

The Auditor-General

Audit Report No.20  
1998-99  
Financial Statement Audit

**Audits of the Financial  
Statements of Commonwealth  
Entities for the Period Ended  
30 June 1998**

**Summary of Results and Financial  
Outcomes**

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Canberra ACT

8 December 1998

Dear Madam President

Dear Mr Speaker

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 in accordance with the authority contained in the *Auditor-General Act 1997*. The results of this audit activity and the outcomes achieved through this work are summarised in this report. I present this report of these audits to the Parliament. The report is titled *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 1998*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'P.J. Barrett'.

P.J. Barrett  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives

## **AUDITING FOR AUSTRALIA**

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

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# Foreword

In the past year, there has been continued improvement in the quality of financial information in the Commonwealth. This resulted from the first, fully audited Commonwealth of Australia Consolidated Financial Statements which were prepared and published by the Minister for Finance and Administration in February 1998, together with improvements in reporting by individual entities.

The Commonwealth is facing new challenges in financial management as it moves towards accrual budgeting in 1999-2000 with the associated requirements to identify and measure, to the extent possible, outputs and outcomes under an accrual framework. To meet these challenges, entities will need to ensure high quality accrual information is available throughout the year to assist financial management and accountability. Systems will need to be capable of capturing financial information and reporting against outputs and outcomes.

The issues raised in this Report indicate entities will experience significant difficulty meeting these challenges within the timeframe set by the Government. This is particularly true for the small number of large Commonwealth entities administering the vast majority of the Commonwealth's finances, and operating the more significant and complex systems. These entities are the subject of the majority of comments made in this Report. In recognition of this fact, the ANAO is focusing its audit efforts on that group of large and complex entities. I plan to table in the Parliament a separate, mid-year report on the financial systems, controls and processes of these entities.

While focusing on these larger entities, the ANAO will continue to assist all entities meet the financial challenges of the Commonwealth reform program. We will continue to publish Better Practice Guides which aim to provide a source of information to entities about better practice, and through our knowledge and understanding of the public sector, contribute to its improved performance. A list of recent Guides is published at the end of this report.

I would like to take this opportunity to acknowledge the efforts and professionalism of my staff in undertaking the audit work, which culminates in this Report. Their dedication and diligence, particularly at the end of the financial year, have again enabled the tabling of this Report in a timely fashion. Further, I also record my appreciation for the level of cooperation extended by entities in the audit process and generally commend them for their improvements in financial statement reporting.

P.J. Barrett  
Auditor-General

# Executive Summary





## Executive Summary

1. This Report is prepared primarily to assist the Parliament in its oversight of the financial activities of Government. It summarises the results of the financial statement audits of Commonwealth entities and the major issues arising from those audits.
2. The ANAO is responsible for the audit of the financial statements of 315 entities (see Table 1), down from 321 last year.

**Table 1**  
**Type and number of entities audited**

<b>Reporting Entity</b>	<b>1997-98</b>
Agencies	
◆ Departments of State	17
◆ Parliamentary departments	5
◆ Prescribed Agencies	42
◆ Business operations	26
Commonwealth Authorities and their subsidiaries	173
Commonwealth Companies and their subsidiaries	41
Other	11
<b>Total</b>	<b>315</b>

3. The entities audited managed revenues of \$204 billion, expenses of \$196 billion, assets valued at more than \$240 billion and liabilities in excess of \$280 billion. Figure 1 shows the majority of the Commonwealth's financial activities are concentrated in a few Ministerial portfolios, and within these portfolios a relatively small number of Commonwealth entities manage the vast majority of the Commonwealth's financial activities. These entities, which operate the more significant and complex financial systems, are the subject of the majority of audit comments made in this report.

4. Part One of this Report discusses the results of the financial statement audits. These audits indicated a continuing improvement in the quality of financial statement reporting within the Commonwealth. This is reflected in the percentage of audit reports not subject to qualification, or not having an emphasis of matter highlighted, increasing from 88 per cent in 1996-97 to 95 per cent in 1997-98. While progress has been made in the quality of financial statements reporting, entities will need to continue to improve to meet the requirements of accrual-based reporting, budgeting and accountability.

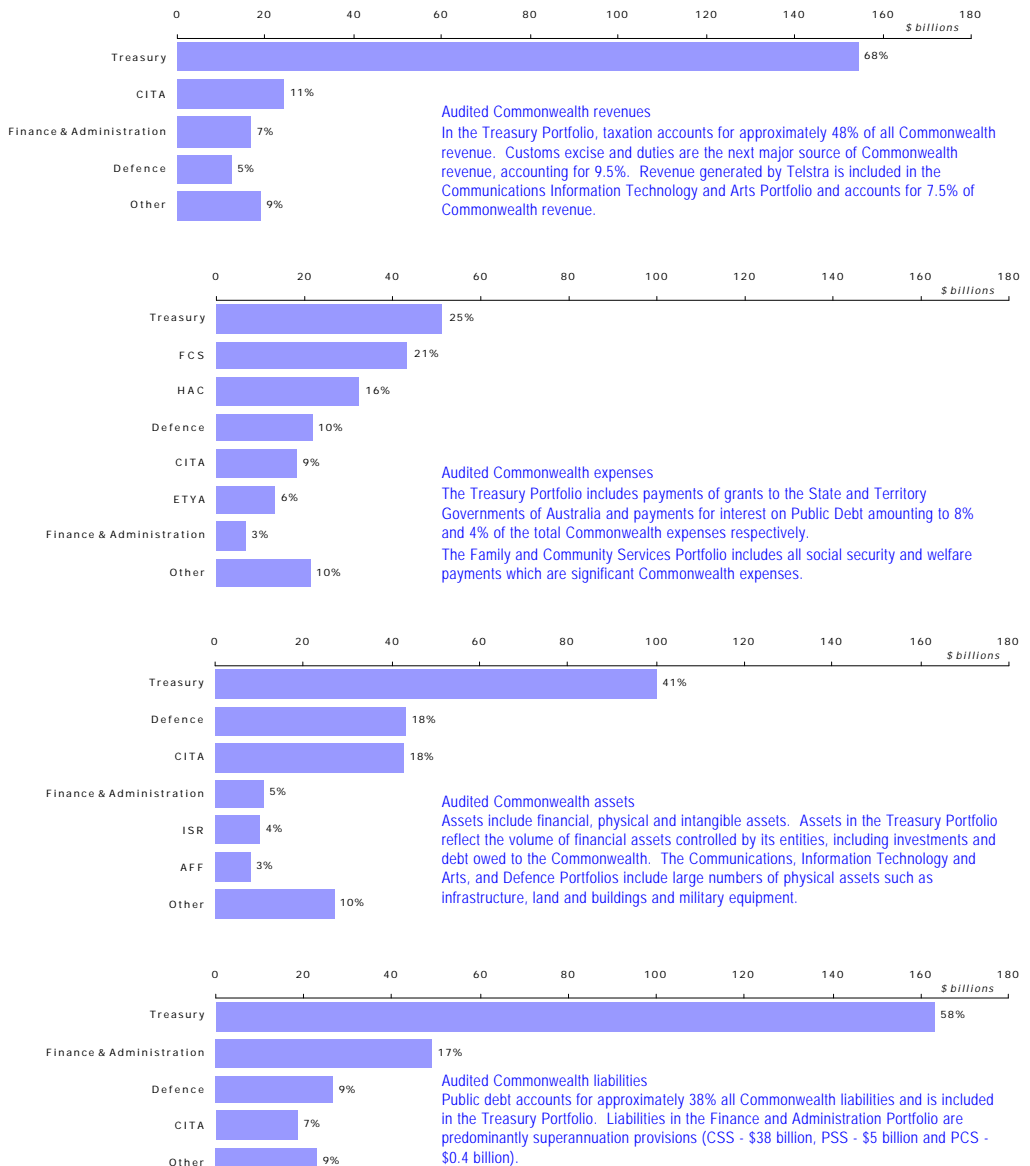
**5.** Many entities are finalising implementation of accrual accounting systems and the associated re-engineering of financial processes necessary to support the management of outputs and outcomes in an accrual framework. In addition, many will need to adopt greater discipline over completion of those financial processes necessary to ensure the veracity of financial information used for accrual based accountability purposes.

**6.** Part Two of this Report contains a summary of the major issues identified from the audits of financial statements impacting on the adequacy of control structures within Commonwealth entities. Part Three collates the results of the financial statement audits and significant control issues by Commonwealth entity, grouped by portfolio. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 21 October 1998.

**Figure 1**

**Percentage and dollar breakup of audited Commonwealth financial activity, by portfolio.**

Figure 1: Percentage and dollar breakup of audited Commonwealth financial activity, by portfolio.



*Abbreviations used in Figure 1*

AFF	Agriculture, Fisheries and Forestry	FCS	Family and Community Services
CITA	Communications, Information Technology and the Arts	HAC	Health and Aged Care
CSS	Commonwealth Superannuation Scheme	ISR	Industry, Science and Resources
ETYA	Education, Training and Youth Affairs	PCS	Parliamentary Contribution Scheme
		PSS	Public Sector Superannuation Scheme



**Part One**  
**Results of the Audits of Financial  
Statements**



# Results of the Audits of Financial Statements

## Summary of audit reports issued

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**1.1** The ANAO formed an opinion and reported on the financial statements of 315 Commonwealth entities for the 1997-98 financial year. This Part summarises the results of these audits and discusses financial statements preparation within the Commonwealth. Details of the scope of these audits are provided in Appendix 1 of this Report.

**1.2** The desirable outcome of an audit is an unqualified audit report, indicating the auditor agrees with the information presented by management in the financial statements. However, an audit report may be modified if the auditor does not consider the financial statements present a fair view and the information may mislead the reader. These modifications include issuing a qualified report, or a report containing 'an emphasis of matter'.

[Table 2](#)

Summary of audit conclusions in audit reports issued

<b>Financial statement audit reports</b>	<b>1997-98</b>	<b>1996-97</b>	<b>1995-96</b>
Qualified	9	6	14
Containing an emphasis of matter	6	34	24
Not modified	300	281	305
<b>Total issued</b>	<b>315</b>	<b>321</b>	<b>343</b>

## Qualified audit reports

**1.3** Qualified audit reports may be issued where there is disagreement between the auditor and management of the entity on the application of Australian Accounting Standards or other mandatory reporting requirements, or when the scope of audit work required to form an opinion has been limited in some way.

## Limitation of scope

**1.4** A scope limitation arises when the audit effort has been restricted in the area specified and therefore an opinion on that part of the financial statements cannot be given.

### *Limitation of scope based on national security*

- **Australian Secret Intelligence Service (ASIS)**

- **Australian Security Intelligence Organization (ASIO)**

The audit reports on ASIS and ASIO were qualified because certain parts of the financial statements were exempt from audit on the grounds of national security. The exemptions, granted by the Minister for Foreign Affairs and Trade (for ASIS) and the Attorney-General (for ASIO), meant it was not possible to form an opinion on the receipts, expenditure, assets and liabilities in relation to the exempt parts of their operations.

### *Limitation of scope based on unreliability of asset register information*

- **Department of Immigration and Multicultural Affairs**

The Department's asset register could not be relied on as a complete record of Infrastructure, Plant and Equipment items. As a result, it was not possible to form an opinion on all financial statement items associated with Infrastructure, Plant and Equipment in the Department's financial statements.

This is the first time the Department's statements have been qualified in this regard.

### *Limitation of scope based on ensuring the completeness of revenue*

- **Commonwealth Superannuation Administration (Comsuper)**

ComSuper was unable to determine the amount due, from approved authorities, for superannuation pay-as-you-go contributions and emerging cost in 1997-98. As a consequence it was not possible to confirm whether the total amount of superannuation contributions legally due to the Commonwealth were reported in the financial statements.

This limitation also applied in 1996-97.

- **National Gallery of Australia Foundation**

The Foundation conducts fund-raising activities. The audit report on the Foundation's financial statements was qualified because the



nature of the fund raising activities is such that, even with appropriate controls, it is not possible to obtain assurance that all funds raised are recorded in the financial systems.

#### *Limitation of scope based on valuation of liabilities*

##### ■ **Coal Mining Industry (Long Service Leave Funding) Corporation**

The Corporation funds long service leave entitlements of employees in the black coal industry in New South Wales, Queensland, Tasmania and Western Australia. A reliable measurement of the liability for reimbursing long service leave payments was dependent on receipt of an actuarial report. The report was not available at the date the audit report on the financial statements was signed which meant it was not possible to form an opinion on the value of these liabilities in the Balance Sheet, estimated to be \$420 million.

This was the first time the Corporation's statements have been qualified for this matter.

## **Breaches of reporting requirements**

**1.5** Financial statements are required to be prepared in accordance with the Australian Accounting Standards, other professional reporting requirements and statutory requirements. Non-adherence to these requirements means the financial statements will not present a fair view and reduces the readers' ability to analyse, interpret and compare financial statements.

##### ■ **Australian National Railways Commission**

#### *Recognition of liabilities*

In 1996-97, the Australian National Railways Commission reduced the value of its recorded liabilities (debt) by approximately \$734 million following advice the Commonwealth Government would assume them under provisions of the *Australian National Railways Commission Sale Act 1997*. At 30 June 1998, the Commonwealth had legally assumed only \$453 million of the liabilities of the Commission.

The Australian Accounting Standards allow debt to be removed from the financial statements when the legal liability for the debt has been transferred to another party. That part of the debt not assumed by the Commonwealth remains a liability of the

Commission and should have been included in the financial statements.

This issue resulted in a similar qualification last year.

## ■ Australian National University

### *Investments*

The accounting treatment for the investments used to fund employee pensions was contrary to Australian Accounting Standards. This investment 'fund' does not meet the definition of a Superannuation Plan under the Australian Accounting Standards. However, the University treats it as if it were a Superannuation Plan. As a result, the financial statements include revenues relating to changes in the value of the investments which have yet to be realised.

This issue resulted in a similar qualification last year.

### *Land*

The financial statements did not include the value of land at the University's Acton campus and Mount Stromlo. The University acknowledges it controls and benefits from the use of the land, but considers the land cannot be reliably valued and excludes it from the statements. The ANAO considers the value of this land could be reliably measured and therefore these sites meet the recognition criteria of the Statement of Accounting Concepts for assets. Consequently, their value should be included in the financial statements.

This issue resulted in a similar qualification last year.

## ■ National Museum of Australia

### *Recognition of National Historic Collection assets*

The Museum's Statement of Assets and Liabilities included only assets acquired since 1 July 1992. These assets represent a minor portion of the Museum's National Historic Collection. As a result, the Museum has not complied with the Australian Accounting Standards which require all assets to be included in the financial statements. The ANAO is of the view these assets can be reliably measured and therefore should be included in the Museum's financial statements.

This was the first time the Museum's financial statements have been qualified in relation to this matter.

## Audit reports containing an emphasis of matter

**1.6** An audit report may also contain ‘an emphasis of matter’. This is used to draw attention to a matter that is considered relevant to the readers of the financial statements, but does not prevent an unqualified audit report being issued. In the majority of cases, ‘an emphasis of matter’ relates to inherent uncertainty in a particular aspect of the financial statements.

### *Business environment*

#### ■ **Department of Communications, Information Technology and the Arts** (formerly *Department of Communications and the Arts*)

The financial statements of the former Department refer to the proposed sale of the National Transmission Network. Significant assets of the Department may be disposed of as a result of the proposed sale. The outcome of the sale could not be determined with an acceptable degree of reliability and, accordingly, the financial impact of the sale was uncertain.

A similar comment was included in the 1996-97 audit report.

#### ■ **Snowy Mountains Hydro-electric Authority**

The Commonwealth, New South Wales and Victorian Governments have agreed to reform the Snowy Mountains Hydro-electric Authority which will lead to its corporatisation. The likely terms of the proposed corporatisation, including the settlement of the superannuation provisions, are uncertain and being negotiated. Accordingly, the effects, if any, of the proposed corporatisation on the financial statements could not be determined.

A similar comment was included in the 1996-97 audit report.

### *Impact of economic environment*

#### ■ **Export Finance and Insurance Corporation**

The financial statements of the Corporation referred to the Corporation’s exposure to Indonesia, amounting to \$1,446 million in export finance loans. There was significant uncertainty in the Indonesian economic situation, which gave rise to the possibility of a variation in the future value of the loans.

This was the first time this uncertainty has arisen.

## ■ Australian Dairy Corporation

The financial statements of the Australian Dairy Corporation consolidate its controlled entity Austdairy Ltd. In the Corporation's financial statements, attention was drawn to the operations of Austdairy Ltd, which have been significantly affected, and will continue to be affected for the foreseeable future by currency volatility in the Asia-Pacific region. As a result, there were significant uncertainties relating to future operations, the recoverability of Austdairy Ltd's assets and the ability of Austdairy Ltd to pay its debts as they mature.

This was the first time this uncertainty has arisen.

### *Completeness and valuation of levy payments*

## ■ Department of Employment, Workplace Relations and Small Business *(formerly Department of Workplace Relations and Small Business)*

### ■ Stevedoring Industry Finance Committee

The Stevedoring Industry Finance Committee received levies collected on their behalf by the former Department. A review of levy collection, initiated by the Department, was unable to assess the completeness and accuracy of levy payments owed to the Committee.

As a result, there was significant uncertainty as to the amounts of levy income and assets, and levy refunds and liabilities, included in the financial statements of the Committee. There is also a corresponding uncertainty in the Department's financial statements of the amounts of income due in levies and payable to the Committee. The Department has proposed alternative arrangements for the scheme. However, these arrangements had not been finalised by 30 June 1998.

Accordingly, the audit reports on the financial statements of the Department and the Committee drew attention to this issue.

A similar comment was included in the 1996-97 audit reports for both the Committee and the Department.

## Financial statement preparation

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**1.7** The majority of Commonwealth entities have traditionally prepared financial statements solely to meet annual statutory reporting requirements. With the adoption of accrual-based budgeting across the Commonwealth, entities will be held accountable for management of resources. This implies that accrual-based financial information, necessary to support financial management, will be required regularly throughout the year. Similarly, it is anticipated accrual information will be required from entities to support proposed monthly reporting commitments to the Parliament. In this environment, timely preparation of the information is critical to ensure relevance to users.

**1.8** While there has been continued improvement by entities in preparation of annual financial statements, the ANAO considers that entities require further improvement to meet the challenges posed by the requirements for more frequent reporting and accrual-based budgeting.

**1.9** In 1997-98, many entities continued to utilise cash accounting systems and relied on manual procedures to collect and collate accrual information for financial reporting purposes. This approach is resource intensive, often depends upon the provision of information by inexperienced staff and is prone to error. It also makes the timely preparation of financial statements difficult. Of the larger Commonwealth entities, 33 per cent did not finalise their 30 June 1998 financial statements until October 1998 - more than three months after the end of the financial year. Most of these entities relied upon manual processing for preparation of their financial statements. This is in contrast to the Commonwealth generally, where only 4 per cent of entities did not finalise their financial statements before October.

**1.10** In response to the demands of accrual-based budgeting, many entities are currently implementing accrual-based accounting systems. These systems have the potential to assist with timely and fluent year-end financial reporting and, more importantly, facilitate preparation of accrual-based financial information for management purposes throughout the year. For these benefits to be fully realised, entities will need to change some of their current financial management practices.

**1.11** The most significant challenge will be managing the cultural changes necessary to move from a regime focussed on management

and accountability for cash resources to one which utilises accrual information to manage and to ensure accountability for the use of all resources available to an entity.

**1.12** As highlighted later in this Report, many entities can improve the timeliness and adequacy of financial administration processes. These processes, which include matters such as updating and reconciling asset registers, subsidiary ledgers and bank accounts, are necessary to ensure the veracity of information used for financial reporting. Greater emphasis on these processes is necessary to ensure they are completed regularly throughout the year to ensure the continued reliability of information used for management decision making.

## **Part Two**

# **Control Structure Issues**





# Control Structure Issues

## Introduction

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**2.1** This Part contains a summary of issues relating to the *internal control structure* of Commonwealth entities that were detected as part of the financial statement audits. It also includes references to common control findings arising from related Assurance Control and Assessment audits which focus on the design, implementation and operation of control activities.

**2.2** The internal control structure of any entity can be considered in terms of five inter-related components:

- ◆ the control environment;
- ◆ risk management processes;
- ◆ the design and operation of specific control activities;
- ◆ monitoring and review processes; and
- ◆ the effectiveness of information systems and communication.

**2.3** Implementing an effective internal control structure is an essential responsibility of executive and senior management of an entity. Taken together with their leadership and stewardship roles, fulfilling this responsibility forms the cornerstone of effective corporate governance arrangements.

**2.4** The auditor, while not responsible for the internal control structure, aims to place reliance where possible on its effectiveness, as part of gathering evidence to form an opinion on the financial statements. An effective internal control structure can significantly lower the risk that the financial statements produced by the entity will contain material errors.

**2.5** Where significant internal control weaknesses are detected, they are reported to the management of the entity. As part of the accountability framework of the Commonwealth, such issues are also reported to the responsible Minister. These issues have been aggregated and discussed in this section of the Report.

## Summary

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**2.6** The following issues continue to represent the major areas impacting on the adequacy of control structures within Commonwealth entities:

- ◆ the need for improved information technology controls;
- ◆ scope for improvement in asset management, recording and valuations;
- ◆ the need for timely and accurate reconciliations of financial records; and
- ◆ attention to the adequacy and reliability of accounting systems.

**2.7** While these matters require prompt and effective management attention, their occurrence does not necessarily preclude the issue of unqualified audit reports where audit procedures established that the financial statements were fairly stated. However, they represent significant risks that may prevent entities achieving their objectives at the required or reasonable level of performance.

**2.8** The ANAO also completed a number of Assurance Control and Assessment audits separately from the financial statement audit process. These audits complement financial statement audits by examining the effectiveness of control activities over accounting and administrative systems such as those involving the receipt and payment of 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 audits were:

- ◆ control and safeguarding of Commonwealth assets needs to be strengthened;
- ◆ control of general administrative expenditure in the areas of travel and personnel allowances, and the use of credit cards needs to be improved; and
- ◆ control deficiencies exist in personnel administration covering attendance and leave recording, and documenting commencements and calculating termination payments.

## Information Technology controls

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**2.9** Information Technology (IT) in the Commonwealth is significant in terms of investment, application and use. IT supports various entity programs and can be integral to the validity, completeness and accuracy of financial statements. Consequently, the audit of IT systems and processes is fundamental to forming an opinion on the adequacy of proper accounts and records that support entities' financial statements.

**2.10** The ANAO's audit of IT systems focuses on the following aspects:

- ✦ IT control environment;
- ✦ access controls and logical security;
- ✦ application controls; and
- ✦ program change controls.

**2.11** While noting general improvements in controls over IT systems in 1997-98, the ANAO continues to identify deficiencies which pose risks to entities achieving their objectives. The 1997-98 financial statement audits identified the following IT control issues.

### Access and logical security controls

**2.12** Access and logical security controls operate to protect systems and data from unauthorised disclosure or use, and to ensure reliability and accessibility of information. The information collected and maintained on Commonwealth computing systems is a critical resource for effective delivery of services. Consequently it is an asset that has to be preserved and safeguarded.

**2.13** Specific matters identified again this year were:

- ✦ system access rights found to be excessive or unauthorised;
- ✦ inadequate review and approval of users' access to systems;
- ✦ inadequate segregation of duties and no review or follow-up of control and error logs; and
- ✦ an external service provider having unlimited access which was not monitored.

**2.14** The unregulated provision of access to government information, and the provision of access rights to an unnecessarily large number of users beyond their functional needs, pose significant risks to entities. The risk of compromise of financial information is considered to be significant in a number of

organisations and requires close examination by all entities as part of their protective security planning.

## Program change controls

**2.15** IT program change controls operate to ensure systems are developed and maintained in an authorised and efficient manner. These controls ensure continuity of business systems and the integrity of data contained within systems. Key aspects include appropriate segregation of duties, formal testing and documentation of change implementation, and an appropriate authorisation framework.

**2.16** Specific matters arising in 1997-98 were:

- ◆ lack of documented change control procedures;
- ◆ Year 2000 (Y2K) compliance not ensured in all new applications; and
- ◆ inadequate review, approval and testing of changes to applications.

**2.17** Failure to adequately control changes to business critical programs can lead to inefficiencies through rejection, re-specification and re-implementation of changes. More importantly, they can compromise information and, in the worst case, disrupt business continuity. Given the significant initiatives currently underway within the Commonwealth, such as implementation of new financial management and payroll systems and changes to ensure

Y2K compliance, it is important that improved program change controls are adopted.

## Asset management

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**2.18** The application of strategic asset management principles should ensure that fixed assets employed by entities contribute to the achievement of outcomes. To be effective, asset management requires a whole of life-cycle approach that considers the full cost of asset ownership. Having complete, accurate and reliable asset accounting records is one of the keys to implementing asset management.

**2.19** Effective control in these areas is critical to ensure that assets are well-managed and utilised efficiently and that their value is accurately reflected in the financial statements.

**2.20 Specific issues identified in 1997-98 which were similar to last year included:**

- ◆ acquisitions and disposals not recorded in a timely manner in asset registers;
- ◆ asset registers not regularly reconciled to subsidiary records;
- ◆ large numbers of assets fully depreciated despite having future value which should be reflected in asset registers;
- ◆ depreciation rates not reviewed regularly; and
- ◆ deficiencies in stocktake procedures and unresolved discrepancies.

**2.21** The Assurance Control and Assessment audits confirmed asset management in the Commonwealth required improvement. It was recommended that entities improve documentation of procedures for asset control; reconcile asset balances to general ledgers on a regular basis; and record assets promptly when transferred to a new location. In a number of entities examined, assets were disposed of before approval. In addition, some entities did not retain sufficient records to confirm that all the proceeds were received from the sale of assets.

**2.22** Given the above, asset management continues to be a significant area of concern. This year ANAO tabled an audit report on asset management recommending Commonwealth entities adopt a more pro-active approach to management of assets<sup>1</sup>.

**2.23** The Joint Committee of Public Accounts and Audit (JCPAA) conducted an inquiry into asset management in 1998. In its Report<sup>2</sup>, the Committee emphasised the importance of asset management and recommended the performance of senior management in Commonwealth entities should include reference to how efficiently and effectively assets under their control are managed.

## Accounting systems and controls

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**2.24** Accounting systems are a key to successful management of an entity. These systems process transactions for revenue, expenditure, assets, and liabilities which, when aggregated, comprise the financial statements. Accounting systems also provide reports to management to assist them discharge their responsibilities effectively. Controls over accounting systems are fundamental to

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<sup>1</sup> Asset Management, Audit Report No. 41 1997-98, Canberra April 1998

<sup>2</sup> Asset Management by Commonwealth Agencies, JCPAA, Canberra July 1998

good management and in enhancing the reliability of information produced for the financial statements.

**2.25** The following common issues were identified during audits undertaken in 1997-98.

## Ledger reconciliations

**2.26** The timely reconciliation of ledgers to supporting records is a fundamental control to ensure the reliability of information recorded in those ledgers. The audits indicated that ledger reconciliations were not being completed adequately or in a timely manner.

## Expenditure

**2.27** Controls over expenditure systems are necessary to ensure all expenses incurred are correctly paid and recorded. Specific matters identified in 1997-98 included:

- ◆ the receipt of goods and services not checked prior to payment;
- ◆ duplicate payments;
- ◆ delays in acquitting grants and reviewing financial information provided by grantees; and
- ◆ transactions processed by officers without suitable authority.

**2.28** Assurance Control and Assessment audits identified additional matters in relation to Commonwealth expenditure including:

- ◆ the need to improve credit card approvals and monthly checks of purchases;
- ◆ inadequate control over air travel, taxi vouchers and fleet vehicles; and
- ◆ insufficient explanation to support payment of the full fare for air travel and/or additional cost of accommodation.

## Cash management and debt collection

**2.29** Management and control of cash are critical to ensuring all cash due is properly collected, banked and recorded. The following matters were noted in 1997-98:

- ◆ receipts not banked promptly and cash advance checks not performed;
- ◆ bank reconciliations not completed in a timely manner or independently checked;

- ◆ invoicing and collection of moneys not timely; and
- ◆ inadequate controls to ensure that all revenue due to the Commonwealth is collected and accurately recorded on the financial systems.

## **Personnel records**

**2.30** The Assurance Control and Assessment program also reviewed payment of allowances, attendance and leave recording, and recording of commencements and terminations. These audits identified that the calculation of allowances was not always checked, resulting in incorrect payments being made and leave not always being deducted from officers' entitlements.





**Part Three**  
**Results of the Audits of Financial  
Statements—*by Portfolio***



# Results of the Audits of Financial Statements — by Portfolio

## Introduction

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**3.1** This Part summarises the results of the financial statement audits for individual entities. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 21 October 1998.

**3.2** The tables for each portfolio indicate for each entity:

- ◆ the outcome of the audit;
- ◆ the date the audit report was issued; and
- ◆ whether any significant control issues were identified in the course of the financial statement audit.

**3.3** Details of modified audit opinions and control issues arising from the audits are provided beneath the table for each portfolio.

**3.4** Recommendations have been made to each entity to assist in addressing any significant audit issues raised. Unless otherwise indicated in the Report, entities have accepted the recommendations and have advised the ANAO of appropriate remedial action taken, or proposed, to address the matters reported.

## Agriculture, Fisheries and Forestry Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Agriculture, Fisheries and Forestry <i>(formerly Department of Primary Industries and Energy)</i>	✓	21-Sep-98	
Meat and Inspection Service Reserve	✓	21-Sep-98	
Australian Quarantine Inspection Service Reserve	✓	21-Sep-98	
National Residue Survey	✓	21-Sep-98	
Australia and New Zealand Food Authority <i>(formerly in Health and Family Services Portfolio)</i>		11-Aug-98	
Australian Dairy Corporation	<b>E</b>	09-Sep-98	
Australian Dried Fruits Board	✓	08-Sep-98	
Australian Fisheries Management Authority	✓	28-Aug-98	
Australian Horticultural Corporation	✓	31-Aug-98	
Australian Meat and Livestock Corporation	✓	01-Oct-98	
Australian Pork Corporation	✓	28-Aug-98	
Australian Wheat Board (30 Sept 97)	✓		
Australian Wine and Brandy Corporation	✓	29-Sep-98	
Australian Wool Research and Promotion Organisation	✓	10-Sep-98	
Commission for the Conservation of Southern Bluefin Tuna	✓	19-May-98	
Cotton Research and Development Corporation	✓	20-Aug-98	
Dairy Research and Development Corporation	✓	04-Sep-98	
Energy Research and Development Corporation	✓	28-Aug-98	
Fisheries Research and Development Corporation	✓	13-Aug-98	
Forest and Wood Products Research and Development Corporation	✓	14-Sep-98	
Grains Research and Development Corporation	✓	15-Sep-98	
Grape and Wine Research and Development Corporation	✓	23-Sep-98	
Horticultural Research and Development Corporation	✓	31-Aug-98	
Land and Water Resources Research and Development Corporation	✓	08-Sep-98	
Landcare Australia Limited	✓	22-Sep-98	
Meat Industry Council	✓	13-Oct-98	
Meat Research Corporation	✓	11-Sep-98	
Agribusiness Development Capital Pty Limited	✓		
Australian Meat Technology Pty Limited	✓	17-Sep-98	
Fututech Pty Limited			
MRC Agribusiness Development Trust			
Murray-Darling Basin Commission	✓	23-Sep-98	
National Registration Authority for Agricultural and Veterinary Chemicals	✓	28-Aug-98	
Pig Research and Development Corporation	✓	31-Aug-98	
Rural Industries Research and Development Corporation	✓	09-Sep-98	
Sugar Research and Development Corporation	✓	26-Aug-98	
Tobacco Research and Development Corporation	✓	07-Sep-98	
Wool International	✓	25-Aug-98	

Key:

✓	audit report not modified	⤵	signed financial statements not presented for audit by 24 November 1998
<b>E</b>	audit report contains an emphasis of matter	⊖	(financial year end date other than 30 June 1998)
⊖	audit report contains a qualification	◆	significant internal control issues noted

## Results of the financial statement audits

### Australian Dairy Corporation

#### *Emphasis of matter*

The financial statements of the Australian Dairy Corporation consolidate its controlled entity Austdairy Ltd. In the Corporation's financial statements, attention was drawn to the operations of Austdiary Ltd, which were significantly affected, and will continue to be affected for the foreseeable future by currency volatility in the Asia-Pacific region. As a result, there were significant uncertainties relating to future operations, the recoverability of Austdairy Ltd's assets and the ability of Austdairy Ltd to maintain or pay its debts as they mature.

#### **Internal control matters**

No significant internal control matters were noted in this portfolio.

## Attorney-General's Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Attorney-General's Department	✓	22-Oct-98	
Attorney-General's Legal Practice	✓	22-Oct-98	
Auscript	✓	20-Oct-98	
Australian Protective Service	✓	21-Oct-98	
Administrative Appeals Tribunal	✓	18-Sep-98	
Australian Bureau of Criminal Intelligence	✓	27-Oct-98	
Australian Federal Police	✓	25-Sep-98	◆
ACT Community Policing	✓	07-Sep-98	
Australian Institute of Criminology	✓	01-Oct-98	
Australian Law Reform Commission	✓	24-Sep-98	
Australian Security Intelligence Organization	Q	01-Oct-98	
Australian Transaction Reports and Analysis Centre	✓	11-Sep-98	
Criminology Research Council	✓	01-Oct-98	
Family Court of Australia	✓	07-Sep-98	
Federal Court of Australia	✓	28-Sep-98	
High Court of Australia	✓	09-Sep-98	
Human Rights and Equal Opportunity Commission	✓	06-Oct-98	
Industrial Relations Court of Australia	✓	28-Sep-98	
National Crime Authority	✓	15-Sep-98	
National Native Title Tribunal	✓	12-Oct-98	
National Police Research Unit	✓	19-Oct-98	
Office of Film and Literature Classification	✓	02-Oct-98	
Office of the Director of Public Prosecutions	✓	24-Sep-98	◆
Office of the Parliamentary Counsel	✓	21-Oct-98	

### Key:

- |   |   |   |   |
|---|---|---|---|
| ✓ | audit report not modified                   | ↘ | signed financial statements not presented for audit by 24 November 1998 |
| E | audit report contains an emphasis of matter | ↻ | (financial year end date other than 30 June 1998)                       |
| Q | audit report contains a qualification       | ◆ | significant internal control issues noted                               |

## Results of the financial statement audits

### Australian Security Intelligence Organization

#### Qualification

The Attorney-General issued a declaration under subsection 70D(1) of the former *Audit Act 1901* that particular parts of the accounts of the Organization were to be treated as exempt accounts. This provision was still applicable pursuant to Clause 7 of Schedule 4 of the *Audit (Transitional and Miscellaneous) Amendment Act 1997*. The exempt accounts were not subject to audit by the Auditor-General. Therefore an opinion on the receipts and expenditure from the exempt accounts, and on the assets and liabilities related to those exempt accounts, was unable to be given by the Auditor-General.

The audit opinion on the financial statements for the year ended 30 June 1997 was qualified on the same basis. A certificate has been obtained under subsection 70D(5) of the *Audit Act 1901* that moneys allocated to those exempt accounts were properly expended and is included at Appendix 2 of this Report.

## **Internal control matters**

### **Australian Federal Police (AFP)**

#### *Asset management*

The audit noted significant scope for improved control of, and accountability for fixed assets. In particular, there was a need to improve asset registration procedures and perform regular asset reconciliations in order to ensure the accuracy and completeness of asset records. The AFP is implementing the recommendations made by the ANAO in order to ensure that asset details are correct prior to the transfer of the information to their new financial management information system.

### **Office of the Director of Public Prosecutions (DPP)**

#### *IT access control and security*

A number of access control weaknesses in computer security were noted for which the DPP has proposed remedial action. The audit revealed that, for a period of time, there was an excessive number of users with unrestricted access to the financial system.



## Communications, Information Technology and the Arts Portfolio

Reporting entity as at 30 June 1998	Audit	Opinion	Internal
Department of Communications, Information Technology and the Arts (formerly Department of Communications and the Arts)	E	30-Sep-98	◆
Artbank Trust Account	✓	30-Sep-98	
Australian Commercial Television Production Fund	✓	17-Sep-98	
National Cultural Heritage Fund	✓	17-Aug-98	
Regional Telecommunications Infrastructure Fund	✓	30-Sep-98	
Australia Council	✓	15-Sep-98	
Australia Foundation for Culture and the Humanities Limited	✓	30-Oct-98	
Australian Broadcasting Authority	✓	25-Aug-98	
Australian Broadcasting Corporation	✓	30-Sep-98	
Adelaide Symphony Orchestra Pty Limited	✓	01-Oct-98	
AIM Holdings Australia Pty Limited	✓	29-Sep-98	
AIM West Pty	✓	29-Sep-98	
Arndridge Pty Limited	✓	29-Sep-98	
Australian Information Media Pty Limited	✓	29-Sep-98	
Australian Television International Pty Limited ↻(31Jul 97)	✓	26-Nov-97	
Equipco Australia Pty Limited	✓	29-Sep-98	
Melbourne Symphony Orchestra Pty Limited	✓	15-Oct-98	
Music Choice Australia Pty Limited	✓	29-Sep-98	
Sydney Symphony Orchestra Holdings Pty Limited	✓	18-Sep-98	
Symphony Australia Holdings Pty Limited	✓	29-Sep-98	
The News Channel Pty Limited	✓	29-Sep-98	
West Australian Symphony Orchestra Holdings Pty Limited	✓	30-Oct-98	
Australian Communications Authority	✓	15-Sep-98	
Australian Film Commission	✓	17-Sep-98	
Australian Film Finance Corporation Limited	✓	21-Sep-98	
Australian Film Finance Corporation Superannuation Fund		↘	
Australian Film, Television and Radio School	✓	07-Sep-98	
Australian National Maritime Museum	✓	17-Sep-98	
Australian Postal Corporation	✓	27-Aug-98	
Bundanon Trust	✓	21-Oct-98	
Film Australia Limited	✓	28-Aug-98	
National Australia Day Council	✓	27-Aug-98	
National Gallery of Australia	✓	15-Sep-98	
National Gallery of Australia Foundation	Q	15-Sep-98	
National Library of Australia	✓	08-Sep-98	
National Museum of Australia	Q	14-Sep-98	
Office of Government Information Technology (formerly in Finance and Administration Portfolio)	✓	21-Aug-98	
Special Broadcasting Service Corporation	✓	24-Sep-98	
Multilingual Subscriber Television Limited	✓	24-Sep-98	
Telstra Corporation Limited (and its subsidiaries)	✓	26-Aug-98	

## Key:

- |   |   |   |   |
|---|---|---|---|
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| Q | audit report contains a qualification       | ◆ | significant internal control issues noted                               |

## Results of the financial statement audits

### Department of Communications, Information Technology and the Arts

#### *Emphasis of matter*

The financial statements of the former Department of Communications and the Arts, referred to the proposed sale of the National Transmission Network. Significant assets of the Department may be disposed of as a result of the proposed sale. The circumstances of the proposed sale were such that the ultimate outcome and financial impact could not be determined with an acceptable degree of reliability. As the financial impact of the sale was uncertain, the audit report on the financial statements included an emphasis of matter in relation to this issue.

### National Gallery of Australia Foundation - subsidiary of the National Gallery of Australia

#### *Qualification*

The Foundation raised funds through public donations and various other fund raising activities. The audit report on the Foundation's financial statements was qualified because the nature of the Foundation's fund raising activities was such that, even with appropriate controls, the completeness of revenue was not assured.

### National Museum of Australia

#### *Qualification*

The audit report was qualified because the Museum's financial statements reflected only those assets in the National Historic Collection acquired since 1 July 1992. These assets are only a very minor portion of the Museum's National Historic Collection. This represents a departure from the Guidelines for Financial Statements of Commonwealth Authorities and Australian Accounting Standards which require all assets to be recognised in the financial statements.

## **Internal control matters**

### **Department of Communications, Information Technology and the Arts**

A review of purchases revealed it was common for there to be no indication that the goods and services had been received prior to payment associated invoices. This increased the Department's exposure to the risks of incorrect payments and misappropriation of public moneys, as payment for goods and services may be made without them being received.

## Defence Portfolio

Reporting entity as at 30 June 1998	Audit Report	Opinion issued	Internal control
Department of Defence	✓	28-Sep-98	◆
Department of Veterans' Affairs	✓	22-Sep-98	◆
Lady Davidson Repatriation Hospital	✓	21-Sep-98	
Army and Air Force Canteen Service <sup>1</sup>	✓	18-Sep-98	
ADI Limited	✓	04-Sep-98	
Australian Military Forces Relief Trust Fund <sup>2</sup>	✓	31-Aug-98	
Australian War Memorial	✓	22-Sep-98	
Defence Housing Authority	✓	02-Oct-98	
Fairview Rise Joint Venture		✍	
Fairway Joint Venture		✍	
Holsworthy and Anzac Villages Redevelopment Joint Venture	✓	21-Oct-98	
Laverton Joint Venture	✓	13-Oct-98	
Wattle Grove Development Joint Venture	✓	16-Oct-98	
Defence Service Homes Insurance Scheme	✓	21-Sep-98	
Military Superannuation and Benefits Scheme	✓	24-Sep-98	
Royal Australian Air Force Veterans' Residences Trust Fund Board of Trustees No 1	✓	01-Sep-98	
Royal Australian Air Force Welfare Trust Fund No 3 <sup>2</sup>	✓	19-Aug-98	
Royal Australian Navy Relief Trust Fund <sup>2</sup>	✓	15-Sep-98	

<sup>1</sup> The balance date has been changed to 30 June, hence this reporting period was 17 months.

<sup>2</sup> The balance date has been changed to 30 June, hence this reporting period was 18 months.

### Key:

- |   |   |   |   |
|---|---|---|---|
| ✓ | audit report not modified                   | ✍ | signed financial statements not presented for audit by 24 November 1998 |
| E | audit report contains an emphasis of matter | ↻ | (financial year end date other than 30 June 1998)                       |
| Q | audit report contains a qualification       | ◆ | significant internal control issues noted                               |

## Internal control matters

### Department of Defence

Examination of the control systems within the Department indicated steps have been taken to improve internal control measures. Notwithstanding these improvements, the ANAO identified a number of issues that should be addressed by the Department.

The most significant of these issues was in relation to the Asset Management module which records the value of land, buildings and infrastructure for inclusion in the financial statements. It was noted that the maintenance of information in relation to acquisitions, disposals, depreciation and revaluations had not occurred throughout the year but was undertaken as part of the year-end

processes. This approach increases the risk of inaccurate or incomplete data.

The Department advised that policies and procedures are now being written to assist in timely processing of data throughout the year.

Other significant control weaknesses brought to the Department's attention included:

- ◆ a number of instances noted across the various Defence sites where officers processing financial transactions did not have appropriate delegations;
- ◆ there were a significant number of users who were able to modify information in the inventory system for which they had no responsibility or authority;
- ◆ current procedures allow users at particular sites to initiate new suppliers on the inventory system without approval by an independent officer; and
- ◆ security over maintenance of user access rights and change control within the civilian payroll system and the civilian resource budget management applications required improvement to reduce the risk of inappropriate access to information by users and ensure the integrity of the information held on those systems.

These weaknesses increase the risk that invalid or unauthorised changes may be processed to key departmental financial systems.

## Department of Veterans' Affairs

### *Quality assurance*

The Department introduced single officer processing in the income support and disabilities programs, and quality assurance procedures were implemented to reduce the risks associated with the resultant lack of segregation of duties. The audit indicated that, overall, the quality assurance procedures were operating effectively as a key internal safeguard against material irregularity or error in the financial statements. However, it was noted that the processes in some States could be strengthened in the following respects:

- ◆ more timely completion of quality assurance reviews in order to derive the greatest benefit from their conduct;
- ◆ improved documentation of follow-up actions taken by management in response to any critical errors or issues; and

- ♦ timely assessment of the business implications and financial risks of anomalies or errors identified by the reviews.

#### *Pension rate changes*

The development and testing of all pension rate changes were conducted by one person raising the risk that errors may not be detected. While there had been occasions where checking had been conducted by a second officer, this was not the standard procedure.

#### *Access rights*

An excessive number of users have 'super user' access privileges allowing them to amend system data, access rights or programs without going through standard control procedures. While the use of these privileges was logged, no procedures existed to regularly review this log and follow up unusual entries.

#### *Windows NT network*

The audit also concluded that there was an excessive number of users with administrator level access to the Window NT network. Improvements in monitoring issue and review of such access needed to be improved.

## Education, Training and Youth Affairs Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Education, Training and Youth Affairs <i>(formerly Department of Employment, Education, Training and Youth Affairs)</i>	✓	02-Oct-98	
Anglo-Australian Telescope Board	✓	03-Nov-98	
Australian National Training Authority	✓	18-Sep-98	
Australian National University ⌚(31 Dec 97)	Q	27-Mar-98	

**Key:**

- |   |   |
|---|---|
| ✓ audit report not modified                   | ✗ signed financial statements not presented for audit by 24 November 1998 |
| E audit report contains an emphasis of matter | ⌚ (financial year end date other than 30 June 1998)                       |
| Q audit report contains a qualification       | ◆ significant internal control issues noted                               |

## Results of the financial statement audits

### Australian National University

#### *Qualification*

The audit report provided on the University's 1997 financial statements was qualified on two issues; the method of accounting for unrealised gains in the increased value of assets of the Commonwealth Superannuation Account as revenue; and non-compliance with the requirements of *Statement of Accounting Concepts 4: Definition and Recognition of the Elements of Financial Statements (SAC 4)* and *Australian Accounting Standards on Profit and Loss or other Operating Statements (AAS 1)* in relation to bringing the land at Acton campus and Mount Stromlo to account.

#### *Investments*

The University departed from the requirements of the Australian Accounting Standards on *Profit and Loss or Other Operating Statements (AAS 1)* and *Accounting for the Revaluation of Non-Current Assets (AAS 10)*, in respect of the funds invested in the Commonwealth Superannuation Account to provide for the employer funded part of pensions paid by the Australian Government to University employees.

The University accounted as revenue (or expense) the changes in market value of assets of the Commonwealth Superannuation Account between the beginning and end of each period, irrespective of whether the gains (or losses) were realised. This treatment was consistent with the requirements of the Australian Accounting Standard on *Financial Reporting By Superannuation Plans (AAS 25)*. However, ANAO considered the Account was not a Superannuation

Plan in terms of the definition in AAS 25. The University believed that Standards AAS 1 and AAS 10 were not appropriate for the superannuation funds. The University maintained this Account, on conditions agreed by the Treasurer of the Commonwealth, to meet the employer's liability to the Commonwealth Superannuation Scheme.

The accounting treatment adopted by the University was contrary to the requirements of AAS 10 for revaluation of non-current assets in that the increment had not been taken to an investment revaluation reserve for unrealised gains. The treatment was also contrary to AAS 1 in that the financial result had been determined after accounting for revenue from unrealised gains in the Statement of Revenues and Expenses.

The effect of the departures from the standards was to increase the operating revenue for the year and understate reserves by \$35,662,000.

### *Land*

The land at Acton campus and Mount Stromlo was not brought to account. The University acknowledged that it controls and benefits from the use of the land. These sites are provided free of charge by lease in perpetuity and on restricted use for University activities imposed by the *Australian National University Act 1991* and the site lease purpose clause. As a result, the University believed that the value of the land could not be reliably measured and so could not be recognised.

The Guidelines require the University to have regard to the Statements of Accounting Concepts (SACs). However, the University has departed from the requirements of SAC 4 in not bringing the Acton campus and Mount Stromlo site to account. The ANAO consider that, as the value of this land could be reliably measured, these sites meet the recognition criteria for assets within SAC 4 and should have been accounted for as non-current assets within the Statement of Assets and Liabilities. The treatment was also contrary to AAS 1 in that the financial result was determined without bringing to account the land as an extraordinary item within the Statement of Revenues and Expenses.

## **Internal control matters**

No significant internal control matters were noted for this portfolio.



## Employment, Workplace Relations and Small Business Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Employment, Workplace Relations and Small Business <i>(formerly Department of Workplace Relations and Small Business)</i>	<b>E</b>	17-Sep-98	
Affirmative Action Agency	✓	08-Sep-98	
Australian Industrial Registry	✓	22-Sep-98	◆
Coal Mining Industry (Long Service Leave Funding) Corporation	<b>Q</b>	07-Oct-98	
Comcare Australia	✓	14-Sep-98	
QWL Corporation Pty Limited	✓	10-Sep-98	
Employment National Limited <i>(formerly in Employment Education and Youth Affairs Portfolio)</i>	✓	16-Oct-98	
Employment National (Administration) Pty Limited	✓	16-Oct-98	
Employment Services Regulatory Authority <i>(formerly in Employment Education and Youth Affairs Portfolio)</i>	✓	02-Oct-98	
Maritime Industry Finance Company Limited	✓	08-Oct-98	
National Occupational Health and Safety Commission	✓	07-Sep-98	
Stevedoring Industry Finance Committee	<b>E</b>	03-Sep-98	

## Key:

- |          |   |   |   |
|----------|---|---|---|
| ✓        | audit report not modified                   | ✗ | signed financial statements not presented for audit by 24 November 1998 |
| <b>E</b> | audit report contains an emphasis of matter | ↻ | (financial year end date other than 30 June 1998)                       |
| <b>Q</b> | audit report contains a qualification       | ◆ | significant internal control issues noted                               |

## Results of the financial statement audits

### Department of Employment, Workplace Relations and Small Business

#### *Emphasis of matter*

A review, which had been commissioned to assess the completeness and accuracy of levy payments, could not be finalised due to ongoing significant difficulties and uncertainties in the availability of stevedoring industry levy payment data. The Department proposed an alternative scheme of arrangement for the wind-up of the levy. However, these arrangements had not been finalised as at 30 June 1998. The effects, if any, of these arrangements on stevedoring receivables and creditors reported in the financial statements could not be determined.

## **Stevedoring Industry Finance Committee**

### *Emphasis of matter*

The Committee received levies collected on its behalf by the former Department of Workplace Relations and Small Business. While the audit opinion on the financial statements was unqualified, it drew attention to the following matter which continued from prior years.

A review of levy collection, initiated by the Department, was unable to assess the completeness and accuracy of levy payments. Accordingly, there remained significant uncertainty as to the amounts of levy income and receivables, or levy refunds and creditors, in the Committee's financial statements.

## **Coal Mining Industry (Long Service Leave Funding) Corporation**

### *Qualification*

The Coal Mining Industry (Long Service Leave Funding) Corporation is responsible for funding long service leave entitlements of people employed in the black coal industry in New South Wales, Queensland, Tasmania and Western Australia. Funds are raised by a levy on wages paid by employers and the employers are reimbursed for long service leave payments made to their employees.

The centralised method of financing long service leave is to fund the entitlement to long service leave, based upon continuous employment within the industry rather than service with any single employer. The determination of the actual liability for reimbursement of employers for long service leave payments is dependent upon receipt of an actuarial report on this liability.

The actuarial report was required to be prepared as at 30 June 1998 but as a result of difficulties in obtaining information on likely employment numbers in the coal industry for the period until the next actuarial review—due in 2000, was not available at the date the financial statements audit report was issued—7 October 1998. This constituted a limitation of scope on the audit and resulted in a qualified audit report on the financial statements as the ANAO was unable to form an opinion on the value of Provisions stated in the Corporation's Balance Sheet.

## Internal control matters

### Australian Industrial Registry

#### *Information Technology plans and policies*

The ANAO noted that the Information Technology Strategic Plan had expired and that a new plan had not been developed and implemented. Further, the Registry did not have information security policies and related standards and procedures nor a business continuity plan.

#### *Updating of asset register details and asset revaluations*

The audit noted that the Asset Register included a significant number of assets which were still in use and of value to Registry, yet were recorded at zero value. Registry management agreed with recommendations to update the asset register and conduct an asset revaluation.

# Environment and Heritage Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of the Environment and Heritage <i>(formerly Department of the Environment)</i>	✓	25-Sep-98	◆
National Heritage Trust of Australia Reserve ➡(31 Dec 98)		↘	
Australian Greenhouse Office	✓	25-Sep-98	
Australian Heritage Commission	✓	24-Sep-98	
Australian National Parks and Wildlife Fund	✓	07-Oct-98	
Great Barrier Reef Marine Park Authority	✓	26-Oct-98	
National Environment Protection Council Service Corporation	✓	20-Oct-98	

**Key:**

- ✓ audit report not modified
- E audit report contains an emphasis of matter
- Q audit report contains a qualification
- ↘ signed financial statements not presented for audit by 24 November 1998
- ➡ (financial year end date other than 30 June 1998)
- ◆ significant internal control issues noted

## Internal control matters

### Department of the Environment and Heritage

#### *Asset management*

The audit noted scope for improvement in asset management controls within the Department. In particular, there was a need to improve asset registration; asset stocktaking procedures; reconciliation of the asset register; and to reflect the transfer of IT assets from one location to another;. Asset valuations, including the capitalisation of internally generated software, also required improvement.

#### *Information Technology planning*

Recommendations were made in relation to the need for an IT strategy and business continuity plan, particularly as the Department becomes more reliant on information technology applications with the implementation of new financial and human resource systems.

#### *Accounting records*

The Antarctic Division of the Department was unable to demonstrate adequate control over attendance and leave recording.

There were opportunities to strengthen controls over transaction recording including the timely completion of reconciliations and the adequacy of evidence supporting credit card payments.

## Family and Community Services Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Family and Community Services <i>(includes former Department of Social Security)</i>	✓	07-Oct-98	
Commonwealth Service Delivery Agency (Centrelink) <i>(formerly Social Security Portfolio)</i>	✓	07-Oct-98	◆

**Key:**

- |   |   |
|---|---|
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| E audit report contains an emphasis of matter | ↻ (financial year end date other than 30 June 1998)                       |
| Q audit report contains a qualification       | ◆ significant internal control issues noted                               |

## Internal control matters

### Commonwealth Services Delivery Agency - Centrelink

#### *Asset recording*

Examination of the asset records revealed that the asset register could not support all asset related figures included in the financial statements. Centrelink was required to derive asset figures, using a reconciliation based on 1996-97 audited figures and closing balances sourced from stocktake figures.

## Finance and Administration Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Finance and Administration	✓	15-Oct-98	◆
AusInfo	✓	15-Oct-98	
Business Services Trust Account	✓	15-Oct-98	
Commonwealth Grants Commission	✓	22-Sep-98	
Removals Australia	✓	15-Oct-98	
VIP Transport	✓	15-Oct-98	
Australian Electoral Commission	✓	01-Oct-98	
Commonwealth Instalment Receipts Trustee Limited	✓	13-Oct-98	
Commonwealth Superannuation Administration (ComSuper)	Q	16-Oct-98	◆
Commonwealth Superannuation Scheme (CSS)	✓	29-Sep-98	
CSS/PSS Pty Limited	✓	15-Oct-98	
Office of Asset Sales and IT Outsourcing	✓	11-Sep-98	◆
Public Sector Superannuation Scheme (PSS)	✓	29-Sep-98	
Telstra Instalments Receipts Trustee Limited	✓	20-Aug-98	

**Key:**

- |   |   |
|---|---|
| ✓ audit report not modified                   | ✗ signed financial statements not presented for audit by 24 November 1998 |
| E audit report contains an emphasis of matter | ↻ (financial year end date other than 30 June 1998)                       |
| Q audit report contains a qualification       | ◆ significant internal control issues noted                               |

## Results of the financial statement audits

### Commonwealth Superannuation Administration (ComSuper)

#### Qualification

The audit report for ComSuper was qualified because ComSuper was unable to determine the amounts due from approved authorities for superannuation pay-as-you-go contributions and emerging costs contributions in 1997-98. This placed a limitation on the scope of the audit such that an opinion could not be formed on whether the total amount of receipts for superannuation pay-as-you-go contributions by general government enterprises and public trading enterprises, and emerging costs contributions by approved authorities, brought to account in the financial statements differs to a material extent from the total amount of superannuation contributions legally due to the Commonwealth. This limitation also applied in respect of 1996-97.

## Internal control matters

### Department of Finance and Administration

The Department is in the process of implementing a new financial management system to support its financial operations. The decision to implement this system was in recognition that the systems and processes carried over from the former Departments of Finance and Administrative Services in October 1997 were incapable of supporting the longer term financial management requirements of the amalgamated Department. The amalgamation meant that the Department had many disparate systems and processes in place which led to inefficiencies and the risk of inconsistent financial practices. Information produced by these systems was cash based requiring a resource intensive, manually driven process to convert it to a form suitable for accrual reporting.

Matters referred to the Department for action as a result of the audit included:

- ◆ the need for the Overseas Property Group to conduct reconciliations in a timely manner throughout the year so as to ensure the veracity of information used for financial management purposes;
- ◆ the need for revised procedures in relation to the maintenance of employee records; and
- ◆ inconsistencies and errors in redundancy payments made as a result of the Department adopting differing interpretations of relevant Commonwealth guidelines together with subsequent revision to the advice provided in the guidelines. The Department is awaiting the outcome of legal action currently before the Supreme Court of Tasmania before deciding on appropriate action in relation to this matter.

### Commonwealth Superannuation Administration (ComSuper)

#### *IT systems controls*

The audit identified a number of key system security parameters and monitoring functions which should be implemented, as well as improvements required in the maintenance of user access and password controls. A number of the areas for improvement are a high priority as they relate to the risk of unauthorised persons gaining access to systems.

### *Reconciliations*

While contributions and benefits reconciliations are performed annually, it was recommended that ComSuper implement procedures to ensure all key reconciliations, including member-to-asset reconciliations, are performed more regularly and all reconciling items are understood and adjusted.

ComSuper advised it is addressing these issues through a re-organisation of the functions and staffing of the Finance and Accounts area and through the development of necessary computer systems enhancements to facilitate more regular reconciliation of information required for financial statements purposes.

## **Office of Asset Sales and IT Outsourcing**

### *Contingencies and guarantees*

The audit identified that improvements in the internal systems for monitoring and recording contingent liabilities within an appropriate risk management framework were required.

### *Accounting records*

The audit recommended the Office develop and maintain a comprehensive register of bank accounts and ensure these accounts are reconciled regularly. Improvements were also required in documentation and controls surrounding the processing of payments to minimise the potential for invalid or unauthorised payments. Further, the Office needs to ensure that accounting records are updated and reconciled regularly throughout the year to ensure that information used for management reporting purposes is accurate and to facilitate preparation of the financial statements.



## Foreign Affairs and Trade Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Foreign Affairs and Trade	✓	09-Oct-98	
AusAID	✓	14-Sep-98	
Australia-Japan Foundation	✓	15-Sep-98	
Australian Centre for International Agricultural Research	✓	30-Sep-98	
Australian Secret Intelligence Service	Q	14-Aug-98	◆
Australian Trade Commission	✓	27-Aug-98	◆
Export Finance and Insurance Corporation (formerly in Industry Sciences and Tourism Portfolio)	E	18-Sep-98	

Key:

- |   |   |
|---|---|
| ✓ audit report not modified                   | ✗ signed financial statements not presented for audit by 24 November 1998 |
| E audit report contains an emphasis of matter | ☞ (financial year end date other than 30 June 1998)                       |
| Q audit report contains a qualification       | ◆ significant internal control issues noted                               |

## Results of the financial statement audits

### Australian Secret Intelligence Service

#### Qualification

The Minister for Foreign Affairs issued a declaration under subsection 70D(1) of the former *Audit Act 1901*, that particular parts of the accounts of the Service are to be treated as exempt accounts. This provision is still applicable pursuant to Clause 7 of Schedule 4 of the *Audit (Transitional and Miscellaneous) Amendment Act 1997*.

These exempt accounts are not subject to audit by the Auditor-General. The revenues, expenses, assets and liabilities related to these exempt accounts are not included in the financial statements. As a result, an audit opinion was unable to be formed on the receipts to and expenditure from the exempt accounts, and the assets and liabilities related to those exempt accounts. The audit opinion on the financial statements for the year ended 30 June 1997 was qualified on the same basis. A certificate has been obtained from the Minister confirming that moneys allocated to those exempt accounts were properly expended.

A copy of the exemption certificate is included in Appendix 2.

## **Export Finance and Insurance Corporation**

### *Emphasis of matter*

The financial statements of the Corporation referred to the Corporation's exposure to Indonesia amounting to \$1,446 million in export finance loans. \$1,366 million of the exposure was carried on the National Interest Account. There was significant inherent uncertainty in the Indonesian economic situation which gave rise to the possibility of a variation in the future carrying value of the loans.

## **Internal control matters**

### **Australian Secret Intelligence Service**

The ANAO recommended that the Service develop a Disaster Recovery Plan to outline action to be taken should the computer centre or its contents be destroyed or disrupted. The plan would aim to minimise disruption resulting from these events and ensure that critical business functions continue until the computer system was operational.

### **Australian Trade Commission**

The audit highlighted a number of initiatives taken by the Commission to improve previously identified weaknesses in the control structure supporting its financial management system. Enhancements are considered necessary in relation to the IT access security framework to ensure access privileges are not excessive and provide an adequate segregation of duties. Without these enhancements, there is an increased risk that the information held on these systems may be compromised.

## Health and Aged Care Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Health and Aged Care <i>(formerly Department of Health and Family Services)</i>	✓	13-Oct-98	◆
Commonwealth Rehabilitation Service	✓	30-Sep-98	
Therapeutic Goods Administration	✓	23-Sep-98	
Aged Care Standards and Accreditation Agency Limited	✓	06-Oct-98	
Australian Hearing Services	✓	08-Sep-98	
National Hearing Aids Systems Pty Limited	✓	24-Sep-98	
Australian Institute of Family Studies	✓	10-Sep-98	
Australian Institute of Health and Welfare	✓	21-Sep-98	
Health Insurance Commission	✓	17-Sep-98	
Health Services Australia Limited	✓	28-Sep-98	
Medibank Private Limited	✓	17-Sep-98	
Nuclear Safety Bureau	✓	22-Sep-98	
Private Health Insurance Administration Council	✓	21-Aug-98	
Private Health Insurance Ombudsman	✓	28-Jul-98	
Professional Services Review	✓	21-Sep-98	

## Key:

- |   |   |
|---|---|
| ✓ audit report not modified                   | ✗ signed financial statements not presented for audit by 24 November 1998 |
| E audit report contains an emphasis of matter | ↻ (financial year end date other than 30 June 1998)                       |
| Q audit report contains a qualification       | ◆ significant internal control issues noted                               |

## Internal control matters

### Department of Health and Aged Care

The audit identified opportunities for improvement in the following areas:

- ◆ controls to eliminate duplicate grant payments being processed and paid; and
- ◆ the regularity and adequacy of reconciliation processes between some subsidiary payment systems and the Department's financial management information system.

# Immigration and Multicultural Affairs Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Immigration and Multicultural Affairs	Q	20-Oct-98	◆

**Key:**

- ✓ audit report not modified
- E audit report contains an emphasis of matter
- Q audit report contains a qualification
- ✗ signed financial statements not presented for audit by 24 November 1998
- ↻ (financial year end date other than 30 June 1998)
- ◆ significant internal control issues noted

## Results of the financial statement audits

### Department of Immigration and Multicultural Affairs

*Qualification*

The audit report for the Department was qualified because the Department’s asset register could not be relied upon as a complete and accurate record of Infrastructure, Plant and Equipment. As a result, an opinion was unable to be formed on all items associated with infrastructure, plant and equipment in the Department’s financial statements.

The weaknesses identified in relation to Infrastructure, Plant and Equipment are further discussed below.

## Internal control matters

### Department of Immigration and Multicultural Affairs

*Infrastructure, plant and equipment*

The audit identified significant scope for improved control of and accountability for infrastructure, plant and equipment. Although a partial stocktake was undertaken in 1997-98 there had been a breakdown in procedures for the recording and control of assets. In particular, there was a need to improve asset registration, disposal and stocktake procedures to ensure the accuracy and completeness of asset records.

Failure to properly maintain the assets register will continue to create difficulties for departmental stocktakes and identification of asset balances and movements for financial reporting and management control purposes.

### *Ledger reconciliations*

Regular reconciliations of the Department's systems to the Commonwealth's central ledger were not carried out during the year. These reconciliations are fundamental for ensuring the integrity of information maintained on the systems and used in the generation of management reports throughout the year.

### *Revenue*

Prior years' audits have identified there was an increased risk that revenue may not be completely recorded in the general ledger. The Department proposed to introduce management controls to address this issue. The current audit noted these controls had not been established to a point where they provided an acceptable level of assurance that the revenue recorded in the ledgers was complete and accurate. Subsequent audit work, together with progressive management actions, provided sufficient evidence to support the revenue figures in the financial statements.

The ANAO was also advised of fraud involving a significant amount of money. The Department has reviewed and strengthened internal controls in this area.

### *Offshore revenue*

Audits at selected overseas posts identified significant control weaknesses over the financial offshore revenue system. Recommendations were made to strengthen controls over reconciliations, physical security and processing procedures. These controls are fundamental in ensuring that all cash received was receipted and accurately recorded in the financial systems.

### *Accrual accounting*

The Department had not established mechanisms to ensure that year end, offshore financial transactions were captured in the correct accounting period. Full accrual accounting requires that the financial records reflect the full operational activities for the accounting period. It was recommended that the Department analyse offshore activities and implement appropriate mechanisms to capture relevant financial information.

### *Consolidated Revenue Fund*

The audit noted an instance where \$192,200 of revenue had not been credited to the Consolidated Revenue Fund, rather it was offset against expenditure. Although this transaction was not material for

the scope of the financial statement audit opinion, this represents a breach of Section 81 of the Constitution.

## Industry, Science and Resources Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Industry, Science and Resources <i>(formerly Department of Industry, Science and Tourism)</i>	✓	12-Oct-98	
Australian Government Analytical Laboratories	✓	12-Oct-98	
Australian Surveying and Land Information Group	✓	12-Oct-98	
Bureau of Tourism Research	✓	12-Oct-98	
Australian Industry Development Corporation		✍	
Australian Institute of Marine Science	✓	07-Sep-98	
Australian Marine Science and Technology Limited	✓	25-Sep-98	
Australian Nuclear Science and Technology Organisation	✓	07-Sep-98	
Australian Sports Commission	✓	16-Sep-98	
Australian Sports Foundation	✓	28-Aug-98	
Australian Sports Drug Agency	✓	11-Sep-98	
Australian Technology Group Limited	✓	30-Sep-98	
Australian Tourist Commission	✓	02-Sep-98	
Commonwealth Scientific and Industrial Research Organisation	✓	07-Sep-98	
IP Australia	✓	11-Sep-98	
Joint Coal Board <i>(formerly in Primary Industries and Energy Portfolio)</i>	✓	17-Sep-98	
Coal Mines Insurance Pty Limited	✓	17-Sep-98	
National Aeronautics and Space Administration ➡(30 Sep 97)	✓	07-May-98	
National Standards Commission	✓	21-Aug-98	
Science and Industry Endowment Fund	✓	31-Aug-98	
Snowy Mountains Hydro-electric Authority <i>(formerly in Primary Industries and Energy Portfolio)</i>	E	10-Sep-98	

### Key:

- |   |   |
|---|---|
| ✓ audit report not modified                   | ✍ signed financial statements not presented for audit by 24 November 1998 |
| E audit report contains an emphasis of matter | ➡ (financial year end date other than 30 June 1998)                       |
| Q audit report contains a qualification       | ◆ significant internal control issues noted                               |

## Results of the financial statement audits

### Snowy Mountains Hydro-electric Authority

#### *Emphasis of matter*

The Commonwealth, New South Wales and Victorian Governments have agreed upon a set of key principles for reform of the Snowy Mountain Hydro-electric Scheme which will ultimately lead to the corporatisation of the scheme. The likely terms of the proposed corporatisation, including the settlement of the superannuation provision are uncertain and are being negotiated. Accordingly, the effects if any of the proposed corporatisation on the financial statements cannot be determined.

## Internal control matters

No significant internal control matters were noted in this Portfolio.

## Parliamentary Departments

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of the Senate	✓	08-Sep-98	
Department of the House of Representatives	✓	31-Aug-98	
Department of the Parliamentary Library	✓	03-Aug-98	
Department of the Parliamentary Reporting Staff	✓	21-Sep-98	
Joint House Department	✓	22-Sep-98	

Key:

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

⤵ signed financial statements not presented for audit by 24 November 1998  
(financial year end date other than 30 June 1998)

◆ significant internal control issues noted

## Internal control matters

No significant internal control matters were noted in these departments.



## Prime Minister and Cabinet Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of the Prime Minister and Cabinet	✓	17-Sep-98	
Aboriginals Benefit Reserve	✓	24-Sep-98	
Aboriginal and Torres Strait Islander Education and Cultural Advancement Trust	✓	01-Oct-98	
Aboriginal and Torres Strait Islander Land Fund Reserve	✓	14-Oct-98	
Aboriginal and Torres Strait Islander Commercial Development Corporation	✓	15-Oct-98	
Barra Base Holdings Pty Limited	✓	15-Oct-98	
Barra Base Unit Trust	✓	15-Oct-98	
Bonner House Trust	✓	15-Oct-98	
CDC Investments (Tasmanian Aquaculture) Pty Limited	✓	15-Oct-98	
CDC Nominees (Cairns Art) Pty Limited	✓	15-Oct-98	
Cairns Art Joint Venture Participation Trust	✓	15-Oct-98	
CDC Nominees (Ceduna) Pty Limited	✓	15-Oct-98	
Ceduna Joint Venture Participation Trust	✓	15-Oct-98	
CDC Nominees (Dandenong) Pty Limited	✓	15-Oct-98	
Sunwood Joint Venture Participation Trust	✓	15-Oct-98	
CDC Nominees (GPI Ferry) Pty Limited	✓	15-Oct-98	
Palm Island Ferry Shipping Trust	✓	15-Oct-98	
CDC Nominees (GRC) Pty Limited	✓	15-Oct-98	
Gordon River Cruises Participation Trust	✓	15-Oct-98	
CDC Nominees (McArthur River) Pty Limited	✓	15-Oct-98	
CDC Nominees (McArthur River Shipping) Pty Limited	✓	15-Oct-98	
Carpentaria Shipping Trust	✓	15-Oct-98	
CDC Nominees (Mt Todd) Pty Limited	✓	15-Oct-98	
Mt Todd Joint Venture Participation Trust	✓	15-Oct-98	
CDC Nominees (QBH) Pty Limited	✓	15-Oct-98	
Queensland Bulk Haulage Participation Trust	✓	15-Oct-98	
CDC Nominees (South East Sydney) Pty Limited	✓	15-Oct-98	
South East Sydney Trust	✓	15-Oct-98	
CDC Nominees (TCTP) Pty Limited	✓	15-Oct-98	
TCTP Participation Trust	✓	15-Oct-98	
CDC Nominees (WWLS) Pty Limited	✓	15-Oct-98	
WWLS Participation Trust	✓	15-Oct-98	
CDC Services Pty Limited	✓	15-Oct-98	
Ngarrindjeri Community Orchard Pty Limited	✓	15-Oct-98	
Tasmanian Investment Unit Trust	✓	15-Oct-98	
Torres Strait Islander Investment Corporation Pty Limited	✓	15-Oct-98	
Torres Strait Islander Investment Trust	✓	15-Oct-98	
Aboriginal and Torres Strait Islander Commission	✓	14-Oct-98	◆
Bilioara Pty Limited			
Bilioara Unit Trust			
Morr Morr Pastoral Co Pty Limited	✓	11-Sep-98	
Yepereny Pty Limited	✓	09-Sep-98	

*continued over...*

## Prime Minister and Cabinet Portfolio (continued)

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Aboriginal Hostels Limited	✓	02-Sep-98	
Australian Institute of Aboriginal and Torres Strait Islander Studies	✓	22-Sep-98	
Central Land Council	✓	23-Oct-98	
Indigenous Land Corporation	✓	10-Sep-98	
Northern Land Council	✓	13-Oct-98	
Office of National Assessments	✓	07-Sep-98	
Office of the Commonwealth Ombudsman	✓	25-Aug-98	
Office of the Inspector-General of Intelligence and Security	✓	01-Sep-98	
Office of the Official Secretary to the Governor-General	✓	18-Aug-98	
Public Service and Merit Protection Commission	✓	31-Aug-98	
Torres Strait Regional Authority	✓	11-Sep-98	

### Key:

- |   |   |   |   |
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| Q | audit report contains a qualification       | ◆ | significant internal control issues noted                               |

## Internal control matters

### Aboriginal and Torres Strait Islander Commission (ATSIC)

#### *Currency and adequacy of insurance covers for borrowers*

The audit noted a high proportion of loans under the Housing and Enterprise Loan programs did not have current and/or adequate insurance. ATSIC has advised that it would be implementing a new loans management system to provide enhanced insurance tracking, notification and reporting capabilities.

#### *Delays in finalisation of acquittal of grants*

While ATSIC has achieved a significant reduction in the number of grants not acquitted, there remains an unsatisfactory number not acquitted. ATSIC accepted a recommendation to devise a program to resolve the long outstanding grants not acquitted and to ensure that grant acquittals remain up to date and are no older than two years.

#### *Delays in receiving and analysing periodic financial statements*

The audit noted that periodic financial statements from grant recipients were not received within the time frames specified in the grant agreements, however it is acknowledged that the receipt of periodic financial statements is beyond the direct control of the Commission.

Some instances were also noted where the analysis of the statements was not completed in a timely manner. ATSIC agreed with the recommendation that the analysis of statements and the reporting of unsatisfactory results to senior management be carried out in a timely manner. ATSIC also advised of initiatives which address the timeliness of submission of financial statements by grantees.

## Transport and Regional Services Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of Transport and Regional Services <i>(formerly Department of Transport and Regional Development)</i>	✓	02-Oct-98	◆
Airservices Australia	✓	24-Aug-98	
Albury-Wodonga Development Corporation	✓	26-Oct-98	
ANL Limited		⧸	
ANL Searoad Holdings Pty Limited		⧸	
ANL Maritime Service Limited		⧸	
Australian Transport Technology Solutions Limited		⧸	
Marine Management Services Pty Limited		⧸	
Quality Container Management Pty Limited		⧸	
Rendsburgh Pty Limited		⧸	
Trans-United Pty Limited		⧸	
Australian Maritime College ➡(31 Dec 97) <i>(formerly Workplace Relations and Small Business Portfolio)</i>	✓	27-Mar-98	
Australian Maritime College Search Limited ➡(31 Dec 97)	✓	27-Mar-98	
Australian Maritime Safety Authority	✓	25-Sep-98	
Australian National Railways Commission	Q	09-Oct-98	
AV Super Pty Limited		⧸	
Civil Aviation Safety Authority	✓	03-Sep-98	
Federal Airports Corporation	✓	04-Sep-98	
Airport Fine Foods Pty Limited	✓	04-Sep-98	
Airports Australia Pty Limited	✓	04-Sep-98	
FAC Investments Pty Limited	✓	04-Sep-98	
FAC Superannuation Fund Pty Limited	✓	04-Sep-98	
National Capital Authority	✓	29-Sep-98	
National Rail Corporation Limited	✓	25-Sep-98	
National Road Transport Commission	✓	20-Aug-98	

**Key:**

- ✓ audit report not modified
- E audit report contains an emphasis of matter
- Q audit report contains a qualification
- ⧸ signed financial statements not presented for audit by 24 November 1998
- ➡ (financial year end date other than 30 June 1998)
- ◆ significant internal control issues noted

## Results of the financial statement audits

### Australian National Railways Commission

#### Qualification

The financial statements of the Commission were qualified as a result of breach of the Australian Accounting Standards AAS23 *Set off and Extinguishment of Debt*.

In 1996-97, the Australian National Railways Commission reduced the value of its recorded liabilities (debt) by approximately \$734 million following advice that the Commonwealth would assume these liabilities. At 30 June 1998, the Minister for Finance and Administration, pursuant to section 67AH(1) of the *Australian National Railways Commission Sale Act 1997*, had taken action necessary to assume only \$453 million of that amount.

Australian Accounting Standards allow debt to be removed from the financial statements only when the legal liability for the debt has been transferred to another party. The audit report on the Commission's financial statements was qualified as a result of the failure of the Commission to report as a liability the part of the debt not yet assumed by the Commonwealth.

## **Internal control matters**

### **Department of Transport and Regional Services**

The audit noted salary and general ledger reconciliations to ensure the accuracy and completeness of records processed were not being completed in a timely manner. The Department has taken action to rectify this issue.

## Treasury Portfolio

Reporting entity as at 30 June 1998	Audit report	Opinion issued	Internal control
Department of the Treasury	✓	15-Oct-98	
Royal Australian Mint	✓	11-Sep-98	
Australian Bureau of Statistics	✓	23-Sep-98	
Australian Competition and Consumer Commission	✓	18-Aug-98	
Australian Customs Service <i>(formerly in Industry, Science and Tourism Portfolio)</i>	✓	17-Sep-98	◆
Australian Prudential Regulation Authority	✓	11-Sep-98	
Australian Securities and Investments Commission	✓	11-Sep-98	
Australian Taxation Office	✓	15-Sep-98	◆
Australian Valuation Office	✓	15-Oct-98	
Companies and Securities Advisory Committee	✓	30-Sep-98	
Economic Planning and Advisory Commission	✓	08-Sep-98	
Housing Loans Insurance Corporation	✓	02-Sep-98	
Insurance and Superannuation Commission	✓	14-Sep-98	
National Competition Council	✓	28-Aug-98	
Productivity Commission	✓	08-Sep-98	
Reserve Bank of Australia	✓	06-Aug-98	
Reserve Bank of Australia Officers' Superannuation Fund	✓	01-Oct-98	

Key:

- |   |   |   |   |
|---|---|---|---|
| ✓ | audit report not modified                   | ✗ | signed financial statements not presented for audit by 24 November 1998 |
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| Q | audit report contains a qualification       | ◆ | significant internal control issues noted                               |

## Internal control matters

### Australian Customs Service

#### *Risk management*

Prior year audits had noted that Customs was making progress with the development and implementation of a risk management framework considered to provide a good foundation for the successful transition to a mature risk managed environment.

This year's audit concluded that Customs was continuing to make sound progress in formal risk management. Amongst other things it was considered that Customs had developed a comprehensive framework for risk management across core activities and had successfully implemented a program of activities to cover off key risks. It was considered that adequate assurance over key financial risks was being achieved.

### *Information Technology*

The audit found significant steps were made in 1997-98 towards addressing matters previously raised regarding information technology controls. Two areas were noted where further progress was required:

- ◆ the revised Information Security Policy to replace the 1992 version was still awaiting endorsement; and
- ◆ while progress has been made on application programmers having inappropriate access, no logging exists whereby the activities of programmers are regularly monitored and revised in a timely manner.

## **Australian Taxation Office**

### *Revenue recognition*

During the audit, advice was sought from accounting experts concerning the revenue recognition policy used by the ATO. The information received was similar to previous professional advice. The advice addressed the question of when taxation liability arises and when does the ATO exercise control over transactions and how are these measured. The concepts of event, control and measurement are central to the definition of revenue. The opinion confirmed that the point of control for revenue is when the government has the right to collect the tax. As a result of this advice, the ATO changed the revenue recognition point of some types of taxes and a reduction of \$1.93 billion was made to accrued revenue.

### *Risk management*

To ensure the completeness of taxation revenue, risk management practices were examined by ANAO during the audit. This involved evaluating the effectiveness of the control structures in place to ensure that the ATO achieves its objectives. The risk management framework encompasses the identification of risks associated with individual programs and with individual client groups within programs; risk rating of client groups; allocation of resources based on risk rating; and reporting on results of programs. The ANAO considers that the risk management program conducted by the ATO is sound and that reasonable controls exist to limit the exposure to incomplete receipts.

*Application security*

Last year's audit concluded that controls in place for access to the ATO computer applications were inadequate. A key recommendation was that access to computer applications should only be granted to enable the performance of current work requirements. This year's audit concluded there remained scope for improvement in the ATO access control, notably in the area of review and approval of access to production systems.

*Application stability*

There has been a significant increase in the number of program failures in the scheduled production tasks during 1997-98. This trend can have serious implications for the ATO's operations. The process of recovering and restarting failed programs significantly increases the risk of data error being introduced as a result of the failures or during the restart/recovery process.

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Canberra ACT  
8 December 1998

P. J. Barrett  
Auditor-General



# Appendices

## Appendix 1

### Accounting and Auditing Framework

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This appendix outlines the Commonwealth's financial reporting and auditing framework.

#### The financial reporting framework

The Commonwealth public sector is made up of a number of types of entities, each of which has distinct financial reporting requirements.

#### Commonwealth of Australia

Section 55 of *the Financial Management and Accountability Act 1997* requires the Finance Minister to prepare annual financial statements for the Commonwealth of Australia. These financial statements are a general purpose financial report consolidating the financial activities of all agencies, authorities, companies and other entities controlled by the Commonwealth.

The financial statements for the year ended 30 June 1997 were published by the Department of Finance and Administration in February 1998. The results of the audit of those financial statements were reported to Parliament in *The Auditor-General Audit Report No. 6 Audit Activity Report : January to June 1998*.

The financial statements for the year ended 30 June 1998 were under completion at the time of preparation of this report.

#### Commonwealth Agencies

Commonwealth Agencies are those entities which operate on the Commonwealth Public Account under provisions of *the Financial Management and Accountability Act 1997* including Departments of State, Parliamentary Departments and prescribed Agencies.

The Act requires the Chief Executives to prepare financial statements for their Agencies and designated business operations in accordance with the Finance Minister's Orders. These Orders require compliance with Australian Accounting Standards and Accounting Guidance Releases issued by the Australian Research Foundation and Consensus Views of the Urgent Issues Group.

## **Commonwealth Authorities and subsidiaries**

Commonwealth authorities are statutory bodies created by the Parliament to perform specific functions. Authorities operate under their own enabling legislation and generally must comply with provisions of the *Commonwealth Authorities and Companies Act 1997*.

The Act requires the Directors of authorities prepare financial statements in accordance with the Finance Minister's Orders. These Orders require compliance with Australian Accounting Standards and Accounting Guidance Releases issued by the Australian Research Foundation and Consensus Views of the Urgent Issues Group.

The Directors of a Commonwealth authority must ensure subsidiaries of the company prepare financial statements in accordance with relevant legislation and *the Commonwealth Authorities and Companies Act 1997*.

## **Commonwealth companies and subsidiaries**

Commonwealth companies are companies in which the Commonwealth has a controlling interest. Commonwealth companies operate and prepare financial statements under the Corporations Law and provisions of the *Commonwealth Authorities and Companies Act 1997*.

The Directors of a Commonwealth company must ensure subsidiaries of the company prepare financial statements in accordance with relevant legislation and *the Commonwealth Authorities and Companies Act 1997*.

## **Other entities**

The ANAO also audits the financial statements of other entities controlled by the Commonwealth. These consist primarily of trusts or joint ventures entered into by Commonwealth bodies.

## **Financial statement audit Scope**

The Chief Executives of Agencies, and the directors of governing bodies of other entities, are responsible for the records, controls, procedures and organisation which underlie the information in the financial statements and the preparation of these statements. The independent audit of the financial statements, conducted in order to

express an opinion on them, involves review of, among other matters, the above factors where their effect on the financial statements could be material.

The audits are conducted in accordance with ANAO Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures include examination, on a test basis, of evidence supporting the amounts and other information in the financial statements, and evaluation of accounting policies and significant accounting estimates. These procedures are undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly.

Whilst entity control structures are evaluated as an integral part of the audit process, only those systems and controls on which it is intended to place reliance for the purpose of determining audit procedures leading to audit opinions on the financial statements are evaluated in detail. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include a detailed evaluation of systems and internal controls.

The audits are not required to search specifically for fraud and therefore they cannot be relied upon to disclose all such matters. However, the audits are planned so that there is a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities, including fraud.

## **The audit report**

The audit report on the financial statements is a statement of the auditor's opinion on whether the statements present fairly the entity's financial position, the results of its financial operations and its cash flows in accordance with Australian Accounting Standards, other mandatory professional reporting requirements and statutory requirements.

If the auditor is not satisfied the financial statements are fairly presented, the audit report is modified stating the reasons why.

A qualified audit report is given when the auditor is not satisfied that the financial statements are fairly stated. Audit reports may be qualified due to a disagreement between the auditor and management of the entity on the application of accounting standards

or other reporting requirements, or where the scope of the audit work needed to form an opinion has been limited in some way.

An opinion containing an 'emphasis of matter' is used to draw attention to a matter that is relevant to the readers of the financial statements, but is not of such a nature that it affects an unqualified audit report being issued. In the majority of cases, an 'emphasis of matter' relates to inherent uncertainty in an aspect of the financial statements.

## **Assurance and Control Assessment Audits**

Assurance and control assessment audits are undertaken to provide positive assurance that entities have strong controls operating in their financial systems. They also examine legal, administrative compliance and probity and propriety matters.

These audits are typically focussed on systems or controls which are not examined as part of the financial statement audit process either because the systems are not material in the context of the entities' financial statements or because alternative audit procedures are adopted in verification of the financial statements.

The audits are conducted in accordance with the ANAO Auditing Standards including Australian Auditing Standards.

Results of these audits are reported to individual entities and their Ministers and are summarised in this Report.

## Appendix 2

### Exemption Certificates

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insert here copies of exemption certificates for ASIO and ASIS



# Series Titles

## Titles published during the financial year 1998-99

Audit Report No.1 Performance Audit <i>Corporate Governance Framework</i> Australian Electoral Commission	Audit Report No.9 Performance Audit <i>Accountability and Performance Information</i> Australian Sports Commission
Audit Report No.2 Performance Audit <i>Commercial Support Program</i> Department of Defence	Audit Report No.10 Performance Audit <i>Sale of One-third of Telstra</i>
Audit Report No.3 Performance Audit - Follow-up <i>Assessable Government Industry Assistance</i> Australian Taxation Office	Audit Report No.11 Performance Audit <i>OGIT and FedLink Infrastructure</i> Office of Government Information Technology
Audit Report No.4 Performance Audit <i>Client Service Initiatives</i> Australian Trade Commission	Audit Report No.12 Performance Audit <i>Taxation Reform</i> Community Education and Information Programme
Audit Report No.5 Performance Audit <i>Commonwealth Agencies' Security Preparations for the Sydney 2000 Olympics</i>	Audit Report No.13 Performance Audit <i>Aboriginal and Torres Strait Islander Health Program</i> Department of Health and Aged Care
Audit Report No.6 Audit Activity Report <i>Audit Activity Report: January to June 1998</i> Summary of Outcomes	Audit Report No.14 Performance Audit <i>Prescribed Payments Scheme</i> Australian Taxation Office
Audit Report No.7 Performance Audit <i>Management of the Implementation of the New Employment Services Market</i> Department of Employment, Education, Training, and Youth Affairs	Audit Report No.15 Performance Audit <i>Postal Operations</i> Australian Customs Service
Audit Report No.8 Performance Audit <i>Safeguarding Our National Collections</i>	Audit Report No.16 Performance Audit <i>Aviation Security in Australia</i> Department of Transport and Regional Services
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