

The Auditor-General

Audit Report No.21

1999–2000

**Audits of the Financial Statements
of Commonwealth Entities for the
Period Ended 30 June 1999**

[Summary of Results](#)

Australian National Audit Office

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GPO Box 707, Canberra ACT 2601.

Canberra ACT
9 December 1999

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 1999*.

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



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 public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Foreword

This Report brings together the results of the audits of the financial statements of all Commonwealth entities, including the Commonwealth Government of Australia consolidated financial statements, for the period ended 30 June 1999.

It complements my mid-year Report, Audit Report No.10 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the period ended 30 June 1999*, which covered significant risk and control issues identified during the interim phase of the above audits.

A range of key issues were identified in the final phase of the audits which the Australian National Audit Office (ANAO) raised with the management of respective reporting entities. The issues were common to many entities, particularly to agencies, and included further internal control matters relating to the systems and processes used by entities to prepare their annual financial statements and a range of accounting and disclosure matters that warranted attention.

In my equivalent Report last year, I mentioned the need for improvement in the process of preparing financial statements. The ANAO's assessment for 1998–99 is that improvement is still required in the management of the preparation process across many agencies. The most significant issue is lack of adherence to agreed financial statement preparation and completion timetables. It was pleasing to observe that some agencies had made significant improvements, particularly through improved commitment and stewardship from both management and their audit committees. However, other agencies would benefit from affording greater attention to the preparation process.

The effect of the financial management and reporting reforms will continue during 1999–2000. Devolved banking, the discontinuance of fund accounting, full accrual monthly and quarterly reporting, the changed basis of preparation of the Government's annual budget, further changes to the Finance Minister's Orders, other financial reporting regulatory requirements and more commercial approaches to business activities, will all have considerable impacts for financial managers, not least of all in their financial systems which are the basis of their reporting.

As a consequence, Chief Executive Officers and their management teams will need to pay particular attention to the management and reporting of their assets and liabilities, revenues, expenses and cash flows. In addition, the need to focus on achieving more condensed reporting timetables and more pro-active management of accounting and reporting issues will be heightened. Entities should now be working towards

utilising their newly implemented financial systems to produce quality financial reports on a regular and timely basis. More extensive use of better financial information, regular review of financial positions and dealing with the resultant impacts on business strategies and decisions will facilitate good corporate governance. Practices such as these, together with more strategic management, sound risk management and robust internal controls will greatly assist in the achievement of the outputs and outcomes expected from the financial and general public sector reforms.

While focusing our attention on larger agencies in the light of the range of issues and the resources involved, the ANAO will continue to assist all agencies meet the financial challenges of the Commonwealth reform program. We will also continue to publish Better Practice Guides which aim to provide a useful 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. In addition, we will continue with our quarterly Financial Reporting Bulletin, the provision of accounting and reporting workshops and courses for financial managers and proactive accounting advice and assistance for entity staff at all levels.

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 a difficult financial year, have again enabled the tabling of this Report in a timely fashion.

P.J. Barrett
Auditor-General

Executive Summary

Executive summary

1. This Report summarises the final results of the audits of the financial statements of Commonwealth entities, forming the second Report this year on financial statement audits for the period ended 30 June 1999. It complements Audit Report No.10¹, (discussed further below) which covered significant issues relating to the control structures of major Commonwealth agencies that were detected from examinations of entity financial systems, controls and processes as part of these audits. The ANAO is committed to the timely and effective reporting of significant matters to assist the Parliament in its oversight of the financial activities of Government, reflected in two Reports being tabled this year.

Control structures

2. Audit Report No.10 summarised major issues in relation to financial systems, controls and processes from examinations of major Commonwealth agencies as part of the audits of their financial statements. It raised significant issues warranting attention to improve the quality of the underlying control structures that support public sector financial performance and accountability. The Report's timing was significant in that matters of a control nature were reported in advance of completion of the audits of financial statements, recognising the increased responsibility on agencies to maintain effective control structures.

3. The changing public sector financial environment has necessitated increased focus on the control structures that facilitate Chief Executive Officers meeting their responsibilities under the *Financial Management and Accountability Act 1997* and as a part of good corporate governance. The ANAO's audits place greater emphasis on identifying business risks impacting on the financial operations, and evaluating the design and effectiveness of control structures to mitigate those risks. This work is reported to entities so that major weaknesses affecting the control structure can be rectified quickly and subsequent improvement in public administration, performance and accountability can result.

4. The most significant common issues highlighted in Audit Report No.10 were:

- inadequate privacy and security protection over computer systems that record and process information;

¹ The Auditor-General Audit Report No.10 *Control Structures as part of the Audits of Major Commonwealth Agencies for the Period Ended 30 June 1999*.

- difficulties in reconciling departmental financial systems to the Department of Finance and Administration (DOFA) accounting systems; and
- weaknesses in asset management impacting adversely on the security and maintenance of public assets.

5. Importantly, the Report also commented on difficulties being faced by agencies in implementing their financial systems, in part because they did not deliver what was expected, and the lack of appropriately skilled staff.

Results of the audits of financial statements

6. The ANAO is responsible for the audit of the financial statements of 287 entities (see Table 1), down from 316 last year. The decrease from last year reflects the Government’s reform agenda and Commonwealth authorities and companies restructuring of subsidiary company operations.

Table 1
Type and number of entities audited

Reporting entity	1998–99	1997–98
Commonwealth’s Consolidated Financial Statements	1	1
Agencies		
◆ Department of State	17	17
◆ Parliamentary departments	5	5
◆ Prescribed agencies	41	42
◆ Business operations	21	26
Commonwealth authorities and their subsidiaries	169	173
Commonwealth companies and their subsidiaries	29	41
Other	4	11
Total	287	316

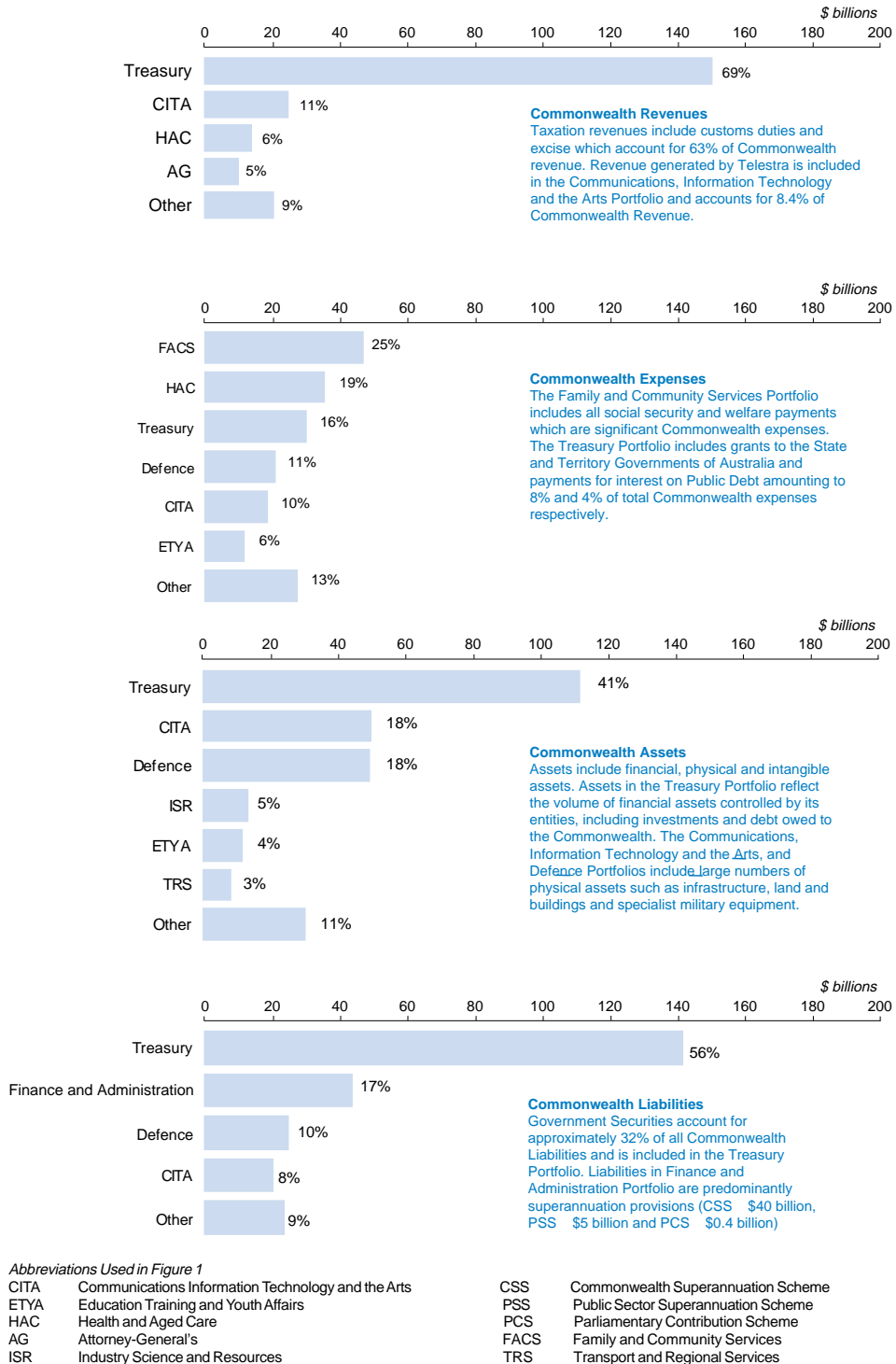
7. The entities audited managed revenues of \$218 billion, expenses of \$195 billion, assets valued at more than \$254 billion and liabilities in excess of \$279 billion. Figure 1 shows the majority of the Commonwealth’s financial activities are concentrated in a few Ministerial portfolios. Within these portfolios, a relatively small number of Commonwealth entities manage the vast majority of the Commonwealth’s financial activities. These entities, which also operate the more significant and complex financial systems, are the subject of the majority of audit comments made in this Report.

8. Part One of this Report discusses the overall final results of the audits of the financial statements. While progress has been made in the

quality of financial statements reporting, entities still need to improve to meet fully the requirements of accrual-based reporting, budgeting and accountability. During 1998–99, as Commonwealth entities focused on the implementation of information systems to support the accrual outputs and outcomes framework, the ANAO observed a decline in the quality and timeliness of financial information and related financial monitoring within these entities. The major causes stem from the lack of appropriately skilled staff and incomplete information systems which are not fully effective in part because they do not fully meet the requirements of the public sector environment.

9. Part Two collates the results of the individual financial statement audits and any additional significant control issues, since Audit Report No.10. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 21 October 1998.

Figure 1
Percentage and dollar break-up of audited Commonwealth financial activity, by portfolio.



Part One
Results of the audits
of financial statements

1. Results of the Audits of Financial Statements

Introduction

1.1 The ANAO formed an opinion and reported on the financial statements of 287 Commonwealth entities for the period ended 30 June 1999. This Part summarises the overall results of these audits, including the Commonwealth of Australia Consolidated Financial Statements and discusses financial statements preparation within the Commonwealth. Details of the scope of these audits are provided in Appendix 1 of this Report.

Commonwealth of Australia Consolidated Financial Statements

1.2 The Minister for Finance and Administration signed the Commonwealth of Australia consolidated financial statements (CFS) on 6 December 1999 with a qualified audit report being issued on the same day. The CFS represents a consolidation of the financial reports of all material Commonwealth controlled entities, dissected into the general government, public trading enterprises and public financial enterprises.

1.3 The audit report on the CFS was qualified because the financial statements did not take account of accrued taxation revenues of \$24.5 billion and taxation refunds of \$14.6 billion to the extent that accumulated results were understated by \$9.9 billion.

Financial Highlights

1.4 The key highlights of the CFS are:

- cash at the end of the year of \$1.8 billion (1997–98 \$1.7 billion);
- total net commitments of \$71.7 billion (1997–98 \$73.3 billion);
- net quantifiable contingencies of \$11.1 billion (1997–98 \$11.9 billion);
- an operating result of \$4.4 billion (1997–98 result of \$7.5 billion); and
- a negative equity (accumulated results and reserves) position of \$65.2 billion (1997–98 negative equity of \$62.7 billion).

1.5 As indicated in *National Commission of Audit Report to the Commonwealth Government June 1996*, the negative equity figure has little

meaning in the absence of benchmarks which can only be built up over time relative to such measures as Gross Domestic Product or Commonwealth revenues. That report indicated that a more significant measure of financial performance was the impact of the operating surplus on the Government's financial position. Of fundamental importance here is the way in which the Commonwealth Budget (budget) impacts on accumulated results in future years. While the 1998-99 budget is cash based and there is no direct relationship with the CFS there is an important issue to be resolved for the 1999-2000 financial year.

1.6 In preparing its budget for 1999-2000, the Government has adopted an accrual budgeting framework for public sector budgeting and reporting. As noted in the *Budget Strategy and Outlook 1999-2000*, the main advantage of accrual measures is the more comprehensive indication they provide of the long-term activity of government and the long-term effects of current policy. The full cost of Commonwealth service delivery will be enabled and public sector managers will be accountable for the performance of their agencies in contributing to achieving government outcomes.

1.7 As indicated in the *Budget Strategy and Outlook*², the major external standards used in preparing the budget are the Australian Accounting Standards and the new accrual Government Financial Statistics being introduced by the Australian Bureau of Statistics in 1999-2000, including the measure of fiscal balance.³ Under this new accrual framework, the key fiscal indicator adopted by the Government is fiscal balance. Under an accrual accounting framework, the operating result is the prime measure of financial performance.

1.8 Given the above, there will be differences between the various measures. Of significance here, for example, is the issue of taxation revenue recognition principles. As indicated above, the 1998-1999 CFS was qualified regarding recognition principles for certain Commonwealth taxation revenues. Such principles will require further consideration and/or explanation in the context of the preparation of the budget and CFS for 2000-01.

² *Budget Strategy and Outlook 1999-2000*, Budget Paper No.1 – Appendix D: Alternative Commonwealth Budget Presentations.

³ The fiscal balance is effectively a measure of government net lending, the gap between government savings and investment. It measures the government's net call on other sectors in the economy, and so corresponds to the government's direct contribution to the current account deficit. (Ibid p.9-32).

1.9 Audit Report No.38 1998–99 *Management of Commonwealth Budgetary Processes* indicated that it is important for Ministers, other members of Parliament and other stakeholders to be informed properly of the implications of moving to the accrual basis of budgeting and its likely impacts on estimates. An issue that will require close management attention is ensuring that there is consistency in the accounting concepts and treatments used in the construction of the accrual budget estimates, of agency financial statements and of the CFS to allow estimated and actual outputs and outcomes to be compared on a like basis.

1.10 Prudential management of the Commonwealth’s balance sheet will be fundamental for demonstrating sound financial management, and importantly, a major determinant of future funding requirements over the longer term.

Summary of audit reports issued

1.11 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

<i>Financial statement audit reports</i>	<i>1998–99</i>	<i>1997–98</i>	<i>1996–97</i>
Qualified	7	9	6
Containing an emphasis of matter	6	6	34
Not modified	274	301	281
Total issued	287	316	321

Qualified audit reports

1.12 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.

Breaches of reporting requirements

1.13 Financial statements are required to be prepared in accordance with the Australian Accounting Standards, other professional reporting requirements and statutory requirements. Significant 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.

■ Commonwealth of Australia Consolidated Financial Statements

Section 55 of the *Financial Management and Accountability Act 1997* requires that the Minister for Finance and Administration prepare and submit for audit annual financial statements for the Commonwealth. A qualified audit report on the 1998–99 consolidated financial statements was issued on 6 December 1999.

As indicated in the financial statements, taxation revenue was measured in previous years on the basis of revenue accrued in relation to balance dates falling within the reporting period. Taxation revenue has now been recognised in the financial statements on the basis of when tax payments are due and payable.

The approach adopted in previous years recognised taxation revenue when the Government gained control of the future economic benefits that flowed from taxes and when those future economic benefits could be measured reliably. That approach also reflected the provisions of the *Income Tax Assessment Act 1997*, whereby the obligation to pay tax exists prior to assessment, and the underlying transactions not the assessment, give the Government control of the right to receive taxation revenues. This continues to be the approach adopted by the Australian Taxation Office in its financial statements for the year ended 30 June 1999.

The effect of the change on the financial statements of the Commonwealth Government of Australia in 1998–99 is to defer the time at which taxation revenue is recognised in the financial statements.

The treatment adopted in the preparation of these financial statements does not accord with Australian Accounting Standard AAS 31 *Financial Reporting by Governments* which requires that all of the Government's assets, liabilities, revenues and expenses be recognised on an accrual basis in the financial statements. As indicated in the financial statements, the financial effect of this change and the accounting for it, is to understate the operating result attributable to the Commonwealth for the year by \$0.4 billion and to understate accrued taxation revenues by \$24.5 billion, accrued taxation liabilities by \$14.6 billion and accumulated results by \$9.9 billion at 30 June 1999.

■ Australian National University

The audit report on the University's 1998 financial statements was qualified on two issues: non compliance with Australian Accounting

Standards in relation to bringing the land at Acton campus and Mount Stromlo to account; and misstatement of 1997 comparative figures in the financial statements.

Land

Land at Acton campus and Mount Stromlo was not included in the University's financial statements. 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 are on restricted use for University activities, in accordance with the *Australian National University Act 1991* and the site lease purpose clause. As a result, the University believed that a value could not be reliably measured and therefore the land could not be recognised.

The ANAO considered that, as the land value could be reliably measured, these sites should be recognised in the University's financial statements. This non-recognition is a departure from the provisions of Australian Accounting Standards and from the Guidelines for Financial Statements of Commonwealth Authorities, which apply for 1998 under the transitional provisions of the *Audit (Transitional and Misc.) Regulations 1997*.

Comparative figures for 1997

The University invests funds held in its Commonwealth Superannuation Account to meet its liability to University employees under the Commonwealth Superannuation Scheme.

Prior to 1 January 1998, the University recognised changes in the market value of the assets in the Commonwealth Superannuation Account in the Statement of Revenues and Expenses. This accounting treatment was a departure from the requirements of Australian Accounting Standards which requires that certain increments in the values of investments be credited to revaluation reserves rather than to revenue.

The financial effect of the departure was to overstate revenue for 1997 by \$35 662 000 and understate the movement in reserves by the same amount. The University corrected this treatment in its 1998 financial statements. However, the comparative figures for 1997 were qualified as they were based on the previous accounting treatment.

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

Recognition of National Archives assets

The National Archives of Australia collection of heritage assets has not been recognised in the Department's financial statements. This represents a departure from Schedule 2 of the Finance Minister's Orders and

Australian Accounting Standard AAS 29 *Financial Reporting by Government Departments*, which require all assets that meet the recognition criteria to be brought to account. The effect of this departure on the financial statements cannot be reliably estimated as the Department has not recorded and valued all the items in the collection of heritage assets.

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

■ National Museum of Australia

Recognition of National Historic Collection assets

The Museum's Statement of Assets and Liabilities included only assets in the National Historic Collection acquired since 1 July 1992. These assets represent a minor portion of the Museum's National Historic Collection. The ANAO is of the view that all assets forming the National Historic Collection can be reliably measured and therefore should be included in the Museum's financial statements. As a result, the Museum has not complied with Schedule 2 to the Finance Minister Orders under the *Commonwealth Authorities and Companies Act 1997* and from Australian Accounting Standards that require assets to be recognised in the financial statements.

This resulted in a similar qualification last year.

Limitation of scope

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

Limitation of scope based on national security

■ Australian Security Intelligence Organization (ASIO)

■ Australian Secret Intelligence Service (ASIS)

In 1997–98 and prior years, declarations issued under subsection 70D(1) of the former *Audit Act 1901* exempted particular parts of the accounts of ASIO and ASIS from audit by the Auditor-General resulting in qualified audit reports.

Following approval of the *Financial Management and Accountability Amendment Regulations 1999 (No.1)* on 17 March 1999, the "exempt accounts" are now subject to audit. However, in view of a limitation on the extent of testing able to be performed on comparative information and opening balances relating to the exempt accounts from 1997–98, the audit reports on the financial statements were qualified. These audit qualifications are not expected to re-occur in future years.

*Limitation of scope based on ensuring the completeness of revenue***■ 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 it is not possible to obtain assurance that all funds raised are recorded in the financial systems.

This issue resulted in a similar qualification last year.

Audit reports containing an 'emphasis of matter'

1.15 An audit report may also contain 'an emphasis of matter'. This concept 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, as indicated below.

*Year 2000 readiness***■ ADI Limited**

The audit report on the financial statements contained an emphasis of matter regarding the uncertainty associated with readiness of a critical business system for the Year 2000. The effects of any delay were unable to be determined.

This is the first time this uncertainty has arisen for ADI Limited.

*Business environment***■ 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 1997-98 audit report.

■ Removals Australia

The Government has announced the impending sale of Removals Australia. As a result, there was inherent uncertainty as to whether the reporting entity, Removals Australia, would be able to continue as a going concern after a sale. Uncertainty exists as to whether it will be able to realise its residual assets and extinguish its residual liabilities in the normal course of business at the amounts stated in the financial

statements. The audit report on the financial statements included an emphasis of matter in relation to this issue.

This is the first time this uncertainty has arisen for this entity.

■ **Australian River Co Limited**

The audit report on the Australian River Co Limited (ARCO) contained an emphasis of matter regarding uncertainty over the impact on the financial statements of the restructure of the Company.

The Government commenced a trade sale process of ARCO and all of its remaining businesses effective from April 1998. Negotiations commenced with preferred bidders prior to 30 June 1999 and the trade sales were agreed after this date. On 13 August 1999, the Minister for Finance and Administration wrote to ARCO and stated that the sale process of the core operating businesses of the economic entity had been concluded. However, at the date of the audit report, the Government had not announced its intention regarding the final structure of ARCO and its remaining operations. No adjustments or reclassifications were made in the financial statements to reflect any changes that might arise as a result of the Government finalising its deliberation of the above matters.

Impact of economic environment

■ **Employment National Limited**

The Employment National Limited group is entirely dependent on revenue obtained from the Commonwealth Government under a contract which expires on 27 February 2000. The group's parent company is currently tendering for a contract with the Commonwealth Government to provide similar services to those involved in the existing contract, for a further three years. The outcome of this tender, which at the time of conducting the audit was unknown, may significantly impact the short-term profitability of the group. The audit report on the financial statements included an emphasis of matter in relation to this issue.

This is the first time this uncertainty has arisen for this entity.

■ **Australia New Zealand Food Authority**

The audit report included an emphasis of matter on the inherent uncertainty relating to the Authority's financial support. In 1998-99, the Authority incurred operating losses of \$1 566 144 resulting in a net asset deficiency of \$907 847. Accordingly, there is significant uncertainty as to whether the Authority will be able to continue as a going concern as realisation of its assets may not be sufficient to extinguish its liabilities in the normal course of business at the amounts stated in the financial statements.

This is the first time this uncertainty has arisen for this entity.

Financial statement preparation

1.16 The ANAO's Better Practice Guide *Building Better Financial Management Support* notes that world best practice organisations have reduced the total time for the financial preparation process to two days through business process re-engineering. It is now common practice to produce financial reports within five days after the end of the designated financial period.

1.17 As illustrated in Part Two of this Report, the majority of Commonwealth entities preparing financial statements fall below such better practice. Of the 287 entities included within this Report, 104 (36%) did not finalise their financial statements until October, 92 days after period end. This is a significant deterioration in performance, with only 4% of Commonwealth entities taking a similar time to finalise their financial statements in the previous year.

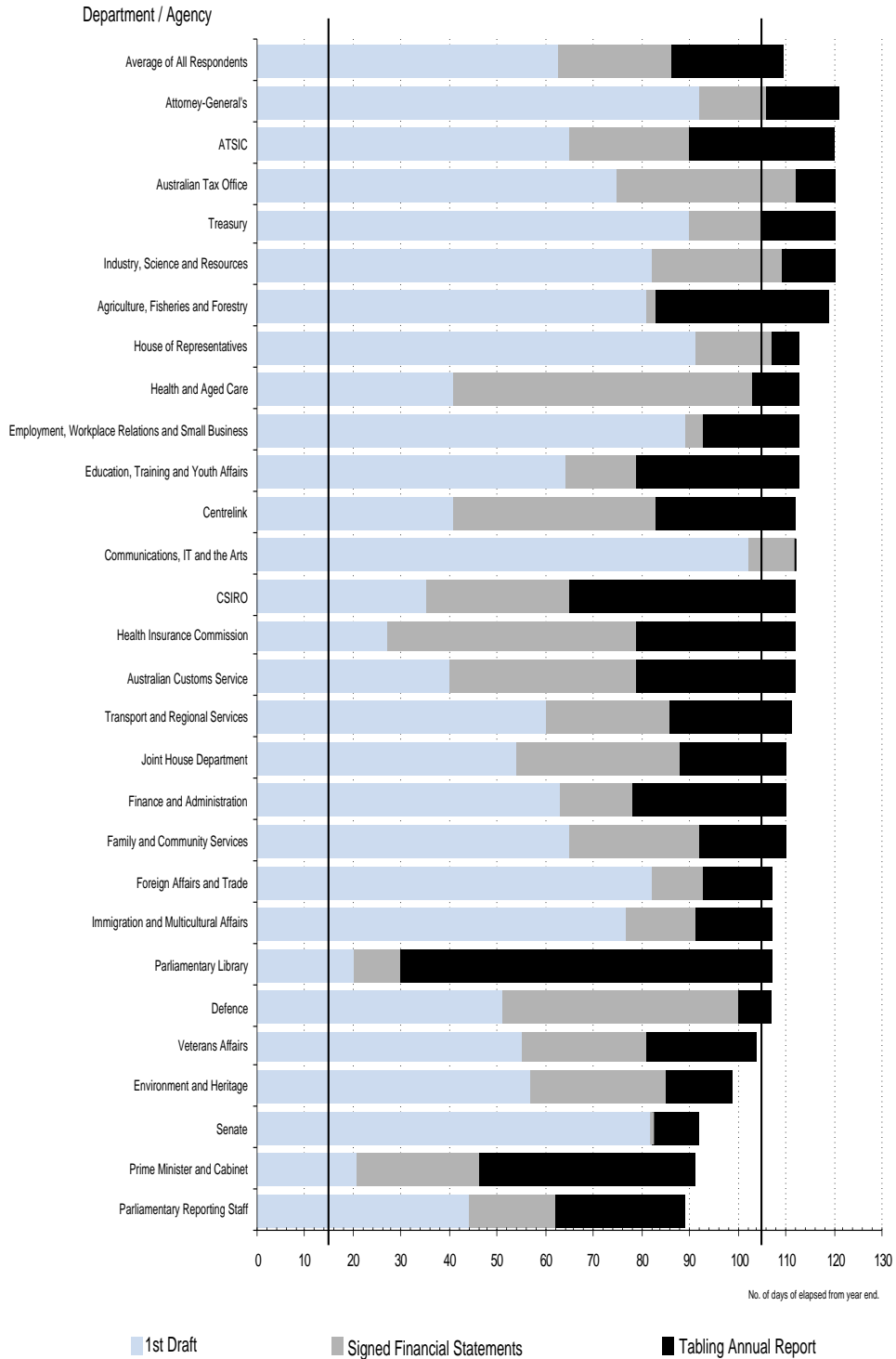
1.18 Figure 2 illustrates the timing of the financial statements preparation process for major Commonwealth entities. On average, these Commonwealth entities took in excess of six weeks to produce first draft financial statements. In addition, the ANAO noted a general deterioration in the quality of financial information submitted for audit from that of previous years.

1.19 The difficulties faced by entities in producing quality financial information in a timely manner was outlined in Audit Report No.10. In that Report, it was noted that entities experienced considerable difficulty implementing financial and human resource management information systems during the year and, as a consequence, the systems for most entities were not currently capable of fully supporting the production of financial statements. Furthermore, the lack of reconciliations performed regularly throughout the year meant that significant effort was required at the end of the particular financial year to complete the reconciliations satisfactorily for financial reporting purposes. As in previous years, there continues to be a need for greater discipline and management involvement in the financial statement preparation process, as reflected in the nature of issues outlined above.

1.20 With the outcomes and outputs accrual budgeting and reporting framework, there is an increased likelihood of entities being required to finalise their financial statements in a more timely manner. For this to be achieved, quality draft financial statements would need to be available for audit by mid-July for the 30 June financial year. This will only be accomplished if appropriate management attention is paid to financial management better practice including updating and reconciling regularly asset registers, subsidiary ledgers and bank accounts and, management takes a more pro-active role in the exercise, and oversight, of financial reporting within their entities.

Figure 2

Cycle Times to Tabling Financial Statements in the Parliament



Part Two
Results of the audits
of financial statements
by portfolio

2. Results of the Audits of Financial Statements—by Portfolio

Introduction

2.1 This Part summarises the results of the audits of the financial statements for individual entities together with any additional matters arising from these audits since Audit Report No.10. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 21 October 1998.

2.2 The tabular information for each portfolio indicates for each entity:

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

2.3 Details of modified audit opinions and additional control issues arising from the audits are provided following each of the respective tables.

2.4 Only those matters arising as a result of finalising the financial statement audits of all Commonwealth entities since Audit Report No.10 are included in this section. Unless otherwise indicated, entities have advised of appropriate remedial action taken, or proposed, to address the matters reported. As well, matters reported in Audit Report No.10, unless otherwise indicated, have also been, or are in the process of being addressed by the entities involved.

Agriculture, Fisheries and Forestry Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Agriculture, Fisheries and Forestry	✓	22-Sep-99	
Meat and Inspection Service Reserve	✓	22-Sep-99	
Australian Quarantine Inspection Service Reserve	✓	22-Sep-99	
National Residue Survey	✓	22-Sep-99	
Australian Dairy Corporation	✓	24-Sep-99	
Australian Dried Fruits Board	✓	21-Sep-99	
Australian Fisheries Management Authority	✓	03-Sep-99	
Australian Horticultural Corporation	✓	06-Oct-99	
Australian Pork Corporation	✓	14-Sep-99	
Australian Wheat Board	✓	08-Oct-99	
Australian Wine and Brandy Corporation	✓	24-Sep-99	
Australian Wool Research and Promotion Organisation	✓	16-Sep-99	
Commission for the Conservation of Southern Bluefin Tuna [☞] (31 Dec 98)	✓	21-May-99	
Cotton Research and Development Corporation	✓	31-Aug-99	
Dairy Research and Development Corporation	✓	13-Sep-99	
Fisheries Research and Development Corporation	✓	27-Aug-99	
Forest and Wood Products Research and Development Corporation	✓	26-Oct-99	
Grains Research and Development Corporation	✓	28-Sep-99	
Grape and Wine Research and Development Corporation	✓	07-Sep-99	
Horticultural Research and Development Corporation	✓	16-Sep-99	
Land and Water Resources Research and Development Corporation	✓	06-Sep-99	
Landcare Australia Limited	✓	30-Sep-99	
Murray-Darling Basin Commission	✓	21-Oct-99	
National Registration Authority for Agricultural and Veterinary Chemicals	✓	23-Aug-99	
Pig Research and Development Corporation	✓	18-Aug-99	
Rural Industries Research and Development Corporation	✓	13-Sep-99	
Sugar Research and Development Corporation	✓	02-Sep-99	
Tobacco Research and Development Corporation	✓	31-Aug-99	
Wool International	✓	31-Aug-99	

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 1999

☞ (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Internal control matters

No further significant internal control matters were noted in this portfolio since Audit Report No.10.

Attorney-General's Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Attorney-General's Department	✓	14-Oct-99	
Australian Government Solicitor	✓	21-Oct-99	
Australian Protective Service	✓	14-Oct-99	
Administrative Appeals Tribunal	✓	10-Sep-99	
Australian Bureau of Criminal Intelligence	✓	29-Oct-99	
Australian Customs Service	✓	17-Sep-99	◆
Australian Federal Police	✓	30-Sep-99	
ACT Community Policing	✓	07-Sep-99	
Australian Institute of Criminology	✓	15-Sep-99	
Australian Law Reform Commission	✓	21-Sep-99	
Australian Security Intelligence Organization	Q	27-Sep-99	
Australian Transaction Reports and Analysis Centre	✓	08-Sep-99	
Criminology Research Council	✓	15-Sep-99	
Family Court of Australia	✓	17-Sep-99	
Federal Court of Australia	✓	22-Sep-99	
High Court of Australia	✓	06-Oct-99	
Human Rights and Equal Opportunity Commission	✓	29-Sep-99	
National Crime Authority	✓	13-Sep-99	
National Native Title Tribunal	✓	30-Sep-99	
Australasian Centre for Policing Research	✓	01-Oct-99	
Office of Film and Literature Classification	✓	22-Sep-99	
Office of the Director of Public Prosecutions	✓	03-Sep-99	
Office of the Parliamentary Counsel	✓	30-Sep-99	

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 1999

≠ (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Results of the financial statement audits

Australian Security Intelligence Organization

Qualification

In 1997–98 and prior years, 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 are “exempt accounts” and therefore not subject to audit by the Auditor-General.

Following approval of the *Financial Management and Accountability Amendment Regulations 1999 (No.1)* on 17 March 1999, the “exempt accounts” are now subject to audit. However, in view of a limitation on the extent of testing able to be performed on comparative information and opening balances relating to the exempt accounts from 1997–98, the audit report on the financial statements was qualified. This audit qualification is not expected to re-occur in future years.

Internal control matters

Australian Customs Service

During 1998–99, ACS continued its implementation of an accrual accounting system to support the outputs and outcomes budgeting framework. At the same time, a number of the agency’s programs were transferred to other agencies. These initiatives have had a significant impact on ACS’s financial operations. Changes continue to be made to systems and processes to support longer-term financial management requirements. In this context, the ANAO’s audit work concentrated on ACS’s risk management practices and the information technology systems supporting financial operations.

The audit indicated that systems and procedures could be relied upon to support ACS’s financial statements. There were no significant matters arising from the audit requiring detailed attention. The following summary of matters raised with ACS management is provided.

IT control structure

The ANAO’s review of the IT control structure included follow-up of previous years matters as well as confirming the continuing reliance that could be placed on the IT environment, and access, logical security, application and program change controls over financial systems. The review confirmed that ACS has addressed, or is in the process of addressing, all matters reported in previous years including finalisation of the IT security and related policies, and finalising and testing the disaster recovery plan.

In regard to ACS's implementation of its new financial management information system, the audit identified areas where improvement was required, some of which were also raised by its internal auditors. Recommendations were made in the areas of access security, program change control and processing controls.

Risk management

Previous audit reports have referred to the successful progress made by ACS with the transition to a mature risk managed environment. The ANAO's audit covered the on-going effectiveness of ACS's risk management framework to assure the completeness and validity of information for its financial statements. It was concluded that adequate assurance over key financial risks was being achieved.

Communications, Information Technology and the Arts Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Communications, Information Technology and the Arts	Q	20-Oct-99	◆
Artbank Trust Account	✓	01-Oct-99	
Australian Commercial Television Production Fund	✓	22-Sep-99	
National Cultural Heritage Fund	✓	08-Oct-99	
Regional Telecommunications Infrastructure Fund	✓	08-Oct-99	
Australia Council	✓	21-Sep-99	
Australia Foundation for Culture and the Humanities Limited	✓	15-Sep-99	
Australian Broadcasting Authority	✓	31-Aug-99	
Australian Broadcasting Corporation	✓	29-Sep-99	
Adelaide Symphony Orchestra Pty Limited ^{ESP} (31-Dec-98)	✓	08-Jun-99	
Melbourne Symphony Orchestra Pty Limited ^{ESP} (31-Dec-98)	✓	19-Apr-99	
Sydney Symphony Orchestra Holdings Pty Limited ^{ESP} (31-Dec-98)	✓	19-Apr-99	
Symphony Australia Holdings Pty Limited ^{ESP} (31-Dec-98)	✓	27-Jul-99	
West Australian Symphony Orchestra Holdings Pty Limited ^{ESP} (31-Dec-98)	✓	14-Jul-99	
Australian Communications Authority	✓	08-Sep-99	
Australian Film Commission	✓	22-Sep-99	
Australian Film Finance Corporation Limited	✓	21-Sep-99	
Australian Film Finance Corporation Superannuation Limited		●	
Australian Film, Television and Radio School	✓	16-Sep-99	
Australian National Maritime Museum	✓	28-Sep-99	
Australian Postal Corporation	✓	26-Aug-99	
Bundanon Trust		●	
Film Australia Limited	✓	07-Sep-99	
National Australia Day Council	✓	19-Aug-99	
National Gallery of Australia	✓	17-Sep-99	
National Gallery of Australia Foundation	Q	20-Sep-99	
National Library of Australia	✓	23-Aug-99	
National Museum of Australia	Q	22-Sep-99	
Special Broadcasting Service Corporation	✓	15-Sep-99	
Multilingual Subscriber Television Limited	✓	13-Oct-99	
Telstra Corporation Limited (and its subsidiaries)	✓	26-Aug-99	

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 1999
^{ESP} (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Results of the financial statement audits

Department of Communications, Information Technology and the Arts

Qualification

The National Archives of Australia collection of heritage assets has not been recognised in the Department's financial statements. This represents a departure from Schedule 2 of the Finance Minister's Orders and Australian Accounting Standard *AAS 29 Financial Reporting by Government Departments*, which require all assets that meet the recognition criteria to be brought to account. The effect of this departure on the financial statements cannot be reliably estimated as the Department has not recorded and valued all the items in the collection of heritage assets.

National Gallery of Australia Foundation—*subsidiary of the National Gallery of Australia*

Qualification

The Foundation raises funds through public donations and various other 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 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 Schedule 2 to the Orders issued by the Finance Minister under the *Commonwealth Authorities and Companies Act 1997* and from Australian Accounting Standard *AAS 4 Depreciation* which require all assets to be recognised in the financial statements.

Internal control matters

Department of Communications, Information Technology and the Arts

Asset management

The audit noted scope for improvement in asset management. In particular, improvement in asset registration, asset stocktaking procedures and asset reconciliations was required. Asset records also needed to reflect the transfer of assets as a result of outsourcing of the IT function.

Reconciliations

Regular reconciliations of the Department's systems to the then DoFA FIRM accounting system were not carried out during the year. These reconciliations are fundamental to ensuring the integrity of information maintained in the systems and used in the generation of management reports throughout the year.

Australian Postal Corporation

Compliance with prescribed performance standards

The Corporation is required pursuant to the *Australian Postal Corporation (Performance Standards) Regulations 1998* to meet a range of performance measures as part of its Community Service Obligations. The Corporation's compliance with the performance standards is subject to audit.

The first compliance audit was completed for the year ended 30 June 1999, with an unqualified report issued to the Minister for Communications, Information Technology and the Arts and the Board of Directors of the Corporation on 26 August 1999. A report on the results of the audit was forwarded to the Minister on 29 September 1999. That report referred to several minor issues relating to statistical information updating and system maintenance.

Defence Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Defence	✓	11-Oct-99	◆
Department of Veterans' Affairs	✓	21-Sep-99	◆
Army and Air Force Canteen Service	✓	30-Aug-99	
ADI Limited	E	15-Sep-99	
Australian Military Forces Relief Trust Fund	✓	22-Sep-99	
Australian War Memorial	✓	22-Sep-99	
Defence Housing Authority	✓	27-Sep-99	
Wattle Grove Development Joint Venture	✓	28-Oct-99	
Defence Service Homes Insurance Scheme	✓	22-Sep-99	
Military Superannuation and Benefits Scheme	✓	23-Sep-99	◆
Royal Australian Air Force Veterans' Residences Trust Board of Trustees No.1	✓	06-Sep-99	
Royal Australian Air Force Welfare Trust Fund No 3	✓	25-Aug-99	
Royal Australian Navy Relief Trust Fund	✓	13-Oct-99	

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 1999

SP (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Results of the financial statement audits

ADI Limited

Emphasis of matter

The audit report on the financial statements contained an emphasis of matter regarding the uncertainty associated with readiness of a critical business system for the Year 2000. The effects of any delay were unable to be determined.

ADI Limited has since been sold.

Internal control matters

Department of Defence

The Department of Defence holds seventy percent of the general government sector's non-financial assets. Asset management decisions in the Department have direct implications for the Commonwealth's consolidated financial statements. In the last four years, the Department has accounted for \$4.4 billion of asset write-downs through its operating statement. This is partially explained by technology advancements and capability judgements. The key issues raised below highlight the system and management problems that affect the reliability and usefulness of

financial management information in the Department. Continuation of these factors which lead to the volatility in the Department's financial statements has the potential to distort the net financial position of the Commonwealth.

The underlying Defence system difficulties and limited management focus that caused these events also have clear ramifications for the way that key asset systems are managed. A key management challenge for the Department is to achieve effective integration of financial systems in a way that supports operational management, management reporting and financial reporting.

Prudential management of the Department's balance sheet will be fundamental for demonstrating sound financial management, and would be an important element in determining future funding requirements over the medium to longer term.

Key Defence Financial Management Issues

The following key issues impacting on the Department's financial management were identified during the audit:

- in 1998–99, the Department identified additional assets to the value of \$1.4 billion. This has raised important management issues concerning governance and general systems integrity;
- key asset management data such as the costs of maintaining assets are not collected. This is an important element of informed replace/retain decisions;
- in 1998–99, the Department did not depreciate any assets on a 'component' basis, which results in the potential for significant valuation variations with specialist military equipment. For example, the combat system on a Collins Class submarine with a life of less than eight years is depreciated over the 30 year life of the hull;
- an inappropriate asset capitalisation policy resulted in the non-recognition of \$1.5 billion of Defence assets over the last two years;
- the inventory and fixed asset recording system has experienced major problems with general functionality and inventory quantities, prices, and classifications;
- the inventory and fixed asset system does not record all rotatable/repairable items. The size of the understatement is unquantifiable;
- the inventory and fixed asset recording system recorded 3863 fixed asset item groups at 50 cents per item. The ANAO estimates the above understatement at \$350 million;

- general system limitations and an absence of management focus from the Department have meant that there is no apparent use of accrual information for management purposes. This limitation means that the Department is unable to align adequately the operational and financial elements of asset management; and
- Assets Under Construction (AUC) are not systematically reviewed for impairment or over-valuation.

These key Defence financial management issues are detailed further below.

Corporate Governance

The Department of Defence uses group manager sign-off as an implicit recognition of their responsibility to ensure there are sufficient controls over the processes they manage to have a high level of confidence in the financial data that are produced. Issues of corporate governance and general systems integrity across the groups have been raised as a result of the number and nature of errors identified subsequent to Group Manager sign-off.

Deficiencies such as incomplete risk assessments exist in the process used by Group Managers to obtain assurance over systems. As well, there were problems with Defence systems providing complete, reliable and timely information.

Specialist Military Equipment (SME)—Maintenance Data Availability

The Department does not measure, record and use maintenance data, despite holding SME valued at over \$39 billion. Best practice organisations consider all relevant costs, including maintenance costs, in the regular assessment of existing assets against alternatives. The failure to record and use asset maintenance data inhibits Defence's ability to make informed investment, divestment, outsourcing or replacement decisions.

Specialist Military Equipment (SME)—Componentisation

The accrual budgeting framework clearly links the funding for the replacement of assets to depreciation. Defence determines the depreciation rate for assets based upon the useful life of the whole asset, which may not necessarily be indicative of the lives of the components of the individual assets. Where significant components have a shorter useful life than that of an underlying asset, the book value of assets will be overstated. This also means that the depreciation charged, and consequently Defence's Net Cost of Services, will be understated. Depreciation policy that does not embrace componentisation has the potential to contribute to a material overstatement of SME assets.

Infrastructure, Plant and Equipment—Capitalisation Threshold

An inappropriate asset capitalisation policy resulted in the non-recognition of \$1.5 billion of Defence assets over the last two years. Continued application of the current threshold is highly likely to cause material misstatement in future years. In addition, the understatement of depreciation may distort the cost of delivering identified outputs, and consequently, Defence could be locked into providing outputs in the future without the real full costs being identified.

Inventory

Inventory measurement in the Department of Defence financial statements continues to provide significant challenges. Problems have been identified with inventory classification, recording of quantities, recording of purchase prices, obsolescence assessment and recording, and the asset recording system (SDSS) functionality.

The Department has responded positively in that large-scale reviews have been instigated of prices, classification and obsolescence, resulting in a significantly improved quality of inventory reporting in the financial statements.

However, substantial difficulties remain, including:

- Large-scale modifications are required to the asset recording system before it can operate as a fully functional inventory system which is able to provide timely financial information;
- 1998–99 inventory purchase costs were not consistently captured in the asset recording system;
- SCA have identified more than 60 000 prices used to value inventory at year-end which are of ‘low confidence’, that is, Defence is not certain that prices used to value these inventories are correct; and
- Audit work in 1998–99 has again found errors in inventory prices, quantities and classifications. The financial quantum of these errors across the 800 000 active items on the asset recording system is difficult to determine.

The current asset recording system does not allow for fully informed purchasing, stock holding or inventory supply decisions. The efficient use of inventory is compromised where valid prices and quantities are not available and management information is not timely. This serves to reduce funds available for other purposes. In addition, in the absence of large amounts of year-end data manipulation, review and analysis, inventory continues to be at high risk of material financial misstatement.

Specialist Military Equipment (SME)—Quantities and Notional Pricing on Asset Recording System (SDSS)

The asset recording system used to record and manage both inventory and some fixed assets is not a fully functional inventory system incorporating a pricing function. At the end of the financial year, approximately 3863 fixed asset categories were identified with prices of 50 cents in the system.

The asset recording system also does not track and record all repairable or rotatable items. This systematic failure contributed significantly to the \$1.4 billion of assets found in 1998–99.

Defence's ability to optimise inventory holding levels is adversely affected by a lack of quality information. For example, a lack of information on the numbers or locations of rotatable/repairable items increases the likelihood of overstocking or asset down time.

Financial Statements Management

The Department did not resolve the following key accounting issues until after year-end:

- assets first found;
- notionally priced fixed assets on the asset recording system;
- notionally priced inventory items on the asset recording system;
- inventory obsolescence provisioning; and
- revaluation of land and buildings.

This was primarily because the area responsible for financial reporting was unable to obtain relevant, timely and correct information from the relevant programs. Furthermore, Defence's focus on year-end information processing results in accounting issues remaining unresolved until after the fiscal year end closes. Non-timely and inaccurate information impairs Defence's ability to manage its financial statements risks and results in unnecessarily late and sometimes very significant financial adjustments. The effects of any failure to manage financial reporting issues comprehensively will become more evident with accrual budgeting and monthly reporting.

Assets Under Construction (AUC)

Defence's financial statements are deemed not for profit and values attributed to AUC are on the basis of project costs of a capital nature. The issue is whether the current accounting policy of accumulating costs to AUC is appropriate given there could be valuation decrements pending completion. The importance of this issue is apparent given that 25 percent (approximately \$10 billion) of the Defence balance sheet is currently classed as AUC.

Other matters

The ANAO identified a number of other matters that should be addressed by the Department to further improve internal controls. Significant control weaknesses brought to management's attention included:

- controls surrounding the COMSARM system, which records details of explosive ordnance inventory, were unable to be relied upon; and
- there were a significant number of control weaknesses mainly relating to inappropriate access to the MVS operating system and RACF security system.

Department of Veterans' Affairs

The audit noted that the Department was unable to reconcile its financial management information system to the then DoFA FIRM system. The Department responded positively, recognising the need to conduct reconciliations for effective cash management.

Military Superannuation and Benefits Scheme

As part of the audit, a review of the key systems and manual controls over the processing of member records, contributions and benefit payments by ComSuper was performed. While key processing controls over individual benefit and contribution transactions were effective, issues were noted with respect to reconciliation and accounting controls. ComSuper, the administrator of the Scheme, has advised of action to address these issues.

Education, Training and Youth Affairs Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Education, Training and Youth Affairs	✓	17-Sep-99	
Anglo-Australian Telescope Board			◆
Australian National Training Authority	✓	15-Sep-99	
Australian National University ^{EP} (31 Dec 98)	Q	13-Apr-99	

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 1999

^{EP} (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Results of the financial statement audits

Australian National University

Qualification

The audit report on the University's 1998 financial statements was qualified on two issues, namely:

- non-compliance with the provisions of Australian Accounting Standards in relation to bringing the land at Acton campus and Mount Stromlo to account; and
- misstatement of 1997 comparative figures in the financial statements.

Land

Land at Acton campus and Mount Stromlo was not included in the University's financial statements. 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 are on restricted use for University activities, in accordance with the *Australian National University Act 1991* and the site lease purpose clause. As a result, the University believed that a value could not be reliably measured and therefore the land could not be recognised.

The ANAO considered that, as the land could be reliably measured, these sites should be recognised in the University's financial statements. This non-recognition is a departure from the provisions of Australian Accounting Standards and from the Guidelines for Financial Statements of Commonwealth Authorities, which apply for 1998 under the transitional provisions of the *Audit (Transitional and Misc.) Regulations 1997*.

Comparative figures for 1997

The University invests funds held in its Commonwealth Superannuation Account to meet its liability to University employees under the Commonwealth Superannuation Scheme.

Prior to 1 January 1998, the University recognised changes in the market value of the assets in the Commonwealth Superannuation Account in the Statement of Revenues and Expenses. This accounting treatment was a departure from the requirements of Australian Accounting Standards which require that certain increments in the values of investments be credited to revaluation reserves rather than revenue.

The financial effect of the departure was to overstate revenue for 1997 by \$35 662 000 and understate the movement in reserves by the same amount. The University corrected this treatment in its 1998 financial statements. However, the comparative figures for 1997 were qualified as they were based on the previous accounting treatment.

Internal control matters

No further significant internal control matters were noted in this portfolio since Audit Report No.10.

Employment, Workplace Relations and Small Business Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Employment, Workplace Relations and Small Business	✓	01-Oct-99	
Affirmative Action Agency	✓	21-Sep-99	
Australian Industrial Registry	✓	20-Sep-99	
Coal Mining Industry (Long Service Leave Funding) Corporation	✓	23-Sep-99	
Comcare Australia	✓	07-Sep-99	
QWL Corporation Pty Limited	✓	07-Sep-99	
Employment Services Regulatory Authority	✓	12-Oct-99	◆
National Occupational Health and Safety Commission	✓	01-Sep-99	

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 1999

^{ESF} (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Internal control matters

Employment Services Regulatory Authority (ESRA)

Control structure

The ESRA ceased operations in May 1998 and since then its function has been to wind-up administrative issues covering case management. The ANAO noted a progressive deterioration of the control environment and loss of key controls during the wind-up. When the closure of ESRA was announced, the control environment was adversely affected and, with the progressive departure of ESRA staff, key controls such as separation of duties for account processing, maintenance of complete accounts and records and review of managerial reports ceased to operate.

While the Department addressed legal compliance issues with the appointment of a departmental officer as the part-time Chief Executive Officer, there was no action taken to address the breakdown in key controls associated with the wind-up process. The absence of fundamental internal control in this situation would greatly increase the risk for any potential fraudulent activity to occur. The Department has since taken remedial action on the matters raised.

Environment and Heritage Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of the Environment and Heritage	✓	24-Sep-99	
National Heritage Trust of Australia Reserve	✓	18-Oct-99	
Australian Greenhouse Office	✓	24-Sep-99	
Australian Heritage Commission	✓	08-Oct-99	◆
Australian National Parks and Wildlife Fund	✓	27-Oct-99	◆
Great Barrier Reef Marine Park Authority	✓	01-Oct-99	
National Environment Protection Council Service Corporation	✓	14-Oct-99	

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 1999

≠ (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Internal control matters

Australian National Parks and Wildlife Fund (ANPWF)

Revenue collection

The audit noted a break-down in controls over revenue collection at two national parks. There is no effective control over the completeness, accuracy and timeliness of receipting of moneys. As a compensating control for the audit of the financial statements, management assurances were sought in the form of visitor statistical data to ensure the completeness of revenue for the year ended 30 June 1999. ANPWF has also advised of appropriate remedial action to overcome the control weakness.

Reconciliations

Bank reconciliations, under a service provider agreement, were not carried out promptly and regularly during the year. This exposed the ANPWF to errors occurring in the general ledger and significantly increased the risk of fraud. It was recommended that the reconciliations be carried out on a regular basis.

HRMS

The HRMS, also provided by a third party, was unable to calculate the provisions for long service leave and annual leave as at 30 June 1999 because of problems associated with its implementation. An alternative approach was adopted to provide a close approximation of the liabilities. It was recommended that the HRMS be corrected to capture the required data.

Australian Heritage Commission

Reconciliations

The audit identified that the conduct of salary reconciliations to ensure the accuracy and completeness of records processed could be improved.

Family and Community Services Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Family and Community Services	✓	30-Sep-99	
CRS Australia	✓	30-Sep-99	◆
Commonwealth Services Delivery Agency (Centrelink)	✓	21-Sep-99	◆

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 1999 (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Internal control matters

Commonwealth Services Delivery Agency—Centrelink

Reconciliations

During 1998–99, Centrelink processed both the Department of Family and Community Services and Centrelink transactions using the one financial management information system. As part of the year-end audit process, a review of the reconciliation of this system to the then DoFA FIRM accounting system was undertaken to provide assurance on the exercise of management control over the monitoring of expenditure and revenue. The review also focused on verifying the accuracy, validity and completeness of financial data within the system.

While Centrelink experienced difficulty throughout the financial year reconciling the financial management information system, significant effort was applied to improve controls, and at year-end, to perform the reconciliation. Centrelink successfully completed the overall reconciliation within satisfactory materiality parameters.

Asset management

In 1997–98, it was reported that Centrelink’s asset register could not support all asset related figures included in the financial statements. During this year’s audit, the ANAO noted the remedial action taken by Centrelink to implement the necessary controls and procedures to improve asset management and recording.

CRS Australia

FMIS

The audit identified a number of areas for improvement in relation to the preventative and detective controls associated with the implementation of the new financial management information system and treatment of debtors.

Finance and Administration Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Finance and Administration	✓	20-Sep-99	◆
Commonwealth Grants Commission	✓	30-Sep-99	
Removals Australia	E	11-Oct-99	
Australian Electoral Commission	✓	29-Sep-99	
Commonwealth Superannuation Administration (ComSuper)	✓	01-Oct-99	◆
Commonwealth Superannuation Scheme (CSS)	✓	23-Sep-99	
CSS/PSS Pty Limited	✓	28-Oct-99	
Employment National Limited	E	20-Oct-99	
Employment National (Administration) Pty Limited	✓	20-Oct-99	
Office of Asset Sales and IT Outsourcing	✓	28-Sep-99	
Public Sector Superannuation Scheme (PSS)	✓	23-Sep-99	
Sydney Airports Corporation Limited	✓	30-Aug-99	
Bankstown Airport Limited	✓	28-Oct-99	
Camden Airport Limited	✓	28-Oct-99	
Hoxton Park Airport Limited	✓	28-Oct-99	
Airports Australia Pty Ltd	✓	28-Oct-99	
FAC Investments Pty Ltd	✓	28-Oct-99	
Essendon Airport Limited	✓	27-Aug-99	
Telstra Instalments Receipts Trustee Limited	✓	30-Aug-99	

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 1999

≡ (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Results of the financial statement audits

Removals Australia

Emphasis of matter

The Government has announced the impending sale of Removals Australia. As a result, there was inherent uncertainty as to whether the reporting entity, Removals Australia, would be able to continue as a going concern after a sale. Uncertainty exists as to whether it will be able to realise its residual assets and extinguish its residual liabilities in the normal course of business at the amounts stated in the financial statements. The audit report on the financial statements included an emphasis of matter in relation to this issue.

Employment National Limited

Emphasis of matter

The Employment National Limited group is entirely dependent on revenue obtained from the Commonwealth Government under a contract which expires on 27 February 2000. The group's parent company is currently tendering for a contract with the Commonwealth Government to provide similar services to the existing contract, for a further three years. The outcome of this tender, which at the time of conducting the audit was not known, may significantly impact the short-term profitability of the group. The audit report on the financial statements included an emphasis of matter in relation to this issue.

Internal control matters

Department of Finance and Administration

Financial statements preparation

The audit for 1998–99, as for the previous year, focussed on directly substantiating the balances reported in the Department's financial statements. The ANAO adopted this approach because the Department implemented a new financial management information system (FMIS) effective 1 April 1999 coupled with finalising the restructuring arising from the merger with the former Department of Administrative Services. As a result, the ANAO did not place reliance on the controls around the new FMIS for the purpose of forming an opinion on the financial statements. Nevertheless, the ANAO did examine the previous financial system, as it was operational for the first nine months of the year. Based on the results of this examination, the ANAO did place reliance on the controls for that system for this period.

Alleged misappropriation of funds

On two separate occasions, funds were allegedly misappropriated, the amounts involved being \$6 million in 1997–98 and \$2.7 million in 1998–99. The \$6 million has been expensed in the previous year's Statement of Revenues and Expenses. The \$2.7 million has been included in agency receivables for 1998–99 and has been fully provided against. Disclosures are included in the Schedule of Contingencies. These accounting treatments were based on the advised legal position at the time of preparing the financial statement. The ANAO concurred with the accounting treatments and the disclosures made. Legal action is in the Court in regard to this matter.

Other matters

Other matters brought to management's attention included:

- reconciliation of the QSP system in relation to the transactions of the CPA;
- security of the UNIX and Novell operating systems; and
- accounting for the running cost carryovers and borrowings of other agencies.

Commonwealth Superannuation Administration (ComSuper)

IT control structure

During the audit of the Commonwealth and Public Sector Superannuation Schemes, a review was performed of the key systems and manual controls over the processing of member records, contributions and benefit payments administered by ComSuper. The conclusions on these systems were favourable in terms of the key controls over the processing of individual benefit and contribution transactions. However, the review revealed a number of key system security parameters and monitoring functions which should be implemented, as well as improvements that are required in the maintenance of user access and password controls. A number of these areas for improvement are high priority as they relate to the risk of unauthorised persons gaining access to systems.

In 1997–98, the ANAO recommended that ComSuper implement procedures to ensure all key reconciliations, including member to asset reconciliations, are performed on a more regular basis and all reconciling items are understood and adjusted. While further work is required in this area, substantial progress was made during the year.

ComSuper is continuing to address these issues through the development of necessary computer systems enhancements to facilitate the more regular reconciliation of information required for financial statements purposes.

Foreign Affairs and Trade Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Foreign Affairs and Trade	✓	06-Oct-99	
AusAID	✓	29-Sep-99	
Australia-Japan Foundation	✓	29-Sep-99	
Australian Centre for International Agricultural Research	✓	10-Sep-99	
Australian Secret Intelligence Service	Q	31-Aug-99	
Australian Trade Commission	✓	26-Aug-99	
Export Finance and Insurance Corporation	✓	17-Sep-99	

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 1999
- 199* (financial year end date other than 30 June 1999)
- ◆ significant internal control issues noted

Results of the financial statement audits

Australian Secret Intelligence Service

Qualification

In 1997–98 and prior years, particular parts of the accounts of the Service were “exempt accounts” and not subject to audit by the Auditor-General. Following approval of the *Financial Management and Accountability Amendment Regulations 1999 (No.1)* on 17 March 1999, the “exempt accounts” are now subject to audit. The Service prepared, for the first time in 1998–99, a full set of financial statements which were audited by the ANAO. However, because of a limitation on the extent of testing able to be performed on comparative information and opening balances relating to the exempt accounts from 1997–98, the audit report on the financial statements was qualified. It should be noted that this qualification is not expected to re-occur in future years

Internal control matters

No further significant internal control matters were noted in this portfolio since Audit Report No.10.

Health and Aged Care Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Health and Aged Care	✓	11-Oct-99	
Therapeutic Goods Administration	✓	11-Oct-99	
Aged Care Standards and Accreditation Agency Limited	✓	10-Sep-99	
Australian New Zealand Food Authority	E	21-Sep-99	
Australian Hearing Services	✓	17-Sep-99	
National Hearing Aids Systems Pty Limited	✓	Q	
Australian Institute of Family Studies	✓	14-Sep-99	
Australian Institute of Health and Welfare	✓	06-Sep-99	
Australian Radiation Protection and Nuclear Safety Authority	✓	15-Oct-99	
Health Insurance Commission	✓	17-Sep-99	◆
Health Services Australia Limited	✓	27-Sep-99	
Medibank Private Limited	✓	10-Sep-99	◆
Nuclear Safety Bureau	✓	21-Sep-99	
Private Health Insurance Administration Council	✓	29-Sep-99	
Private Health Insurance Ombudsman	✓	19-Jul-99	
Professional Services Review	✓	06-Oct-99	

Key

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

Q signed financial statements not presented for audit by 24 November 1999

Q (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Results of the financial statement audits

Australia New Zealand Food Authority

Emphasis of matter

The audit report included an emphasis of matter on the inherent uncertainty relating to the Authority's financial support. In 1998–99, the Authority incurred operating losses of \$1 566 144 resulting in a net asset deficiency of \$907 847. Accordingly, there is significant uncertainty as to whether the Authority will be able to continue as a going concern as realisation of its assets may not be sufficient to extinguish its liabilities in the normal course of business at the amounts stated in the financial statements.

Internal control matters

Health Insurance Commission

Validity of expenditure

The ANAO recommended improvements be made in the controls surrounding payments under the 30% Rebate Scheme as they were not

sufficient to ensure the accuracy and validity of all payments made. This was due to the delays in the implementation of post payment reconciliation procedures.

Audit Report No.10 reported on control weaknesses in the Medicare and Pharmaceutical Benefit systems. The Professional Review Division (PRD) of the Commission performed post validation reviews of these payments. The ANAO's review highlighted concerns about the level of critical errors identified within the Pharmaceutical Benefits scheme payments. It was recommended that controls be improved within the PBS system and the PRD reviews be used by management to determine the level of misstatement and initiate action to avoid future re-occurrence of errors.

Medibank Private Limited

IT systems

The ANAO made recommendations concerning a number of issues including IT matters which management has subsequently advised of remedial action taken or proposed.

Immigration and Multicultural Affairs Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Immigration and Multicultural Affairs	✓	05-Oct-99	◆

Key

✓ audit report not modified	☛ signed financial statements not presented for audit by 24 November 1999
E audit report contains an emphasis of matter	^{ESP} (financial year end date other than 30 June 1999)
Q audit report contains a qualification	◆ significant internal control issues noted

Internal control matters

Department of Immigration and Multicultural Affairs

Offshore revenue collection system

The audit of selected overseas posts indicated that the Department has initiated reforms to strengthen the control structure supporting the offshore revenue collection system. Overall, it was noted that newly established controls were operating effectively. However, some significant, although isolated, issues were raised in relation to mail processing and receipting procedures.

Asset management, receipting and reconciliations

The Department has made significant progress to rectify the control weaknesses identified in previous years relating to non-current assets, the completeness of administered revenue and system reconciliations. This included the development of:

- asset management policies and the establishment of a new assets register;
- revenue policies and procedures;
- systems to capture financial data to facilitate the preparation of the financial statements; and
- reconciliations between key financial and non-financial systems.

All outstanding issues were satisfactorily resolved for financial statement purposes. The Department is continuing work on establishing a sound internal control structure that ensures the assets register is maintained and regularly reconciled to acquisition and disposal data, and to the general ledger.

Industry, Science and Resources Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Industry, Science and Resources	✓	19-Oct-99	◆
Australian Government Analytical Laboratories	✓	21-Oct-99	
Australian Surveying and Land Information Group	✓	20-Oct-99	
Bureau of Tourism Research	✓	20-Oct-99	
Australian Industry Development Corporation	✓	18-Nov-99	
Australian Institute of Marine Science	✓	15-Sep-99	
Australian Marine Science and Technology Limited	✓	27-Oct-99	
Australian Nuclear Science and Technology Organisation	✓	18-Aug-99	
Australian Sports Commission	✓	17-Sep-99	
Australian Sports Foundation	✓	07-Sep-99	
Australian Sports Drug Agency	✓	20-Sep-99	
Australian Technology Group Limited	✓	01-Oct-99	
Australian Tourist Commission	✓	06-Sep-99	
Commonwealth Scientific and Industrial Research Organisation	✓	06-Sep-99	
Energy Research and Development Corporation		➤	
IP Australia	✓	10-Sep-99	
IIF Investments Pty Ltd	✓	29-Oct-99	
IIF (CM) Investments Pty Ltd	✓	29-Oct-99	
Joint Coal Board	✓	21-Sep-99	
Coal Mines Insurance Pty Limited	✓	29-Oct-99	
Murray-Darling Basin Commission	✓	13-Oct-99	
National Aeronautics and Space Administration ^{ESP} (30 Sep 98)	✓	10-Aug-99	
National Standards Commission	✓	27-Aug-99	
Snowy Mountains Hydro-electric Authority	E	14-Sep-99	

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 1999

^{ESP} (financial year end date other than 30 June 1999)

◆ 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 currently determined.

Internal control matters

Department of Industry, Science and Resources

Financial statements preparation

The Department's financial statements were derived from a combination of systems and manual processes which were complicated by the need for the Department to manage a number of new functions as a result of the revised administrative arrangements of 21 October 1998. In addition, there was:

- a failure to conduct reconciliations of the financial management information system from the date of its implementation in February to year end; and
- inaccurate and incomplete information provided on divisional returns.

This resulted in a need for a significant review of the underlying data prior to it being relied upon for financial statement preparation. Consequently, there was a delay in the preparation of the financial statements and their initial quality was less than desirable. As a result, the Department failed to meet its legislative obligations of providing financial statements to the Minister by the 15 October 1999.

Other matters

The audit identified the following matters requiring attention by the Department:

- the reconciliation of departmental bank accounts for July, August and September had not been completed by mid-October because the existing functionality of the financial management information system makes this a manually intensive exercise. Given the difficulties in finalising the reconciliations, the Department instigated a process of daily monitoring of bank balances. With the Department now receiving appropriations monthly, and being fully accountable for the management of cash balances, it is imperative that full reconciliations are conducted regularly and in a timely manner; and
- the ANAO observed that on numerous occasions a single officer has both prepared and processed journal adjustments to the financial management information system. The lack of an appropriate segregation of duty over this function places the integrity of financial records at risk as errors or other irregularities may occur without detection.

Parliamentary Departments

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of the Senate	✓	20-Sep-99	
Department of the House of Representatives	✓	15-Oct-99	
Department of the Parliamentary Library	✓	30-Jul-99	
Department of the Parliamentary Reporting Staff	✓	01-Sep-99	
Joint House Department	✓	28-Sep-99	

Key

- | | |
|---|---|
| ✓ audit report not modified | ☛ signed financial statements not presented for audit by 24 November 1999 |
| E audit report contains an emphasis of matter | ^{ESP} (financial year end date other than 30 June 1999) |
| Q audit report contains a qualification | ◆ 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 1999	Audit report	Opinion issued	Internal control
Department of the Prime Minister and Cabinet	✓	17-Aug-99	
Aboriginal and Torres Strait Islander Commercial Development Corporation	✓	11-Oct-99	
Barra Base Holdings Pty Limited	✓	12-Oct-99	
Barra Base Unit Trust	✓	12-Oct-99	
Bonner House Trust	✓	12-Oct-99	
CDC Nominees (Gagudja Crocodile Hotel) Trust	✓	12-Oct-99	
CDC Nominees (Gagudja Lodge Couinda) Trust	✓	12-Oct-99	
CDC Investments (Tasmanian Aquaculture) Pty Limited	✓	12-Oct-99	
CDC Nominees (Cairns Art) Pty Limited	✓	12-Oct-99	
Cairns Art Joint Venture Participation Trust	✓	12-Oct-99	
CDC Nominees (Ceduna) Pty Limited	✓	12-Oct-99	
Ceduna Joint Venture Participation Trust	✓	12-Oct-99	
CDC Nominees (Dandenong) Pty Limited	✓	12-Oct-99	
Sunwood Joint Venture Participation Trust	✓	12-Oct-99	
Bowen Basin Investments Pty Ltd	✓	12-Oct-99	
Bowen Basin Investments Trust	✓	12-Oct-99	
CDC Nominees (GPI Ferry) Pty Limited	✓	12-Oct-99	
Palm Island Ferry Shipping Trust	✓	12-Oct-99	
CDC Nominees (GRC) Pty Limited	✓	12-Oct-99	
Gordon River Cruises Participation Trust	✓	12-Oct-99	
CDC Nominees (McArthur River) Pty Limited	✓	12-Oct-99	
CDC Nominees (McArthur River Shipping) Pty Limited	✓	12-Oct-99	
Carpentaria Shipping Trust	✓	12-Oct-99	
CDC Nominees (Mt Todd) Pty Limited	✓	12-Oct-99	
Mt Todd Joint Venture Participation Trust	✓	12-Oct-99	
CDC Nominees (QBH) Pty Limited	✓	12-Oct-99	
Queensland Bulk Haulage Participation Trust	✓	12-Oct-99	
CDC Nominees (South East Sydney) Pty Limited	✓	12-Oct-99	
South East Sydney Trust	✓	12-Oct-99	
CDC Nominees (TCTP) Pty Limited	✓	12-Oct-99	
TCTP Participation Trust	✓	12-Oct-99	
CDC Nominees (WWLS) Pty Limited	✓	12-Oct-99	
WWLS Participation Trust	✓	12-Oct-99	
CDC Services Pty Limited	✓	12-Oct-99	
Ngarrindjeri Community Orchard Pty Limited	✓	12-Oct-99	
Tasmanian Investment Unit Trust	✓	12-Oct-99	
Torres Strait Islander Investment Corporation Pty Limited	✓	12-Oct-99	
Torres Strait Islander Investment Trust	✓	12-Oct-99	

continued over...

Prime Minister and Cabinet Portfolio (continued)

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Aboriginal and Torres Strait Islander Commission	✓	28-Oct-99	◆
Aboriginals Benefit Reserve	✓	29-Sep-99	
Aboriginal and Torres Strait Islander Education and Cultural Advancement Trust	✓	28-Oct-99	
Aboriginal and Torres Strait Islander Land Fund Reserve	✓	28-Oct-99	
Billoara Pty Limited	✓	27-Sep-99	
Billoara Unit Trust	✓	27-Sep-99	
Morr Morr Pastoral Co Pty Limited	✓	30-Sep-99	
Yeperenye Pty Limited	✓	14-Sep-99	
Aboriginal Hostels Limited	✓	25-Aug-99	
Australian Institute of Aboriginal and Torres Strait Islander Studies	✓	06-Sep-99	
Anindilyakwa Land Council	✓	10-Oct-99	
Central Land Council	✓	29-Oct-99	
Tiwi Land Council	✓	29-Oct-99	
Indigenous Land Corporation	✓	09-Sep-99	
Northern Land Council	✓	17-Sep-99	
Office of National Assessments	✓	30-Sep-99	
Office of the Commonwealth Ombudsman	✓	10-Sep-99	
Office of the Inspector-General of Intelligence and Security	✓	06-Sep-99	
Office of the Official Secretary to the Governor-General	✓	17-Aug-99	
Public Service and Merit Protection Commission	✓	30-Aug-99	
Torres Strait Regional Authority	✓	10-Sep-99	

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 1999

≠ financial year end date other than 30 June 1999

◆ significant internal control issues noted

Internal control matters

Aboriginal and Torres Strait Islander Commission (ATSIC)

Loan insurance

In 1997–98, the ANAO reported that a large number of loans under the housing and enterprise loan programs did not have current and/or adequate insurance. In response, ATSIC implemented a new management system to provide enhanced insurance tracking and reporting capabilities. ATSIC also took out its own insurance cover against the risk of loan defaulters.

The ANAO reviewed the loan data on the new system and noted that a large number of the loans were still not covered by insurance. This was due to some borrowers not notifying ATSIC that they had the required

insurance, the management system not being updated with some current borrower information, and difficulty enforcing borrowers to continue to take out the insurance after the first year of the loan.

It was recommended that ATSIC continue to follow-up on housing and enterprise loans without current insurance. However, the risk from loan defaulters has been significantly reduced with the implementation of the new management system and by taking out insurance cover.

Employee reconciliations

It was noted that reconciliations between the various employee systems are not performed. Consequently, there is no assurance that information being transferred between the systems is correct and that the general ledger is an accurate reflection of the actual amounts being paid.

It was recommended that reconciliations between these systems be performed on a regular basis.

Grant administration

In 1997–98, the ANAO reported delays by ATSIC in finalising acquittals for grants and, receiving and analysing periodic financial reports. During 1998–99, ATSIC continued to improve controls over the administration of grant expenditure.

Transport and Regional Services Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of Transport and Regional Services	✓	24-Sep-99	◆
Airservices Australia	✓	26-Aug-99	
Albury-Wodonga Development Corporation	✓	07-Sep-99	
Australian River Co. Limited	E	15-Sep-99	
Trans-United Pty Limited	✓	15-Sep-99	
Closing Working Capital Statements			
Liner Shipping Business	Q	20-Aug-99	
Bulk Shipping Business	Q	03-Nov-99	
Quality Container Management Pty Limited	Q	20-Aug-99	
Australian Maritime College ^{ESP} (31 Dec 98)	✓	30-Mar-99	
Australian Maritime College Search Limited ^{ESP} (31 Dec 98)	✓	30-Mar-99	
Australian Maritime Safety Authority	✓	23-Sep-99	
Australian National Railways Commission	✓	15-Oct-99	
Australian Rail Track Corporation	✓	22-Oct-99	
Civil Aviation Safety Authority	✓	10-Sep-99	
Federal Airports Corporation	✓	17-Sep-99	
Maritime Industry Finance Company Limited	✓	06-Oct-99	
Stevedoring Industry Finance Committee	✓	09-Sep-99	
National Capital Authority	✓	30-Sep-99	
National Rail Corporation Limited	✓	24-Sep-99	
National Road Transport Commission	✓	15-Sep-99	

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 1999

^{ESP} (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Results of the financial statement audits

Australian River Co Limited (ARCO)

Emphasis of matter and qualifications

The audit report on ARCO contained an emphasis of matter regarding uncertainty over the impact on the financial statements of the restructure of the Company.

The Government commenced a trade sale process of ARCO and all of its remaining businesses effective April 1998. Negotiations commenced with preferred bidders prior to 30 June 1999 and the trade sales were consummated post this date. On 13 August 1999, the Minister for Finance and Administration wrote to ARCO and stated that the sale process of the core operating businesses of the economic entity had been concluded. However, at the date of the audit report, the Government had not

announced its intention regarding the final structure of ARCO and its remaining operations. No adjustments or reclassifications were made in the financial statements to reflect any changes that may arise as a result of the Government finalising its deliberation of the above matters. The audit report made reference to the uncertainty over the impact on the financial statements of the possible restructure.

Throughout the year, special purpose audit reports were also issued on Closing Statements of Working Capital prepared to support the sale of ARCO's liner shipping business, bulk shipping business and a controlled entity, Quality Container Management Pty Ltd. The Closing Statements were prepared for the purpose of determining necessary post sale adjustments to the purchase price of the businesses. Information included in the financial statements was derived from Opening Working Capital Statements. The special purpose audit reports on the Closing Statements were qualified on the basis that, financial information sourced from Opening Working Capital Statements had been subject to review and not a full scope audit and because of potential differences in the interpretation of accounting policies applied between the vendor and the respective purchasers.

Department of Transport and Regional Services

Removal of emphasis of matter

In previous years, the audit report on the financial statements of the then Department of Workplace Relations and Small Business referred to the uncertainty over stevedoring company levy receivables. Whilst the related levy program had ceased operation in 1995, there was significant uncertainty as to whether all levy payers had remitted correct levies to the Commonwealth. The Department had not determined how it intended to pursue and finalise this matter.

In October 1998, responsibility for administration of this program, along with associated receivables and payables of approximately \$1.8 million, were transferred to the Department of Transport and Regional Services.

Given the passage of time, and the fact that the new scheme is now in operation, the Department considered there was little likelihood of known or unknown receivables in relation to the previous scheme being recovered. The Department proposed the following course of action in resolving outstanding debts under the old levy scheme:

- amounts owed to the Commonwealth under the old scheme would not be pursued;
- the Department provided for the future write-off of the outstanding levy receivables due under the old scheme in 1998–99 and, following appropriate consultation, will pursue write off of these amounts in 1999–2000; and

- the Department will seek appropriate approval from the Minister and liaise with industry in pursuing this course of action during 1999–2000.

The ANAO agreed that these actions are appropriate in resolving uncertainty over the levy receivables and, on this basis, removed the previous reference to this uncertainty in the audit report.

Internal control matters

Department of Transport and Regional Services

Revenue collection – new stevedoring levy scheme

The following control matters were raised with the Department in relation to the processing and administration of the new stevedoring levy scheme:

- under legislation, a person who is liable to pay a levy must remit a monthly return to the Commonwealth. There was no follow-up by the Department to ensure that all levy payers were remitting returns as required and thus there were inadequate controls over the completeness of levies collected;
- the Department failed to impose penalties for the late payment of levies as is required under the *Stevedoring Levy (Collection) Act 1998*;
- receipts were not being issued for all levies received by the Department. The issuing of receipts is an important control in enabling assurance to be gained that all moneys received are promptly banked and accounted for with the failure to issue receipts increasing the risk of misappropriation;
- moneys received by the Department were deposited into a bank account. The levies were then remitted to the Consolidated Revenue Fund on a monthly basis. This was a breach of section 18 of the *Financial Management and Accountability Act 1997* (FMA Act) which required that public moneys be transferred to Consolidated Revenue as soon as practicable after receipt;
- in addition, the levies were not recorded in the Department's systems until transfer to Consolidated Revenue. The failure to promptly record moneys increases the risk of misappropriation and error;
- interest earned on the bank account was not remitted to consolidated revenue but was held in the bank account and used to fund bank account expenses. This was a further breach of section 18 of the FMA Act; and
- the bank account was not reconciled on a regular basis. Bank reconciliations are an important control in ensuring the accuracy and completeness of financial transactions recorded.

Treasury Portfolio

<i>Reporting entity as at 30 June 1999</i>	<i>Audit report</i>	<i>Opinion issued</i>	<i>Internal control</i>
Department of the Treasury	✓	11-Oct-99	◆
Royal Australian Mint	✓	24-Sep-99	
Australian Bureau of Statistics	✓	21-Sep-99	
Australian Competition and Consumer Commission	✓	26-Aug-99	
Australian Prudential Regulation Authority	✓	19-Aug-99	
Australian Securities and Investments Commission	✓	07-Sep-99	
Australian Taxation Office	✓	20-Oct-99	◆
Australian Valuation Office	✓	20-Oct-99	
Companies and Securities Advisory Committee	✓	24-Sep-99	
National Competition Council	✓	14-Sep-99	
Productivity Commission	✓	20-Sep-99	
Reserve Bank of Australia	✓	05-Aug-99	
Note Printing Australia Ltd	✓	27-Jul-99	
Reserve Bank of Australia Officers' Superannuation Fund	✓	30-Sep-99	

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 1999

SP (financial year end date other than 30 June 1999)

◆ significant internal control issues noted

Internal control matters

Department of the Treasury

Financial statement preparation

The Department made a substantial investment in acquiring and implementing its financial management information system, which was implemented as at 1 July 1998. However, the system was not utilised for the production of the administered financial statements. In addition, its effectiveness in the preparation of the agency financial statements was limited, with financial data sourced from alternative means, by both the Department and the ANAO.

To ensure an effective and controlled process for the preparation of annual financial statements and monthly management financial reports, the system should be fully operational and utilised. This will also facilitate a more efficient and effective audit process, as the ANAO would intend to be able to rely on this system and its output.

Furthermore, this has also resulted in the ANAO not being able to provide adequate assurance on the opening balances within the system of the Department and the new Australian Office of Financial Management (AOFM) for the 1999–00 year. The ANAO will need to

review the process of correcting opening balances, in particular, the transfers of assets and liabilities to the AOFM in order to provide adequate assurance on the 1999–00 financial statements.

Revenue recognition issues

During 1998–99, the Department raised issues with the ANAO in respect to the recognition of dividends and expenses associated with the revenue replacement payments made to the States.

In respect to dividends, the ANAO concluded that changes to Australian Accounting Standards (AAS 15 – *Revenue*) required a change of accounting policy for the Department. This resulted in a dividend of \$3676 million payable by the Reserve Bank of Australia not being recognised as a receivable in the financial statements of the Department for the year ended 30 June 1999. A note to the accounts was made to recognise this item as an ‘event occurring after balance date’.

A change in accounting for the revenue replacement payments also occurred and was satisfactorily disclosed in a note to the financial statements. This item is now reported as receipts and payments of ‘special public moneys’, money not held on account of the Commonwealth or for the use or benefit of the Commonwealth. Essentially, this is due to the agent/principal relationship between the Commonwealth and the States in relation to these moneys. The total change to the face of the statements for 1998–99 is a reduction of other administered expenditure of \$6752 million.

Australian Taxation Office

Risk management

To ensure the completeness of taxation revenue, risk management practices were examined by the ANAO during the financial statements audit. This included evaluating the effectiveness of the control structures in place to ensure that the Australian Taxation Office (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 the risk rating; and reporting on results of programs. The ANAO considered the risk management program conducted by the ATO to be sound and that reasonable controls existed to limit the exposure to incomplete receipts.

Revenue recognition

During the preparation of the 1999 Budget, discussions were held between Treasury, DoFA and the ANAO regarding the appropriateness

of various methods proposed for revenue recognition in the budget context.

The ANAO sought advice from accounting and legal experts concerning the revenue recognition policy used by the ATO. The concepts of event, control and measurement are central to the definition of revenue. The information received was similar to previous professional advice provided to the ANAO concerning the above concepts and indicated that the current accounting method used by the ATO in respect of financial statements was considered appropriate and consistent with Australian Accounting Standards.

The professional advice also confirmed that the point of control for ATO revenue is when the government has the right to collect the tax. However, this has resulted in the information presented in the 1999–00 Budget and ATO financial statements being prepared on a different basis.



Canberra ACT
9 December 1999

P. J. Barrett
Auditor-General

Appendix

Appendix

Accounting and auditing framework

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 bodies controlled by the Commonwealth.

Commonwealth agencies

Commonwealth agencies are those agencies that 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 directors of authorities to 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.

Directors of a Commonwealth authority must ensure subsidiaries of the authority 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*.

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 bodies

The ANAO also audits the financial statements of other bodies 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 agencies, 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 the 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 agency 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 agency'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 agency 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.

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