	448.5	478.3

Source: ILSC's audited financial statements for the year ended 30 June 2020.

5.12.26 The COVID-19 pandemic has impacted on ILSC's operations and underlying result for 2019–20. Areas that were particularly affected were the operations of subsidiaries Voyages Indigenous Tourism Australia Pty Ltd and the National Centre of Indigenous Excellence Ltd who

reported reductions in revenue with corresponding decreases in expenditure throughout the period. The impact is expected to be temporary, however the recovery period remains uncertain.

5.12.27 The increase in net cost of services and decrease in surplus before income tax is largely attributable to a decrease in revenue of the subsidiary, Voyages Indigenous Tourism Australia Pty Ltd (Voyages), and an increase in the provision of grant funding to indigenous groups, in line with the objectives of ILSC. This is slightly offset by a decrease in expenditure related to operations across the ILSC group, as a result of the COVID-19 pandemic. The movement in revenue is the result of significantly lower tourist numbers to Ayers Rock Resort (the Resort) throughout 2019–20 due to travel restrictions and the temporary closure of the Resort due to the COVID-19 pandemic.

5.12.28 In 2019–20, an independent valuation of the Resort was undertaken resulting in a \$55.0 million decrease in the value of the Resort. The decrease in value of the Resort reflects the lack of visitors to, and temporary closure of, the Resort due to COVID-19. The current year decrease was recognised through the balance sheet and other comprehensive income, contributing to the decrease in total assets and increase to the total comprehensive loss in 2019–20.

5.12.29 There was a reduction in the net tax expense for 2019–20 reflecting the decreased profits recorded for the year due to a reduction in operations resulting from COVID-19. In addition, a decrease in the deferred tax liabilities for 2019–20 due to changes in taxable temporary differences as a result of the decrease in the valuation of the Resort, contributed to an overall decrease in liabilities for the year.

Key areas of financial statements risk

5.12.30 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 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 2019–20 are provided in Table 5.12.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.12.8: 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 \$420.0 million Land \$77.2 million	Valuation of Ayers Rock Resort	Higher	<ul style="list-style-type: none"> complexities in valuing Ayers Rock Resort due to the judgements and assumptions involved in determining future cash inflows driven by occupancy, room rates and uncertainties due to the travel restrictions as a result of COVID-19.
Interest bearing loans \$124.0 million	Financing of Ayers Rock Resort	Moderate	<ul style="list-style-type: none"> significant value of loans; 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, Plant and Equipment \$420.0 million Biological Assets \$31.1 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.
Total Revenue \$249.9 million Total Expenses \$243.5 million	Revenue and Expenditure	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 impact of COVID-19 on the operations of the ILSC Group.
Income Tax Expense \$1.4 million Deferred Tax Liability \$5.5 million	Tax Effect Accounting and Tax Loss Recognition	Moderate	<ul style="list-style-type: none"> complexities in the calculation of tax balances.
Biological Assets \$31.1 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 2019–20 audit results, and ILSC's audited financial statements for the year ended 30 June 2020.

Audit results

5.12.31 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Emphasis of Matter

5.12.32 The auditor's report on the 2019–20 financial report of the Indigenous Land and Sea Corporation (ILSC) includes an Emphasis of Matter (EoM) paragraph drawing attention to the entity's disclosures in respect of valuation uncertainties affecting its wholly owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd. The financial statements disclosure describes the significant uncertainty surrounding the assumptions used in the valuation of Ayers Rock Resort (ARR) and the forecast taxable profits which is used as a basis for the recognition of deferred tax losses and the subsequent impact on the ILSC Group's financial statement balances resulting from this uncertainty.

Voyages Indigenous Tourism Australia Pty Ltd

5.12.33 Voyages Indigenous Tourism Australia Pty Ltd (Voyages) is a wholly owned subsidiary of Indigenous Land and Sea Corporation. Voyages owns and operates Ayers Rock Resort in the Northern Territory. It also operates Mossman Gorge Centre located in Northern Queensland. These businesses operate tourism and hospitality training and employment initiatives to benefit Indigenous people.

Emphasis of matter

5.12.34 For the year ended 30 June 2020, as a result of the COVID-19 pandemic, there was increased uncertainty in the assumptions used on the future forecasts assumed in the models used to value Ayers Rock Resort. In addition, there is also significant uncertainty in the forecast taxable profits that the recognition of deferred tax losses has been based on, which are the same as those used in the valuation assessment of Ayers Rock Resort. As a result, an Emphasis of Matter has been included in the 2019–20 auditor’s report, drawing attention to the disclosure within the financial statements. The financial statements disclosure describes the significant uncertainty surrounding the assumptions used in the valuation of ARR and the forecast taxable profits which is used as a basis for the recognition of deferred tax losses.

National Indigenous Australians Agency

5.12.35 The National Indigenous Australians Agency (NIAA) was established on 29 May 2019 by an executive order of the Governor-General. The primary functions of NIAA, which were previously performed by the Department of the Prime Minister and Cabinet (PM&C), are to:

- lead and coordinate Commonwealth policy development, program design and implementation and service delivery for Aboriginal and Torres Strait Islander peoples;
- provide advice to the Prime Minister and the Minister for Indigenous Australians on whole-of-government priorities for Aboriginal and Torres Strait Islander peoples;
- lead and coordinate the development and implementation of Australia’s Closing the Gap targets in partnership with Indigenous Australians; and
- lead Commonwealth activities to promote reconciliation.

5.12.36 NIAA relies on several Australian Government agencies for the IT infrastructure to make payments under its programs, and for a range of corporate services. The majority of NIAA’s assets and liabilities were transferred from the Department of the Prime Minister and Cabinet.

Summary of financial performance

5.12.37 The following section provides analysis of 2019–20 key financial statements items reported by NIAA. As NIAA was established on 1 July 2019, no comparative financial information is presented.

Table 5.12.9: Key departmental financial statements items

Key departmental financial statement items	2019–20 (\$m)
Net (cost of)/contribution by services	(261.3)
Revenue from government	243.3
Surplus/(deficit) attributable to the Australian Government	(17.9)
Total other comprehensive income	(1.5)
Total comprehensive income/(loss) attributable to the Australian Government	(19.4)
Total assets	287.0
Total liabilities	205.2
Total equity	81.8

Source: NIAA's audited financial statements for the year ended 30 June 2020.

5.12.38 The most significant expenses relate to payments to supplier (\$86.2 million) and employee expenses (\$154.5 million). Total assets at 30 June 2020 primarily consists of \$202.4 million of non-financial assets. These are mainly associated with \$75.2 million of land and buildings that transferred from PM&C on 1 July 2019 and \$142.9 million of leased assets that were capitalised in accordance with AASB 16 on the same day, less depreciation over the course of 2019–20. NIAA also reports \$15.8 million of intangible assets, mainly in the form of computer software, and \$64.4 million in appropriation receivable.

5.12.39 Total liabilities at 30 June 2020 primarily comprise \$53.8 million in provisions for employee leave and \$129.9 million in lease liabilities. On 1 July 2019, \$66.8 million of employee leave and other liabilities transferred from PM&C and \$142.9 million in lease liabilities were recognised in accordance with AASB 16. NIAA also reports \$14.2 million in supplier and other payables.

Table 5.12.10: Key administered financial statements items

Key administered financial statement items	2019–20 (\$m)
Total expenses	1,655.9
Total income	97.7
Surplus/(deficit) after income tax	(1,558.2)
Total other comprehensive income after income tax	–
Total comprehensive income/(loss)	(1,558.2)
Total assets administered on behalf of Government	1,297.5
Total liabilities administered on behalf of Government	25.1
Net assets/(liabilities)	1,272.4

Source: NIAA's audited financial statements for the year ended 30 June 2020.

5.12.40 The most significant expenses are grants under the Indigenous Advancement Strategy (\$1,331.4 million), payments related to Land Councils (\$198.2 million) and payments to the Indigenous Land and Sea Corporation (\$54.1 million). The latter are funded by a transfer from the Indigenous Land and Sea Future Fund, which is included as income in the above table.

5.12.41 Assets primarily comprise term deposits held in the Aboriginals Benefit Account Special Account (\$1,238.0 million). These term deposits transferred from PM&C on 1 July 2019. Liabilities chiefly comprise grants payable (\$21.4 million).

Key areas of financial statements risk

5.12.42 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 NIAA'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 2019–20 are provided in Table 5.12.11, including the areas which were 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 5.12.11: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Grants expense \$1,331.0 million	Performance of grantees in meeting grant conditions KAM	Higher	<ul style="list-style-type: none"> significant number and value of grants paid; performance by grantees is delivered around Australia, often in remote areas; and payments rely on several IT systems operated by different Australian Government entities.
<i>Departmental</i> Assets \$140.7 million Liabilities \$66.8 million <i>Administered</i> Assets \$1,125.0 million Liabilities \$35.0 million	Accuracy and completeness of assets transferred from the Department of the Prime Minister and Cabinet (PM&C). KAM	Moderate	<ul style="list-style-type: none"> the majority of NIAA's assets and liabilities were transferred from PM&C, with the risk that some assets and liabilities were not correctly identified or transferred at the wrong amount.
<i>Departmental</i> Non-financial assets \$218.2 million	Valuation of non-financial assets	Moderate	<ul style="list-style-type: none"> substantial holding of land, buildings, plant and equipment; and assets are dispersed around Australia, often in regional areas where information on fair value is less accessible.

Source: ANAO 2019–20 audit results, and NIAA's audited financial statements for the year ended 30 June 2020.

Audit results

5.12.43 There were no significant or moderate audit findings arising from the 2019–20 financial statements audits.

Comments on non-material entities

Aboriginal Hostels Limited

5.12.44 Aboriginal Hostels Limited (AHL) provides culturally safe, fit-for-purpose, affordable accommodation for Indigenous Australians who need to be away from home to access employment opportunities, and health, education and other services.

New significant audit finding

Corporate governance arrangements

5.12.45 The ANAO identified that key processes required by the AHL Constitution were not followed in regards to the termination of the previous Chief Executive Officer (CEO) and the appointment of a new CEO. The ANAO also identified an absence of appropriate controls surrounding a number of procurements and a lack of evidence of conflict of interest declarations. Issues were also identified in relation to the engagement of non-ongoing staff through processes that did not involve bringing the vacancies to the attention of the community in circumstances where there appears to be an ongoing need for particular roles.

5.12.46 The ANAO has recommended that AHL implement an improved governance framework, human resources policies and procurement policies to address the issues identified.

Kakadu Tourism (GLC) Pty Ltd

5.12.47 Kakadu Tourism (GLC) Pty Ltd (Kakadu Tourism) is a for-profit Company limited by shares. The shareholders of the company are Indigenous Business Australia and Gagudju Association Incorporated. The principal activities are the operation of water and land based tours, accompanied by accommodation and hospitality services.

New moderate audit finding

Financial statements systems and controls

5.12.48 During the audit of the 2018–19 financial statements, the ANAO identified a number of weaknesses in the systems and controls used to produce information used to support the financial statements. The ANAO recommended that Kakadu Tourism implement quality control policies and assurance procedures to ensure the quality and validity of financial statements presented for audit. The Board of Kakadu Tourism have engaged an independent business services firm to provide assistance in developing procedures and controls to support quality financial reporting. The ANAO will review progress of the finding during planning for the 2019–20 financial statements audit.

National Australia Day Council

5.12.49 The core mission of the National Australia Day Council (NADC) is to help build national pride and unity through key annual programs - Australia Day and the Australian of the Year Awards. The NADC also actively supports citizenship through promotion of the Australian Citizenship Affirmation.

Qualification

5.12.50 In 2019–20 the NADC recognised \$2.66 million of revenue as deferred revenue under AASB 15 *Revenue from Contracts with Customers* (AASB 15). AASB 15 establishes criteria that must be met for revenue to be included within the scope of this standard.

5.12.51 The ANAO assessed that the terms and conditions of the underlying contracts did not meet the criteria to be included within the scope of AASB 15, and as such Australian Accounting Standards require that the NADC recognise revenue for these contracts when it receives cash under AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058). Had the NADC recognised the revenue at the time it received the cash, an additional amount of \$2.66 million would have been recognised as revenue for the year ended 30 June 2020, resulting in an increase in total comprehensive income of \$2.66 million. A corresponding decrease would also be recognised in deferred revenue and total current liabilities for the year ended 30 June 2020, resulting in an increase in net assets of the same amount.

5.12.52 The ANAO considered the impact of the misstatement on the 2019–20 financial report and determined that the amount was material. As the amount was considered material, but not pervasive to the financial report, the ANAO issued a qualified audit report.

Northern Land Council

5.12.53 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.

Unresolved significant legislative breach

Royalty Trust Account

5.12.54 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.

5.12.55 Consistent with prior years, based on the sample testing performed in 2019–20 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.

5.12.56 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.

5.12.57 In 2019–20 the NLC completed the reconciliation of the royal trust account, where the unreconciled balance was revised from \$2.8 million as reported in 2018–19 to \$1.73 million. The ANAO reviewed of the royalty trust account reconciliation and on a sample basis, testing was performed over the reconciliation and interest allocation process. Based on the samples tested, no issues were noted for the interest allocation process as at 30 June 2020. The overpayment of

administration fees to the NLC noted in 2018–19 from royalty trust contracts was corrected in 2019–20.

5.12.58 The ANAO did identify exceptions at interim in relation to contracts that had an overdrawn trust account balance however these were fully adjusted against the administration fees payable to NLC at 30 June 2020. NLC management has worked with the system consultants on implementing an IT control where the system will not process any payments relating to royalty trust accounts, if the payment results in a negative balance. This was completed in October 2020 and will be tested by the ANAO in the 2020–21 audit.

5.12.59 NLC management advised that since March 2020, the Royalty Unit formally implemented reporting processes to expedite distribution to Traditional Owners however testing performed by the ANAO subsequent to this date continued to identify non-compliance. The ANAO will review these and any new processes implemented as part of the 2020–21 audit.

5.12.60 In August 2020, NLC management advised that the legal process was in progress to ensure that the unallocated funds will be allocated by June 2021 however the NLC Executive Council and management were yet to formulate the final plan for the unallocated funds. The ANAO will review the NLC's progress as part of the 2020–21 audit.

Unresolved moderate audit finding

Payroll exceptions

5.12.61 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. The finding was upgraded to a moderate finding in 2018–19. In 2019–20, the ANAO continued to identify a number of internal control weaknesses.

5.12.62 The NLC management advised that the People Services Team had implemented controls and measures in 2020–21 to improve and further streamline the procedures and payroll processing to ensure an accurate and timely payroll service to the organisation. The ANAO will review progress in addressing this finding as part of the 2020–21 audit.

Resolved significant legislative breach

Audit of Northern Land Council's Subsidiaries Under s44 of the PGPA Act

5.12.63 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.

5.12.64 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.

5.12.65 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 prior financial years (2017–18 and 2018–19 financial years for NAAC and 2012–13 to 2018–19 financial years for NAACT). Failure to identify and appropriately notify the ANAO resulted in a breach of the PGPA Act.

5.12.66 In 2019–20, NLC management confirmed that the NLC continues to have control over NAAC, NAIC and NAACT, and advised that the board of the NLC's subsidiary entities have appointed the ANAO as their auditors as required by the PGPA Act. Further, NLC management undertook the process to obtain conflict of interest declarations signed by key management personnel to review any other entities that are commonly controlled that may need to be consolidated. No new subsidiaries were noted. As a result, this audit finding is considered resolved and is now closed. The ANAO will continue reviewing the processes performed by the NLC in relation to KMP declarations and if there are any changes in relation to control in NAAC, NAACT/NAIC in future years.

Resolved moderate audit findings

Financial Statement Close Process

5.12.67 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.

5.12.68 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.

5.12.69 In 2019–20, the ANAO noted that there were improvements in the financial statement close process, including the provision of a detailed financial statement preparation plan for 2019–20 which addressed key timelines, roles and responsibilities; improved processes in relation to the request, receipt and evaluation of key management personnel declarations; and improved quality assurance processes compared to the prior year. Based on the improvements noted, the finding was resolved at 30 June 2020.

5.13 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 issues identified
Department of Social Services	Yes	Moderate	✓	18 Sept 20	18 Sept 20	Nil
Australian Hearing Services	Yes	Low	✓	17 Aug 20	17 Aug 20	Nil
National Disability Insurance Scheme Launch Transition Agency	Yes	Moderate	✓	16 Sept 20	16 Sept 20	◆□
Services Australia	Yes	Moderate	✓	28 Aug 20	28 Aug 20	◆▲

✓: 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

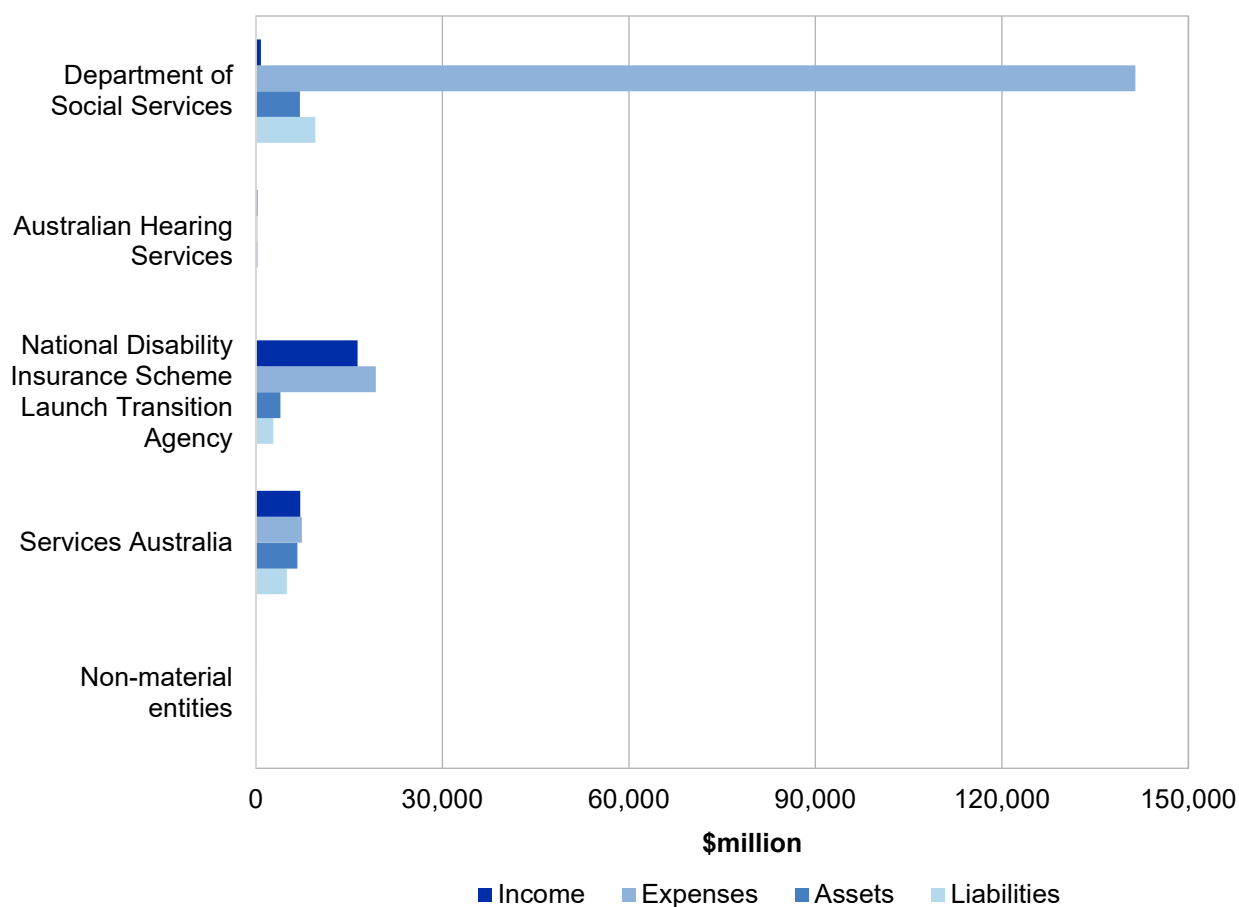
□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2019–20 interim audit phase, now downgraded or resolved

Portfolio overview

5.13.1 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.

5.13.2 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. In addition to DSS, the portfolio also includes Services Australia, Australian Hearing Services, National Disability Insurance Scheme (NDIS) Launch Transition Agency (the National Disability Insurance Agency), the Australian Institute of Family Studies, the NDIS Quality and Safeguards Commission, and the Digital Transformation Agency. The entities within the Social Services portfolio administer services and programs with other government entities, non-government organisations, program participants and other stakeholders.

5.13.3 Figure 5.13.1 shows the Social Services portfolio's income, expenses, assets and liabilities.

Figure 5.13.1: Social Services portfolio's income, expenses, assets and liabilities

Source: 2019–20 CFS.

5.13.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Social Services portfolio.

Table 5.13.1: The number of audit differences for entities in the Social Services portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Social Services	6	3	9	1	3	4
Australian Hearing Services	–	–	–	–	1	1
Australian Institute of Family Studies	–	1	1	1	–	1
National Disability Insurance Scheme Launch Transition Agency	3	3	6	–	–	–

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
NDIS Quality and Safeguard Commission	4	10	14	2	4	6
Services Australia	–	1	1	–	1	1

Source: Audit differences reported to entities in the Social Services Portfolio.

5.13.5 The following sections provide a summary of the 2019–20 financial statements audit results for the Department of Social Services, and other material entities.

Department of Social Services

5.13.6 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.

5.13.7 From 1 February 2020, as a result of an Administrative Arrangements Order (AAO), Services Australia was established as a new Executive Agency within the Social Services Portfolio. Effective 6 February 2020: the Information Technology Group functions and staff transferred from DSS to Services Australia; and the National Redress Scheme Branch and the administered investment for Hearing Australia transferred to DSS from Services Australia.

5.13.8 Consistent with the Australian Government's response to the COVID-19 pandemic, Services Australia, on behalf of the DSS implemented a range of measures aimed at supporting members of the Australian public who were likely to be impacted by the COVID-19 pandemic. The impact of new stimulus measures that were administered by DSS related to:

- income support for individuals (\$14.1 billion) – a new, time-limited COVID-19 supplement to be paid at a rate of \$550 per fortnight on top of the existing income support payment. This related to the JobSeeker payment where the eligibility criteria for the payment had been relaxed;
- payments to support households (\$8.8 billion) – two separate \$750 payments to social security, veteran and other income support recipients and eligible concession card holders. The first payment was made from 31 March 2020 and the second payment was made from 13 July 2020. Around half of those that benefit are pensioners; and
- reducing social security deeming rates (\$0.9 billion) – on 12 March 2020, the Government announced a 0.5 percentage point reduction in both the upper and lower social security deeming rates. The Government reduced these rates by another 0.25 percentage points.

5.13.9 To deliver these measures, DSS made changes to internal control and key governance arrangements including IT system changes at Services Australia to enable the payment of stimulus measures.

Summary of financial performance

5.13.10 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by DSS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.13.2: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(468.7)	(496.5)
Revenue from government	411.9	420.5
Surplus/(deficit) attributable to the Australian Government	(56.7)	(76.0)
Total other comprehensive income/(loss)	–	3.2
Total comprehensive income/(loss) attributable to the Australian Government	(56.7)	(72.8)
Total assets	674.9	329.4
Total liabilities	668.5	166.2
Total equity	6.4	163.2

Source: DSS' audited financial statements for the year ended 30 June 2020.

5.13.11 Net cost of services improved due to the reduction in IT and communication expenses and related depreciation due to the transfer of the Information Technology Group to Services Australia. This was slightly offset by a decrease in resources received free of charge primarily as a result of the completion of the My Aged Care Gateway works and transfer of the system to Department of Health.

5.13.12 The movement in assets and liabilities is mainly due to the increase in right-of-use assets of \$536.4 million and lease liabilities of \$548.8 million associated with the introduction of AASB 16. The increase in assets was offset by a decrease in intangibles of \$123.9 million and property, plant and equipment of \$26.2 million, as a result of the transfer of the Information Technology Group to Services Australia.

Table 5.13.3: Key administered financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	140,969.5	119,139.1
Total income	576.5	514.9
Surplus/(deficit)	(140,393.0)	(118,624.2)
Total other comprehensive income/(loss)	(1,437.9)	700.1
Total comprehensive income/(loss)	(141,830.9)	(117,924.1)
Total assets administered on behalf of Government	6,398.4	7,495.6
Total liabilities administered on behalf of Government	8,866.1	6,632.6
Net liabilities	(2,467.7)	863.0

Source: DSS' audited financial statements for the year ended 30 June 2020.

5.13.13 Administered expenses increased primarily due to increases in personal benefits expenses and payments to the National Disability Insurance Agency. The \$18.4 billion increase in personal benefits is due to the COVID-19 stimulus payments including \$6.0 billion for JobSeeker, \$5.6 billion for the COVID-19 supplement and \$5.3 billion for the one-off Economic Support Program.

5.13.14 Administered income increased mainly due to increase recoveries of \$197.6 million from the Redress scheme and other revenue of \$38.8 million. Fair value gains for the Student Financial Supplement Scheme and Student Start-up Loan have also increased by \$146.5 million. These increases were offset by a decrease in write back of impairment allowance for personal benefits of \$304.7 million and a decrease of personal benefit recoveries of \$30.0 million.

5.13.15 Administered assets decreased driven by a downward revaluation of the investment in NDIA of \$1.4 billion. This was offset by an increase in receivables of \$155.7 million because of an increase in Redress applicants and cash and cash equivalents of \$106.0 million due to an increase in special accounts.

5.13.16 Administered liabilities increased due to an increase of \$1.6 billion in personal benefits payables which is mainly due to JobSeeker payments, online compliance debts and the increased number of institutions joining the Redress scheme. Personal benefit and other provisions have also contributed to the increase in liabilities because of the implementation of COVID-19 measures.

Key areas of financial statements risk

5.13.17 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 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 2019–20 are provided in Table 5.13.4, 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 5.13.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> personal benefits expenses \$129.2 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; 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; and the complexity of the personal benefits expense was increased due to the rapid implementation of stimulus measures in response to the COVID-19 pandemic where a range of normal payment eligibility requirements were either expanded, relaxed or waived. The additional measures comprised the coronavirus supplement, economic support payments, and a range of related initiatives.
<i>Administered</i> personal benefits provisions \$4.7 billion personal benefits receivables (component of receivables \$4.7 billion)	Valuation of personal benefits provisions, personal benefits receivables and contingent liabilities 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; 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; the complexity of these valuations was increased due to uncertainty associated with estimating the impact of the COVID-19 pandemic on future cash flow estimates used in DSS' valuation models; appropriate accounting and disclosure of the impacts of the Income Compliance Program in view of the Government's decision relating to the program which used averaged income data to calculate an individual's personal benefits debt that was then included in personal benefits receivables. The Government made a decision to refund \$741.6 million and zeroed \$1.013 billion of debts owing at year-end relating to this program. The Government decision to repay or zero debts covered debts raised using income averaging since 1 July 2015; and DSS also makes disclosures regarding the potential for additional debt repayments relating to debts raised prior to 1 July 2015 using income averaging. These are contingent on a review on a case by case basis if requested by the individual.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> grant expenses \$2.7 billion	Validity 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. This has the potential to impact the validity of grant expenses; and to manage the grants program and depending on the type of grant, DSS has implemented manual compliance processes including risk management processes at the commencement and during the life cycle of the grants program.

Source: ANAO 2019–20 audit results, and DSS' audited financial statements for the year ended 30 June 2020.

5.13.18 The following performance audits reports were tabled during 2019–20 relevant to the financial management or administration of DSS:

- Auditor-General Report No.17 2019–20 *Delivery of the Humanitarian Settlement Program*;
- Auditor-General Report No.30 2019–20 *Bilateral Agreement Arrangements Between Services Australia and Other Entities*;
- Auditor-General Report No.44 2019–20 *Fraud Control Arrangements in the Department of Social Services*; and
- Auditor-General Report No.45 2019–20 *Management of Agreements for Disability Employment Services*.

5.13.19 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

5.13.20 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Australian Hearing Services

5.13.21 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

5.13.22 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by Hearing Australia, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.13.5: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total revenue	256.7	251.1
Total expenses	(247.2)	(234.5)
Surplus/(deficit) after income tax equivalent expense	9.5	16.6
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	9.5	16.6
Total assets	217.2	186.2
Total liabilities	133.5	107.2
Total equity	83.7	79.0

Source: Hearing Australia's audited financial statements for the year ended 30 June 2020.

5.13.23 Total expenses have increased as a result of a \$16.4 million increase in employee benefits, goods and services and other expenses.

5.13.24 Employee benefits increased due to an increase in the number of employees during the year for the Hearing Assessment Program, as well as annual salary and corresponding superannuation increases. The movement in the goods and services expenses is due to increased marketing expenses, consultant costs for the system modernisation project.

5.13.25 The effect of the first time adoption of AASB 16 increased the amortisation expense by \$11.3 million offset by a decrease in lease rental expense.

Key areas of financial statements risk

5.13.26 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 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 2019–20 are provided in Table 5.13.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.13.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total revenue \$256.7 million	Completeness and accuracy of revenue	Higher	<ul style="list-style-type: none"> Complexity around the timing and recognition of numerous revenue streams; and a number of revenue streams under the Hearing Services Program that are governed by various Acts and Rules.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Non-financial assets \$73.4 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, impairment and amounts that can be capitalised including for specialised equipment; and • assets are located throughout Australia.
Management estimates liabilities Total liabilities \$63.3 million	Valuation of estimates	Moderate	<ul style="list-style-type: none"> • balances are subject to management assumptions and estimates.

Source: ANAO 2019–20 audit results, and Hearing Australia's audited financial statements for the year ended 30 June 2020.

Audit results

5.13.27 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

National Disability Insurance Scheme Launch Transition Agency

5.13.28 The National Disability Insurance Scheme Launch Transition 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.

5.13.29 Under the Government's economic stimulus measures designed to support the economy as a result of COVID-19, the NDIA:

- made advance payments to registered providers where supports are provided to Agency managed participants. As at 30 June 2020, payments of approximately \$667.0 million had been paid. The payments are required to be repaid by providers with approximately \$20.0 million collected by 30 June 2020;
- applied a 10 per cent price loading on specified supports which is expected to cost \$510.0 million over six months, with approximately \$300.0 million impacting in 2019–20; and
- increased the cancellation payment from 90 per cent to 100 per cent, under specific terms and conditions.

5.13.30 There were no changes to NDIA's key governance arrangements arising from the measures detailed above.

Summary of financial performance

5.13.31 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the NDIA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.13.7: Key financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(2,789.1)	(783.3)
Revenue from government	1,413.3	1,477.7
Total expenses	19,268.9	11,881.3
Surplus/(deficit) attributable to the Australian Government	(1,375.8)	694.4
Total other comprehensive income	–	11.1
Total comprehensive income/(loss) attributable to the Australian Government	(1,375.8)	705.5
Total assets	3,952.4	4,555.1
Total liabilities	2,787.8	2,024.0
Total equity	1,164.7	2,531.1

Source: NDIA's audited financial statements for the year ended 30 June 2020.

5.13.32 Net cost of services increased due to a \$7.1 billion increase in participant expenses. As at 30 June 2020, the Scheme had 391,999 active participants with approved plans compared to 286,015 at 30 June 2019, representing a 37.1 per cent increase in participant numbers since 30 June 2019. This increase was partially offset by increased contributions from DSS and state and territory governments.

5.13.33 The reduction in total assets is driven by less cash and term deposits of \$1.2 billion in line with the increase in participant costs offset by the initial recognition of right-of-use assets of \$192.0 million.

5.13.34 Increase in total liabilities relates to the initial recognitions of lease liability under AASB 16 for \$196.0 million, an increase in the participant plan provision of \$214.1 million and an increase in supplier payables of \$148.5 million predominately related to costs payable for participants in residential aged care.

Key areas of financial statements risk

5.13.35 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 2019–20 are provided in Table 5.13.8 including areas which were considered Key Audit Matters (KAM) by the ANAO.

Table 5.13.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Participant plan expenses \$17.6 billion	Accuracy and occurrence of participant plan expenses KAM	Higher	<ul style="list-style-type: none"> ongoing growth in the 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; and no supporting documentation required as part of the claiming process.
Participant plan provision \$1.6 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.
Contributions in-kind from Commonwealth, state and territory governments revenue \$1.5 billion In kind expenses (component of participant expenses \$17.6 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 related to the valuation and accounting for in-kind contributions provided by the Commonwealth, state and territory governments. <p>Prior to the commencement of the NDIS, the Commonwealth, state and territory governments had committed to provide (directly or by engaging service providers) items such as disability services, health, family support, education, employment, transport and/or housing to people with a disability. The on-going provision of these agreed services on behalf of the NDIA is regarded as an in-kind contribution.</p>

Source: ANAO 2019–20 audit results, and NDIA's audited financial statements for the year ended 30 June 2020.

Audit results

5.13.36 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.13.9: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	1	1	(1)	1
Total	1	1	(1)	1

Source: ANAO 2019–20 audit results.

5.13.37 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the NDIA's 2019–20 financial statements were not materially misstated.

New moderate audit finding

Business Assurance — Plan Approvals

5.13.38 The NDIA has implemented the Business Assurance Compliance Reporting Framework designed to provide assurance over the quality of the information received and the consistency and appropriateness of the decisions made by planners.

5.13.39 The assurance program related to plan approvals consistently reporting high levels of non-conformance with a critical test, in excess of NDIA's nominal conformance target of 80 per cent. The critical test for the plan approvals, seeks to confirm that plans approved with supports greater than 10 per cent of the typical support package are justified and evidenced. The testing undertaken covered plans that were approved between July 2019 and 2 March 2020, as at 30 July 2020, the ANAO had not been provided with the test results for the remainder of the financial year.

5.13.40 NDIA's Quality Branch developed a continuous improvement register and action plans during 2019–20. The action plans are required where the nominal target has not been met. Whilst the error rates have been included in state and territory action plans there is no evidence of a detailed root cause analysis performed consistently across all states and territories with an aim of understanding the drivers for the exceptions identified.

5.13.41 Furthermore, the ANAO has not been able to obtain evidence that NDIA performed further analysis to determine whether the instances of non-conformance resulted in participants having access to a level of supports inconsistent with the supports considered to meet the legislated requirement of reasonable and necessary. Consequently, participants may have access to supports in excess of what would be deemed to be reasonable and necessary increasing the cost of the scheme and its long term financial sustainability.

5.13.42 The NDIA agrees that in addition to the existing mechanisms in place to manage reasonable and necessary decision making, there is an opportunity to further improve the plan approval quality processes for conducting root cause analysis, and ensuring identified systemic issues are addressed. The ANAO will review NDIA's process for identifying, analysing and addressing non-compliance with participant planning policy as part of the 2020–21 financial statements audit.

Resolved moderate audit finding

Streamlined Access to the Scheme — Defined Programs

5.13.43 One of the pathways for access to the Scheme is through Defined Programs, which are existing state, territory and Commonwealth disability support programs that have been assessed by the NDIA as having eligibility requirements that align with the 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.

5.13.44 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. 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, resulted in an increased risk of ineligible participants entering the Scheme and not being identified as ineligible in a timely manner.

5.13.45 The NDIA implemented an enhanced eligibility reassessment process in March 2020. This process was designed to identify participants who may no longer meet eligibility requirements of residency and disability and require a reassessment of their eligibility to the scheme. As this process is applied to all participants it will include participants who entered the Scheme through the Defined Programs pathway. NDIA plans to implement an overarching quality assurance process to ensure that decision made through the enhanced eligibility reassessment process are consistent and appropriate in 2020–21.

5.13.46 The finding has been downgraded to a minor finding, the ANAO will review the results of the enhanced eligibility reassessments and the associated quality assurance process as part of the 2020–21 financial statements audit.

Services Australia

5.13.47 Services Australia is responsible 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. Social and health-related payments and services delivered by Services Australia on behalf of other entities in 2019–20 was forecast to be \$190 billion. These expenses are recognised within each of the individual policy agencies' financial statements.

5.13.48 Consistent with the Australian Government's response to the COVID-19 pandemic, Services Australia implemented a range of measures aimed at supporting members of the Australian public who were likely to be impacted by the COVID-19 pandemic. These measures included the new jobseeker and social security and welfare payments, which included both the Economic and Coronavirus supplement payments, expansion of the Telehealth function of the Medicare Benefits Scheme and program delivery changes for the child care subsidy. To deliver these measures, Services Australia made changes to internal control and key governance arrangements including:

- establishing a COVID-19 taskforce with responsibility for central coordination of the agency's COVID-19 response with direct reporting through to the Chief Executive;
- on-boarding and redeployment of additional staff to assist with the service delivery claim processing arrangements; and
- IT system changes to enable the payment of stimulus funding and the granting of additional system access for staff assisting with the processing of claims.

Summary of financial performance

5.13.49 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by Services Australia, and includes commentary regarding significant movements between years contributing to overall performance

Table 5.13.10: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(5,134.2)	(4,876.8)
Revenue from government	5,063.5	4,546.3
Surplus/(deficit) attributable to the Australian Government	(70.7)	(330.5)
Total other comprehensive income	16.3	13.0
Total comprehensive income/(loss) attributable to the Australian Government	(54.3)	(317.5)
Total assets	5,292.5	2,670.6
Total liabilities	3,599.0	1,507.4
Total equity	1,693.5	1,163.2

Source: Services Australia's audited financial statements for the year ended 30 June 2020.

5.13.50 Net cost of services has increased due to \$345.0 million of additional expenses associated with assisting in delivering the government's response to COVID-19 and an increase of approximately \$403.1 million in depreciation expenses mainly associated with the recognition of right-of-use assets offset by an associated \$355.8 million reduction in operating lease rentals.

5.13.51 The increase in revenue from government is due to \$521.0 million of additional funding to assist in delivering the government's response to the COVID-19 pandemic. \$345.0 million of this additional funding was spent during 2019–20. The movement in assets and liabilities is primarily due to the initial recognition of right-of-use assets of \$2,370.5 million and lease liabilities of \$2,396.0 million in 2019–20.

Table 5.13.11: Key administered financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	1,967.1	1,681.7
Total income	2,033.5	1,796.1
Surplus	66.4	114.4
Total other comprehensive income	0.0	6.8
Total comprehensive income	66.4	121.2
Total assets administered on behalf of Government	1,386.9	1,138.0
Total liabilities administered on behalf of Government	1,363.5	1,030.0
Net assets	23.4	108.1

Source: Services Australia's audited financial statements for the year ended 30 June 2020.

5.13.52 The key activity within Services Australia's administered functions relates to child support. Child support maintenance expenses and income increased by approximately \$303.9 million. These increases were due to improved payment rates with the recoverability of outstanding child support, which resulted in a reversal of the impairment of child support

maintenance receivables by \$252.0 million as at 30 June 2020. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

5.13.53 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. Areas highlighted for specific audit coverage in 2019–20 are provided in Table 5.13.12, including areas which were considered Key Audit Matters (KAM) by the ANAO.

5.13.54 The ANAO continues to identify 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. These issues, individually when raised and reported to Services Australia are actioned and remediated within a timely manner, but the continuing theme highlights an ongoing risk to the agency in maintaining cyber resilience. Two moderate audit findings were raised during the 2019–20 financial year relating to IT security.

5.13.55 As part of the final audit the ANAO reviewed IT general controls and key governance and assurance processes established by Services Australia to manage the changes in response to COVID-19.

Table 5.13.12: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Child support maintenance receivables \$1.21 billion	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.
<i>Departmental</i> Intangible assets \$623.1 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 2019–20 audit results, and Service Australia's audited financial statements for the year ended 30 June 2020.

5.13.56 The following performance audit report was tabled during 2019–20 relevant to the financial management or administration of Services Australia:

- Auditor-General Report No.30 2019–20 *Bilateral Agreement Arrangements Between Services Australia and Other Entities*.

5.13.57 While the report did not include recommendations regarding risks to Services Australia's financial administration as it relates to the financial statements, the observations of these report were considered in designing audit procedures.

Audit results

5.13.58 The following table summarises the status of audit findings reported by the ANAO in 2018–19 and 2019–20.

Table 5.13.13: Status of audit findings

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Moderate (B)	–	2	–	2
Total	–	2	–	2

Source: ANAO 2019–20 audit results.

5.13.59 For the findings listed below, the ANAO undertook additional audit procedures to gain assurance that Services Australia's 2019–20 financial statements were not materially misstated. The IT Security Governance finding was first raised during the interim audit phase.

New moderate audit finding

Welfare Payment Systems Access Management

5.13.60 The Commonwealth Government announced a number of financial stimulus initiatives aimed at supporting members of the Australian public who were likely to be impacted by the COVID-19 pandemic. These measures were delivered through expanded or new jobseeker and social security and welfare payments, which included both the Economic and Coronavirus supplement payments.

5.13.61 To support the COVID-19 initiatives, Services Australia made changes to its IT general control environment, through system changes to enable the payment of stimulus funding and the granting of additional system access for staff assisting with the processing of claims. As part of the year-end audit the ANAO reviewed IT general controls and key governance and assurance processes established by Services Australia to manage these changes. This included a review of risk management processes around the provisioning access to IT Welfare payment systems. ANAO notes the following weaknesses in risk management processes:

- adequately assess and capture the risks of the provisioning IT access changes;
- risks were not updated or reassessed post the initial COVID period with regards to the provisioning IT access; and
- documentation of key decisions, including authorisation and approvals of the system access changes was not in accordance with Services Australia's operational policy.

5.13.62 While compensating system controls continued to remain in place, weaknesses in risk management processes increases the risk of fraudulent, unauthorised or erroneous transactions being processed, and an increased risk of such transaction not being detected in a timely manner.

5.13.63 The ANAO recommends that Services Australia strengthen risk management processes for identifying and approving significant IT system changes, including for system access, extensions and removal, and include this as part of the business continuity process so that during an emergency or a rapid implementation environment there are clear lines of approval and associated assessment of risks is undertaken.

5.13.64 Services Australia acknowledges that risk assessment documentation processes may not have been as detailed due to the rapid response to the COVID-19 pandemic. Services Australia will ensure that appropriate documentation processes are in place for business continuity purposes and that risk management processes are well documented for the rollback of system access changes. Services Australia is of the view that the risks were managed closely throughout the pandemic, noting that no changes were made to the Services Australia IT general control environment. As a result, the Agency does not support that the audit finding posed a moderate business or financial management risk.

Unresolved moderate audit finding

IT Security Governance

5.13.65 Services Australia has a complex IT environment made up of a suite of systems hosted across different IT platforms such as mid-range and mainframe to support business objectives. The overall effectiveness of the IT control environment forms a significant component of the overall integrity and reliability of financial transactions, which links closely with Services Australia's strategic risks. For the 2019–20 audit, the ANAO identified weaknesses in the implementation and operation of the governance and monitoring processes that support Services Australia's information security framework.

5.13.66 Weaknesses in Services Australia's information security framework, could result in broader cyber security, access management, business and financial risks being inadequately managed across the agency. This could lead to inappropriate system access and insufficient monitoring of high risk activities, resulting in the failure to detect inappropriate access or activity that compromise the integrity of payments and financial data.

5.13.67 The ANAO recommended that governance and monitoring processes are strengthened to include the review and reporting of adherence to Services Australia's Cyber Security Information Services Manual. Services Australia agreed with this recommendation and at the conclusion of the 2019–20 audit this issue remained unresolved and will be reviewed during the interim phase of the 2020–21 audit.

5.14 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	✓	10 Sept 20	10 Sept 20	Nil
Australian Bureau of Statistics	Yes	Low	✓	21 Aug 20	21 Aug 20	Nil
Australian Office of Financial Management	Yes	Moderate	✓	25 Aug 20	25 Aug 20	Nil
Australian Prudential Regulation Authority	Yes	Low	✓	17 Aug 20	17 Aug 20	Nil
Australian Reinsurance Pool Corporation	Yes	Moderate	✓	24 Sept 20	25 Sept 20	Nil
Australian Securities and Investments Commission	Yes	Moderate	✓	9 Sept 20	9 Sept 20	◆
Australian Taxation Office	Yes	High	✓	21 Sept 20	22 Sept 20	Nil
National Housing Finance and Investment Corporation	Yes	Low	✓	1 Sept 20	1 Sept 20	Nil
Reserve Bank of Australia	Yes	Moderate	✓	4 Sept 20	4 Sept 20	Nil

✓: auditor's report not modified

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

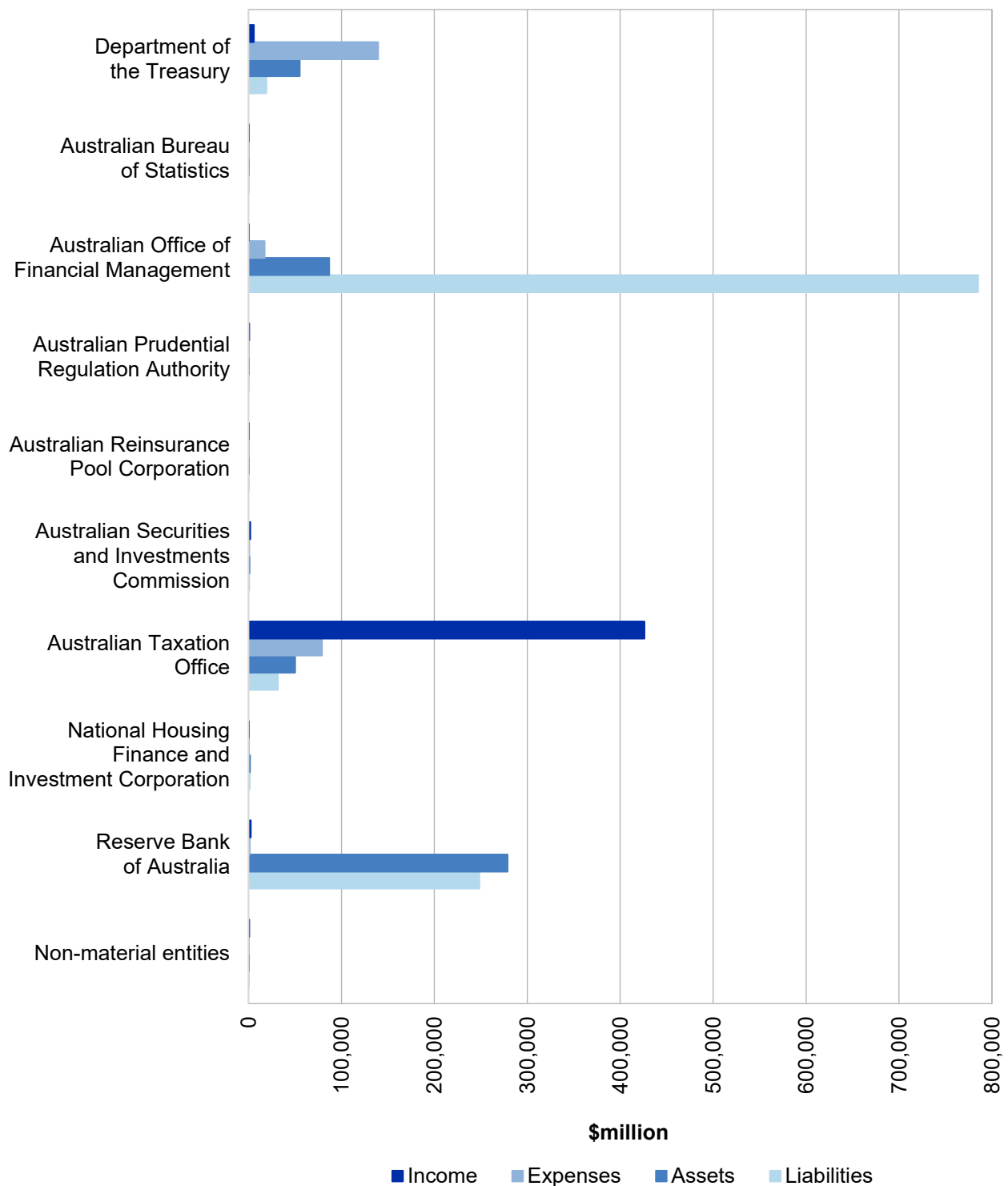
Portfolio overview

5.14.1 The Treasury portfolio is responsible for activities aimed at achieving strong, sustainable economic growth and the improved wellbeing of Australians.

5.14.2 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.

5.14.3 Figure 5.14.1 shows the Treasury portfolio's income, expenses, assets and liabilities.

Figure 5.14.1: Treasury portfolio's income, expenses, assets and liabilities



Source: 2019–20 CFS.

5.14.4 An analysis of the quality and timeliness of financial statements preparation is included in chapter 2, paragraphs 2.20 – 2.21. The analysis included a summary of the total number of audit differences reported to entities during the 2019–20 financial statements audit. The following table provides a summary of those audit differences that relate to entities within the Treasury portfolio.

Table 5.14.1: The number of audit differences for entities in the Treasury portfolio

	2019–20			2018–19		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of the Treasury	–	4	4	–	2	2
Australian Bureau of Statistics	–	2	2	–	–	–
Australian Competition and Consumer Commission	1	–	1	1	–	1
Australian Office of Financial Management	1	–	1	–	–	–
Australian Prudential Regulation Authority	–	–	–	–	1	1
Australian Securities and Investments Commission	2	–	2	–	1	1
Australian Taxation Office	4	1	5	1	2	3
Commonwealth Grants Commission	–	–	–	–	1	1
Infrastructure and Project Financing Agency	–	–	–	–	2	2
National Housing Finance Investment Corporation	–	–	–	–	1	1
Office of the Auditing and Assurance Standards Board	–	2	2	–	–	–
Office of the Australian Accounting Standards Board	–	4	4	1	1	2
Productivity Commission	–	2	2	–	–	–
Reserve Bank of Australia	1	1	2	1	–	1
Royal Australian Mint	–	1	1	2	1	3

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

5.14.5 There were no audit differences in the current and prior year for Australian Reinsurance Pool Corporation, Financial Adviser Standards and Ethics Authority Ltd, Inspector-General of Taxation, National Competition Council, and Note Printing Australia Ltd.

5.14.6 The following sections provide a summary of the 2019–20 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

5.14.7 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.

5.14.8 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 2019–20, a significant portion of the National Partnership Payments were delivered by the Department of Infrastructure, Transport, Regional Development and Communications and the Department of Social Services.

Summary of financial performance

5.14.9 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the Treasury, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.14.2: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(214.1)	(199.2)
Revenue from government	206.3	189.4
Surplus/(deficit) attributable to the Australian Government	(7.8)	(9.8)
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(7.8)	(9.8)
Total assets	248.2	109.2
Total liabilities	203.9	69.0
Total equity	44.3	40.2

Source: The Treasury's audited financial statements for the year ended 30 June 2020.

5.14.10 The increase in net cost of services, and revenue from government is due to additional funding received for the Government's response to the Financial Services Royal Commission.

5.14.11 Total assets and liabilities increased due to the recognition of \$118.5 million of right-of-use asset and \$122.8 million lease liability associated with AASB 16.

Table 5.14.3: Key administered financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	139,225.7	140,328.2
Total income	5,440.9	4,670.1
Surplus/(deficit)	(133,784.7)	(135,658.1)
Total other comprehensive income/(loss)	1,297.7	3,411.6
Total comprehensive income/(loss)	(132,487.0)	(132,246.5)
Total assets administered on behalf of Government	54,881.6	46,733.3
Total liabilities administered on behalf of Government	19,024.9	18,076.2
Net assets/(liabilities)	35,856.7	28,657.1

Source: The Treasury's audited financial statements for the year ended 30 June 2020

5.14.12 Total income has increased due to the receipt of an additional \$1,376.9 million in dividend returns in 2019–20 from the Reserve Bank of Australia, Australian Reinsurance Pool Corporation and the International Finance Corporation, slightly offset by a decrease in Council of Australian Governments (COAG) revenue of \$667.1 million.

5.14.13 Total assets increased due to an increase in recognition of GST revenue allocation receivable of \$4,704.7 million and an increase in the value of administered investments primarily the Reserve Bank of Australia and international financial institutions.

Key areas of financial statements risk

5.14.14 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 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 2019–20 are provided in Table 5.14.4, 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 5.14.4: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Other provisions \$1.9 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"> reliance on information provided by state and territory governments to estimate the provision; and complexities in judgements 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Grants expense \$100.5 billion Grants payable \$126.7 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.

Source: ANAO 2019–20 audit results and the Treasury's audited financial statements for the year ended 30 June 2020.

Audit results

5.14.15 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits

Australian Bureau of Statistics

5.14.16 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

5.14.17 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the ABS and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.14.5: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(432.1)	(375.5)
Revenue from government	378.5	330.3
Surplus/(deficit) attributable to the Australian Government	(53.6)	(45.2)
Total other comprehensive income/(loss)	0.8	(1.0)
Total comprehensive income/(loss) attributable to the Australian Government	(52.8)	(46.3)
Total assets	393.8	249.6
Total liabilities	327.4	167.3
Total equity	66.4	82.3

Source: ABS' audited financial statements for the year ended 30 June 2020.

5.14.18 The movement in the net cost of services is due to increases in depreciation as a result of the recognition of right-of-use assets, and in the write-down and impairment of assets relating to the impairment of internally generated software. In addition to this, the own-source income from

customers decreased due to an inability to conduct face to face surveys from March 2020 due to the COVID-19 pandemic.

5.14.19 The increase in total assets and total liabilities is attributed to the recognition of right-of-use assets and the associated lease liabilities as at 1 July 2019.

Key areas of financial statements risk

5.14.20 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 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 2019–20 is provided in Table 5.14.6. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 5.14.6: 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 \$95.6 million	Valuation and impairment of non-financial assets	Higher	<ul style="list-style-type: none"> indicators of impairment may not be adequately identified as a result of business reorganisation or restructuring; and with a system or technology upgrade, there is a risk that the carrying value of assets may be materially misstated by incorrectly capitalising new expenditure and incorrectly assessing the existing asset's useful lives.
Leasehold improvement and plant and equipment \$48 million	Valuation and impairment of non-financial assets	Moderate	<ul style="list-style-type: none"> the fair valuation of assets is inherently judgemental and requires specialist expertise; and indicators of impairment may not be adequately identified.

Source: ANAO 2019–20 audit results, and ABS' audited financial statements for the year ended 30 June 2020.

Audit results

5.14.21 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits

Australian Office of Financial Management

5.14.22 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.

5.14.23 The AOFM is also responsible for the recently created Australian Business Securitisation Fund, a \$2 billion fund with the aim of improving access to, and the cost of, finance to small and medium-sized enterprises (SMEs). The AOFM will be making investments from the fund in securitisations of loans made by SME lenders.

5.14.24 A new fund, to be administered by the AOFM, was established by the Parliament on 24 March 2020. The Structured Finance Support Fund is a \$15 billion fund to enable the

government to support continued access to funding markets for small to medium-sized enterprises impacted by the effects of the COVID-19 pandemic. The first transaction of \$190.0 million occurred the week the fund was established.

Summary of financial performance

5.14.25 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the AOFM, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.14.7: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(10.6)	(10.2)
Revenue from government	13.8	11.7
Surplus/(deficit) attributable to the Australian Government	3.2	1.5
Total other comprehensive income/(loss)	0.3	–
Total comprehensive income/(loss) attributable to the Australian Government	3.5	1.5
Total assets	34.8	27.6
Total liabilities	7.9	3.5
Total equity	26.9	24.1

Source: AOFM's audited financial statements for the year ended 30 June 2020.

5.14.26 The increase in revenue from government reflects additional funding to assist in the administration of the Australian Business Support Fund.

5.14.27 Total assets and liabilities increased due to the recognition of \$4.5 million of right-of-use asset and \$4.6 million lease liability associated with AASB 16.

Table 5.14.8: Key administered financial statements line items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	16,919.0	17,100.0
Total income	260.0	565.0
Gains/(losses) from repurchasing debt	(399.0)	(896.0)
Re-measurement gain/(loss)	(9,193.0)	(43,550.0)
Surplus/(deficit)	(26,251.0)	(60,981.0)
Total comprehensive gain/(loss)	(26,251.0)	(60,981.0)
Total assets administered on behalf of the Government	73,260.0	32,824.0
Total liabilities administered on behalf of the Government	785,095.0	626,369.0
Net assets/(liabilities)	(711,835.0)	(593,545.0)

Source: AOFM's audited financial statements for the year ended 30 June 2020.

5.14.28 The decrease in expenses is primarily due to a decline in both interest rates which are impacting interest expense, and a decline in repurchasing activity during the period.

Key areas of financial statements risk

5.14.29 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 AOFM's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The areas highlighted for specific audit coverage in 2019–20 are provided in Table 5.14.9. The valuation and disclosure of Australian Government Securities was considered a Key Audit Matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 5.14.9: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Australian Government securities \$785.0 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 liabilities measured at fair value through profit and loss.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Structured Finance securities \$1.8 billion	Valuation and disclosure of Structured Finance securities	Moderate	<ul style="list-style-type: none"> new type of asset holding for the entity, arising from the Government's response to the COVID19 pandemic. assumptions required for calculation of fair value of assets and or expected credit losses complex financial disclosure requirements for financial assets measured at fair value through profit and loss

Source: ANAO 2019–20 audit results, and the AOFM's audited financial statements for the year ended 30 June 2020.

Audit results

5.14.30 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Australian Prudential Regulation Authority

5.14.31 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

5.14.32 The following section provides a comparison of the 2019–20 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 5.14.10: Key departmental financial statements items

Key financial statements items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(191.9)	(153.6)
Revenue from government	188.1	143.7
Surplus/(deficit) attributable to the Australian Government	(3.8)	(9.9)
Total other comprehensive income	–	0.3
Total comprehensive income/(loss) attributable to the Australian Government	(3.8)	(9.6)
Total assets	185.9	122.4
Total liabilities	124.2	80.7
Total equity	61.7	41.7

Source: APRA's audited financial statements for the year ended 30 June 2020.

5.14.33 The movement in net cost of services predominately relates to an increase in employee expenses of \$20.7 million due to a 14 per cent increase in the average staffing level over 2019–20 and a 1.5 per cent wage increase from 1 July 2019 per the enterprise agreement. Other movements included a \$6.8 million increase in supplier expense due to the recognition of a \$9.0 million legal costs provision reflecting an initial claim for court awarded counter party costs.

5.14.34 Revenue from government increased due to an increase in APRA's special appropriation which is granted to APRA and determined by the Minister. The increase in total assets relates to the first time recognition of right-of-use assets totalling \$50.8 million and an increase in intangibles of \$15.3 million due to additions to assets under construction relating to the development of APRA's core IT platform for business services.

5.14.35 The increase in total liabilities predominately relates to the first time recognition of lease liabilities of \$52.2 million, a \$5.5 million increase in employee provisions due to increase number staff and \$9.0 million of other provisions related to the court costs. The increase has been partially offset by a reduction in other payables of \$23.4 million primarily due to derecognising the minimum lease liabilities and lease incentives.

Table 5.14.11: Key administered financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	472.7	463.2
Total revenue	712.2	678.6
Surplus/(deficit)	239.5	215.4
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	239.5	215.4
Total assets administered on behalf of Government	3.0	3.0
Total liabilities administered on behalf of Government	2.0	2.0
Total equity	1.0	1.0

Source: APRA's audited financial statements for the year ended 30 June 2020.

5.14.36 Total expenses and revenue increased due to an increase in the collection and subsequent remittance of the Risk Equalisation Levy of \$9.5 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 revenue.

5.14.37 Total revenue also increased due to a \$22.6 million increase in collections 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.

Key areas of financial statements risk

5.14.38 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 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 2019–20 is provided in Table 5.14.12. No significant or moderate audit findings were identified relating to the key area of risk.

Table 5.14.12: 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 \$710.7 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.
Internally developed software \$36.6 million	Recognition and valuation of internally developed software	Moderate	<ul style="list-style-type: none"> complexities in assessing the nature and extent of costs that can be capitalised under Australian accounting standards and subject to management judgement.

Source: ANAO 2019–20 audit results, and APRA's audited financial statements for the year ended 30 June 2020.

Audit results

5.14.39 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Australian Reinsurance Pool Corporation

5.14.40 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

5.14.41 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by ARPC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.14.13: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	164.5	164.1
Own-source income	233.6	209.5
Surplus/(deficit) attributable to the Australian Government	69.1	45.4
Total assets	669.5	596.8
Total liabilities	149.0	135.5
Total equity	520.5	461.3

Source: ARPC's audited financial statements for the year ended 30 June 2020.

5.14.42 The increase in own-source income is driven by changes in premium rates in commercial property. Total assets increased due to a \$67.4 million increase in term deposit investments associated with the increase in the reserve for claims which also increased. Total liabilities increased due to increase in unearned premium liability, in-line with increase in gross premium revenue.

Key areas of financial statements risk

5.14.43 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 2019–20 are provided in Table 5.14.14. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.14.14: 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 \$220.9 million Unearned premium \$112.3 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 \$65.8 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.

Source: ANAO 2019–20 audit results, and APRC's audited financial statements for the year ended 30 June 2020.

Audit results

5.14.44 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

Australian Securities and Investments Commission

5.14.45 The Australian Securities and Investments Commission (ASIC) is Australia's integrated corporate, financial services, markets and consumer credit regulator, supporting a fair, strong and efficient financial system for all Australians. ASIC's core responsibility is to maintain and facilitate the performance of Australia's financial system and promote confident and informed participation by investors and consumers.

Summary of financial performance

5.14.46 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by ASIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.14.15: Key departmental financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(471.4)	(419.7)
Revenue from government	403.2	374.3
Surplus/(deficit) attributable to the Australian Government	(68.2)	(45.4)
Total other comprehensive income	–	5.4
Total comprehensive income/(loss) attributable to the Australian Government	(68.2)	(40.0)
Total assets	559.3	347.1
Total liabilities	406.8	184.0
Total equity	152.5	163.1

Source: ASIC's audited financial statements for the year ended 30 June 2020.

5.14.47 Net cost of services increased due to a \$48.0 million increase in employee benefits as a result of a two per cent pay rise and an increase in staff for enforcement activities.

5.14.48 The movement in assets and liabilities is primarily due to the initial recognition of right-of-use assets of \$222.7 million and lease liabilities of \$243.0 million on implementation of AASB 16.

Table 5.14.16: Key administered financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	203.1	129.0
Total income	1,560.4	1,343.5
Surplus/(deficit)	1,357.3	1,214.5
Total assets administered on behalf of Government	478.7	432.4
Total liabilities administered on behalf of Government	457.6	379.5
Net assets/(liabilities)	21.1	52.9

Source: ASIC's audited financial statements for the year ended 30 June 2020.

5.14.49 Total income increased due to higher fees, levies and unclaimed monies collected in 2019–20. The increase in expenses was driven by increased lodgements for unclaimed monies resulting from previous legislative changes to the requirements for lodging claims.

5.14.50 The increase in total assets was driven by increases in levies receivable and total liabilities increased predominately as a result of the provision for unclaimed monies increasing by \$69.5 million.

Key areas of financial statements risk

5.14.51 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 2019–20 are provided in Table 5.14.17. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.14.17: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> unclaimed monies provisions \$417.3 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.
<i>Administered</i> taxation revenue \$874.1 million non-taxation revenue \$686.2 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 15 and 1058.

Source: ANAO 2019–20 audit results, and ASIC's audited financial statements for the year ended 30 June 2020.

Audit results

5.14.52 The following table summarises the status of the audit findings reported by the ANAO in 2018–19 and 2019–20.

Category	Closing position (2018–19)	New findings (2019–20)	Findings resolved (2019–20)	Closing position (2019–20)
Significant (A)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2019–20 audit results.

New significant audit finding

Payments to Key Management Personnel

5.14.53 The ASIC Chair and Deputy Chairs are covered by Remuneration Tribunal Determinations for full time public office holders. The relevant Determinations provide that the

remuneration and benefits paid to office holders must not be supplemented. The Determinations outline payments that do not form part of the total remuneration package of office holders.

5.14.54 The Commonwealth Procurement Rules (CPRs) set out rules that officials of relevant entities must comply with when they procure goods and services. As a non-corporate Commonwealth entity, ASIC must comply with the CPRs. The core rule of the CPRs is achieving value for money which includes ensuring the efficient, effective, ethical and economic use of public resources.

5.14.55 The ANAO identified payments relating to the relocation of the Chair and one Deputy Chair that appeared to fall outside the Remuneration Tribunal limits. The issue relating to the Deputy Chair was first raised by the ANAO in 2018–19 and reported to ASIC, with a recommendation that ASIC seek advice from the Remuneration Tribunal on the classification of these payments and whether they fell within the Remuneration Tribunal Determination. As at the end of September 2020 this had not occurred. The ANAO also identified significant deficiencies in the procurement process surrounding the payments made for the benefit of the Chair. ASIC advised the ANAO that the Chair and Deputy Chair will repay the amounts in question.

5.14.56 The ANAO has recommended to ASIC that:

- ASIC undertakes a review of the processes supporting the approval of remuneration and benefits paid to Executive Office holders, including the trigger points for seeking advice should amounts outside of the Remuneration Determination be considered for approval; and
- a review be undertaken of the procurement processes around payments made for the benefit of the Chair to determine those internal controls that need to be either reinforced with relevant staff or redesigned to ensure effective implementation.

5.14.57 On 23 October 2020, the Treasurer announced an independent review into ASIC's governance arrangements in relation to payments made to key management personnel. The outcome of the review is expected by the end of the 2020 calendar year.

Australian Taxation Office

5.14.58 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.

5.14.59 Consistent with the Australian Government's response to the COVID-19 pandemic, the ATO has administered a number of measures aimed at supporting members of the Australian public who are likely effected by the pandemic. These measures included the design and delivery of economic stimulus measures including JobKeeper and Cash Flow Boost for employers.

5.14.60 The ATO established a COVID-19 response committee, which had oversight of internal and external processes to ensure its response is comprehensive and coordinated.

Summary of financial performance

5.14.61 The following section provides a comparison of the 2018–19 and 2019–20 key departmental and administered financial statements items reported by the Treasury, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.14.18: Key departmental financial statements items

Key departmental financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(3,678.7)	(3,481.4)
Revenue from government	3,461.3	3,237.9
Surplus/(deficit) attributable to the Australian Government	(217.4)	(243.5)
Total other comprehensive income	(0.1)	7.8
Total comprehensive income/(loss) attributable to the Australian Government	(217.5)	(235.7)
Total assets	2,448.6	1,233.0
Total liabilities	2,260.4	1,165.5
Total equity	188.2	67.5

Source: ATO's audited financial statements for the year ended 30 June 2020.

5.14.62 The increase in the net cost of services is due to a \$103.0 million increase in Contractors and consultants as a result of improving ATO systems and a \$63.0 million increase in IT and communications expenses mainly due to maintaining and improving ATO IT systems software licences, IT communication platforms as a result of COVID 19 and other IT project priorities.

5.14.63 The movement in assets and liabilities is primarily due to right-of-use assets of \$1,120.6 million and lease liabilities of \$1,173.0 million arising as a result of the implementation of AASB 16 in 2019–20.

Table 5.14.19: Key administered financial statements items

Key administered financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	75,384.0	18,051.0
Total revenue	422,443.0	432,357.0
Surplus/(deficit)	347,059.0	414,306.0
Total comprehensive income/(loss)	347,059.0	414,306.0
Total assets administered on behalf of Government	47,858.0	39,195.0
Total liabilities administered on behalf of Government	29,442.0	11,389.0
Net assets/(liabilities)	18,416.0	27,806.0

Source: ATO's audited financial statements for the year ended 30 June 2020.

5.14.64 The decrease in total revenue was driven principally by a \$7.6 billion decrease from companies due to reduced demand as a result of COVID-19 and \$4.3 billion decrease from

superannuation funds due to lower fund earnings growth as a result of both franked dividend growth and the impact of COVID-19 on the share market.

5.14.65 Total expenses have increased due to an increase of \$55.5 billion in subsidies primarily as a result of the stimulus measure payments for JobKeeper and Cash Flow Boost for employers. Total liabilities also increased mainly due to a \$19.6 billion increase in subsidy accruals as a result of the stimulus measures.

5.14.66 Total assets increased by \$8.7 billion primarily due to an increase in receivables as a result of payment deferrals for taxpayers experiencing financial hardship as a result of the COVID-19 pandemic.

Key areas of financial statements risk

5.14.67 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 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 2019–20 are provided in Table 5.14.20, 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 5.14.20: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> taxation revenue \$421.3 billion expenses \$75.4 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered taxation revenue \$421.3 billion expenses \$75.4 billion provisions for credit amendments and impairment allowance (component of the taxation receivable balance \$25.1 billion) provisions for refunds \$1.9 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.
Administered taxation revenue \$421.3 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 Expenses Subsidy payments in connection with JobKeeper and Cash Flow Boost payment for employers \$55.2 billion	Eligibility assessments and completeness of reported subsidy payments in connection with JobKeeper and Cash Flow Boost measures	High	<ul style="list-style-type: none"> significant value of the expenses and the speed of implementation of these stimulus measures; the eligibility requirements and conditions to be met for amounts to be paid to employers are set by the <i>Coronavirus Economic Response Package (JobKeeper Payments) Act 2020</i> and the <i>Boosting Cash Flow For Employers Act 2020</i>; and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> application of significant judgement surrounding the accrual estimate to provide for JobKeeper payments for employers and future Cash Flow Boost payments that are attributable to the 2019–20 financial year, but not yet claimed or lodged.
<i>Administered</i> 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.
<i>Administered</i> 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 2019–20 audit results, and ATO's audited financial statements for the year ended 30 June 2020.

Audit results

5.14.68 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.

National Housing Finance and Investment Corporation

5.14.69 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*. 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; and the Australian Government's First Home Loan Deposit Scheme, which supports eligible buyers to purchase their first home. The scheme commenced on 1 January 2020 and will be administered by NHFIC.

Summary of financial performance

5.14.70 The following section provides a summary of the 2019–20 key financial statements items reported by the NHFIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.14.21: Key financial statements items

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Net (cost of)/contribution by services	(75.6)	(64.7)
Revenue from government	61.8	53.7
Surplus/(deficit) attributable to the Australian Government	(13.8)	(11.0)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(13.8)	(11.0)
Total assets	1,636.2	515.3
Total liabilities	1,331.0	361.3
Total equity	305.2	154.0

Source: NHFIC's audited financial statements for the year ended 30 June 2020.

5.14.71 Net cost of services increased due to an increase in finance cost and concessional loan provision offset by an increase interest revenue. These increases are due to the increase total assets and liabilities associated with new loans and additional borrowings through the issuing of bonds respectively.

Key areas of financial statements risk

5.14.72 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 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 2019–20 are provided in Table 5.14.22. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 5.14.22: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Accounting for and assessment of concessional loans Loans receivable \$1,075 million Concessional loans discount \$112.2 million (Concessional loans expense of \$74.5 million for 2019–20) Concessional loans provisions \$18 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 <i>Financial Instruments</i>.
Issuance of Bonds Other interest bearing liabilities \$1,305.3 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's 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.
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	Normal	<ul style="list-style-type: none"> • given NHFIC is in its initial stages of its operation, internal control and financial governance framework have not operated for the full financial year.

Source: ANAO 2019–20 audit results, and NHFIC's audited financial statements for the year ended 30 June 2020.

Audit results

5.14.73 There were no significant or moderate audit findings arising from the 2019–20 financial statements audit.

Reserve Bank of Australia

5.14.74 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.

5.14.75 Consistent with the Australian Government's response to the COVID-19 pandemic, the RBA implemented a number of measures aimed at supporting the economy and financial system. These measures included:

- establishing a temporary reciprocal currency arrangement (swap line) with the Federal Reserve for the provision of US dollar liquidity;
- the purchase of government bonds in the secondary market to achieve a target for the yield on 3-year Australian Government bonds of around 0.25 per cent; and
- the establishment of a Term Funding Facility to offer three-year funding to authorised deposit-taking institutions (ADIs).

5.14.76 To deliver these measures, and the RBA's operations more generally, arrangements were put in place to enable staff to work remotely where operational requirements allowed. These working arrangements impacted on the RBA's internal control environment and the ANAO reassessed whether controls were implemented and operating effectively for the full year; and the RBA's ability to produce financial statements that were free from material misstatement.

Summary of financial performance

5.14.77 The following section provides a comparison of the 2018–19 and 2019–20 key financial statements items reported by the RBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 5.14.23: Key financial statements item

Key financial statement items	2019–20 (\$m)	2018–19 (\$m)
Total expenses	664.0	664.0
Total income	3,152.0	5,213.0
Net profit/(loss)	2,488.0	4,549.0
Total other comprehensive income	1,499.0	671.0
Total comprehensive income	3,987.0	5,220.0
Total assets	278,671.0	181,808.0
Total liabilities	248,339.0	152,896.0
Total equity	30,332.0	28,912.0

Source: RBA's audited financial statements for the year ended 30 June 2020.

5.14.78 The decrease in net profit in 2019–20 was primarily driven by lower foreign currency valuation gains, which were \$1,312 million in 2019–20 compared to \$3,182 million in 2018–19. Other comprehensive income increased by \$641.0 million predominately as a result of Gold investments.

5.14.79 Liabilities increased by \$95.4 billion mainly due to the increase in deposits of \$84.9 billion in exchange settlement balances from commercial balances and Australian government deposits due to the AOFM issuance of additional bonds. Total assets increased mainly due to an increase of Australian dollar investments which increased by \$114.1 billion

Key areas of financial statements risk

5.14.80 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 2019–20 are provided in Table 5.14.24, 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 5.14.24: 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 \$211.9 billion foreign currency investments \$58.2 billion net gain on security and foreign exchange \$1.1 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 \$90.1 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 2019–20 audit results, and RBA's audited financial statements for the year ended 30 June 2020.

Audit results

5.14.81 There were no significant or moderate audit findings arising from the 2018–19 or 2019–20 financial statements audits.



Grant Hehir
Auditor-General

Canberra ACT
17 December 2020

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 identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Agriculture, Water and the Environment Portfolio									
Department of Agriculture, Water and the Environment	Yes	Moderate	✓	16 Sept 20	16 Sept 20	☐	30 Sept 20	19 Oct 20	21 Oct 20
– Natural Heritage Trust of Australia	No	Low	✓	16 Sept 20	16 Sept 20	Nil	N/A	N/A	
Australian Fisheries Management Authority	No	Low	✓	7 Sept 20	7 Sept 20	Nil	18 Sept 20	19 Oct 20	
Australian Pesticides and Veterinary Medicines Authority	No	Low	✓	7 Sept 20	7 Sept 20	Nil	16 Sept 20	19 Oct 20	
Bureau of Meteorology	Yes	Low	✓	28 Aug 20	31 Aug 20	☐	25 Sept 20	25 Sept 20	19 Oct 20
Cotton Research and Development Corporation	No	Low	✓	19 Aug 20	20 Aug 20	Nil	29 Sept 20	11 Nov 20	21 Oct 20
Director of National Parks	No	Moderate	✓	1 Oct 20	1 Oct 20	☐	8 Oct 20	9 Nov 20	19 Oct 20
Fisheries Research and Development Corporation	No	Low	✓	19 Aug 20	19 Aug 20	Nil	14 Oct 20	19 Nov 20	21 Oct 20
Grains Research and Development Corporation	No	Low	✓	7 Sept 20	8 Sept 20	Nil	12 Oct 20	11 Nov 20	
Great Barrier Reef Marine Park Authority	No	Low	✓	4 Sept 20	4 Sept 20	◆	28 Sept 20	19 Oct 20	19 Oct 20
Murray-Darling Basin Authority	No	Low	✓	24 Sept 20	24 Sept 20	Nil	7 Oct 20	21 Oct 20	21 Oct 20
Regional Investment Corporation	No	Low	✓	1 Oct 20	1 Oct 20	Nil	1 Oct 20	20 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Rural Industries Research and Development Corporation	No	Low	E	28 Sept 20	29 Sept 20	Nil	29 Sept 20	12 Nov 20	
Sydney Harbour Federation Trust	No	Low	✓	17 Sept 20	17 Sept 20	Nil	14 Sept 20	19 Oct 20	19 Oct 20
– Sydney Harbour Foundation Management Limited	No	Low	✓	17 Sept 20	17 Sept 20	Nil	N/A	N/A	
Wine Australia	No	Low	✓	30 Sept 20	30 Sept 20	Nil	•	•	21 Oct 20
Attorney-General's Portfolio									
Attorney-General's Department	Yes	Moderate	✓	6 Oct 20	6 Oct 20	Nil	6 Oct 20	19 Oct 20	21 Oct 20
Administrative Appeals Tribunal	No	Moderate	✓	11 Sept 20	11 Sept 20	Nil	24 Sept 20	19 Oct 20	
Asbestos Safety and Eradication Agency	No	Low	✓	17 Sept 20	19 Sept 20	Nil	17 Sept 20	15 Oct 20	26 Oct 20
Australian Building and Construction Commission	No	Low	✓	10 Sept 20	11 Sept 20	Nil	25 Sept 20	15 Oct 20	
Australian Commission for Law Enforcement Integrity	No	Low	✓	25 Sept 20	25 Sept 20	Nil	6 Oct 20	15 Oct 20	21 Oct 20
Australian Financial Security Authority	No	Low	✓	17 Sept 20	17 Sept 20	Nil	21 Sept 20	30 Oct 20	
Australian Human Rights Commission	No	Low	✓	8 Sept 20	9 Sept 20	Nil	17 Sept 20	15 Oct 20	
Australian Law Reform Commission	No	Low	✓	2 Oct 20	2 Oct 20	Nil	2 Oct 20	19 Oct 20	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	Moderate	✓	12 Oct 20	12 Oct 20	Nil	12 Oct 20	•	26 Oct 20

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Comcare	Yes	Moderate	✓	21 Sept 20	22 Sept 20	Nil	21 Sept 20	15 Oct 20	
Fair Work Commission	No	Low	✓	1 Sept 20	1 Sept 20	Nil	23 Sept 20	15 Oct 20	
Fair Work Ombudsman and Registered Organisations Commission Entity	No	Low	✓	14 Sept 20	14 Sept 20	Nil	18 Sept 20	15 Oct 20	
Federal Court of Australia	No	Low	✓	8 Sept 20	8 Sept 20	Nil	14 Sept 20	19 Oct 20	21 Oct 20
High Court of Australia	Yes	Low	✓	8 Sept 20	8 Sept 20	◆	30 Oct 20	•	
National Archives of Australia	Yes	Low	✓	31 Aug 20	1 Sept 20	Nil	24 Sept 20	19 Oct 20	
Office of Parliamentary Counsel	No	Low	✓	23 Sept 20	24 Sept 20	Nil	25 Sept 20	15 Oct 20	
Office of the Australian Information Commissioner	No	Low	✓	10 Sept 20	11 Sept 20	Nil	21 Sept 20	15 Oct 20	
Office of the Commonwealth Director of Public Prosecutions	No	Low	✓	23 Sept 20	23 Sept 20	Nil	25 Sept 20	19 Oct 20	
Office of the Commonwealth Ombudsman	No	Low	✓	6 Oct 20	6 Oct 20	Nil	1 Oct 20	27 Oct 20	
Office of the Inspector-General of Intelligence and Security	No	Low	✓	23 Sept 20	23 Sept 20	Nil	29 Sept 20	15 Oct 20	
Safe Work Australia	No	Low	✓	22 Sept 20	22 Sept 20	Nil	24 Sept 20	19 Oct 20	26 Oct 20
Seacare Authority	No	Low	✓	21 Sept 20	22 Sept 20	Nil	21 Sept 20	19 Oct 20	21 Oct 20
Defence Portfolio									
Department of Defence	Yes	High	✓	1 Oct 20	1 Oct 20	▲◆	21 Sept 20	19 Oct 20	26 Oct 20
AAF Company	No	Low	✓	28 Sept 20	28 Sept 20	Nil	28 Sept 20	20 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified (a)	Annual report approval date(b)	Annual report tabling date	Senate Estimates (c)
Army and Air Force Canteen Service	No	Low	✓	9 Sept 20	9 Sept 20	Nil	9 Sept 20	23 Oct 20	
Australian Military Forces Relief Trust Fund	No	Low	✓	28 Aug 20	28 Aug 20	Nil	28 Aug 20	19 Oct 20	
Australian Signals Directorate	Yes	Moderate	✓	6 Oct 20	6 Oct 20	◆	12 Oct 20	19 Oct 20	
Australian Strategic Policy Institute Ltd	No	Low	✓	20 Oct 20	20 Oct 20	Nil	2 Nov 20	19 Nov 20	
Australian War Memorial	Yes	Low	✓	14 Aug 20	17 Aug 20	Nil	31 Aug 20	19 Oct 20	
Defence Housing Australia	Yes	Moderate	✓	27 Aug 20	28 Aug 20	□	30 Sept 20	19 Oct 20	
Department of Veterans' Affairs	Yes	Moderate	✓	3 Sept 20	4 Sept 20	Nil	28 Sept 20	19 Oct 20	
– Defence Service Homes Insurance Scheme	No	Moderate	✓	3 Sept 20	3 Sept 20	Nil	N/A	N/A	
RAAF Welfare Recreational Company	No	Low	✓	1 Oct 20	1 Oct 20	Nil	1 Oct 20	19 Oct 20	
Royal Australian Air Force Veterans' Residences Trust Fund	No	Low	✓	3 Sept 20	3 Sept 20	Nil	3 Oct 20	19 Oct 20	
Royal Australian Air Force Welfare Trust Fund	No	Low	✓	18 Aug 20	18 Aug 20	Nil	18 Aug 20	19 Oct 20	
Royal Australian Navy Central Canteens Board	No	Low	✓	30 Sept 20	30 Sept 20	Nil	30 Sept 20	19 Oct 20	
Royal Australian Navy Relief Trust Fund	No	Low	✓	2 Sept 20	2 Sept 20	Nil	2 Sept 20	19 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Education, Skills and Employment Portfolio									
Department of Education, Skills and Employment	Yes	Moderate	✓	3 Sept 20	4 Sept 20	□	24 Sept 20	20 Oct 20	28 Oct 20
Australian Curriculum, Assessment and Reporting Authority	No	Low	✓	20 Aug 20	20 Aug 20	Nil	9 Sept 20	19 Oct 20	
Australian Institute for Teaching and School Leadership Limited	No	Low	✓	25 Aug 20	25 Aug 20	Nil	1 Sept 20	16 Oct 20	
Australian National University	No	Moderate	✓ [Ⓐ]	3 Apr 20	14 Apr 20	◆	29 May 20	19 Oct 20	
– ANU Enterprise Pty Limited	No	Low	✓ [Ⓐ]	2 Apr 20	7 Apr 20	Nil	N/A	N/A	
– Australian Scientific Instruments Pty Ltd	No	Moderate	✓ [Ⓐ]	2 Apr 20	7 Apr 20	Nil	N/A	N/A	
– Social Research Centre Pty Limited	No	Low	✓ [Ⓐ]	2 Apr 20	7 Apr 20	Nil	N/A	N/A	
Australian Research Council	Yes	Low	✓	7 Sept 20	7 Sept 20	Nil	23 Sept 20	19 Oct 20	
Australian Skills Quality Authority	No	Low	✓	11 Sept 20	12 Sept 20	Nil	17 Sept 20	19 Oct 20	
Tertiary Education Quality and Standards Agency	No	Low	✓	28 Aug 20	31 Aug 20	Nil	28 Aug 20	6 Oct 20	
Finance Portfolio									
Department of Finance	Yes	Moderate	✓	28 Aug 20	28 Aug 20	◆	2 Oct 20	19 Oct 20	21 Oct 20
ASC Pty Ltd	Yes	Moderate	✓	27 Aug 20	27 Aug 20	Nil	30 Sept 20	19 Oct 20	
– ASC AWD Shipbuilder Pty Ltd	No	Low	✓	27 Aug 20	27 Aug 20	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 identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
– ASC OPV Pty Ltd	No	Moderate	✓	27 Aug 20	27 Aug 20	Nil	N/A	N/A	
Australian Defence Force Super	No	Moderate	✓	23 Sept 20	23 Sept 20	Nil	N/A	N/A	
Australian Electoral Commission	No	Low	✓	28 Aug 20	28 Aug 20	Nil	25 Sept 20	19 Oct 20	
Australian Naval Infrastructure Pty Ltd	Yes	Moderate	✓	23 Sept 20	23 Sept 20	Nil	23 Sept 20	19 Oct 20	
Commonwealth Superannuation Corporation	No	Moderate	✓	23 Sept 20	24 Sept 20	Nil	23 Sept 20	20 Oct 20	
Commonwealth Superannuation Scheme	No	Moderate	✓	23 Sept 20	23 Sept 20	Nil	N/A	N/A	
Future Fund Management Agency and the Board of Guardians	Yes	Moderate	✓	29 Sept 20	30 Sept 20	Nil	29 Sept 20	19 Oct 20	
Independent Parliamentary Expenses Authority	No	Low	✓	24 Sept 20	24 Sept 20	Nil	1 Oct 20	16 Oct 20	
Military Superannuation and Benefits Scheme	No	Moderate	✓	23 Sept 20	23 Sept 20	Nil	N/A	N/A	
Public Sector Superannuation Accumulation Plan	No	Moderate	✓	23 Sept 20	23 Sept 20	Nil	N/A	N/A	
Public Sector Superannuation Scheme	No	Moderate	✓	23 Sept 20	23 Sept 20	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 identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Foreign Affairs Portfolio									
Department of Foreign Affairs and Trade	Yes	Moderate	✓	3 Sept 20	3 Sept 20	Nil	18 Sept 20	19 Oct 20	28 Oct 20
Australian Centre for International Agricultural Research	No	Low	✓	14 Sept 20	14 Sept 20	Nil	15 Oct 20	30 Oct 20	
Australian Secret Intelligence Service	No	Moderate	✓	11 Nov 20	11 Nov 20	Nil	N/A	N/A	
Australian Trade and Investment Commission	No	Low	✓	2 Oct 20	2 Oct 20	◆	15 Oct 20	29 Oct 20	
Export Finance Australia	Yes	Moderate	✓	20 Aug 20	21 Aug 20	Nil	20 Aug 20	20 Oct 20	
Tourism Australia	No	Low	✓	20 Aug 20	21 Aug 20	Nil	14 Oct 20	27 Oct 20	
Health Portfolio									
Department of Health	Yes	Moderate	✓	7 Sept 20	9 Sept 20	◆	16 Nov 20	•	26 Oct 20
Aged Care Quality and Safety Commission	No	Moderate	✓	17 Sept 20	21 Sept 20	Nil	25 Sept 20	26 Oct 20	
Australian Commission on Safety and Quality in Health Care	No	Low	✓	8 Sept 20	9 Sept 20	Nil	8 Sept 20	13 Oct 20	
Australian Digital Health Agency	No	High	✓	28 Sept 20	29 Sept 20	□	6 Oct 20	26 Oct 20	
Australian Institute of Health and Welfare	No	Low	✓	24 Sept 20	24 Sept 20	Nil	24 Sept 20	29 Oct 20	
Australian National Preventive Health Agency	No	Low	✓	9 Jul 20	9 Jul 20	Nil	16 Nov 20	•	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Australian Organ and Tissue Donation and Transplantation Authority	No	Low	✓	28 Sept 20	28 Sept 20	Nil	29 Sept 20	19 Oct 20	
Australian Radiation Protection and Nuclear Safety Agency	No	Low	✓	9 Sept 20	11 Sept 20	Nil	15 Sept 20	19 Oct 20	26 Oct 20
Australian Sports Anti-Doping Authority	No	Low	✓	7 Sept 20	8 Sept 20	Nil	15 Oct 20	30 Oct 20	
Australian Sports Commission	No	Moderate	✓	21 Aug 20	24 Aug 20	Nil	25 Sept 20	9 Nov 20	
Australian Sports Foundation Limited	No	Low	✓	16 Sept 20	21 Sept 20	Nil	15 Oct 20	30 Oct 20	
– Australian Sports Foundation Charitable Trust	No	Low	✓	16 Sept 20	21 Sept 20	Nil	N/A	N/A	
Cancer Australia	No	Low	✓	8 Sept 20	9 Sept 20	Nil	16 Sept 20	16 Oct 20	
Food Standards Australia New Zealand	No	Low	✓	7 Oct 20	7 Oct 20	Nil	12 Oct 20	26 Oct 20	
Independent Hospital Pricing Authority	No	Low	✓	2 Oct 20	2 Oct 20	Nil	6 Oct 20	16 Oct 20	
National Blood Authority	Yes	Low	✓	2 Sept 20	3 Sept 20	Nil	28 Sept 20	19 Oct 20	
National Health and Medical Research Council	Yes	Low	✓	26 Aug 20	26 Aug 20	☐	21 Sept 20	19 Oct 20	
National Health Funding Body	No	Low	✓	24 Sept 20	25 Sept 20	Nil	24 Sept 20	13 Oct 20	
National Mental Health Commission	No	Low	✓	30 Sept 20	30 Sept 20	Nil	12 Oct 20	26 Oct 20	
Professional Services Review Scheme	No	Low	✓	18 Sept 20	18 Sept 20	Nil	23 Sept 20	19 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Home Affairs Portfolio									
Department of Home Affairs	Yes	High	✓	7 Sept 20	8 Sept 20	◆▲	7 Sept 20	19 Oct 20	19 Oct 20
Australian Criminal Intelligence Commission	No	Low	✓	24 Sept 20	24 Sept 20	Nil	16 Sept 20	19 Oct 20	
Australian Federal Police	Yes	Moderate	✓	16 Sept 20	16 Sept 20	□	16 Sept 20	15 Oct 20	
Australian Institute of Criminology	No	Low	✓	24 Sept 20	24 Sept 20	Nil	18 Sept 20	19 Oct 20	
Australian Security and Intelligence Organisation	Yes	Moderate	✓	6 Aug 20	6 Aug 20	Nil	21 Sept 20	19 Oct 20	
Australian Transaction Reports and Analysis Centre	No	Low	✓	7 Sept 20	7 Sept 20	Nil	11 Sept 20	19 Oct 20	
Industry, Science, Energy and Resources Portfolio									
Department of Industry, Science, Energy and Resources	Yes	Moderate	✓	31 Aug 20	31 Aug 20	Nil	2 Oct 20	19 Oct 20	20 Oct 20
Australian Institute of Marine Science	No	Low	✓	25 Aug 20	25 Aug 20	Nil	14 Sept 20	16 Oct 20	28 Oct 20
Australian Nuclear Science and Technology Organisation	Yes	Moderate	E	13 Oct 20	13 Oct 20	▲	13 Oct 20	26 Oct 20	
– ANSTO Nuclear Medicine Pty Ltd	Yes^(d)	Moderate	E	4 Nov 20	5 Nov 20	Nil	N/A	N/A	
– PETTECH Solutions Pty Ltd	No	Low	✓	13 Oct 20	13 Oct 20	Nil	N/A	N/A	
Australian Renewable Energy Agency	No	Low	✓	17 Sept 20	19 Sept 20	Nil	17 Sept 20	16 Oct 20	20 Oct 20

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Clean Energy Finance Corporation	Yes	Moderate	✓	20 Aug 20	20 Aug 20	Nil	30 Sept 20	15 Oct 20	
– Clean Energy Investment Management Pty Ltd	Yes	Low	✓	20 Aug 20	20 Aug 20	Nil	N/A	N/A	
Climate Change Authority	No	Low	✓	18 Sept 20	18 Sept 20	Nil	13 Oct 20	20 Oct 20	
Clean Energy Regulator	No	Moderate	✓	25 Sept 20	25 Sept 20	☐	25 Sept 20	29 Oct 20	
Commonwealth Scientific and Industrial Research Organisation	Yes	Moderate	✓	7 Sept 20	7 Sept 20	Nil	28 Aug 20	19 Oct 20	28 Oct 20
– CSIRO Financial Services	No	Moderate	✓	3 Aug 20	11 Aug 20	Nil	N/A	N/A	
– CSIRO General Partner Co Pty Ltd	Yes^(e)	Low	✓	20 Aug 20	24 Aug 20	Nil	N/A	N/A	
– CSIRO Innovation Fund 1	No	Low	✓	3 Aug 20	3 Aug 20	Nil	N/A	N/A	
– CSIRO Innovation Follow-on-Fund 1	No	Moderate	✓	3 Aug 20	3 Aug 20	Nil	N/A	N/A	
– National ICT Australia Limited	No	Low	✓	14 Aug 20	14 Aug 20	Nil	N/A	N/A	
– Science and Industry Endowment Fund	No	Low	✓	4 Aug 20	4 Aug 20	Nil	N/A	N/A	
Geoscience Australia	Yes	Low	✓	4 Sept 20	5 Sept 20	Nil	14 Sept 20	19 Oct 20	28 Oct 20
IP Australia	No	Low	✓	24 Sept 20	25 Sept 20	Nil	25 Sept 20	19 Oct 20	20 Oct 20
National Offshore Petroleum Safety and Environmental Management Authority	No	Low	✓	17 Sept 20	17 Sept 20	Nil	18 Sept 20	20 Oct 20	28 Oct 20

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Northern Australia Infrastructure Facility	No	Low	✓	10 Sept 20	14 Sept 20	Nil	10 Oct 20	28 Oct 20	
Snowy Hydro Limited	Yes	Moderate	✓	31 Aug 20	31 Aug 20	Nil	31 Aug 20	19 Oct 20	20 Oct 20
Infrastructure, Transport, Cities and Regional Development and Communications Portfolio									
Department of Infrastructure, Transport, Regional Development and Communications	Yes	Moderate	✓	2 Oct 20	2 Oct 20	☐	7 Oct 20	29 Oct 20	19 Oct 20
Airservices Australia	Yes	Moderate	✓	16 Sept 20	18 Sept 20	Nil	16 Sept 20	14 Oct 20	
Australian Broadcasting Corporation	Yes	Moderate	✓	25 Aug 20	25 Aug 20	☐	9 Sept 20	20 Oct 20	21 Oct 20
Australia Business Arts Foundation Limited	No	Low	✓	25 Aug 20	26 Aug 20	Nil	•	19 Oct 20	
Australian Communications and Media Authority	Yes	Low	✓	3 Sept 20	4 Sept 20	Nil	9 Sept 20	19 Oct 20	
Australia Council	No	Low	✓	24 Aug 20	24 Aug 20	Nil	24 Aug 20	15 Oct 20	21 Oct 20
Australian Film, Television and Radio School	No	Low	✓	15 Sept 20	16 Sept 20	Nil	15 Sept 20	26 Oct 20	21 Oct 20
Australian Maritime Safety Authority	No	Low	✓	23 Sept 20	23 Sept 20	Nil	23 Sept 20	19 Oct 20	19 Oct 20
Australian National Maritime Museum	No	Low	✓	2 Sept 20	3 Sept 20	Nil	2 Sept 20	30 Oct 20	21 Oct 20
– Australian National Maritime Foundation	No	Low	✓	2 Sept 20	3 Sept 20	Nil	N/A	N/A	
Australian Postal Corporation	Yes	Moderate	✓	20 Aug 20	20 Aug 20	Nil	21 Sept 20	16 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
– Australia Post Licensee Advisory Council Limited	No	Low	✓	25 Aug 20	25 Aug 20	Nil	N/A	N/A	
– Australia Post Services Pty Ltd	No	Low	✓	17 Sept 20	17 Sept 20	Nil	N/A	N/A	
– Australia Post Transaction Services Pty Ltd	No	Moderate	✓	17 Sept 20	17 Sept 20	Nil	N/A	N/A	
Australian Rail Track Corporation	Yes	High	✓	15 Oct 20	15 Oct 20	Nil	15 Oct 2020	•	19 Oct 20
Australian Transport Safety Bureau	No	Low	✓	21 Sept 20	21 Sept 20	Nil	24 Sept 20	19 Oct 20	
Bundanon Trust	No	Low	✓	16 Oct 20	16 Oct 20	Nil	15 Oct 20	29 Oct 20	
Civil Aviation Safety Authority	No	Low	✓	21 Aug 20	21 Aug 20	Nil	14 Sept 20	14 Oct 20	
Infrastructure Australia	No	Low	✓	3 Sept 20	3 Sept 20	Nil	25 Sept 20	19 Oct 20	
Moorebank Intermodal Company Limited	Yes	High	✓	17 Sept 20	18 Sept 20	▲	30 Sept 20	19 Oct 20	19 Oct 20
– Moorebank Intermodal Development Investment Trust	No	Moderate	✓	17 Sept 20	18 Sept 20	Nil	N/A	N/A	
– Moorebank Intermodal Development Rail Trust	No	Moderate	✓	17 Sept 20	18 Sept 20	Nil	N/A	N/A	
National Capital Authority	Yes	Low	✓	31 Aug 20	1 Sept 20	Nil	14 Oct 20	9 Nov 20	
National Easter Rail Agency	No	Low	✓	2 Sept 20	2 Sept 20	Nil	14 Sept 20	19 Oct 20	
National Film and Sound Archive of Australia	No	Low	✓	12 Oct 20	12 Oct 20	Nil	12 Oct 20	11 Nov 20	21 Oct 20
National Gallery of Australia	Yes	Moderate	✓	24 Aug 20	25 Aug 20	Nil	28 Sept 20	19 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
– National Gallery of Australia Foundation	No	Low	✓	24 Aug 20	25 Aug 20	Nil	N/A	N/A	
National Library of Australia	Yes	Low	✓	14 Aug 20	17 Aug 20	Nil	14 Aug 20	16 Oct 20	
National Museum of Australia	No	Low	✓	21 Aug 20	24 Aug 20	Nil	21 Aug 20	19 Oct 20	
National Portrait Gallery of Australia	No	Low	✓	25 Sept 20	25 Sept 20	Nil	25 Sept 20	26 Oct 20	
National Transport Commission	No	Low	✓	28 Aug 20	31 Aug 20	Nil	11 Sept 20	8 Oct 20	
NBN Co Limited	Yes	High	✓	6 Aug 20	6 Aug 20	Nil	6 Aug 20	19 Oct 20	19 Oct 20
North Queensland Water Infrastructure Authority	No	Low	✓	8 Sept 20	8 Sept 20	Nil	1 Oct 20	26 Oct 20	
Screen Australia	No	Low	✓	24 Aug 20	25 Aug 20	Nil	24 Aug 20	26 Oct 20	21 Oct 20
Special Broadcasting Service Corporation	No	Low	✓	26 Aug 20	26 Aug 20	Nil	26 Aug 20	20 Oct 20	
WSA Co Ltd	Yes	Moderate	✓	24 Aug 20	24 Aug 20	Nil	24 Aug 20	19 Oct 20	19 Oct 20
Parliamentary Departments									
Department of Parliamentary Services	Yes	Moderate	✓	22 Sept 20	22 Sept 20	Nil	22 Sept 20	7 Oct 20	19 Oct 20
Department of the House of Representatives ^(f)	No	Low	✓	28 Sept 20	28 Sept 20	Nil	15 Oct 20	19 Oct 20	
Department of the Senate	No	Low	✓	1 Oct 20	1 Oct 20	Nil	12 Oct 20	9 Nov 20	
Parliamentary Budget Office	No	Low	✓	3 Sept 20	3 Sept 20	Nil	9 Oct 20	19 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Prime Minister and Cabinet Portfolio									
Department of the Prime Minister and Cabinet	Yes	Moderate	✓	21 Sept 20	22 Sept 20	Nil	22 Sept 20	19 Oct 20	19 Oct 20
Aboriginal Hostels Limited	No	Moderate	✓	13 Nov 20	17 Nov 20	◆	•	•	23 Oct 20
Anindilyakwa Land Council	No	Low	✓	16 Nov 20	17 Nov 20	Nil	•	•	20 Oct 20
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	Low	✓	26 Aug 20	27 Aug 20	Nil	30 Sept 20	19 Oct 20	
Australian Public Service Commission	No	Low	✓	23 Sept 20	23 Sept 20	Nil	15 Oct 20	19 Oct 20	19 Oct 20
Central Land Council	No	Low	✓	27 Aug 20	28 Aug 20	Nil	14 Sept 20	12 Nov 20	
Indigenous Business Australia	Yes	Moderate	✓	2 Nov 20	2 Nov 20	Nil	28 Sept 20	11 Nov 20	23 Oct 20
– Gagudju Crocodile Hotel Trust	No	Low	■	■	■	Nil	N/A	N/A	
– Gagudju Lodge Cooida Trust	No	Low	■	■	■	Nil	N/A	N/A	
– Indigenous Prosperity Fund – Cash Fund	No	Low	✓	18 Nov 20	18 Nov 20	Nil	N/A	N/A	
– Tennant Creek Foodbarn Partnership	No	Low	✓	21 Oct 20	21 Oct 20	Nil	N/A	N/A	
– Darwin Hotel Partnership	No	Low	■	■	■	Nil	N/A	N/A	
– IBA Retail Asset Management Pty Ltd	No	Low	✓	26 Oct 20	27 Oct 20	Nil	N/A	N/A	
– IBA Retail Property Trust	No	Low	✓	23 Oct 20	26 Oct 20	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 identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
– Ikara Wilpena Enterprises Pty Ltd	No	Low	■	■	■	Nil	N/A	N/A	
– Ikara Wilpena Holdings Trust	No	Low	■	■	■	Nil	N/A	N/A	
– Indigenous Economic Development Trust	No	Low	✓	19 Nov 20	20 Nov 20	Nil	N/A	N/A	
– Indigenous Prosperity Fund – Growth Fund	No	Low	✓	14 Sept 20	15 Sept 20	Nil	N/A	N/A	23 Oct 20
– Indigenous Prosperity Fund – Income Fund	No	Low	✓	14 Sept 20	15 Sept 20	Nil	N/A	N/A	
– Indigenous Real Estate Investment Trust	No	Low	✓	14 Sept 20	15 Sept 20	Nil	N/A	N/A	
– Kakadu Tourism (GCH) Pty Ltd	No	Moderate	■	■	■	Nil	N/A	N/A	
– Kakadu Tourism (GLC) Pty Ltd	No	Moderate	■	■	■	Nil	N/A	N/A	
– Li Ar Yalug Land Holding Trust	No	Low	✓	13 Oct 20	21 Oct 20	Nil	N/A	N/A	
– Northam Solar Project Partnership	No	Low	✓	9 Nov 20	9 Nov 20	Nil	N/A	N/A	
– Performance Bond Fund Trust	No	Low	✓	21 Sept 20	24 Sept 20	Nil	N/A	N/A	
– Tennant Creek Land Holding Trust	No	Low	■	■	■	Nil	N/A	N/A	
– Tjapukai Aboriginal Cultural Park 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 identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
– Wilpena Pound Aerodrome Services Pty Ltd	No	Low	■	■	■	Nil	N/A	N/A	
Indigenous Land and Sea Corporation	Yes	Moderate	E	25 Sept 20	28 Sept 20	Nil	•	•	19 Oct 20
– National Centre of Indigenous Excellence Limited	No	Moderate	✓	2 Oct 20	6 Oct 20	Nil	N/A	N/A	
– Primary Partners Pty Ltd	No	Moderate	✓	29 Oct 20	29 Oct 20	Nil	N/A	N/A	
– Voyages Indigenous Tourism Australia Pty Ltd	Yes⁽⁹⁾	High	E	17 Sept 20	18 Sept 20	Nil	N/A	N/A	
National Australia Day Council Limited	No	Low	Q	27 Oct 20	27 Oct 20	Nil	•	•	19 Oct 20
National Indigenous Australians Agency	Yes	Moderate	✓	7 Sept 20	8 Sept 20	Nil	28 Sept 20	20 Oct 20	23 Oct 20
– Aboriginals Benefit Account	No	Moderate	✓	6 Sept 20	7 Sept 20	Nil	N/A	N/A	
National Drought and North Queensland Flood Response and Recovery Agency	No	Low	✓	2 Oct 20	2 Oct 20	Nil	2 Oct 20	16 Oct 20	19 Oct 20
Northern Land Council	No	Moderate	■	■	■	▲ L□	•	•	
– North Australia Aboriginal Corporation	No	Low	■	■	■	Nil	N/A	N/A	
– Northern Australian Aboriginal Charitable Trust	No	Low	■	■	■	Nil	N/A	N/A	
Office of National Intelligence	No	Low	✓	2 Oct 20	2 Oct 20	Nil	N/A	N/A	
Office of the Official Secretary to the Governor-General	No	Low	✓	6 Oct 20	6 Oct 20	Nil	8 Oct 20	15 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Old Parliament House	No	Low	✓	27 Aug 20	28 Aug 20	Nil	27 Aug 20	19 Oct 20	
Outback Stores Pty Ltd	No	Low	✓	26 Aug 20	26 Aug 20	Nil	•	•	
Tiwi Land Council	No	Low	✓	15 Sept 20	16 Sept 20	Nil	•	•	
Torres Strait Regional Authority	No	Low	✓	7 Sept 20	8 Sept 20	Nil	1 Oct 20	21 Oct 20	
Workplace Gender Equality Agency	No	Low	✓	10 Sept 20	10 Sept 20	Nil	15 Nov 20	•	19 Oct 20
Wreck Bay Aboriginal Community Council	No	Low	✓	18 Sept 20	21 Sept 20	Nil	26 Oct 20	•	
Social Services Portfolio									
Department of Social Services	Yes	Moderate	✓	18 Sept 20	18 Sept 20	Nil	15 Oct 20	26 Oct 20	28 Oct 20
Australian Hearing Services	Yes	Low	✓	17 Aug 20	17 Aug 20	Nil	29 Sept 20	19 Oct 20	
Australian Institute of Family Studies	No	Low	✓	7 Sept 20	7 Sept 20	Nil	14 Sept 20	19 Oct 20	
Digital Transformation Agency	No	Low	✓	23 Sept 20	25 Sept 20	Nil	30 Sept 20	13 Oct 20	
National Disability Insurance Scheme Launch Transition Agency (National Disability Insurance Agency)	Yes	Moderate	✓	16 Sept 20	16 Sept 20	◆□	15 Sept 20	19 Oct 20	
NDIS Quality and Safeguard Commission	No	Low	✓	13 Oct 20	13 Oct 20	Nil	13 Oct 20	26 Oct 20	
Services Australia	Yes	Moderate	✓	28 Aug 20	28 Aug 20	◆▲	1 Oct 20	19 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
Treasury Portfolio									
Department of the Treasury	Yes	Moderate	✓	10 Sept 20	10 Sept 20	Nil	8 Nov 20	• ^h	26 Oct 20
Australian Bureau of Statistics	Yes	Low	✓	21 Aug 20	21 Aug 20	Nil	21 Sept 20	19 Oct 20	
Australian Competition and Consumer Commission	No	Low	✓	24 Aug 20	24 Aug 20	Nil	2 Sept 20	19 Oct 20	
Australian Office of Financial Management	Yes	Moderate	✓	25 Aug 20	25 Aug 20	Nil	22 Sept 20	19 Oct 20	
Australian Prudential Regulation Authority	Yes	Low	✓	17 Aug 20	17 Aug 20	Nil	18 Sept 20	19 Oct 20	
Australian Reinsurance Pool Corporation	Yes	Moderate	✓	24 Sept 20	25 Sept 20	Nil	24 Sept 20	19 Oct 20	
Australian Securities and Investments Commission	Yes	Moderate	✓	9 Sept 20	9 Sept 20	◆	13 Oct 20	23 Oct 20	
Australian Taxation Office	Yes	High	✓	21 Sept 20	22 Sept 20	Nil	2 Oct 20	19 Oct 20	
Commonwealth Grants Commission	No	Low	✓	29 Sept 20	29 Sept 20	Nil	29 Sept 20	26 Oct 20	
Financial Adviser Standards and Ethics Authority Ltd	No	Low	✓	28 Aug 20	28 Aug 20	Nil	28 Aug 20	19 Oct 20	
Infrastructure and Project Financing Agency	No	Low	✓	25 Sept 20	28 Sept 20	Nil	30 Sept 20	23 Oct 20	
Inspector-General of Taxation	No	Low	✓	16 Sept 20	16 Sept 20	Nil	29 Sept 20	26 Oct 20	
National Competition Council	No	Low	✓	4 Sept 20	4 Sept 20	Nil	15 Sept 20	19 Oct 20	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^(a)	Annual report approval date ^(b)	Annual report tabling date	Senate Estimates ^(c)
National Housing Finance and Investment Corporation	Yes	Moderate	✓	1 Sept 20	1 Sept 20	Nil	28 Sept 20	19 Oct 20	26 Oct 20
Office of the Auditing and Assurance Standards Board	No	Low	✓	21 Sept 20	21 Sept 20	Nil	21 Sept 20	19 Oct 20	
Office of the Australian Accounting Standards Board	No	Low	✓	21 Sept 20	21 Sept 20	Nil	21 Sept 20	19 Oct 20	
Productivity Commission	No	Low	✓	28 Aug 20	31 Aug 20	Nil	23 Sept 20	15 Oct 20	
Reserve Bank of Australia	Yes	Moderate	✓	4 Sept 20	4 Sept 20	Nil	15 Sept 20	19 Oct 20	
– Note Printing Australia Ltd	No	Low	✓	29 Jul 20	29 Jul 20	Nil	N/A	N/A	
Royal Australian Mint	No	Moderate	✓	15 Sept 20	15 Sept 20	Nil	7 Sept 20	19 Oct 20	

Note a: These are moderate or significant audit findings identified in prior and current years.

Note b: 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 c: This is the first appearance for the portfolio in the 2020–21 budget estimates hearing.

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: The House of Representatives is not required to appear before Senate Estimates.

Note g: 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 h: The Department of the Treasury has an extension to 30 November 2020 for tabling the annual report.

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: audit report contains qualification

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 findings and/or legislative matters noted
- ▲: 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 2019–20 interim audit phase, now downgraded or resolved
- 📅: financial year end date other than 30 June 2020
- ➡: financial statements not signed as at 24 November 2020
- : annual report not tabled as at 24 November 2020

Appendix 2 Changes in audit responsibilities in 2019–20

The following is a listing of new entities that were required to be audited by the Auditor-General in 2019–20, entities that ceased to be audited by the Auditor-General in 2019–20, entities that had a name change in 2019–20 and entities that have moved between portfolios.

New entities audited in 2019–20⁶³

- CSIRO Innovation Follow-on-Fund 1
- National Faster Rail Agency
- National Indigenous Australians Agency

Entities that ceased to be audited by the Auditor-General

- Department of Agriculture
- Department of Communications and the Arts
- Department of Employment, Skills, Small and Family Business
- IBA Tourism Asset Management Pty Ltd
- STI Co Pty Ltd
- The Owners - Strata Plan No 86156

Entities that had a name change

2019–20 entity name	Former entity name
Department of Agriculture, Water and the Environment	Department of the Environment and Energy
Department of Education, Skills and Employment	Department of Education
Department of Infrastructure, Transport, Regional Development and Communications	Department of Infrastructure, Transport, Cities and Regional Development
Department of Industry, Science, Energy and Resources	Department of Industry, Innovation and Science
National Drought and North Queensland Flood Response and Recovery Agency	North Queensland Livestock Industry Recovery Agency
Primary Partners Pty Ltd	Australian Indigenous Agribusiness Company Pty Ltd
Sydney Harbour Foundation Management Limited	Sydney Harbour Conservancy Limited

63 In 2019–20 the ANAO are undertaking current and prior year financial statements audits for the North Australian Aboriginal Corporation and Northern Australian Aboriginal Charitable Trust.

Changes in administrative arrangements

Entity name	2019–20 portfolio	Former portfolio
Australian Fisheries Management Authority	Agriculture, Water and the Environment	Agriculture
Australian Pesticides and Veterinary Medicines Authority	Agriculture, Water and the Environment	Agriculture
Cotton Research and Development Corporation	Agriculture, Water and the Environment	Agriculture
Fisheries Research and Development Corporation	Agriculture, Water and the Environment	Agriculture
Grains Research and Development Corporation	Agriculture, Water and the Environment	Agriculture
Murray-Darling Basin Authority	Agriculture, Water and the Environment	Agriculture
Regional Investment Corporation	Agriculture, Water and the Environment	Agriculture
Rural Industries Research and Development Corporation	Agriculture, Water and the Environment	Agriculture
Wine Australia	Agriculture, Water and the Environment	Agriculture
Bureau of Meteorology	Agriculture, Water and the Environment	Environment and Energy Portfolio
Director of National Parks	Agriculture, Water and the Environment	Environment and Energy Portfolio
Great Barrier Reef Marine Park Authority	Agriculture, Water and the Environment	Environment and Energy Portfolio
Natural Heritage Trust of Australia	Agriculture, Water and the Environment	Environment and Energy Portfolio
Sydney Harbour Federation Trust	Agriculture, Water and the Environment	Environment and Energy Portfolio
Sydney Harbour Foundation Management Limited	Agriculture, Water and the Environment	Environment and Energy Portfolio
Australian Skills Quality Authority	Education, Skills and Employment	Employment, Skills, Small and Family Business
Australian Renewable Energy Agency	Industry, Science, Energy and Resources	Environment and Energy Portfolio
Clean Energy Finance Corporation	Industry, Science, Energy and Resources	Environment and Energy Portfolio
Clean Energy Investment Management Pty Ltd	Industry, Science, Energy and Resources	Environment and Energy Portfolio
Climate Change Authority	Industry, Science, Energy and Resources	Environment and Energy Portfolio

Entity name	2019–20 portfolio	Former portfolio
Clean Energy Regulator	Industry, Science, Energy and Resources	Environment and Energy Portfolio
Snowy Hydro Limited	Industry, Science, Energy and Resources	Environment and Energy Portfolio
Australia Business Arts Foundation Limited	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australia Council	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australian Broadcasting Corporation	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australian Communications and Media Authority	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australian Film, Television and Radio School	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australian National Maritime Museum	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australian National Maritime Foundation	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australian Postal Corporation	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australia Post Licensee Advisory Council Limited	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australia Post Services Pty Ltd	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Australia Post Transaction Services Pty Ltd	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Bundanon Trust	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
National Film and Sound Archive of Australia	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts

Entity name	2019–20 portfolio	Former portfolio
National Gallery of Australia	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
National Gallery of Australia Foundation	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
National Library of Australia	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
National Museum of Australia	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
National Portrait Gallery of Australia	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
NBN Co Limited	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Screen Australia	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Special Broadcasting Service Corporation	Infrastructure, Transport, Cities and Regional Development and Communications	Communications and the Arts
Old Parliament House	Prime Minister and Cabinet	Communications and the Arts
Infrastructure and Project Financing Agency	Treasury	Infrastructure, Transport, Cities and Regional Development

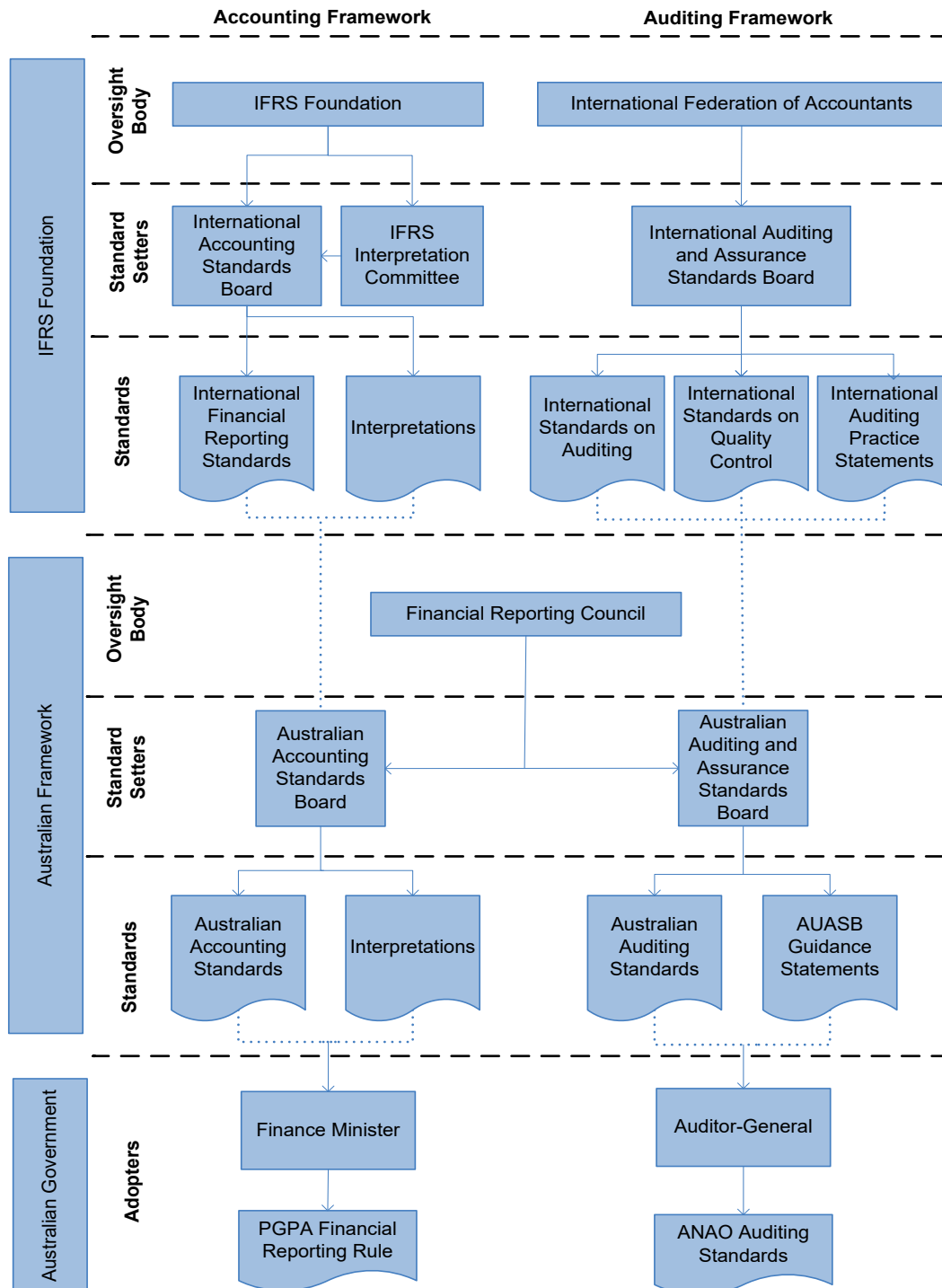
Portfolio name changes

2019–20 portfolio name	Former portfolio name
Agriculture, Water and the Environment Portfolio	Agriculture Portfolio
Education, Skills and Employment	Education and Training Portfolio
Infrastructure, Transport, Regional Development and Communications	Infrastructure, Transport, Cities and Regional Development Portfolio
Industry, Science, Energy and Resources	Industry, Innovation and Science Portfolio

Appendix 3 The financial reporting and auditing standards frameworks for 2019–20

- The figure below depicts the standard setting framework for financial reporting and auditing, in the Australian Government context.

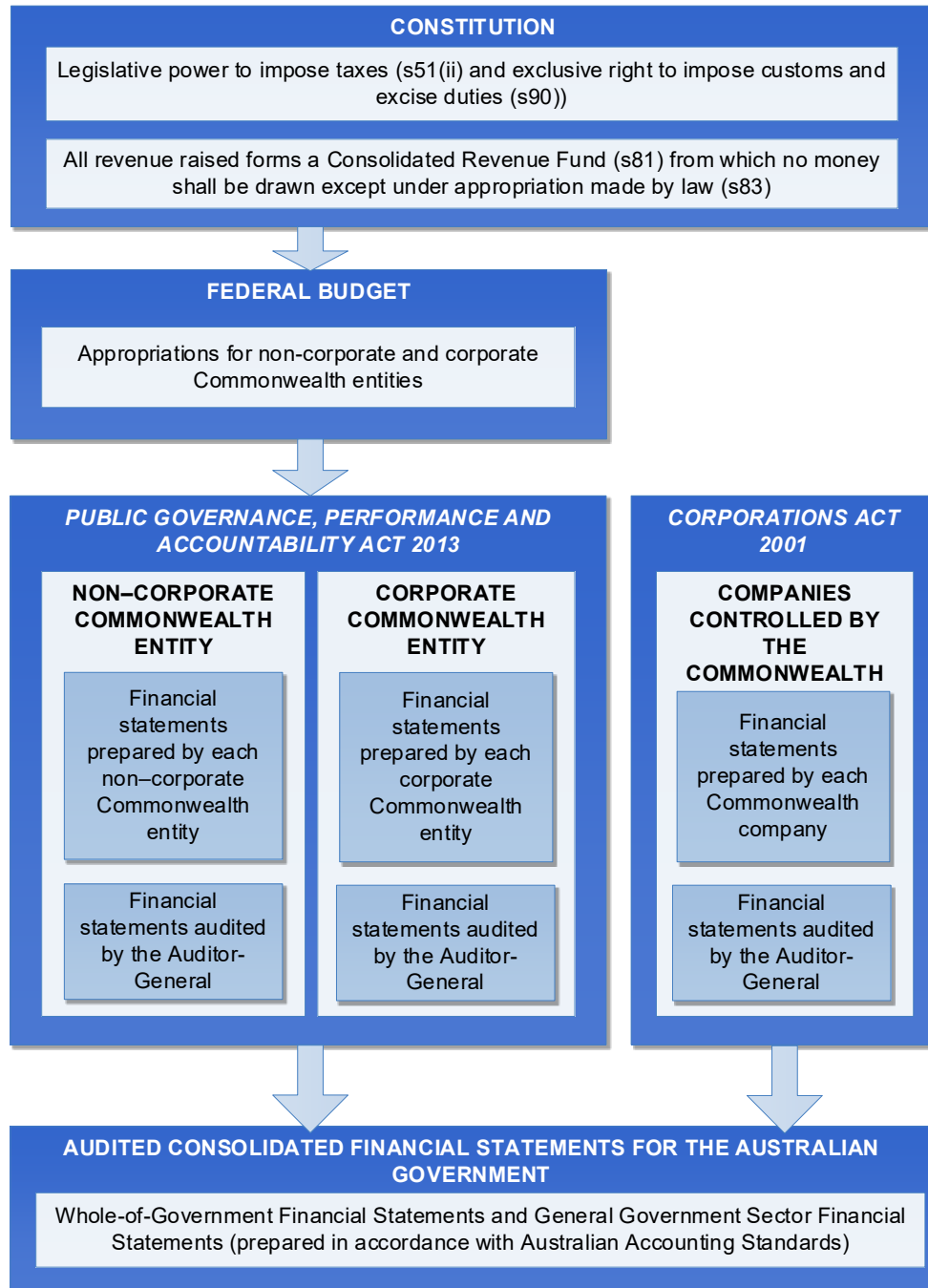
Figure A.1: Australian Government standard setting framework



Appendix 4 The financial reporting and auditing framework for 2019–20 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.

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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 corporate⁶⁴; 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 are 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

64 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 able to obtain sufficient appropriate audit evidence regarding individual uncertainties, concludes that the potential interaction of the uncertainties and their 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.