

Audits of the Financial Statements of Commonwealth Entities for 1996-97

Summary of Results and Outcomes

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Canberra ACT

4 December 1997

Dear Madam President
Dear Mr Speaker

In accordance with the authority contained in the *Audit Act 1901*, the Australian National Audit Office has undertaken audits of the financial statements of Commonwealth entities and examinations and inspections of the accounts and records of those entities. The results of this audit activity and the outcomes achieved through this work are summarised in this report. I present this report for transmittal to the Parliament. The report is titled *Audits of the Financial Statements of Commonwealth Entities for 1996-97 - Summary of Results and Outcomes*.

Yours faithfully

P.J. Barrett
Auditor-General

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

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

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Audit Objectives, Scope and Focus

Introduction by the Auditor-General

1. The Commonwealth public sector spends well in excess of \$100 billion dollars annually and receives a similar amount in revenues. It controls assets valued in excess of \$200 billion and has responsibility for liabilities of the same order.
2. In 1996-97 there were 321 separate 'reporting entities' which control, collect, pay and distribute the above amounts on behalf of the Commonwealth Government. These entities range from departments, offices, commissions, boards, trusts and authorities through to corporations, companies and tribunals. They encompass a diverse array of functions including trading enterprises, financial institutions, welfare agencies, hospitals, universities and colleges, health insurance and superannuation funds, research and development bodies, marketing authorities and courts.
3. The Auditor-General is required to audit the financial statements of each of these entities each year and to report on their 'fairness'. The financial statements and the associated audit report are included in each entity's Annual Report which, apart from Annual Reports of Government companies, is tabled in the Parliament each year.
4. This summary audit report is provided to the Parliament to assist in its scrutiny of annual reports and in the consideration of each entity's financial statements. While the reporting requirement is an essential element of accountability, it is also part of good corporate governance which needs to be recognised by managers as part of their responsibility to all stakeholders for their entities' performance.
5. The structure of this report has been modified to further facilitate Parliamentary review. The traditional approach of grouping audit findings by Ministerial Portfolio (Part Two) has been complemented by a discussion of government-wide issues (Part One). The intention is to assist the Parliament to identify which issues are most prominent, or of greatest concern, and this to be able to consider entity performance and entity-specific audit findings more easily in this context.

6. To improve readability and for greater clarity, reference to individual entities in this report has only been made where there is a major finding or internal control weakness. Unless otherwise indicated, the ANAO has been advised by each entity of appropriate remedial action, taken or proposed, to address each issue. This ‘exception’ basis of reporting is designed to produce a shorter, more digestible report. It also serves to provide a sharper focus for Parliamentary attention. By its nature it focuses on the negative aspects of financial reporting which are relatively few in number and, for the most part, not of a serious nature if appropriate early remedial action is taken.

7. I take this opportunity to thank my staff whose professionalism and dedication allow me to table this report earlier each year. I also record my appreciation for the cooperation of the staff in each entity involved in the preparation and audit of their financial statements which are an improvement on the previous year’s and in a number of cases are exemplary.

P.J. Barrett

Report Highlights

Results of Financial Statements Audits

The Fairness Opinion

Only six entities from the 321 reporting entities subject to audit had their financial statements qualified this year. This represents less than 2% of all financial statement audit opinions issued for the period and is a slight improvement on past years. The major reasons for the qualifications were:

- ◆ limitation of scope (3 references in three of the entities)
- ◆ non-compliance with accounting standards (5 references in three of the entities)
- ◆ non-disclosure of legal liabilities (1 instance)

34 audit opinions (10.6% of the total) contained an ‘emphasis of matter’, that is a reporting issue which does not warrant qualification but is of sufficient importance to include in the audit report. This represents a relatively large increase compared to last year’s (24 of 342 entities or 7%) and is to some extent symptomatic of the impact of the uncertainty which arises from ongoing public service reforms.

Quality of Financial Reporting

The draft financial statement balances submitted to the ANAO by most entities did not require significant adjustment as a result of audit verification.

Our evaluation of the efficiency and effectiveness of financial statement preparation processes indicated a steady improvement from past years.

Timeliness of External Reporting

Most entities met their reporting obligations in a timely manner. There was also an improvement in terms of both the date on which draft financial statements were provided to the ANAO by most entities and the date on which the financial statements were signed. Almost all entities have, to date, met their annual report tabling commitments.

Public Sector Control Framework

The ANAO evaluates, and may examine in some detail aspects of, the control framework of each entity as part of a financial statement audit. The following key issues, with across entity implications, emerged from this examination:

- ◆ information technology:-
 - ◊ access control and security over computer systems and applications; and
 - ◊ control over system and software changes; and
- ◆ asset management

Overall, the ANAO identified and represented to the executive management of entities:

- ◆ 52 significant findings (105 in 1995-96);
- ◆ 407 important findings (447 in 1995-96); and
- ◆ 761 other findings.

These results suggest Commonwealth entities are generally making significant progress in improving their internal control frameworks and in financial reporting.

Part One

GOVERNMENT-WIDE ISSUES

1. Results of Financial Statements

Whole of Government

1.1. The ANAO carries out an annual audit of the aggregated receipts and expenditures of the Consolidated Revenue Fund. From this year the ANAO will also provide an audit opinion on the whole of government financial statements currently being prepared.

Commonwealth of Australia Financial Statements

1.2. Whole of Government financial reporting involves the preparation of general purpose financial reports which consolidate the financial results of all departments, authorities and companies controlled by the Government. For the Commonwealth, this involves consolidation of the financial reports of some 200 entities, ranging from central government agencies such as the Australian Taxation Office and the Department of Defence through to commercial organisations such as Telstra and Australia Post.

1.3. In July 1997, the Minister for Finance published trial and unaudited Financial Statements of the Commonwealth of Australia for the year ended 30 June 1996. The ANAO conducted an examination of the processes adopted in preparation of the trial financial statements and reported to the Minister on significant procedural and reporting issues which required resolution prior to the production of fully audited financial statements.

1.4. At the time of preparation of this report, the Commonwealth of Australia Financial Statements for the year ended 30 June 1997 are still being prepared. These statements are currently being audited by the ANAO and will be the subject of a formal audit report to the Minister for Finance and Administration.

Aggregate Financial Statement

1.5. The Aggregate Financial Statement is prepared pursuant to section 50AB of the *Audit Act 1901*. In this Statement the Minister for Finance and Administration reports on the aggregated cash receipts and expenditures against the Consolidated Revenue Fund, the Loan Fund and the Trust Fund.

1.6. The Aggregate Financial Statement for the year ended 30 June 1996 was tabled in the Parliament in December 1996.

1.7. The Statement for the year ended 30 June 1997 is currently being prepared.

Commonwealth Entities

Key Findings

1.8. During 1996-97 the ANAO completed the audit of 321 (343 in 1995-96) financial statements which are produced by 'reporting entities'. There may not necessarily be a direct correlation between a reporting 'entity' and a legal entity or body. The reporting entities are classified as:

- ◆ 75 departments, agencies and commercial activities (76 in 1995-96);
- ◆ 105 statutory authorities (135 in 1995-96); and
- ◆ 141 companies and other bodies (132 in 1995-96).

1.9. The financial statements of only six entities required a 'Qualified' audit opinion (14 in 1995-96). An 'Emphasis of Matter' explained later in this Part was included in the audit report on a further 34 entities (24 in 1995-96).

Qualified Audit Opinion

1.10. The audit report is an opinion, expressed by the auditor, on whether the financial statements of an entity fairly represent the state of affairs of the entity and the results of its operations for the period covered by the statements.

1.11. If the auditor is not satisfied that the financial statements are presented fairly, the audit report will be qualified. A qualification may relate to part of the information presented (*an exception* opinion); or to the statements as a whole (*an adverse* opinion).

Alternatively, the auditor may be unable to form an opinion on a part (*exception* opinion) or all, of the statements.

1.12. The following table is a summary of those entities for which a qualified audit opinion was expressed this year; including the nature of the qualification and the reason for the qualification. Further detail on each qualification is provided in Part Two of this Report.

Reporting Entity at 30 June 1997	Nature of Qualification	Reason for Qualification
Australian Security Intelligence Organization	Exception Opinion	Limitation of Scope
Australian National University	Exception Opinion	Non-compliance
Comsuper	Exception Opinion	Limitation of Scope
Australian Secret Intelligence Service	Exception Opinion	Limitation of Scope
Australian National Railways Commission	Exception Opinion	Non-compliance
Reserve Bank of Australia *	Exception Opinion	Non-compliance

* a dual opinion was issued on the RBA statements. They were unqualified to the extent they were consistent with regulatory and operational requirements.

1.13. The need for a qualification may arise from a limitation being placed on the scope of audit procedures. It may also arise from a disagreement with the management of an entity over compliance with accounting standards or other relevant statutory requirements.

Emphasis of Matter

1.14. An emphasis of matter is used to draw attention to (emphasise) a matter that is relevant to the users of the audit report, but is not of such a nature that it prevents an unqualified audit opinion being given.

1.15. Last year 24 entities were subject to uncertainty about their future. The effect of this uncertainty was referred to as a matter of emphasis in the Audit Opinions expressed on the financial statements of those entities. The uncertainty arose primarily as a result of Government reviews and the inability to determine reliably the financial effects of the proposed disposal of certain assets or operations of those entities.

1.16. This year, the audit opinions expressed on the financial statements of 34 entities (including a number of controlled entities and joint ventures) were again subject to a reference to uncertainty. Among other reasons, this uncertainty arose again from the incomplete status of certain Government reviews and from questions over the continuation of support from controlling entities.

1.17. The following table lists all entities for which an emphasis of matter has been included in their audit opinion. Further detail on each matter is provided in Part Two of this Report.

Portfolio at 30 June 1997	Reporting Entity at 30 June 1997
Attorney-General's	Attorney-General's Department Attorney-General's Legal Practice Auscript
Communication and the Arts	Department of Communications and the Arts Spectrum Management Agency
Defence	Avalon Airport Geelong Ltd Wattle Grove Development Joint Venture
Finance	Asset Services Australian Government Publishing Service
Industrial Relations	Department of Industrial Relations Stevedoring Industry Finance Committee
Primary Industries and Energy	Australian Meat Technology Pty Limited Snowy Mountains Hydro-Electric Authority
Prime Minister and Cabinet	Aboriginal and Torres Strait Islander Commercial Development Corporation controlled entities and participation trusts (various)
Transport and Regional Development	ANL Limited and its controlled entities Australian National Railways Commission Federal Airports Corporation

The ongoing uncertainty arising from the Government's consideration of the future of these entities creates difficulties in obtaining reliable estimates of the value of their assets and classification of their liabilities. Uncertainty also impacts on the day to day decisions of the entities concerned.

1.17. In eight entities the underlying cause of the uncertainty has persisted from the previous year. Those affected in both years are: ANL Limited (including a number of controlled entities); the Australian National Railways Commission; the Federal Airports Corporation; Wattle Grove Development Joint Venture; the Snowy Mountains Hydro-Electric Authority; the former Department of Industrial Relations; and the Stevedoring Industry Finance Committee.

The Quality of Financial Reporting

Key Findings

1.19. Overall, there has been an improvement observed in the financial statement preparation processes employed by entities. This has had a positive impact on the timeliness of reporting.

Background

1.20. The ANAO benchmarks the financial statement preparation processes of the entities it audits, with the aim being to assist each entity improve the efficiency and timeliness of its financial statement preparation process. The quality of financial reporting depends critically on the effectiveness and efficiency of these processes.

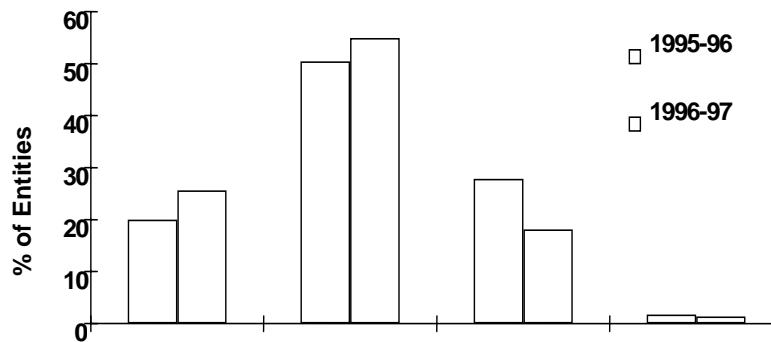
1.21. Key indicators of the quality of these processes relate to each entity's preparedness for the end of year financial audit. These indicators include measures of the timeliness of the preparation and presentation to the ANAO of draft financial statements and the number and dollar amount of audit adjustments required in relation to these drafts.

1.22. Timeliness of external reporting is also an issue for the users of the financial statements, particularly the Parliament. This year an analysis of the timeliness of reporting by entities, in terms of the tabling date of their annual reports, has also been included in this report.

Preparedness for Audit

Receipt of Draft Financial Statements

Chart 1 - Comparative Analysis of Month of Receipt of Draft Statements



1.23. There has been a steady improvement in the date of presentation of draft financial statements by entities to the ANAO. The positive effect of this outcome is an earlier audit clearance of the financial statements for inclusion in the Annual Report and a consequential improvement in the tabling dates of those Reports.

Accuracy of Draft Financial Statements

1.24. The audit review of draft financial statements involves agreeing the balances and information in the statements to entity records. These balances may be subject to further detailed examination, including ensuring conformity with relevant Accounting Standards. Any errors or discrepancies detected are proposed as audit adjustments. The number and relative size of audit adjustments proposed and accepted are measures of the effectiveness of quality assurance over the financial statement preparation process in entities.

1.25. This year significant audit adjustments were required in only four entities. The total amount of adjustments effected against the net assets of those entities was \$2 billion. The amount of adjustments required to revenues was \$2.3 billion and \$0.3 billion to expenditure.

Benchmarking the Preparation of Financial Statements

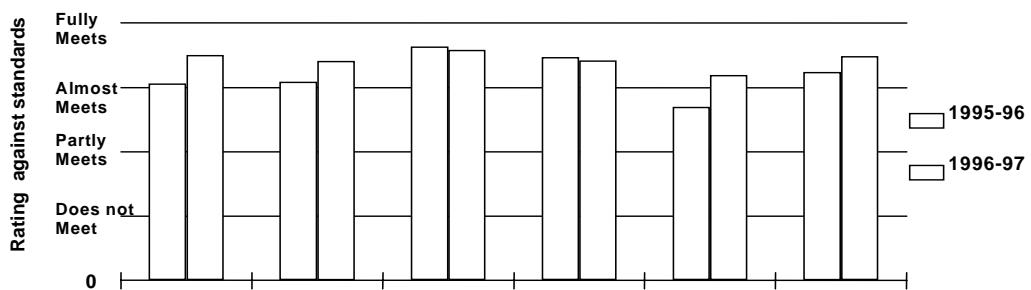
1.26. In June 1996 the ANAO issued the '*Better Practice Guide on Financial Statements Preparation*' to assist entities with the successful preparation of their financial statements. The Guide highlights the following key success factors:

- ◆ establish a committee to oversight preparation of the financial statements;
- ◆ develop a project implementation plan;
- ◆ establish information collection requirements;
- ◆ develop agency guidelines and reporting package;
- ◆ establish quality control procedures and implement a quality control process; and
- ◆ review the outcome of the process.

1.27. Entities are provided with an assessment against the success factors in the Guide and, where required, recommendations for improvement.

Outcome

Chart 2 - Average Ratings for all Entities Benchmarked



1.28. The ANAO evaluated the 1994-95 financial statements preparation process of departments against each of the above factors. In 1995-96 and 1996-97, this was extended to include all public sector reporting entities. The chart above shows the changes between the results of the benchmarking studies in the last two years. The results indicate, on average, there has been an improvement against four of the criteria. The situation in relation to the remaining two criteria (which were the most highly rated last year) has basically remained unchanged.

Timeliness of External Reporting

1.29. The *Audit Act 1901*, the *Public Service Act 1922*, the *Acts Interpretation Act*, the *Corporations Law* and administrative arrangements set the following deadlines for Commonwealth entities to submit annual reports, including audited financial statements, to their Minister, for tabling in the Parliament and/or for submission to Government companies' annual general meetings.

Type of Entity	Deadline from Balance Date	Deadline for 30 June Balance Date
Department	4 months	31 October
Agency	4 months	31 October
Company	5 months	30 November
Statutory Authority	6 months	31 December

1.30. Extensions to the reporting deadlines may be approved by the Minister in relation to Departments, agencies and statutory authorities and by the Australian Securities Commission in relation to companies.

Outcome

1.31. Almost all entities met the statutory reporting deadlines and, importantly, improved on their previous performance.

Reporting Standards

1.32. The implementation of accrual accounting in all public sector agencies will accelerate financial reform and improve the standard of financial reporting for the whole of Government.

1.33. Large commercial statutory authorities and companies have had accrual financial systems and prepared financial statements on an accrual basis for many years. More recently, departments and non-commercial statutory authorities have been required to report on an accrual basis. This was a significant enhancement to financial reporting and accountability. Unfortunately most departments and similar agencies continue to manage their day to day financial affairs on a cash basis and accrual information is only being generated at year end to comply with reporting obligations.

1.34. Two Government initiatives should deliver the final steps to place the public sector on the same financial reporting standards as the private sector. These are:

- ◆ the replacement of outmoded accounting systems in the general government sector with accrual systems from the panel of software approved by the Office of Government Information Technology; and
- ◆ the introduction of accrual budgets in 1999-2000.

1.35. Until these initiatives take effect, these entities will continue to manage on a cash basis, experience difficulty in preparing accrual financial statements and, once prepared, will be likely to be corrected during the course of the audit.

2. The Control Framework

Overview of Findings

2.1. A relatively large number of control issues were identified again this year as a part of the financial audit process. These matters were referred to the executive management of the relevant entity and, where considered to be of sufficient importance, were also reported to the responsible Minister.

2.2. The ANAO categorises findings in terms of their relative significance and the need for timely remedial action. Findings rated as significant are referred for immediate attention and action. Those rated as important are referred for action in the short to medium term.

2.3. This year the ANAO identified and represented 52 significant findings to the executive management of entities and 407 important findings. This represents a general improvement from the previous year in terms of both the relative mix and quantum of findings (there were 105 significant and 447 important findings last year).

2.4. Part Two of this Report contains a summary of the issues arising from these findings. While the issues are entity-specific, common elements were identified across a number of entities which dealt with:

- ◆ information technology access controls;
- ◆ information technology change controls; and
- ◆ asset management.

2.5. The ANAO also undertook a number of assurance and control assessment audits separately from the financial statement audit process. Such audits examine the effectiveness of control activities over accounting and administrative systems such as those involving the receipt and payment of general moneys and those dealing with personnel administration and payroll. The control activities which operate in relation to these systems may not necessarily be tested as part of the financial statement audit. The common issues emerging from these reviews involved:

- ◆ aspects of personnel administration; and
- ◆ control of accountable documents.

General Information Technology Controls

Background

2.6. Control activities undertaken in the various systems of an entity operate within a ‘control environment’. If the control environment is unstable or deficient in any respect it has the potential to impact adversely on the effectiveness of the control activities, thereby circumventing management intention and placing the achievement of system objectives at risk. More broadly, some have the potential to impact adversely on overall entity and program performance.

2.7. General information technology controls are part of the control environment. They are controls which are not specific to any application and include the segregation of incompatible duties; formal documentation of policies and procedures; controls over changes made to applications; and controls over access to computer systems, applications and data.

2.8. Analysis of the audit findings represented this year revealed there is significant scope for improvement in the control environment of many entities in relation to access and change control. Such an environment is essential for stakeholder confidence and assurance and ultimate performance. It is not just about issues such as probity and privacy, important as they undoubtedly are, but control activities are also important to the conduct and even preservation of the functions or business of an entity.

Access Controls

2.9. Access controls operate to ensure computer systems and the data contained within, are used only for authorised purposes and by authorised staff. Key considerations in this respect include the need to maintain an appropriate segregation of incompatible functions; restricting the provision of access to systems to the minimum number of staff required for efficient administration; restricting the level of access privileges or rights assigned to each user to the level required for them to perform their assigned function; controlling the use of passwords; and logging and reviewing system and user activity to detect possible unauthorised access.

2.10. Many entities were found to have failed on one or more of these key attributes. Particular deficiencies noted included:

- ◆ privileged access rights were assigned to users which allowed them access to functions; systems; applications and/or data over and above their work needs;
- ◆ access rights were assigned to systems staff and programmers which allowed access to ‘production’ applications and live data—this power of access is incompatible with the functions of such staff and adversely impacts effective segregation of duties;

- ◆ access was provided to more staff than necessary for efficient administration;
- ◆ security of passwords, including those associated with powerful access privileges was not always maintained; and
- ◆ logging of access was not always undertaken; and where it was these logs were not regularly reviewed.

Change Control

2.11. Information technology change controls operate to ensure that systems are developed and maintained in an authorised and efficient manner. The key aspects of control include appropriate segregation of incompatible functions; formal testing and documentation of changes prior to entry into the production environment; and an appropriate authorisation framework for changes made.

2.12. Weaknesses in change control were detected in a number of entities. The major concerns raised related to:

- ◆ lack of appropriate procedures to ensure that changes were authorised and fully tested prior to acceptance; and
- ◆ lack of adequate segregation of functions.

2.13. These weaknesses also point to the absence of a risk management plan or approach as part of good corporate governance.

Recommendations

2.14. It is recommended all entities with a significant information technology installation satisfy themselves that their information technology access controls are effective. In particular, they should operate to ensure:

- ◆ access privileges granted to users are commensurate with business needs;
- ◆ systems staff and programmers do not have update access to production applications and live data;
- ◆ appropriate password security is implemented;
- ◆ access is logged and regularly reviewed;
- ◆ an appropriate segregation of duties is enforced; and
- ◆ there is appropriate testing, authorisation and documentation of system changes.

Asset Management

Background

2.15. The ANAO tabled a Financial Control and Administration Audit (FCA) on asset management in June 1996. In that Report the value of non-monetary, long-term assets held by the Commonwealth was estimated to be \$67 billion, with \$16 billion of these assets being held by the general government sector. The report recommended that Commonwealth entities adopt a more pro-active, strategic approach to asset management.

2.16. The focus of an asset management review in a financial statement audit is on operational matters mainly centred on the asset accounting systems and on the control procedures used to ensure all assets are recorded, safeguarded and appropriately valued. In this respect the FCA audit found that a number of control weaknesses existed that required attention. These included:

- ◆ failure to detect and record material asset acquisitions, disposals and transfers;
- ◆ failure to follow-up stock take discrepancies and to take timely write-off action; and
- ◆ lack of timely, regular reconciliations.

2.17. In addition, the FCA audit noted that there was a need for improvement in asset accounting in as much as it related to the adoption of inappropriate 'useful lives' for depreciation purposes.

Findings from the Financial Statement Audits

2.18. The ANAO still has to report that a number of entities continue to have asset management findings raised which repeat those from past reports on the results of financial statement audits.

2.19. Matters noted where improvement is still required include:

- ◆ timely maintenance and reconciliation of asset registers;
- ◆ stock take practices; and
- ◆ valuation of assets and the assessment of useful lives.

Recommendations

2.20. The introduction of accrual accounting, budgeting and reporting will place an emphasis on the need for a complete, accurate and reliable asset register and appropriate asset valuations. It is recommended those entities which have not already done so:

- ◆ give priority to acquisition of an asset management system which allows routine update of the asset register for all asset transactions at the time they occur; and which is preferably fully integrated with the financial management information system; and
- ◆ review the recorded value of classes of assets against their potential useful lives and the rate of depreciation adopted.

Assurance and Control Assessment Matters

Background

2.21. Assurance and Control Assessment (ACA) audits provide an assessment of the control activities in relation to accounting systems. They augment the financial statement audit by focusing on core, or common, activities which would not usually be covered in detail as part of that program.

2.22. The control activities examined include those which operate with respect to personnel practices, travel and accommodation, minor expenditure, procurement and use of official vehicles. These activities, while individually not material in many agencies, collectively represent a significant part of public sector administration and account for significant levels of expenditure each year.

2.23. A rolling program of ACA audits was established in 1996. To date, the program has reviewed selected control activities in over fifty Commonwealth entities. In particular, receipting and banking processes were reviewed in twenty-one locations; administrative expenditure in thirty-two; and personnel functions including staff commencements/ terminations, attendance recording and payroll in thirty-six locations. In addition, in response to identified or specific needs, controls over accountable forms were reviewed in six agencies; stock-take procedures in two; and the use of credit cards and motor vehicles in one entity each.

Results of ACA Audits

2.24. The audits undertaken confirmed that the control activities in relation to receipts and banking and for authorisation of expenditure were sound in most locations examined. The common weaknesses found in these audits, with across-the-board relevance, related primarily to personnel administration. In particular, weaknesses were detected in the administration of employee leave and attendance records; the processing of staff termination payments; and the reconciliation of payroll data. A further area of concern, in those entities examined, related to the control and custody of accountable documents and negotiable instruments, such as receipt books, cheques and cabcharge vouchers.

Attendance and Leave Records

2.25. The audits sought to provide assurance with the exercise of line management control over attendance and leave records. It also reviewed the accuracy, validity and completeness of attendance and leave records including the reconciliation of leave records to actual leave taken.

2.26. While some of the twenty-six locations reviewed reflected an excellent record in terms of attendance and leave recording, several entities were unable to demonstrate that line management adequately controlled the review and verification of attendance records. In four locations, 25 percent or more of attendance records were either not adequately reviewed or had no evidence of a review having been performed. Associated with the lack of control over attendance records, the audit identified breakdowns in controls over submission and processing of leave records. Such discrepancies have led to overpayments in termination payments made to staff as discussed below.

Termination Payments to Employees

2.27. Termination payments are governed by complex tax provisions and rely on the accuracy and validity of underlying personnel records, including leave records and employment histories. They are non-routine transactions in most entities and generally involve relatively large amounts from the individual employee's perspective.

2.28. The audits undertaken identified relatively high error rates in termination calculations. The errors detected were, in the main, relatively small in amount. However, in one entity the error rate rose to as high as 16 errors in a sample of 40 and involved individual monetary errors as high as \$13,000.

Payroll System - Output Control Checks

2.29. The review of the output control checks focussed on the production, receipt, review and follow-up of payroll reports.

2.30. The audit identified non-compliance by several entities with the Department of Finance and Administration's Pay System's reconciliation requirements for payroll output reports. In particular, the required reviews of Variation Forms Summary Report against Pay Variation Advices, and the Payee Reconciliation Report were commonly absent. The review of the former report provides evidence of the reconciliation of payments made to inputs processed by an entity. The latter report serves as the prime check on the inclusion of unauthorised commencements in the pay system.

Accountable Documents

2.31. The audit found, in the entities reviewed, that few had adequately maintained regular inspections or took stock of their accountable forms leaving them exposed to a risk of undetected fraudulent use of these documents.

Part Two

PORTFOLIO SUMMARY

Introduction

Ministerial Portfolios at 30 June 1997

Parliamentary Departments
Attorney-General's
Communication and the Arts
Defence
Employment, Education, Training and Youth Affairs
Environment, Sport and Territories
Finance
Foreign Affairs and Trade
Health and Family Services
Immigration and Multicultural Affairs
Industrial Relations
Industry, Science and Tourism
Primary Industries and Energy
Prime Minister and Cabinet
Social Security
Transport and Regional Development
Treasury

Introduction

1. The activities of the public sector are administered by the Government by assigning responsibility for supervision of a portfolio of departments, statutory authorities and companies to individual Ministers.
2. The Audit Report on each financial statement, together with a report of significant matters arising from the audit, is provided to the relevant Portfolio Minister. An exception to this applies to some Government-owned companies where a report to the Minister is not required. The result of each financial statement audit and the significant matters represented to Ministers by the ANAO, are summarised in this section.

Structure of this Section

3. Entities have been grouped by the Portfolio arrangements in place at 30 June 1997, which is the balance date for most Commonwealth entities. The changes to Portfolio and entity names after that date are summarised in the following table.

At 30 June 1997	At the date of this Report
Finance Portfolio Department of Finance Department of Administrative Services	Finance and Administration Portfolio Department of Finance and Administration
Industrial Relations Portfolio Department of Industrial Relations	Workplace Relations and Small Business Portfolio Department of Workplace Relations and Small Business
Environment Sport and Territories Portfolio Department of Environment, Sport and Territories National Capital Planning Authority	Environment Portfolio Department of Environment National Capital Authority

Presentation of Audit Findings

4. The results of financial audits are summarised in a separate table for each Portfolio indicating the date the audit opinion was issued and the form of the audit report—qualified, unqualified and emphasis of matter (*a tick ‘✓’ represents an unqualified opinion*). Unless otherwise noted, the audit opinion relates to the period 1 July 1996 to 30 June 1997.
5. The table also includes a reference to whether any significant control issues arising from the financial statement audit were reported to the relevant Minister (*a ‘✓’ indicates there were no significant control issues reported*).
6. The reasons for any qualifications or emphasis of matter together with details of any significant control issues are provided following the table under each Portfolio.
7. The ANAO makes recommendations to each entity to assist in addressing any significant audit issues raised. Unless otherwise indicated in the Report, entities have accepted the recommendations made and have advised the ANAO of appropriate remedial action that has been taken, or is proposed, to address the matters reported.

Parliamentary Departments

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of the Senate	✓	18-Sep-97	✓
Department of the House of Representatives	✓	18-Sep-97	✓
Department of the Parliamentary Reporting Staff	✓	23-Sep-97	✓
Department of the Parliamentary Library	✓	30-Jul-97	✓
Joint House Department	✓	01-Oct-97	✓

Attorney-General's Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Attorney-General's Department Commercial Activities	Emphasis	08-Oct-97	✓
Attorney-General's Legal Practice	Emphasis	08-Oct-97	✓
Australian Protective Service	✓	08-Oct-97	✓
Auscript	Emphasis	08-Oct-97	✓
Administrative Appeal Tribunal	✓	11-Sep-97	✓
Austrac	✓	03-Sep-97	✓
Australian Bureau of Criminal Intelligence	✓	31-Oct-97	✓
Australian Federal Police Controlled Entity ACT Community Policing	✓	26-Sep-97	Findings
Australian Institute of Criminology	✓	29-Aug-97	✓
Australian Security Intelligence Organization	Qualified	08-Sep-97	✓
Criminology Research Council	✓	09-Sep-97	✓
Family Court of Australia	✓	16-Sep-97	✓
Federal Court of Australia	✓	02-Sep-97	✓
High Court of Australia	✓	27-Aug-97	✓
Human Rights and Equal Opportunity Commission	✓	29-Sep-97	✓
Industrial Relations Court of Australia	✓	25-Jul-97	✓
Australian Law Reform Commission	✓	12-Sep-97	✓
National Crime Authority	✓	19-Sep-97	✓
National Native Title Tribunal	✓	29-Sep-97	✓
National Police Research Unit	✓	05-Sep-97	✓
Office of Film and Literature Classification	✓	29-Sep-97	✓
Office of Parliamentary Counsel	✓	30-Sep-97	✓
Office of the Director of Public Prosecutions	✓	30-Sep-97	✓

Results of Financial Statement Audits

Attorney-General's Department

Emphasis of Matter

The Government has proposed a restructure of the Legal Practice which will impact on the Department. As a result certain assets and liabilities may be transferred between the Department and the Legal Practice. The circumstances of the proposed restructure are such that the ultimate outcome cannot be presently determined with an acceptable degree of reliability. Accordingly the financial impact of the restructure is uncertain at this time.

Attorney-General's Legal Practice

Emphasis of Matter

The Government has proposed a restructure of the Legal Practice. As a result, certain assets and liabilities may be transferred between the Legal Practice and the Attorney-General's Department. The circumstances of the proposed restructure are such that the ultimate outcome cannot be presently determined with an acceptable degree of reliability. Accordingly the financial impact of the restructure is uncertain.

AUSCRIPT

Emphasis of Matter

The Government has announced the impending sale of AUSCRIPT. As a result, there was inherent uncertainty relating to the value and classification of certain assets and liabilities.

Australian Security Intelligence Organization

Qualification

The Attorney-General issued a declaration under sub section 70D(1) of the *Audit Act 1901* that particular parts of the accounts of the Organization are 'exempt accounts' and therefore not subject to audit by the Auditor-General. As a result, an audit opinion was unable to be formed on the receipt and expenditure of moneys or the assets and liabilities related to the 'exempt accounts'. The Attorney-General provided a certificate under sub section 70D(5) of the Act indicating that moneys allocated to those accounts had been properly expended.

Internal Control Matters

Australian Federal Police

Information Technology

The ANAO observed that changes made to software in a key system which supports the agency's financial management information system (FMIS) have not been documented since its implementation.

Communications and the Arts Portfolio

Reporting Entity at 30 June 1997	Financial Statement	Opinion Issued	Internal Control
Department of Communications and the Arts	Emphasis	25-Sep-97	Finding
Commercial activity			
Artbank Trust Account	✓	22-Sep-97	✓
Australia Council	✓	23-Sep-97	✓
Australia Foundation for Culture and the Humanities Ltd	✓	30-Oct-97	✓
Australian Broadcasting Authority	✓	21-Aug-97	✓
Australian Broadcasting Corporation	✓	24-Sep-97	✓
Controlled entities			
AIM Holdings Australia Pty Limited	✓	24-Sep-97	✓
AIM West Pty	✓	24-Sep-97	✓
Arnbridge Pty Ltd	✓	24-Sep-97	✓
Australian Information Media Pty Limited	✓	24-Sep-97	✓
Australia Television International Pty Limited	✓	24-Sep-97	✓
Equipco Australia Pty Limited	✓	24-Sep-97	✓
Music Choice Australia Pty Limited	✓	24-Sep-97	✓
Sydney Symphony Orchestra Holdings Pty Limited	✓	16-Oct-97	✓
The News Channel Pty Limited		24-Sep-97	
Australian Commercial Television Production Fund	✓	26-Sep-97	✓
Australian Film Commission	✓	26-Sep-97	✓
Australian Film Finance Corporation Limited	✓	01-Oct-97	✓
Australian Film Finance Corporation Superannuation Fund *			
Australian Film, Television and Radio School	✓	15-Sep-97	✓
Australian Multimedia Enterprise Limited	✓	27-Aug-97	✓
Australian National Maritime Museum	✓	24-Sep-97	✓
Australian Postal Corporation	✓	28-Aug-97	✓
Controlled entities			
Postcorp Developments Pty Ltd	✓	28-Aug-97	✓
Sprintpak Pty Ltd	✓	28-Aug-97	✓
Australian Telecommunications Authority (AUSTEL)	✓	11-Sep-97	✓
Bundanon Trust	✓	29-Oct-97	✓
Film Australia Limited	✓	01-Oct-97	Findings
National Australia Day Council	✓	08-Aug-97	✓
National Cultural Heritage Fund	✓	22-Sep-97	✓
National Gallery of Australia	✓	15-Sep-97	✓
Controlled entity			
National Gallery of Australia Foundation	✓	15-Sep-97	✓
National Library of Australia	✓	26-Aug-97	✓
National Museum of Australia	✓	09-Sep-97	Findings
Special Broadcasting Service Corporation	✓	23-Sep-97	✓
Controlled entity			
Multilingual Subscriber Television Limited	✓	23-Sep-97	✓
Spectrum Management Agency	Emphasis	15-Sep-97	✓
Telstra Corporation Limited	✓	29-Aug-97	Findings
Controlled entities			
Telecommunications Equipment Finance Pty Ltd	✓	22-Aug-97	✓
Telstra Finance Ltd	✓	25-Aug-97	✓
Telstra Productivity Superannuation Scheme	✓	10-Sep-97	✓
		✓	

Reporting Entity at 30 June 1997	Financial Statement	Opinion Issued	Internal Control
Telstra Superannuation Scheme	✓	10-Sep-97	✓
Telstra Superannuation Scheme No.1	✓	24-Sep-97	✓
Telstra Super Pty Ltd	✓	10-Sep-97	✓
OTC Super Pty Ltd	✓	20-Oct-97	✓
Telstra Technologies Pty Ltd		08-Sep-97	
Controlled entity	✓		✓
Lyer Nystal Pty Ltd	✓	08-Sep-97	✓
Pacific Access Pty Ltd	✓	27-Aug-97	✓
QPSX Communications Pty Ltd	✓	19-Aug-97	✓
Telecom Messagetech Pty Limited	✓	12-Aug-97	✓
Lawpoint Pty Ltd	✓	18-Aug-97	✓
Qantas Telstra Card Trust	✓	03-Oct-97	✓
Telstra Visa Card Trust		03-Oct-97	
Telstra Multimedia Pty Limited		27-Aug-97	

* Signed financial statements not presented for audit by 21 November 1997.

Results of Financial Statement Audits

Department of Communications and the Arts

Emphasis of Matter

The Government has proposed the sale of the National Transmission Network in mid 1998. The circumstances of the proposed sale are such that the ultimate outcome cannot be reliably determined. As a result, the financial impact of the proposed sale is uncertain.

Spectrum Management Agency

Emphasis of Matter

The Spectrum Management Agency merged with the Australian Telecommunications Authority on 1 July 1997 to become the Australian Communications Authority. As part of the merger, certain assets and liabilities of the Agency will be transferred to the new Authority. As a result, there was inherent uncertainty at the time concerning the value of the assets and liabilities to be transferred to the Authority.

Internal Control Matters

Department of Communications and the Arts

The ANAO raised the need to strengthen some controls over accounting records for transmission assets at the National Transmission Agency, and processing of salary within the core department.

Film Australia Limited

Misappropriation of Funds

In June 1997 the company became aware that approximately \$500,000 had been misappropriated by an employee over a period of 3 years. It has since taken legal action to try to recover the funds. The Company is taking action to upgrade its accounting systems and to ensure adherence to prescribed policies and procedures.

National Museum of Australia

National Historical Collection

The ANAO raised a concern over the effectiveness of the stocktake of the National Historical Collection. In addition the ANAO recommended the documentation accompanying items received for the Collection to be the primary documentation particularly in relation to the count of items.

Telstra Corporation Limited

Control Environment

The ANAO found that while the control environment is satisfactory, it is below peer standard when compared with those of other major corporate enterprises. It is recognised that there has been a continued high level focus on improving Telstra's control culture and compliance with internal control procedures. Telstra has implemented a range of initiatives which will continue to strengthen its control environment.

Other Matters

Telstra Corporation Limited

Travel Allowances

The 1994-95 and 1995-96 Auditor-General's Reports dealt with the results of a number of reviews performed by the ANAO regarding alleged abuses of travel allowances and other matters in Telstra. These allegations pose questions mainly about the effectiveness of the controls relating to travel. This has largely been the focus of ANAO reviews.

During 1996-97 the ANAO performed two further follow up reviews of those initiatives and processes implemented or proposed to be implemented to minimise the future risk of irregular travel allowance payments.

The ANAO's approach to these reviews was to rely principally on the representations provided by Telstra in response to its inquiries. They were not in the nature of performance audits.

Also, given the corporate nature and size of Telstra and the diversity of its activities, the ANAO supports the risk management approach applied by the Corporation to this matter. Under such an approach there is always likely to be instances of irregularities. However, to achieve a cost effective outcome, the objective is to manage the risks to minimal levels. The ANAO's focus of its initial and follow up reviews has been to assess whether Telstra management has put in place appropriate procedures to ensure the risks of irregularities are minimised. That is, the ANAO took a prospective position to review how Telstra management responded to the matter to minimise its risks in the future rather than to investigate the alleged past or any current abuses.

The first of these reviews was performed during December 1996 and January 1997 and focussed on assessing the status of those actions advised by Telstra during the ANAO's earlier reviews and designed to minimise the risk of irregularities. Those actions were reported to the then Minister for Communications and the Arts on 19 September 1995. The scope of the review also included allegations of breaches of the Income Tax Assessment Act, the Crimes Act and the Audit Act as they related to travel allowances.

The outcome of the review was reported to Telstra's management, its Board's Audit and Compliance Committee, and the Minister for Communications and the Arts. Also, the then Chairman of the Joint Committee of Public Accounts was made aware of the outcome of this review. In respect to the alleged legislative breaches, the ANAO's inquiries did not reveal any indication of breaches of the Income Tax Assessment Act or the Crimes Act by Telstra or its employees. The Audit Act does not apply to Telstra in an operational sense, but in any case, no evidence was found suggesting there was a lack of accountability on the part of Telstra regarding this matter. In respect to the actions advised by Telstra to minimise the future risks of irregular payments, the review found that :

- ◆ the investigation into alleged frauds had been completed;
- ◆ a range of options to replace the Review Rate of travel allowance, which gave rise to alleged abuses, had been proposed; and
- ◆ the control environment around claims for and processing of travel allowance payments had been strengthened through a new travel approval and payment reconciliation system and standardisation of administrative processes.

In addition, once fully implemented, these new systems and processes will be reviewed by Telstra's Audit and Risk Management unit.

The results of this particular follow up review indicated that Telstra management had ostensibly implemented the actions initially advised to minimise the risk of irregular travel allowance claims, contrived movements to stay on the Daily Rate of allowance and falsifying of receipts. Whilst the implementation of key actions was still being finalised, the ANAO was satisfied that these actions would minimise the future risks of irregularities. At the time the ANAO indicated it intended to keep a watching brief across this issue.

The second follow up review was performed in July and August of 1997 and was also reported to Telstra's management, its Board's Audit and Compliance Committee and the responsible Minister. Again, this review focussed on those processes being implemented by Telstra aimed at minimising the future risk of irregular payments of travel allowance.

The outcome of the review indicated that:

- ◆ a new employee costs allowance policy was to be implemented across the company which abolished the Review Rate of allowance and clearly identified eligibility criteria, the actual entitlements allowed and clear approval and authorisation processes and procedures for both travel arrangements and the payment of corresponding allowances;
- ◆ the previously implemented processing initiatives were being amended to give effect to the new policy; and
- ◆ the control environment continued to be strengthened.

In addition, the control framework relating to staff travel, including the payment of travel allowance and the implementation of the new policy were to be reviewed by Telstra's Audit and Risk Management unit during 1998.

The results of this last review indicated that the ANAO could be satisfied that the actions taken and to be taken by Telstra were focussed on minimising the future risk of travel allowance irregularities. The ANAO was also satisfied that controls relating to staff travel would be strengthened and that these controls would be monitored and reviewed as part of Telstra's risk management environment.

In its report on this follow up review, the ANAO indicated that it would now treat this matter as part of its normal review activity of Telstra including the planned review by Telstra's Audit and Risk Management unit during 1998.

Defence Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Defence	✓	07-Oct-97	Findings
Department of Veteran's Affairs	✓	22-Sep-97	Findings
Commercial Activity			
Lady Davidson Repatriation Hospital	✓	22-Sep-97	✓
Army and Airforce Canteen Service # (31-Jan-97)	✓	12-Jun-97	Finding
ADI Limited	✓	01-Sep-97	✓
Australian Military Forces Relief Trust Fund	✓	18-Apr-97	✓
Avalon Airport Geelong Ltd (1995-96)	Emphasis	11-Dec-96	✓
Controlled Entity			
ASTAAS Pty Ltd	✓	11-Dec-96	✓
Defence Housing Authority	✓	19-Sep-97	✓
- Fairview Rise Joint Venture	✓	19-Sep-97	✓
- Fairway Joint Venture	✓	05-Sep-97	✓
- Holsworthy and Anzac Villages Redevelopment Joint Venture	✓	29-Sep-97	✓
- Laverton Joint Venture	✓	03-Oct-97	✓
- Leichhardt Redevelopment Co-venture (1995-96)	✓	03-Nov-97	✓
- Streeton Views Joint Venture	✓	27-Oct-97	✓
- Wattle Grove Development Joint Venture	Emphasis	29-Sep-97	✓
- Willows Development Joint Venture	✓	29-Sep-97	✓
Defence Service Homes Insurance Scheme	✓	23-Sep-97	✓
Defence Technologies Australia Pty Ltd	✓	30-Sep-97	✓
Military Superannuation and Benefits Board of Trustees No.1	✓	30-Sep-97	✓
Royal Australian Air Force Veterans' Residences Trust Fund	✓	16-Oct-97	✓
Royal Australian Air Force Welfare Trust Fund # (31-Dec-96)	✓	23-Apr-97	✓
Royal Australian Navy Relief Trust Fund # (31-Dec-96)	✓	20-May-97	✓

Financial year does not end on 30 June 1997.

Results of Financial Statement Audits

Avalon Airport Geelong Limited

Emphasis of Matter

During 1995-96 Avalon Airport Geelong Limited (AAG) and its controlled entity ASTAAS Pty Limited were advertised for sale by the Government. In September 1996 the closure of ASTAAS was announced and its financial statements for the period 1 November 1995 to 30 June 1996 were prepared on a liquidation basis. In February 1997 the Government sold its shares in AAG.

The audit report on the financial statements of AAG for the period 1 November 1995 to 30 June 1996 referred to the inherent uncertainty regarding the effect of the proposed sale on the values of certain assets and liabilities.

Wattle Grove Development Joint Venture

Emphasis of Matter

The Wattle Grove Development Joint Venture is a venture between the Defence Housing Authority (DHA) and a private sector organisation to develop land for residential subdivision for both DHA and the private sector. In May 1996 the Government announced the inclusion of the Holsworthy Military Reserve in the environment impact study as a possible site for an international airport. As a result, reduced land sales have created uncertainty as to whether the value of all land (inventory) would be recovered.

Internal Control Matters

Department of Defence

Corporate Governance

While the Department established a working group to oversee the financial statements preparation and audit process, the governance process needed to be developed further and formalised if it is to be effective.

Financial Statement Preparation

A large proportion of the Department's efforts continue to be concentrated on end-of-year manual procedures and estimation techniques which are used to obtain the financial information required for the preparation of the financial statements.

Information Technology

A range of issues concerning access controls, application security and monitoring and review were found in a number of departmental computer systems.

Asset Management

The ANAO found a number of significant matters which prevented the ANAO from placing reliance on the Asset Management (AM) and Capital Projects (CP) modules of the Defence Finance and Management Information System. These included:

- ◆ the lack of 'ownership' of the systems and data; and
- ◆ little or no action had been taken to address major systems deficiencies identified and reported previously.

Explosive Ordnance

The audit found a number of significant issues concerning application controls, access/logical security and change control procedures over the system used to manage the explosive ordnance.

Valuation Methodology

The valuation methodology used by the Department does not generally provide information on the value of inventory throughout the year.

Payroll and Personnel

Service Pay Systems

The audit found problems with the accuracy and frequency of reconciliations performed between the Department's records and those held by the Department of Finance and Administration (DOFA) and the lack of appropriate control procedures aimed at ensuring that all program changes are properly authorised and tested prior to implementation.

Department of Veteran's Affairs

Information Technology

Significant weaknesses in change control procedures for key business systems included inappropriate access to implement changes and the lack of testing of changes.

Delegation of Authority

Finance Regulation 45A(3)(b)(ii) Certificate

The Pensioner Information Processing System has been operating without an appropriate certificate issued under the Finance Regulations since its implementation in June 1996. As a result, the certification of all payments produced by the system were technically invalid.

Evidence of Certification of Claims/Delegations

The audit of the Victorian State Office indicated a lack of evidence of certification of claims. The certification of claims under section 34(2) of the Audit Act is not performed through the release of a claim certified electronically.

Reconciliation Control Over Pension Payments

Since the beginning of April 1997, the Queensland State Office has not been able to fully access the DOFA system to allow complete reconciliations of the Reserve Bank Drawing account and the pension payments made by the Department.

Army and Airforce Canteen Service

The ANAO noted that the Services Fixed Assets Register included a significant number of plant and equipment assets that had been fully depreciated and were therefore written down to a value of zero.

Employment, Education, Training and Youth Affairs Portfolio

Reporting Entity at 30 June 1997	Financial Statement	Opinion Issued	Internal Control
Department of Employment, Education, Training and Youth Affairs	✓	16-Oct-97 Findings	
Anglo-Australian Telescope Board	✓	18-Nov-97	✓
Australian Maritime College # (31-Dec-96)	✓	24-Mar-97	✓
Controlled Entity			
Australian Maritime College Search Ltd	✓	24-Mar-97	✓
Australian National Training Authority	✓	19-Sep-97	✓
Australian National University # (31-Dec-96)	Qualified	16-May-97	✓
Employment Services Regulatory Authority	✓	19-Sep-97	✓
University of Canberra # (31-Dec-96)	✓	16-Apr-97	✓

- Financial year does not end on 30 June 1997.

Results of Financial Statement Audits

Australian National University

Qualification

Investments

The University adopts a policy of market valuation for its superannuation investments which includes recognition of both realised and unrealised gains and losses on investments. This is a departure from the requirements of the Australian Accounting Standards. The financial effect of the departure was to increase the operating revenue and understate reserves by \$18.8 million. The University believes that the accounting standard is not appropriate to superannuation investments.

Land

The University departed from the requirements of Statement of Accounting Concepts 4, '*Definition and Recognition of the Elements of Financial Statements*' (SAC4), and Australian Accounting Standard 1, '*Profit and Loss and other Operating Statements*' (AAS1), by not bringing to account, in the financial statements, land at the Acton campus and the Mount Stromlo site. These sites met the recognition criteria of SAC4 and therefore should have been accounted for as non current assets in the Statement of Financial Position. The University was unable to quantify the effect of this departure from the required standard.

Internal Control Matters

Department of Employment, Education, Training and Youth Affairs

Information Technology Issues

Access Control by System Users

A number of weaknesses were detected in relation to control over logical access to key business systems including the sharing of a generic logon identification code which had been allocated high level access privileges. These privileges included access to all financial systems.

The ANAO also noted a number of users had been assigned high level access privileges which, because of their nature, need to be tightly restricted. It was considered that many of the staff with these privileges did not require this level of access. Further it was noted that privileged access granted to some system programmers and database administrators is not logged.

Asset Management

Stocktakes

A number of deficiencies were observed which impacted on the reliability of the stocktake from a financial statement audit perspective. Of particular concern was a lack of adequate preparation; lateness in finalising stocktakes; and delays in following up and resolving anomalies.

Recognition and Recording of Assets

The ANAO considered instructions dealing with the recognition of assets could be improved in relation to recording of both externally acquired software and major capital projects in progress at year end.

Environment, Sport and Territories Portfolio (former)

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Environment, Sport and Territories (former)	✓	07-Oct-97	Findings
Australian Heritage Commission	✓	19-Aug-97	✓
Australian National Parks and Wildlife	✓	08-Oct-97	✓
Australian Sports Commission <i>Controlled entity</i>	✓	23-Sep-97	✓
Australian Sports Foundation	✓	29-Aug-97	✓
Australian Sports Drug Agency	✓	12-Sep-97	✓
Great Barrier Reef Marine Park Authority	✓	13-Oct-97	✓
National Capital Planning Authority (former)	✓	25-Sep-97	✓
National Environment Protection Council Service Corporation	✓	08-Oct-97	✓

Internal Control Matters

Department of Environment, Sport and Territories (former)

Information Technology Issues

Access Control and Security - Christmas Island Administration

A number of weaknesses in IT security set-up for the accounting systems of the Christmas Island Administration were noted in 1996 and 1997 which suggest that security over the network and accounting application needs to be strengthened. The system administrators currently hold extensive access rights. An audit trail and reporting facility is not in place to enable monitoring and reporting of their activities within these key financial systems.

Information Technology General Controls

The Department maintains a number of autonomous computer environments supporting processing at the various organisational units including the Central Office, Territories Office Canberra, Bureau of Meteorology, and Christmas Island Administration. A number of elements of an effective IT Control Environment were either not in place or were not working effectively at these locations.

Asset Management

The ANAO identified significant scope for improved control of and accountability for property, plant and equipment. The following issues require timely management attention:

- ◆ the need to ensure appropriate assessments of the useful lives of assets are made in accordance with established departmental accounting policies;
- ◆ the need to improve asset registration procedures and perform regular asset reconciliations as important measures of ensuring the accuracy and completeness of asset records;

- ◆ opportunity to strengthen property plant and equipment and inventory stocktaking procedures and practices; and
- ◆ development of adequate and reliable accounting systems in support of the valuation of constructed assets, internally generated software and Antarctic stocks.

Depreciation of Antarctic Assets

The written-down value of property, plant and equipment held by the Antarctic Division as at 30 June 1997 exceeded \$142 million (\$277 million gross) and represents a significant proportion of the Department's non-current asset base. A significant number of the Division's property, plant and equipment assets are recorded with a written-down value of zero.

General Ledger Journal Adjustments

At Territories Office Canberra significant scope for improving supporting documentation and audit trails concerning journals processed was identified. Inadequate documented evidence of the officers who input and authorised the journals, and the reason for the journals, was maintained. Journals were found to have been processed and authorised by the one officer without any independent check having been performed of that officer's work.

Financial Guarantees

The 1994-95, 1995-96 and 1996-97 financial statement audits reported significant deficiencies in the quality and reliability of departmental records of guarantees. The ANAO had provided advice and assistance in establishing a base record.

Finance Portfolio (former)

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Aggregate Financial Statements prepared by the Minister for Finance *			
Department of Finance (former) <i>Commercial Activities</i>	✓	09-Oct-97	Findings
Office of Government Information Technology	✓	12-Sep-97	Findings
Office of Asset Sales	✓	09-Oct-97	Finding
Department of Administrative Services <i>Commercial Activities</i>	✓	15-Nov-97	✓
Business Services Trust Account <i>Controlled Entities</i>	✓	12-Nov-97	✓
Asset Services	Emphasis	31-Oct-97	✓
Australian Construction Services	✓	31-Oct-97	✓
Australian Government Analytical Laboratories	✓	31-Oct-97	✓
Australian Government Publishing Service	Emphasis	31-Oct-97	✓
Australian Operational Support Services	✓	31-Oct-97	✓
Australian Property Group	✓	31-Oct-97	✓
Australian Surveying and Land Information Group	✓	31-Oct-97	✓
Australian Valuation Office	✓	31-Oct-97	✓
DAS Centre for Environmental Management	✓	31-Oct-97	✓
DAS Distribution	✓	31-Oct-97	✓
DASFLEET	✓	31-Oct-97	✓
DAS Interiors Australia	✓	31-Oct-97	✓
DAS Removals Australia	✓	31-Oct-97	✓
COMCAR Trust Account (VIP Transport)	✓	31-Oct-97	✓
Australian Electoral Commission	✓	15-Oct-97	Finding
Commonwealth Instalment Receipts Trustee Ltd	✓	15-Sep-97	✓
Commonwealth Superannuation Administration (ComSuper)	Qualified	01-Oct-97	✓
Commonwealth Superannuation Scheme (CSS)	✓	30-Sep-97	✓
Public Sector Superannuation Scheme (PSS)	✓	30-Sep-97	✓
CSS/PSS Pty Ltd	✓	05-Sep-97	✓

* Signed financial statements not presented for audit by 21 November 1997.

Results of Financial Statement Audits

Department of Administrative Services (former) - Asset Services

Emphasis of Matter

The Government sold the business conducted by Asset Services in September 1997. Assets valued at \$7.3 million were not included as part of the sale. At the time of the audit, there was uncertainty over their future utilisation or disposal and therefore over the valuation and classification of these assets in the financial statements.

Department of Administrative Services (former) - Australian Government Publishing Service

Emphasis of Matter

The Government sold the commercial businesses conducted by the Australian Government Publishing Service in August and October 1997. Intangibles valued at \$1.04 million were not included as part of the sale. At the time of the audit there was uncertainty over their future utilisation or sale and therefore over the valuation and classification of these intangibles in the financial statements.

Commonwealth Superannuation Administration (ComSuper)

Qualification

ComSuper was unable to determine the amount due for superannuation 'pay-as-you-go' and 'emerging cost' contributions from approved authorities. As a result of this limitation of scope, the ANAO was unable to form an opinion on whether the total amount of receipts for superannuation 'pay-as-you-go' contributions by general government enterprises and public trading enterprises and 'emerging cost' contributions by approved authorities, brought to account in the Consolidated Revenue Fund in the financial statements, differed to a material extent from the total amount of superannuation contributions legally due to the Commonwealth. This limitation in scope also applied to the 1995-96 financial statements of ComSuper.

Internal Control Matters

Department of Finance (former)

Information Technology

There is a need for the Department to strengthen control over access to its Financial and Personnel Computer Systems. The audit found the discipline over the use of passwords was inadequate. A number of users had access rights in excess of need and records of access rights were not maintained in all cases.

Asset Management

The audit noted deficiencies in aspects of asset management and recording. These included the failure to update the assets register with details of asset transfers and inadequate records of disposals of non-information technology assets.

Guarantees and Indemnities

The audit noted that the Guarantees and Indemnities register had not been updated throughout the year or at year end. It was also noted that the Department had not adopted a risk management strategy to manage these instruments effectively.

Reconciliations

Regular reconciliations of the Department's systems to Financial Information Resource Management (FIRM) were not able to be carried out during the year due to the inability of the financial system to support such reconciliations. These reconciliations are fundamental in ensuring the integrity of financial data maintained on the Department's systems used in management of the Department.

Accounting Records

The Department is responsible for administering and reporting appropriation carry-overs and the running cost borrowings of Commonwealth agencies. The Department did not maintain a complete and accurate record of these amounts necessary for effective administration. For financial reporting purposes, had to seek advice on the amounts involved from individual agencies.

The audit also noted the need for improved accounting records in relation to leave entitlements and debtors.

Office of Government Information Technology

Governance

The Office did not have an audit committee to facilitate senior level management involvement in preparation of the financial statements. This will be a requirement via the new Financial and Management Accountability Act.

Instructions to Staff

The Office utilises instructions issued by the Secretary of the then Department of Finance as the basis for its control framework. There was no evidence that these instructions had been reviewed for relevance and applicability to OGIT's circumstances; nor was any provision made to supplement or replace them as necessary.

Asset Management

A number of deficiencies in asset accounting were identified including:

- ◆ assets not allocated a unique identification coded in a timely manner;
- ◆ lack of segregation of duties between the purchasing and recording of assets; and
- ◆ deficiencies in reporting the results of stocktakes.

Receipting

A number of deficiencies in receipting practices were identified including unauthorised officers receipting monies, inadequate control over monies received through the mail; and incorrect accounting for receipts during the year.

Office of Asset Sales

Guarantees and Indemnities

Records of guarantees and indemnities issued were not maintained up to date due to a failure to advise the custodian of the register. It was also noted the Office had not adopted a risk management strategy to manage these instruments effectively.

Australian Electoral Commission

Information Technology

Access Security

Access security over the Commission's Financial Management Information System was found to be deficient in regard to the operation of passwords and terminal access.

Foreign Affairs and Trade Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Foreign Affairs and Trade	✓	03-Oct-97	✓
Australia-Japan Foundation	✓	14-Oct-97	✓
Australian Centre for International Agricultural Research	✓	26-Sep-97	✓
Australian Secret Intelligence Service	Qualified	19-Aug-97	Findings
Australian Trade Commission	✓	20-Aug-97	Findings

Results of Financial Statement Audits

Australian Secret Intelligence Service

Qualification

The Minister for Foreign Affairs issued a declaration under sub section 70D(1) of the *Audit Act 1901* that particular parts of the accounts of the Service are 'exempt accounts' and therefore not subject to audit by the Auditor-General. As a result, an audit opinion was unable to be formed on the receipt and expenditure of moneys or the assets and liabilities related to the 'exempt accounts'. The Minister for Foreign Affairs provided a certificate under sub section 70D(5) of the Act indicating that moneys allocated to those accounts had been properly expended.

Internal Control Matters

Australian Secret Intelligence Service

Information Technology

Documentation of change and access control procedures needs to be enhanced.

Australian Trade Commission

Review and Monitoring of Expenditure

Funds Control

The funds control function within the Commission's new financial management information system did not function effectively during the year. As a consequence a number of fund centres exceeded their expenditure budget for 1996-97. This matter was rectified in July 1997.

Information Technology

There were weaknesses in the access security controls over the new financial management information system. The significant weaknesses related to an excessive number of users with 'Super User' access, poor password controls and deficiencies in the review of activity logs.

Change control procedures over system changes are not always observed.

The Commission's Business Continuity Plan has not been updated for recent changes in the computer environment and is now outdated.

Accounts Receivable

An internal audit report concluded that they were unable to assure management of the accuracy and completeness of outstanding debtors. This was due to invoices not being raised in a timely manner, lack of up to date policies and procedures, inadequate segregation of duties and inadequate follow up procedures to collect amounts overdue.

Asset Management

A number of discrepancies were noted in the asset registers for a number of Canberra fund centres. The discrepancies noted included incorrect asset stickers, asset stickers which were not visible, missing disposal documentation and incorrect locations.

Health and Family Services Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Health and Family Services <i>Commercial activities</i>	✓	15-Oct-97	Findings
Australian Government Health Service	✓	09-Oct-97	✓
Commonwealth Rehabilitation Service	✓	15-Oct-97	Findings
Therapeutic Goods Administration	✓	07-Oct-97	✓
Australia and New Zealand Food Authority	✓	18-Aug-97	✓
Australian Hearing Services <i>Controlled entity</i>	✓	10-Sep-97	✓
National Hearing Aids Systems Pty Ltd	✓	23-Oct-97	✓
Australian Institute of Family Studies	✓	08-Sep-97	✓
Australian Institute of Health and Welfare	✓	08-Sep-97	✓
Health and Community Services Ministerial Council	✓	29-Aug-97	✓
Health Insurance Commission	✓	30-Sep-97	Findings
Nuclear Safety Bureau	✓	11-Sep-97	✓
Private Health Insurance Complaints Commissioner	✓	06-Aug-97	✓
Professional Services Review	✓	14-Oct-97	✓

Internal Control Matters

Department of Health and Family Services

Information Technology

Access Control and Security

A number of areas were identified in 1995-96 where improvement was warranted in relation to access control. While significant progress has been made in addressing this issue further matters were identified this year which required resolution. These include:

- ◆ system support staff with inappropriate access rights;
- ◆ inadequate monitoring of systems administrator activities;
- ◆ inadequate segregation of programmer access from live data in one payment system; and
- ◆ an excessive number of staff having access to key operating system programs and logs.

Reconciliations Between Payment Systems

Notwithstanding improvement from prior years, more timely and regular reconciliations of the financial management system, the Department of Finance and Administration ledger and all subsidiary payment systems, was required to avoid unresolved issues at the end of the year.

Valuation of Software

The Department has addressed the issue of recording the cost of purchased software raised in last year's report. However, there remains a requirement to establish proper costing systems to determine overhead cost for software developed in-house.

Commonwealth Rehabilitation Service

Case Management Costing

Weaknesses were identified relating to the accuracy and timeliness of case management records. In particular:

- ◆ instances of inadequate or missing documentation to substantiate costs recorded against cases;
- ◆ instances where case managers' time had not been recorded against cases on which they worked; and
- ◆ occasions where delays of between 2 to 3 months occurred from the date of action to recording time in the case management system.

Health Insurance Commission

A number of matters were represented to the Commission during the audit. These covered contributions unprocessed or not matched to contributors' accounts, arrears in group contributions, reconciliation difficulties with branch office accounts, and the need to review debt recovery procedures with respect to overpayment investigations.

Recommendations were also made in respect to a number of accounting matters covering the provisioning for outstanding claims, fixed assets register, and financial quality control processes. A number of these matters had been reported to the Commission in prior years.

Immigration and Multicultural Affairs Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Immigration and Multicultural Affairs	✓	15-Oct-97	Findings

Internal Control Matters

Information Technology

The ANAO noted weaknesses in the implementation of the disaster recovery plan which needed to be addressed.

Other Controls

Other weaknesses noted were the lack of regular and adequate reconciliation of departmental systems to the Department of Finance and Administration's FIRM system, and the lack of adequate monitoring over the collection of revenue.

Industrial Relations Portfolio (former)

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Industrial Relations (former)	Emphasis	17-Sep-97	✓
Affirmative Action Agency	✓	03-Sep-97	✓
Australian Industrial Registry	✓	22-Sep-97	Findings
Australian Trade Union Training Authority	✓	23-Dec-96	✓
Coal Mining Industry (Long Service Leave Funding) Corporation	✓	05-Nov-97	✓
Comcare Australia <i>Controlled entity</i> QWL Corporation Pty Ltd	✓	07-Oct-97	Findings
National Occupational Health and Safety Commission	✓	12-Sep-97	✓
Stevedoring Industry Finance Committee	Emphasis	13-Oct-97	✓

Results of Financial Statement Audits

Department of Industrial Relations (former)

Emphasis of Matter

In prior years, Stevedoring Industry levies collected by the Department were paid to Consolidated Revenue with an equivalent amount paid to the Stevedoring Industry Finance Committee from Consolidated Revenue. The amount of the levy payment relied on self assessment, linked to declaration of shipping cargo. An independent audit indicated variations to the bases used to declare certain cargo involving containers. As a result, legal advice was sought to clarify the basis for declaration of cargo. An independent audit is now being undertaken to assess the completeness and accuracy of levy payments and to identify instances where the correct levy amount may not have been paid. The effects, if any, of this independent audit process on amounts owing or due for stevedoring cannot yet be determined.

Stevedoring Industry Finance Committee

Emphasis of Matter

The Stevedoring Industry Finance Committee's major function since 1992 has been to provide funds to meet employers' costs of redundancy resulting from waterfront industry reform. This was funded by a loan which has been repaid using levies paid by stevedoring companies to the Department. An audit (yet to be completed) into levy collection indicated that errors had occurred in calculating levy amounts. As a result uncertainty exists about the completeness of revenue and receivables of the Committee.

Following suspension of levy collections in August 1996 the Committee has been virtually inactive. No decision has been made on when the Committee may be wound up because of the incomplete levy action and outstanding legal claims against the Committee.

Internal Control Matters

Australian Industrial Registry

Information Technology

There was inadequate documentation and planning of key aspects of the information technology environment including security policies, business continuity plans and change control procedures.

Comcare Australia

Claims Management

A number of areas were identified where there is scope for improvement in key processes, in particular:

- ◆ the need for more effective sharing of information between state offices of successful approaches to managing occupational stress;
- ◆ the need to analyse the underlying causes of a marked increase in legal costs associated with the appeals and reconsideration process. There is scope for review officers to more actively manage this process, including effectively managing the use of external legal advice; and
- ◆ the need to update existing guidelines and procedural documentation on key aspects of the claim management process to assist with maintaining quality standards and continuous improvement.

Industry, Science and Tourism Portfolio (former)

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Industry, Science and Tourism <i>Commercial activities</i>	✓	30-Sep-97	✓
Australian Industrial Property Organisation	✓	22-Sep-97	✓
Bureau of Tourism Research	✓	26-Sep-97	✓
Australian Customs Service	✓	19-Sep-97	Findings
Australian Industry Development Corporation *			
<i>Controlled entity</i>			
AIDC Limited	✓	11-Sep-97	✓
Australian Institute of Marine Science	✓	09-Sep-97	✓
Australian Marine Science and Technology Limited	✓	15-Oct-97	✓
Australian Nuclear Science and Technology Organisation	✓	02-Sep-97	✓
Australian Technology Group Pty Limited	✓	29-Sep-97	✓
Australian Tourist Commission	✓	04-Sep-97	✓
Commonwealth Scientific and Industrial Research Organisation	✓	12-Sep-97	Findings
Export Finance and Insurance Corporation	✓	19-Sep-97	✓
National Aeronautics and Space Administration (30-Sep-96) #	✓	15-Apr-97	✓
National Standards Commission	✓	15-Aug-97	✓
Science and Industry Endowment Trust Fund	✓	15-Sep-97	✓

* Signed financial statements not presented for audit by 21 November 1997.

Financial year does not end on 30 June 1997.

Internal Control Matters

Australian Customs Service (ACS)

Risk Management

For 1996-97 it was concluded that the ACS continued to make sound progress in introducing formal risk management, noting that scope existed for efficiency and administrative effectiveness improvements as raised in the ANAO's performance audit, Audit Report No. 6, 1997-98 '*Risk Management in Commercial Compliance, Australian Customs Service*'.

For the financial statements, a sound risk management framework has been established within the Commercial Compliance Branch of the ACS for considering and dealing with compliance risk.

Specific matters referred to the ACS were:

- ◆ weaknesses in working papers and planning documentation in respect of some ACS audits carried out under the Commercial Compliance Improvement strategy; and
- ◆ continued delay in the implementation of a risk management strategy for the management of duty concessions afforded to importers under the Passenger Vehicle Manufacturing Plan.

Information Technology

It was noted that the ACS has taken significant steps towards addressing the matters raised last year regarding inappropriate access to system functions by computer operations and support staff. The ANAO was also satisfied with the strategies proposed to address remaining issues over the next year, including a significant finding on access to password files within certain key ACS systems. In this latter regard, there remains the need to encrypt the password databases to decrease the risk that the passwords on file may become known by unauthorised system users.

There is also scope for improvement in controls over application programmer access to privilege system functions and to application user functions. Current work practices provide some programming staff with the ability to access production data and perform the full range of user functions as well as the ability to change production programs. Existing management controls could be enhanced to monitor and review the activity of these application programmers.

Weaknesses were noted in control over internal access to the computer system supporting payments made under various bounties schemes.

Asset Management

At the time of the audit the ACS assets register had not been updated to reflect the true value of assets held during 1996-97. However, following audit representations, the register was adjusted to reflect a materially correct asset value.

Commonwealth Scientific and Industrial Research Organisation (CSIRO)

Information Technology

Access Control

The audit found problems with access controls in respect to a number of CSIRO systems.

Debt Management

Invoicing of Funding Partners

The review of revenue transactions in one Division noted that invoices to funding partners were often produced after funds were received due to a lack of a system to regularly invoice funding partners for payments due under the research agreements. In addition, it was also noted that some invoices were raised for amounts other than as detailed in the relevant supporting agreement whilst other invoices were not supported at all.

Asset Management

A number of matters noted in relation to the control over assets and the recording of information in Divisional asset registers resulted in an overall conclusion that control and

accounting for assets was unsatisfactory and there was an exposure which needed to be addressed.

Payment of Accounts

Credit Cards

Instances were noted in some Divisions where payments for credit card transactions were made without the supplier invoice and/or the credit card slip. The lack of this external evidence increases the risk of incorrect payments being made by CSIRO.

Primary Industries and Energy Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Primary Industries and Energy <i>Commercial activities</i>			
Australian Quarantine and Inspection Service	✓	07 Oct-97	✓
National Residue Survey	✓	07 Oct-97	Findings
Australian Dairy Corporation	✓	28 Aug-97	✓
Australian Dried Fruits Board	✓	30 Sep-97	✓
Australian Fisheries Management Authority	✓	28 Aug-97	✓
Australian Horticultural Corporation	✓	11 Sep-97	✓
Australian Meat and Livestock Corporation	✓	20 Aug-97	✓
Australian Pork Corporation	✓	03 Sep-97	✓
Australian Tobacco Marketing Advisory Committee # (03-Jul-97)	✓	01-Oct-97	✓
Australian Wine and Brandy Corporation	✓	18 Sep-97	✓
Australian Wool Research and Promotion Organisation	✓	13 Sep-97	✓
Clean Food Marketing Australia Limited # (31-Dec-96)	✓	10 Feb-97	✓
Commission for the Conservation of Southern Bluefin Tuna	✓	09 May-97	✓
Cotton Research and Development Corporation *			
Dairy Research and Development Corporation	✓	04 Sep-97	✓
Energy Research and Development Corporation	✓	14 Oct-97	✓
Fisheries Research and Development Corporation	✓	18 Aug-97	✓
Forest and Wood Products Research and Development Corporation	✓	12 Aug-97	✓
Grains Research and Development Corporation	✓	15 Sep-97	✓
Grape and Wine Research and Development Corporation	✓	01 Sep-97	✓
Horticultural Research and Development Corporation	✓	10 Sep-97	✓
Joint Coal Board <i>Controlled entity</i>			
Coal Mines Insurance Pty Limited	✓	19 Sep-97	✓
Land and Water Resources Research and Development Corporation	✓	09 Sep-97	✓
Landcare Australia Limited	✓	26 Sep-97	✓
Meat Industry Council	✓	18 Sep-97	✓
Meat Research Corporation <i>Controlled entities</i>			
Agribusiness Development Capital Pty Limited	✓	27 Aug-97	✓
Australian Meat Technology Pty Limited	Emphasis	27 Aug-97	✓
Fututech Pty Limited	✓	27 Aug-97	✓
MRC Agribusiness Development Trust	✓	27 Aug-97	✓
Murray-Darling Basin Commission	✓	10 Sep-97	✓
National Registration Authority for Agricultural and Veterinary Chemicals	✓	22 Sep-97	✓
Pig Research and Development Corporation	✓	20-Aug-97	✓
Rural Industries Research and Development Corporation	✓	04-Sep-97	✓
Snowy Mountains Hydro-electric Authority	Emphasis	23-Sep-97	✓
Sugar Research and Development Corporation	✓	11-Sep-97	✓
Tobacco Research and Development Corporation	✓	01- Oct-97	✓
Wool International	✓	15-Sep-97	✓

Financial year does not end on 30 June 1997.

* Signed financial statements not presented for audit by 21 November 1997.

Results of Financial Statement Audits

Australian Meat Technology Pty Ltd

Emphasis of Matter

Australian Meat Technology Pty Ltd is a subsidiary of the Meat Research Corporation and conducts research for the Corporation and other industry organisations. The company is economically dependent on the Corporation. As the Corporation is not expected to continue in its current form as a result of industry reforms, significant uncertainty exists with respect to the future shareholding of the company and the source of a large part of its income.

Snowy Mountains Hydro-Electric Authority

Emphasis of Matter

The Snowy Mountains Hydro-Electric Authority owns and manages the hydro-electric works in the Snowy Mountains for water collection, diversion and storage and for the generation of electricity for use in the Australian Capital Territory, New South Wales and Victoria. The Commonwealth, New South Wales and Victorian Governments agreed a set of principles for reform of the Authority which will lead to its corporatisation. As a result, there was inherent uncertainty concerning the likely terms of the proposed corporatisation and therefore the effects, if any, on the financial statements could not be determined.

Internal Control Matters

Australian Quarantine and Inspection Service

Accounting controls

As part of the 1996-97 audit, the meat fee for service revenue system was reviewed and a number of recommendations were made in respect of:

- ◆ the completeness of revenue and the absence of an audit trail for billing of ad hoc inspection services; and
- ◆ the validity and accuracy of contracts for core inspection services.

National Residue Survey (NRS)

Investment policy

In 1995-96 the ANAO recommended that NRS develop and implement an investment policy to ensure investments were properly managed. During 1996-97, while a proposed investment policy was in place, NRS invested some of the funds it received from industry in debentures rather than in term deposits as prescribed in the proposed policy.

Prime Minister and Cabinet Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of the Prime Minister and Cabinet	✓	18-Sep-97	✓
Aboriginal and Torres Strait Islander Commercial Development Corporation	✓	29-Oct-97	✓
<i>Controlled entities</i>			
Barra Base Holdings Pty Ltd	✓	28-Oct-97	✓
Barra Base Unit Trust	✓	28-Oct-97	✓
Bonner House Trust	✓	29-Oct-97	✓
CDC Investments (Tasmanian Aquaculture) Pty Ltd	✓	28-Oct-97	✓
CDC Nominees (Cairns Art) Pty Ltd	Emphasis	29-Oct-97	✓
Cairns Art Joint Venture Participation Trust	✓	29-Oct-97	✓
CDC Nominees (Ceduna) Pty Ltd	Emphasis	28-Oct-97	✓
Ceduna Joint Venture Participation Trust	✓	28-Oct-97	✓
CDC Nominees (Dandenong) Pty Ltd	Emphasis	29-Oct-97	✓
Sunwood Joint Venture Participation Trust	✓	29-Oct-97	✓
CDC Nominees (GPI Ferry) Pty Ltd	Emphasis	28-Oct-97	✓
Palm Island Ferry Shipping Trust	✓	28-Oct-97	✓
CDC Nominees (GRC) Pty Ltd	Emphasis	28-Oct-97	✓
GRC Participation Trust	✓	28-Oct-97	✓
CDC Nominees (McArthur River) Pty Ltd	Emphasis	28-Oct-97	✓
CDC Nominees (McArthur River Shipping) Pty Ltd	✓	28-Oct-97	✓
Carpentaria Shipping Trust	✓	28-Oct-97	✓
CDC Nominees (Mt Todd) Pty Ltd	✓	28-Oct-97	✓
Mt Todd Joint Venture Participation Trust	Emphasis	28-Oct-97	✓
CDC Nominees (South East Sydney) Pty Ltd	✓	28-Oct-97	✓
South East Sydney Trust	Emphasis	28-Oct-97	✓
CDC Nominees (TCTP) Pty Ltd	✓	28-Oct-97	✓
TCTP Participation Trust	✓	28-Oct-97	✓
CDC Nominees (WWLS) Pty Ltd	✓	29-Oct-97	✓
WWLS Participation Trust	✓	29-Oct-97	✓
CDC Services Pty Ltd	Emphasis	28-Oct-97	✓
Tasmanian Investment Unit Trust	✓	28-Oct-97	✓
Ngarrindjeri Community Orchard Pty Ltd	✓	28-Oct-97	✓
Torres Strait Islander Investment Corporation Pty Ltd	✓	28-Oct-97	✓
Torres Strait Islander Investment Trust	✓	28-Oct-97	✓
	✓	✓	✓
Aboriginal and Torres Strait Islander Commission	✓	23-Oct-97	Findings
<i>Controlled entities</i>			
Bilioara Pty Limited	✓	23-Oct-97	✓
Bilioara Unit Trust	✓	23-Oct-97	✓
Morr Morr Pastoral Co Pty Limited	✓	10-Oct-97	✓
Yeperenye Pty Limited	✓	15-Aug-97	✓
Aboriginal and Torres Strait Islander Education and Cultural Advancement Trust	✓	27-Oct-97	✓
Aboriginal and Torres Strait Islander Land Fund	✓	23-Oct-97	✓
Aboriginal Benefit Trust Account	✓	17-Oct-97	✓
Aboriginal Hostels Limited	✓	02-Oct-97	Findings
Australian Institute of Aboriginal and Torres Strait Islander Studies	✓	25-Sep-97	Findings
Indigenous Land Corporation	✓	02-Oct-97	✓
Office of the Commonwealth Ombudsman	✓	20-Sep-97	✓
Office of the Inspector-General of Intelligence and Security	✓	11-Sep-97	✓
Office of National Assessments	✓	09-Sep-97	✓

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Public Service and Merit Protection Commission	✓	10-Sep-97	✓
Torres Strait Regional Authority	✓	17-Oct-97	Findings

Results of Financial Statement Audits

Aboriginal and Torres Strait Islander Commercial Development Corporation Controlled Entities - Participation Trusts (various)

Emphasis of Matter

As a result of deficiencies of net assets in the affected Trusts there is significant uncertainty whether they will be able to continue as a going concern and therefore whether their assets will be realised and liabilities extinguished at the values stated in the financial report.

Internal Control Matters

Australian Institute of Aboriginal and Torres Strait Islander Studies

Asset Management

The Institute did not maintain its asset register during the year for asset acquisitions and disposals. This increased the risk of omission of assets and incorrect asset balances.

Inventory Management

The Institute's records of inventory unit costs and balances were not adequately maintained during the year. Errors were noted in accounting for write-off of damaged stock and for certain purchases.

Aboriginal and Torres Strait Islander Commission

Grants Administration

In 1995-96 the ANAO reported that the level of compliance with grant acquittance procedures by grantees and Commission staff was unsatisfactory.

In respect of 1995-96 grants, which were required to be acquitted during 1996-97, despite remedial action, the level of compliance with grant acquittance procedures by grantees and in some instances Commission staff, remained unsatisfactory in that:

- ◆ the majority of grantees breached the conditions of their grants by failing to submit appropriate acquittance documentation by the due date. Delays in excess of six months continue to occur; and
- ◆ Commission staff did not adhere to the requirement to complete the acquittance process within two months. Action continues to be hampered by problems associated with inadequate documentation, qualified audit reports and staff shortages.

Enterprise Loans - Insurance

Evidence of insurance cover on assets pledged as security on enterprise loans is required at the time the loan is drawn. However, there was no follow up to determine whether insurance cover was maintained and that the Commission's interest was noted on the relevant policy.

Aboriginal Hostels Limited

Bank Reconciliations

The audit found that scope existed for improvement in the review of bank reconciliations so that there was appropriate follow up on outstanding items to be reconciled.

Torres Strait Regional Authority

Community Development Employment Projects (CDEP)

File Maintenance

Significant improvements were noted in the level of documentation supporting new project participants. However, it was at times difficult to identify formal approval documents and to trace these to relevant supporting documentation for individual participants.

Asset Management

Control Over Fixed Assets

Improvements in control have been made since the previous audit but there continued to be a number of deficiencies which need to be rectified. The deficiencies noted were as follows:

- ◆ unable to reconcile the 1995-96 closing balance with the 1996-97 adjusted opening balance;
- ◆ unable to reconcile 1996-97 fixed asset additions and disposals by asset class in the asset register to individual general ledger accounts;
- ◆ lack of documentation to support the figures in the asset register for furniture and fixtures in staff housing; and

- ◆ dates of acquisition for depreciation purposes were incomplete.

Social Security Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Social Security	✓	18-Sep-97	Findings

Internal Control Matters

Business Continuity and Disaster Recovery

Business continuity planning deals with the continuation of the operations of a business after a disaster, such as the loss of computing operations, until normal operations are restored. The audit found that business continuity plans are not adequately tested and in some aspects are out of date.

Information Technology

Access Control and Security

The following matters relating to logical access to the computer systems were identified:

- ◆ no area or senior executive officer is responsible for systematic monitoring of users' activities;
- ◆ some users have greater access than is necessary for them to perform their work;
- ◆ there is no periodic review of the rules designed to ensure that security controls remain satisfactory; and
- ◆ passwords with powerful access privileges are known to a number of users, preventing identification of the responsible user if unauthorised activities are performed using those passwords.

The Department's view was that the access security function had adequate senior executive support. It would, however, examine the cost-effectiveness of additional monitoring of logs.

Access to sensitive system functions via system consoles is not restricted by passwords. However, this is partially mitigated by the strong physical access controls over the system consoles.

Income Support Systems

The income support systems (Pensions, Families, Newstart, Newstart Mature Age and Parenting Systems) record customer details, including circumstances such as earnings, assets, children and housing. The main findings relating to these systems were:

- ◆ statistics on the accuracy of input controls under the Procedure and Accuracy Checking (PAC) system initially showed an error rate of up to 5% for new claims except for Pensions where the error rate was higher than 5%;
- ◆ reconciliation procedures between the various systems are complex, numerous and performed manually under tight deadlines;
- ◆ Finance Regulation 45A(3)(b)(ii), which requires the controls that ensure payments are correct to be documented and approved by the Minister for Finance or a delegate, has not been complied with since the September quarterly release in 1996;
- ◆ systems have not been approved by the Secretary or a delegate under the Social Security Act 1991; and
- ◆ the officer responsible for reconciling the Department of Finance's information to the income support systems does not sign to indicate that the reconciliation was performed.

Reviews Of Customers

The organisation performed over 3 million reviews in 1996-97 to verify the information provided by customers. Testing of a sample of reviews identified:

- ◆ inadequate information was available on some customers' files to support the validity of decisions to continue or vary payments;
- ◆ a review may not be performed when a customer is cancelled before the review is performed and subsequently reinstated, because the systems did not record the fact that the review was not performed;
- ◆ incorrect recording of some review results because the system requires the same details to be recorded in more than one place;
- ◆ overpayment of Parenting Allowance in some circumstances because of differences in the Newstart and Parenting payment cycles; and
- ◆ the ability of Regional Offices to manipulate review results to claim a saving that would have occurred anyway, for example when a period of sickness allowance is about to end and it is likely that the benefit will be cancelled.

Transport and Regional Development Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of Transport and Regional Development	✓	26-Sep-97	✓
Airservices Australia	✓	25-Aug-97	✓
Albury-Wodonga Development Corporation	✓	16-Oct-97	✓
ANL Limited <i>Controlled Entities</i> ANL (New Zealand) Limited Australian Transport Technology Solutions Limited Marine Management Services Pty Ltd <i>Controlled Entity</i> ASP Ship Management Quality Container Management Pty Ltd Rendsburgh Pty Limited Trans-United Pty Ltd ANL Searoad Holdings Pty Limited ANL Maritime Services Ltd	Emphasis Emphasis Emphasis Emphasis Emphasis Emphasis Emphasis Emphasis Emphasis Emphasis Emphasis Emphasis	09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97 09-Oct-97	✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓
Australian Maritime Safety Authority	✓	18-Sep-97	✓
Australian National Railways Commission	Qualified	30-Oct-97	✓
Civil Aviation Safety Authority	✓	19-Aug-97	Findings
Federal Airports Corporation <i>Controlled entities</i> Airport Fine Foods Pty Ltd Airports Australia Pty Limited FAC Investments Pty Ltd FAC Superannuation Fund Pty Limited	Emphasis ✓ ✓ ✓ ✓	17-Sep-97 27-Aug-97 27-Aug-97 27-Aug-97 27-Aug-97	✓ ✓ ✓ ✓ ✓
National Rail Corporation Limited	✓	26-Sep-97	✓
National Road Transport Commission	✓	27-Aug-97	✓

Results of Financial Statement Audits

Federal Airports Corporation

Emphasis of Matter

The Government is in the process of privatising the operation of most, if not all airports and the Corporation will in the near future lose control of the airports. As a result, there was significant uncertainty whether the Corporation would continue as a going concern, be able to realise its assets in the normal course of business at the amount stated in the financial statements and whether the liabilities of the Corporation were appropriately classified as current or non current.

ANL Limited

Emphasis of Matter

In November 1995 the then Government announced the restructure of ANL prior to any future sale. In September 1997 the then Minister advised that the Government's intention was that ANL was to be sold. The exact timing and issues pertaining to the sale are under consideration by the Government. Until the Government finalises its approach to the sale of ANL, there is uncertainty as to the recoverability and classification of asset carrying amounts and the amount and classification of liabilities.

The audit reports of the wholly owned controlled entities ANL (New Zealand) Limited, Quality container Management Pty Ltd, Marine Management Services Pty Ltd and its controlled entity ASP Ship Management, Rendsburg Pty Limited, Trans-United Pty Ltd, ANL Searoad Holdings Pty Limited and ANL Maritime Services Ltd contain emphasis of matter paragraphs in respect of the continued support of the Government and the recoverability and classification of assets and the classification and amount of liabilities.

Australian National Railways Commission

Qualification

Debt assumption - 'write off' of borrowings

The Commonwealth advised the Commission that it would assume responsibility for repayment of the Commission's loans (\$733.6 million), and as a result of this advice, the Commission adjusted its financial statements to reflect the transfer and assumption. As the debt had not been assumed by the Government at 30 June 1997, the Commission's liabilities had not been extinguished in accordance with the requirements of AAS 23, *Set-off and Extinguishment of Debt*. As a result, the borrowings, swaps and prepaid interest should have been reflected as liabilities of the Commission as at balance date.

Workers' compensation 'write off'

The Commission wrote off a \$25.5 million provision for workers' compensation claims as it had been informed by the Government that Comcare would assume responsibility for the payment of all claims. Legal assumption, however, had not taken place. As a result, the liability for workers' compensation should have been reflected as a legal liability of the Commission as at balance date.

Mainline permanent way and associated facilities

The Commission has valued the mainline permanent way and associated facilities which may be nominated for transfer to a proposed national rail infrastructure authority at their historical written down value of \$471.3 million. The Commission expects to receive at least this amount in compensation from the Government for their transfer to or use by the proposed authority. The Government has not provided confirmation of this funding

commitment, and as a result, the recoverable amount for these assets could not be substantiated.

Emphasis of Matter

In August 1997 the Government entered into agreements to sell the assets and operations of the Commission, with the exception of the Track Access business (incorporating the mainline permanent way and associated facilities) to three separate consortia, with certain assets remaining with the Commission until the process of restructuring the Commission was complete. The Government has not finalised its negotiations regarding the Commission's restructure. As a result, there is uncertainty as to the recoverability and classification of asset carrying amounts and classification of liabilities, including the provisions for costs of restructure and sale and environment restoration and rehabilitation.

Internal Control Matters

Civil Aviation Safety Authority

Internal Control

The ANAO raised concerns in respect to:

- ◆ several deficiencies in the asset register which were highlighted in the Authority's stock-take; and
- ◆ documenting procedures for the capture of project costs for financial reporting purposes.

Treasury Portfolio

Reporting Entity at 30 June 1997	Financial Statements	Opinion Issued	Internal Control
Department of the Treasury <i>Commercial entity</i> Royal Australian Mint	✓ ✓	15-Oct-97 25-Aug-97	Finding ✓
Australian Bureau of Statistics	✓	17-Sep-97	✓
Australian Competition and Consumer Commission	✓	03-Sep-97	Finding
Australian Securities Commission	✓	05-Sep-97	Finding
Australian Taxation Office	✓	30-Sep-97	Findings
Companies and Securities Advisory Committee	✓	09-Oct-97	✓
Economic Planning and Advisory Commission	✓	24-Sep-97	✓
Housing Loans Insurance Corporation *			
Industry Commission	✓	24-Sep-97	✓
Insurance and Superannuation Commission	✓	25-Sep-97	Finding
National Competition Council	✓	27-Aug-97	✓
Reserve Bank of Australia	Qualified	07-Aug-97	Finding
Reserve Bank of Australia Officers' Superannuation Fund	✓	26-Sep-97	✓

* Signed financial statements not provided for audit by 21 November 1997.

Results of Financial Statement Audits

Reserve Bank of Australia

Qualification

The Reserve Bank's financial statements indicate that income measurement for the period, for gold stocks and for both domestic and foreign investments, is based on realised gains/losses passing through the profit and loss account. Consistent with longstanding policy, unrealised gains/losses are passed to/from revaluation reserves provided market price is greater than cost. Under the *Reserve Bank Act 1959*, net profits are to be paid as dividends to the Government.

The policies adopted by the Reserve Bank, which reflect the prudent view that a central bank should make available for distribution to a central government all realised gains but not unrealised gains, are suitable to the operations of a central bank under the existing legislation. The audit report on the financial statements indicated that they showed a fair view of the Bank in the context of its legislation and operational requirements.

However, these policies breach AAS 10, '*Accounting for the Revaluation of Non-Current Assets*', because of the transfer from revaluation reserves to Net Profit of realised gains relating to gold stocks and to investments in Australian government securities. They also breach AAS 20, '*Foreign Currency Translation*', because of the use of a revaluation reserve to hold unrealised gains on investments in foreign government securities. The audit report was qualified in relation to compliance with Accounting Standards.

If these Standards had been followed, the Reserve Bank's Net Operating Earnings would have been \$2,343.9 million, and the Net Profit in Terms of the Reserve Bank Act would have been \$1,976.6 million rather than \$3,337.5 million.

Internal Control Matters

Department of the Treasury

Reconciliations

Monthly reconciliations between the Department's financial management and personnel system (FINEST) and the Department of Finance and Administration's ledger had not been performed in a timely manner.

Australian Competition and Consumer Commission

Corporate Governance

The Commission has not had an internal audit function or an audit committee since its formation in November 1995. The Commission has however engaged a firm of chartered accountants to assist in the development of a strategic audit plan.

Australian Securities Commission

Asset management

Previous audits identified the need for improvement in asset management practices, particularly, the need to improve the reconciliation of asset ledger balances to general ledger control accounts. While some progress has been made, similar problems were identified during 1996-97.

Australian Taxation Office

Information Technology

During the audit major issues were noted in the way the ATO manages computer access. References to deficiencies in certain aspects of access control have been made in the past two Reports. This year the findings included incorrect approval of staff access, control aspects over access to data, and review issues over access and management of local access policies.

Other Matters

Other matters raised included issues in the general control environment covering accounting reconciliations and national procedures for taxpayer management including uniform standards for debt write-off.

Insurance and Superannuation Commission

Reconciliations

Reconciliations between Commission systems and FINEST had not been completed and as a consequence, there was a risk that some revenue from superannuation levies may not have been brought to account, thereby affecting the accuracy and completeness of the Commission's financial statements.

Reserve Bank of Australia

Corporate Governance

Some corporate governance issues were raised with the Bank, particularly in relation to the need for the Board's and Board members' actions to be seen to be beyond criticism in circumstances where there is a possible conflict of interest when the Board considers transactions in particular sectors of the economy. There is no suggestion that any Board member breached conflict of interest provisions in the legislation or took advantage of special knowledge. The Bank considers that its Board procedures dealing with conflict of interest are adequate.



Canberra ACT
4 December 1997

P. J. Barrett
Auditor-General

Part Three

Appendix

Audit Objectives, Scope and Focus

The Financial Reporting Framework

1. Financial statements are a 'snap shot' of entity financial performance over the past year and indicate the financial position of each entity at the end of that period.
2. The chief executive of a department or agency, or the board in the case of companies and authorities, is responsible for the preparation and presentation of the financial statements of an entity and for the information contained therein.
3. The format of presentation and disclosure of information in the financial statements of departments, agencies and authorities is governed by Guidelines issued by the Minister for Finance. Commonwealth companies report in accordance with the requirements of the Corporations Law.

The Financial Statement Audit

Audit Objectives

4. The objective of the financial statement audit is to form an opinion on whether the financial statements report fairly on the financial operations of an entity and its financial position at year end. This opinion is contained in an Audit Report which is included with the financial statements in the Annual report of each entity.
5. The Audit Report gives credibility to the information contained in the financial statements. This credibility derives from the fact that the financial audit is:
 - ◆ independent; and
 - ◆ carried out in accordance with ANAO Auditing Standards which incorporate the Australian Auditing Standards.

Audit Scope and Focus

6. A financial statement audit is carried out in such a way that there is a reasonable expectation of detecting significant misstatements arising from fraud or error. However, the responsibility for the prevention and detection of such irregularities rests primarily with the executive management of each entity. This responsibility is fulfilled mainly through the implementation of an adequate control framework.
7. The control framework in each entity is the responsibility of the chief executive. It is established primarily to ensure that corporate and program objectives are achieved and that the resources employed in satisfying these objectives are used efficiently, effectively and ethically. It also operates to ensure that the underlying accounting transactions and other events reflected in the financial statements of the entity are valid, and are completely and accurately captured in the information systems used by the entity to derive the financial statements.

8. The ANAO has a professional duty to gain an understanding of this framework as part of the financial statement audit process. If it is judged that the control framework (or key aspects) is operating effectively, the ANAO may place reliance on the control activities undertaken when forming the opinion on the financial statements. In this case the ANAO tests the operation of the controls on which it intends to rely.
9. The more significant internal control issues identified during the financial statement audit are reported to the relevant Portfolio Minister and have been included in the Portfolio Summary in Part Two of this Report. Less significant, but important, findings are represented to the Executive Management of each entity and are referred to, in summary form, in the Report to the Minister. Any other minor control weaknesses detected during an audit are generally represented to the level of management with the responsibility and authority to take remedial action. Such matters are not ordinarily reported to the Minister but may be summarised in a report to executive management.

The Audit Report

10. The Audit Report is the auditor's opinion on whether the financial statements report fairly the results of operations and financial position of an entity.
11. Where, in the auditor's opinion, this is considered not to be the case a qualified audit report will be issued.
12. One reason for the need for a qualification relates to a disagreement between the auditor and the management of the entity in terms of either the interpretation of, or the need to comply with, a particular accounting standard. This generally results in an exception opinion. A further reason is that the scope of the audit work undertaken to assist in forming an opinion has been limited in some way; and alternative procedures were not able to be undertaken on which to base an opinion. This may result in an exception, adverse or inability to form an opinion depending on the nature of the limitation.
13. In certain prescribed situations an audit report may be modified, but not qualified, by the addition of information emphasising certain circumstances matters. Examples are where there is significant uncertainty over whether the entity is a going concern, or over the value of assets subject to some condition not finalised by the date of the audit report.