

The Auditor-General
Audit Report No.23 2000–2001
Financial Statement Audit

Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000

Summary of Results

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ISSN 1036-7632
ISBN 0 642 44262 2

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Canberra ACT
15 December 2000

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*. 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 2000*.

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
Parliament House
Canberra ACT

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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Contents

Foreword	7
Executive Summary	9
Reporting Issues	
Government's Reform Agenda	15
Introduction	15
Budgeting and reporting framework	15
Accrual budgeting and reporting	16
Outcomes and outputs	16
Challenges Facing Agencies in Implementing the Reforms	18
Moving forward	18
Timing for Financial Statement preparation	18
Interim reporting	23
Resourcing	23
Agency banking	23
Summary of Current Control Issues	25
FMIS implementation and information technology controls	25
Accounting systems controls	27
Specific Accounting Issues	28
Reporting of appropriations	28
Classification of administered and departmental items	29
Accounting for IT outsourcing contracts	30
Summary Results of the Audits of Financial Statements	
Introduction	35
Summary of audit reports issued	36
Qualified audit reports	36
Departures from Financial Requirements	36
Breaches of the Constitution or Other Legislation	39
'Limitation of Scope' Matters	40
Audit reports containing an 'emphasis of matter'	40
Results of the Audits of Financial Statements—by Portfolio	
Introduction	45
Agriculture, Fisheries and Forestry Portfolio	46
Attorney-General's Portfolio	50
Communications, Information Technology and the Arts Portfolio	51
Defence Portfolio	53
Education, Training and Youth Affairs Portfolio	56
Employment, Workplace Relations and Small Business Portfolio	58
Environment and Heritage Portfolio	59
Family and Community Services Portfolio	62

Finance and Administration Portfolio	63
Foreign Affairs and Trade Portfolio	64
Health and Aged Care Portfolio	65
Immigration and Multicultural Affairs Portfolio	67
Industry, Science and Resources Portfolio	68
Parliamentary Departments Portfolio	69
Prime Minister and Cabinet Portfolio	70
Transport and Regional Services Portfolio	73
Treasury Portfolio	75
Appendix	
Accounting and auditing framework	81
The financial reporting framework	81
Commonwealth of Australia	82
Commonwealth agencies	82
Commonwealth authorities and subsidiaries	82
Commonwealth companies and subsidiaries	83
Other bodies	83
Financial statement audit scope	83
The audit report on financial statements	84
Series Titles	85
Better Practice Guides	87

Foreword

This report brings together the results of the audits of the financial statements of all Commonwealth reporting entities, including the Commonwealth Government of Australia Consolidated Financial Statements (CFS).

It complements my mid year report, *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the period ended 30 June 2000* (No. 52 1999–2000), which discussed the more significant risk and control issues identified during the interim phase of the financial statements audits of major Commonwealth agencies.

The reporting deadline for Commonwealth entities for 1999–2000 was advanced significantly to facilitate the preparation of the Final Budget Outcome (FBO) which was required to be tabled in the Parliament by 30 September 2000 in accordance with the *Charter of Budget Honesty Act 1998*. This also allowed the more timely completion of the Commonwealth's Consolidated Financial Statements (CFS) on 5 October 2000, some 9 weeks ahead of the timetable achieved in 1998–99.

Timely and quality financial statements are largely dependent on effective computer based information systems. To comply with the Government's new financial reporting initiatives, agencies have implemented, or are in the process of implementing, new financial management information systems. Many of these systems still do not have full operational functionality and, as a consequence, a variety of bridging methods have been adopted by agencies to prepare their financial statements for 1999–2000.

There is also a general shortage of trained and experienced personnel with accounting qualifications within the public sector, which is also impacting on the private sector, particularly in the Australian Capital Territory. The impact of this shortage has the potential to adversely affect the quality, cost and timeliness of financial statements. The successful implementation of the Government's financial reforms will depend on the ongoing training provided, and acquisition of accounting skills, by agencies.

There are a number of financial statement reporting issues that still need to be further addressed before the Government's financial reforms will achieve their full potential. Improvement in the timeliness of financial information in the past year has been commendable. It is now a matter of improving the quality of financial information particularly in

association with the focus on program outputs and outcomes as part of the accrual budgeting approach which is central to the Government's reform initiatives.

I would again 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, also enabled the satisfactory completion of audited financial statements within the earlier timeframe required by the Government. I should also acknowledge the assistance of private sector accounting and auditing firms which was essential to that achievement. This is a reflection of the co-operative arrangements that have been put in place over a number of years which have resulted in significant public benefits.

P.J Barrett
Auditor General

Executive Summary

1. This report summarises the final results of the audits of the financial statements of Commonwealth entities, forming the second report this calendar year on financial statement audits for the period ended 30 June 2000. It complements Audit Report No.52 1999–2000 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 2000*.

2. The changing public sector financial environment has necessitated increased focus on the control structures that facilitate Chief Executive Officers and Directors meeting their responsibilities under the *Financial Management and Accountability (FMA) Act 1997* and the *Commonwealth Authorities and Companies (CAC) Act 1997*. Audits of financial statements emphasise the identification of business risks impacting on financial operations; evaluate the design and effectiveness of control structures to mitigate those risks; and assess whether the financial information is fairly presented.

3. The earlier report summarised major issues in relation to financial systems, controls and processes from examinations of major Commonwealth entities as part of the audits of their financial statements. It raised significant issues that warrant attention in order to ensure there is improvement in the quality of the underlying control structures that support the reporting of public sector financial performance and accountability. This is necessary for the efficient and effective management of public revenues as well as to provide appropriate assurance to the Government and to the Parliament, about the accounting for public money and other resources.

Results of the audits of financial statements

4. The ANAO is responsible for the audit of the financial statements of 293 Commonwealth entities (see Table 1), compared with 287 entities last year.

Table 1
Type and number of entities audited

Reporting entity	1999–00	1998–99
Commonwealth's Consolidated Financial Statements	1	1
Agencies:		
—Departments of State	17	17
—Parliamentary Departments	5	5
—Prescribed Agencies	43	41
—Business Operations	12	21
Commonwealth authorities and their subsidiaries	177	169
Commonwealth companies and their subsidiaries	35	29
Other	3	4
Total	293	287

5. The bulk of the Commonwealth's revenues, expenses, assets and liabilities are accounted for by a relatively small number of Commonwealth entities. 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.

6. Part One of this report—*Reporting Issues*—is a commentary on the structure and status of the new financial framework, focusing on the quality and timeliness of the preparation of the annual financial statements. While there has been a significant improvement in the timeliness of the preparation of the annual financial statements in the past year, financial statement reporting issues in relation to reporting of appropriations, classification of administered and departmental items and accounting for information technology (IT) outsourcing contracts still need to be further addressed.

7. The major areas of potential improvement continue to be in obtaining appropriately skilled staff and achieving the effective implementation and staff understanding of new information systems. In addition to commentary on these financial reporting issues, this part of the report also includes a summary of current control issues. The ability to rely upon the effectiveness of these controls is integral to the risk-based audit approach adopted by the Australian National Audit Office (ANAO) in that sound controls contribute greatly to the integrity, validity and reliability of the Commonwealth's financial and other data.

8. Part Two—*Summary Results of the Audits of Financial Statements*—discusses the summary final results of the audits of the financial statements, providing details regarding qualifications and any matters emphasised in individual audit reports.

9. Part Three—*Results of the Audits of Financial Statements by Portfolio*—provides the results of the individual financial statement audits and any additional significant control issues identified since Audit Report No.52. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 21 October 1998, as amended.

Reporting Issues

Government's Reform Agenda

Introduction

10. To encourage a more efficient and effective public sector the Government has adopted a new model of financial management. The model incorporates:

- alignment between budgeting and reporting—to provide a direct comparison between budgeted and actual results;
- introduction of a purchaser/provider concept—to allow for the separation between the Government as a purchaser and an agency and/or the private sector as the provider of goods and services; and
- production of outputs by agencies that are purchased by the Government to achieve specified outcomes—to facilitate enhanced performance measurement and assessment.

11. With the adoption of the new financial management model, greater emphasis has had to be placed on the quality and timeliness of financial information. This information is crucial to performance evaluation and decision making for the financial, including budgetary, activities of government.

12. The following is a commentary on the structure and status of the new model with particular reference to the quality and timeliness of financial information.

Budgeting and reporting framework

13. The Commonwealth's budgeting and reporting framework is essential to the structural and cultural change that the Government has introduced for a more efficient and effective public sector. The framework is important as financial information is a key performance measure.

14. The Department of Finance and Administration (DOFA) has developed guidance on applying the framework in order to assist agencies and authorities to prepare financial reports on a consistent basis. It is intended that the use of trend data over time and comparisons against similar businesses should provide a guide to managers on how well their entity is performing and suggest areas to improve performance by focussing managers on three key areas of financial management: the full costs of operations, asset and debt management and cash flow management.

15. Pivotal to the framework are two fundamental and complementary aspects:

- accrual budgeting and reporting—which measures the full cost of doing business; and
- managing through outcomes and outputs—which focuses managers on what they are delivering as well as how and why.

Accrual budgeting and reporting

16. Accrual budgeting and reporting is the central component of the new framework. It captures full resource costs by recognising transactions as they occur, irrespective of when cash is paid or received.

17. Through accrual budgeting and reporting, it is intended that the prices of outcomes and outputs will be reliably measured and compared with those of alternative providers to evaluate performance. The basis for comparison is intended to be mainly price, as opposed to cost, to encourage benchmarking of functions and activities to ensure that the Government receives the best value for money. Qualitative assessments can also be important in relation to the latter.

18. The key to success is for agencies to use their financial information as a basis for decision making on resource allocation and performance assessment, including benchmarking and market testing to ensure that they are performing favourably when compared to other organisations that produce similar outputs, having regard to service standards and accountability requirements which may be different.

Outcomes and outputs

19. Complementing the introduction of accrual budgeting and reporting is the adoption of the outcomes and outputs framework. This latter approach is intended to assist management decision making and performance by focussing attention on the Government's goals (outcomes), how it wants to go about achieving those goals (outputs) and measuring performance in achieving both outputs and outcomes.

20. The outcomes and outputs methodology involves:

- government specifying the outcomes it is seeking to achieve in a given policy/administrative arena;
- outcomes being specified in terms of the impact government is aiming to have on some aspect of society;
- Parliament appropriating funds to facilitate the achievement of these outcomes.

- government using the funds appropriated by Parliament to purchase outputs from agencies and/or the private sector;
- agencies specifying the outputs they undertake to provide to contribute to the achievement of these outcomes;
- agencies applying the funds appropriated to them to the activities and processes that generate the products and services that constitute their outputs; and
- performance indicators being developed to evaluate the effectiveness of outputs on outcomes and performance in terms of price, quality and quantity.

Challenges Facing Agencies in Implementing the Reforms

Moving forward

21. The current use of information contained in the financial statements tends to focus on meeting accountability and compliance requirements. Benefits in using financial information for informed operating and management decision-making and performance evaluation are yet to be fully realised. For this progression to occur, financial information must be appropriate for purpose, timely and of high quality.

22. The Government brought forward the timetable for the preparation of agencies' financial statements for 1999–2000. Agencies have largely met the challenge, thus significantly improving the timeliness of annual financial information. They must now address the next stage of development by ensuring the high quality of that information, not only at year end, but continuously through out the year.

23. The ANAO adds credibility to the financial statement reporting process by assuring the quality of the information provided by management in the financial statements. The ANAO also contributes to the improvement in quality by making audit recommendations, which are aimed at assisting agencies to improve the processes used to produce financial information and its quality.

Timing for financial statement preparation

24. With the introduction of the Government's financial reforms, the Commonwealth Budget and the Commonwealth Consolidated Financial Statements (CFS) are produced on an accrual basis. The Final Budget Outcome (FBO) is now derived from the CFS.

25. The *Charter of Budget Honesty Act 1998* requires the FBO to be tabled by 30 September each year. Meeting this deadline required bringing forward the completion of the CFS and the production of the financial statements for individual Commonwealth entities. This required the financial results of all material entities forming part of the CFS to be prepared and audit cleared by 15 August 2000, posing significant challenges for all those entities involved, including the ANAO.

26. The process necessitated the early completion of both the financial statement preparation and audit processes.

27. To ensure the success in meeting the 15 August 2000 timetable, as much of the financial statements preparation and audit processes as practically possible were performed prior to 30 June 2000.

28. In accordance with the ANAO Better Practice Guide *Building Better Financial and Management Support* (November 1999), the workload was shifted away from peak workload periods by undertaking a 'hard close'¹ before financial year end. For most organisations this meant a 'hard close' at the end of May 2000.

29. To assist in the achievement of a successful outcome, prior to 30 June 2000 the ANAO agreed, with most material entities being audited, the appropriateness of the financial disclosure in their financial statements.

30. The adoption of the above initiatives contributed significantly to the achievement of the Government's objectives. However, this improvement in timeliness was not matched by the quality of the financial statement preparation process. To meet the reduced reporting timetable it is essential that agencies have their financial management information systems (FMIS) fully functional and maintained by trained staff, or specialist consultants, with the required experience in systems management and accrual accounting. Many agencies are yet to fulfil this objective to their own or other stakeholder satisfaction.

31. 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 statement preparation process to two days, through business process re-engineering. It also indicates that it is now common better practice to produce financial reports within five to seven days following the end of the designated financial period. In this context, the Minister for Defence has recently stated that, for 2000–2001, he expects the Department of Defence to 'balance the books' within ten days of the end of the financial year². This should facilitate improved timeliness in the production of the financial statements for the Department .

¹ A 'hard close' is generally associated with the traditional 'close the books' process for the production of financial reports for outside regulators. It typically involves performing reconciliations, searching for undetected accruals or transactions processed in the wrong period, verification of physical balances and analysis of transactions and balances to detect errors arising from mis-classification or mis-posting. It may also include obtaining independent appraisals and estimates for balances not able to be determined by other means. Better practice organisations undertake a 'hard close' only where there is an external, regulatory requirement to produce financial statements. For most Commonwealth organisations this will be the annual financial statements.

32. As illustrated below, while the majority of Commonwealth entities preparing financial statements do not yet meet better practice standards, there has, nevertheless, been significant improvement in the time taken to prepare financial statements over that achieved last year.

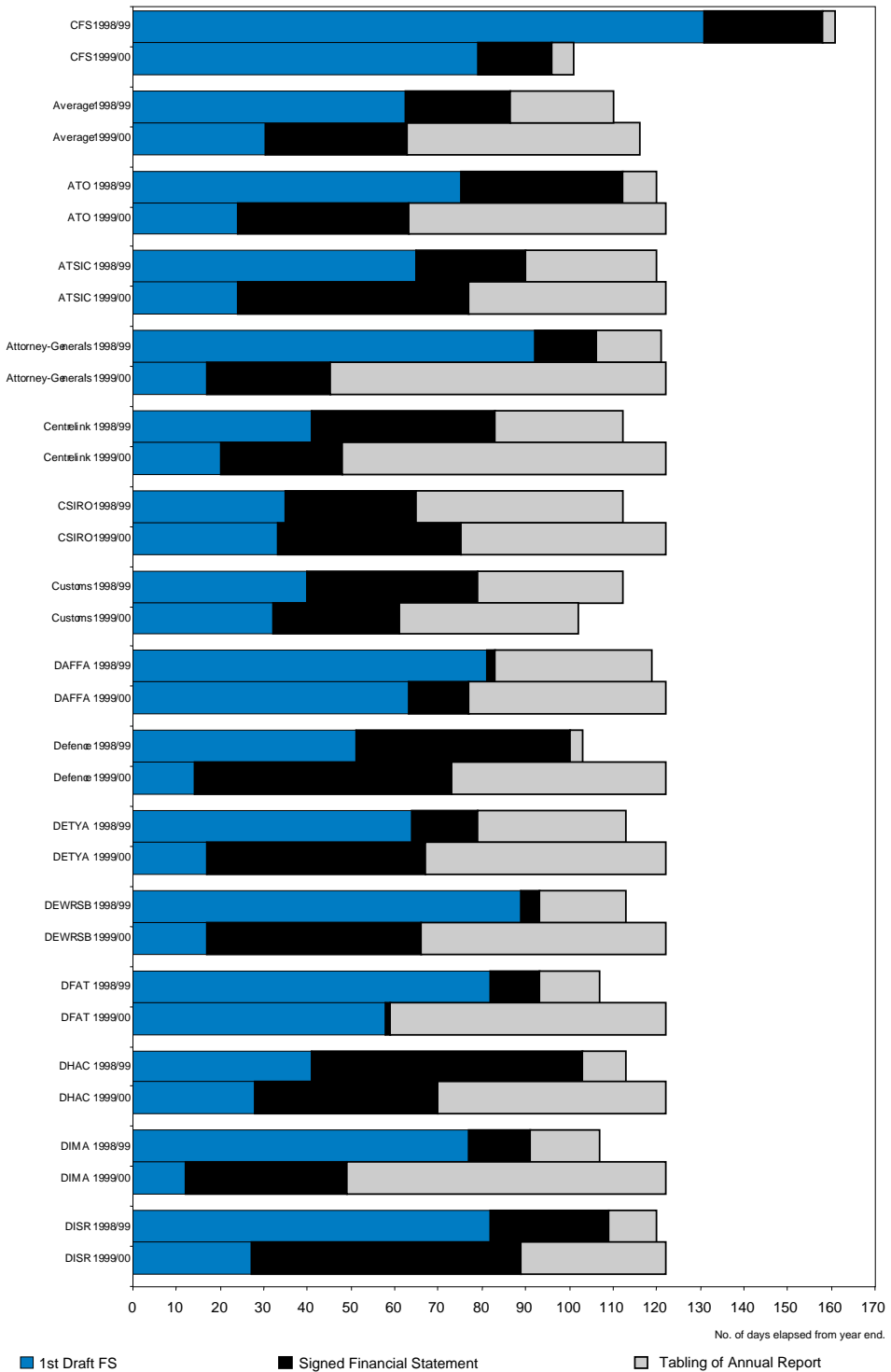
33. Figure 1 illustrates the timing of the financial statement preparation process for major Commonwealth entities. On average, these Commonwealth entities took 63 days to produce signed financial statements. This compares favorably with the prior year's achievement where, on average, the signed financial statements were not produced until 86 days after balance date. This represents a 27 per cent improvement in performance over that of the prior year.

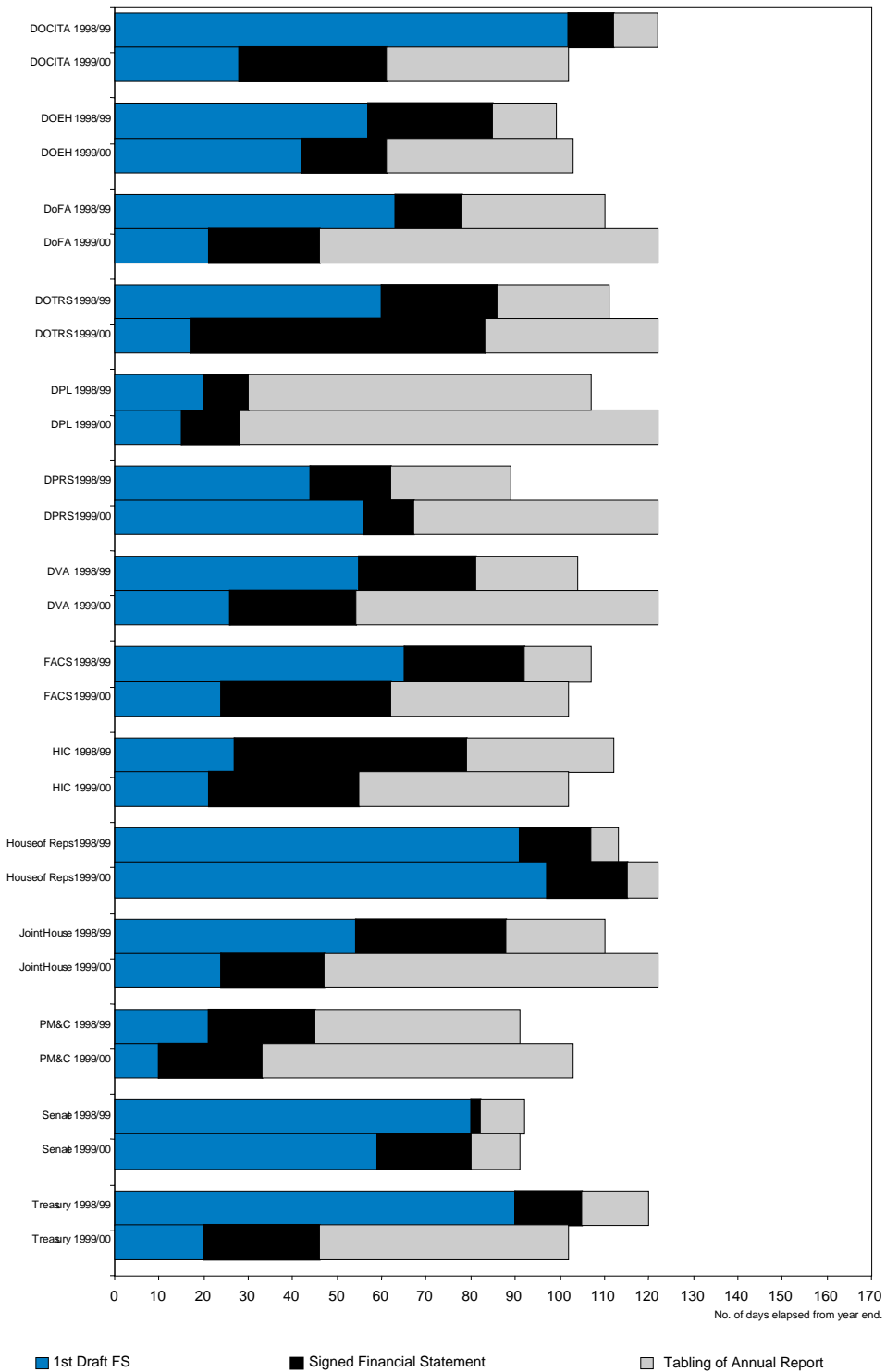
34. The difficulties faced by entities in producing quality financial statements in a timely manner were outlined in Audit Report No.52 1999–2000. In that Report, it was noted that entities experienced considerable difficulty implementing financial and human resource management information systems during the year and, as a consequence, the systems for most entities were not capable of fully supporting the production of that year's 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 annual financial reporting purposes. As in previous years, there continues to be a need for greater discipline and senior management involvement in the financial statement preparation process, as reflected in the nature of the issues outlined above.

35. Figure 1 also illustrates that, irrespective of the improvement in the timeliness of financial statement preparation for 1999–2000, there has been little or no consequent improvement in the timeliness of the tabling in Parliament of the Annual Reports of these major Commonwealth entities. In prior years, the finalisation of the financial statements has been a key factor determining when the Annual Report is tabled in Parliament. It would appear that there is now scope for agencies to reassess their annual report preparation timetable to ascertain if their processes can be advanced to allow its earlier tabling.

² Minister for Defence address to Royal United Services Institute (RUSI) Triennial International Seminar (Canberra, 16th November 2000).

Figure 1
Cycle Times to Tabling Financial Statements in the Parliament





Interim reporting

36. The DOFA requirement for material entities to produce monthly and quarterly financial reporting is fostering a more disciplined approach to the preparation of financial reports and an increased focus on the systems and processes to deliver the information.

37. Advances made in annual reporting processes have assisted a number of agencies in preparing monthly financial statements. In time, the quality of monthly reporting should improve, enabling agencies to strengthen their financial analysis and management; this is expected to feed into the annual reporting process, contributing to both the quality and timeliness of annual financial report production.

38. The managements of an increasing number of agencies are placing greater emphasis and significance on the financial reporting process. However, due to system development issues and implementation problems, together with a lack of professional accounting resources, many agencies are facing difficulties in producing timely and useful financial reports.

Resourcing

39. There is a general shortage of trained and experienced personnel with accounting qualifications within the public sector, particularly in the Australian Capital Territory. The move to accrual budgeting has increased the demand for these skills. A consequence of this shortage has been an increase in contracting-out and outsourcing of accounting functions to private sector service providers in order to meet agencies' obligations in relation to the earlier reporting timeframe and other resource constraints.

Agency banking

40. The Government has devolved the responsibility for managing cash flow to individual agencies through its agency banking initiative. This is intended to encourage agencies to manage departmental resources in a business-like manner, by providing greater flexibility for agencies to tailor their banking arrangements to their business needs.

41. The new banking arrangements came into effect on 1 July 1999 and apply for agencies covered by the FMA Act. These agencies are required to establish and manage their own bank accounts and their payment arrangements.

42. To encourage a primary focus on cash flow planning and management, agencies receive interest on their departmental account balances and also meet overdraft charges.

43. Private sector competition has been introduced to the Commonwealth's domestic transactional banking services previously provided by the Reserve Bank of Australia (RBA). Agencies are now able to choose the transactional banking provider that can best meet their business needs in terms of cost and quality of service. The RBA's transactional banking business operates in competition with private sector banks and competitive neutrality principles apply.

44. With the funding for the capital use charge and accruals such as depreciation and employee expenses, agencies may now have large cash holdings to manage. This, combined with the devolved responsibility for managing cash flow, puts an even greater emphasis on accountability in relation to cash management.

45. Many agencies are facing difficulties in keeping pace with the rapid rate of reform. For example, there are cases where banking solutions in newly implemented FMIS are inadequate, resulting in an inability to perform basic cash balance reconciliations, thus increasing not only the risk of inefficient use of cash assets but also the risk of fraud and error. Reliance on FMIS information and basic reconciliations is fundamental to the success of agency cash management and banking.

Summary of Current Control Issues

46. In Audit Report No 52 1999–2000, the ANAO reported to Parliament on the overall position of the Commonwealth’s control environment. The ability to rely upon the strength of these controls is integral to the ANAO’s risk-based audit approach, in that sound controls contribute greatly to the integrity, validity and reliability of the Commonwealth’s financial and other data.

47. Findings from the above report have been accepted by management; those that are directly related to the financial reporting process have received appropriate attention. In the interests of allowing for realistic implementation progress, the updated position in respect to the Commonwealth’s control environment will be reported to Parliament in the next Controls Report to be tabled mid-2001.

48. The following provides an overview of the current issues noted by the ANAO as part of its 1999–2000 financial statement audits and also summarises key issues flowing from the earlier controls report.

FMIS implementation and information technology controls

49. Timely and high quality financial statements are dependent on effective computer-based information systems. To comply with the Government’s new financial reporting initiatives, agencies have implemented, or are in the process of implementing, new FMIS. Many of these systems still do not have full operational functionality. Within the narrow time frame for implementing new accrual systems, it is difficult to recruit and retain suitable personnel with the skills and competencies needed to implement and customise the software applications and reports to meet agencies’ management requirements.

50. The Commonwealth is highly dependent upon IT infrastructure and systems for provision of goods and services. The ANAO reviewed significant IT systems to gain assurance as to the completeness, accuracy and validity of financial statements data derived from these systems. These reviews indicated a number of deficiencies which are set out below.

Management of systems implementations

51. A number of Commonwealth agencies implemented new systems in response to the need for timely and accurate information for budgeting and reporting. The ANAO noted:

- difficulties being faced by agencies in finalising systems' implementations;
- failure of many systems to achieve optimal functionality;
- inadequate user involvement in design, testing and training;
- lack of staff expertise in systems management and reporting; and
- inadequate reconciliations with interfaces to other systems.

52. As part of the ANAO's performance audit program, a detailed review of a series of FMIS implementations is currently underway and is expected to be reported in February 2001.

Computer access, security and program change controls

53. These controls protect computer systems, programs and data and ensure reliability and confidentiality of information. The ANAO noted the following issues:

- staff with the right to access computer systems beyond the functionally necessary;
- inadequate level of review and approval of access to computer systems and changes to computer programs;
- inadequate level of review and monitoring of access logs, which recorded the activity relating to the security environment around an IT system; and
- lack of documented procedures to control changes to computer programs.

54. As part of the ANAO's performance audit program three detailed IT audits³ are currently underway and are expected to be reported in February 2001.

³ Information Technology Audits of the Health Insurance Commission, Department of Veterans' Affairs and Centrelink.

Accounting systems controls

55. Accounting systems controls are processes which complement IT system-based controls to provide agencies with assurance that their data is complete, valid and reliable. The ANAO's review of these controls during the final phase of financial statement audits identified the following limitations:

- lack of complete reconciliations to the general ledger and human resource systems;
- inaccurate banking data and incorrect coding of administered monies leading to variances in bank reconciliations;
- poor controls with expenditure systems; and
- inadequate segregation of duties and responsibilities where incompatible roles were undertaken by the same staff member.

Specific Accounting Issues

Reporting of appropriations

56. The Constitution provides that no money shall be expended by the Commonwealth unless funds for that purpose have been appropriated by the Parliament. Annual appropriations are limited as to amount and purpose, while special appropriations are limited usually only by purpose.

57. The introduction of accrual budgeting in 1999–2000 did not change these arrangements. With the new framework, the amount of an appropriation is determined on an accruals basis, ie as an amount of cash equal to the total expenses (both cash and non-cash) expected to be incurred in the financial year. In addition, appropriations may also be designated as loans or equity injections in addition to the traditional form of revenue appropriations.

58. Accountability for appropriations is expressed in both cash and accrual terms within the annual financial statements. The accrual accountabilities are to be found in the primary financial statements of agencies and in the administrative requirement that the Finance Minister must approve any budgeted deficits. The cash accountabilities include reporting, in the notes to agencies' financial statements, the aggregate spending against each amount appropriated for the financial year.

Reporting on spending against appropriations

59. Responsibility for ensuring that cash limits are not exceeded rests with individual agencies.

60. In the course of ANAO audits of financial statements, it became apparent that some agencies found difficulty in reporting on cash expenditure against appropriation. Relevant causes included:

- newly implemented FMISs that were not fully functional;
- agencies not accounting for spending against individual appropriations;
- infrequent reconciliations to DOFA records of cash transfers between the Official Public Account and agencies' bank accounts;
- a lack of understanding by agencies that the relevant reporting required under the Finance Minister's Orders was the amount of cash payments made out of the Official Public Account compared to the amount appropriated by the Parliament; and
- the lapsing of annual administered appropriations under the Annual Appropriation Acts.

Recognition of appropriations

61. In past years, appropriations for departmental items were recognised as revenue by agencies in their financial statements, as they were spent. Under the purchaser/provider model being introduced progressively in conjunction with accrual budgeting, agencies are expected to receive their appropriations on the delivery of their outputs, rather than as a contribution. Revenue recognition will, in the future, depend increasingly on the extent to which agreed outputs have been delivered. In addition, appropriations may be designated as being equity injections or loans, and will be recognised as such if they meet the accounting definitions of these terms.

62. These changes to the operation of the funding framework have a number of implications. The latter include:

- the recognition of revenue for outputs delivered in advance of appropriations being passed by the Parliament, where the Government has agreed outputs and a basis for funding them; and
- the question of who is to determine, on behalf of the purchaser, that agreed outputs have been delivered.

63. In past years, appropriations for administered expenditure were recognised as transfers in the Statement of Administered Revenues and Expenses and, accordingly, were not included in the calculation of the operating result. Being separately disclosed, these transfers were readily distinguishable from revenues earned by the Commonwealth from external sources. However, in 1999–2000, these Administered transfers were required to be reported as a line item 'Revenues from Government' and thus included in the calculation of the operating result. Consequently, the extent to which administered revenues have been sourced externally to the Commonwealth is no longer clear.

64. The ANAO and DOFA have been discussing ways in which the issues arising in relation to the reporting of appropriations might be resolved. These issues will be further pursued during the current financial year.

Classification of Administered and Departmental Items

65. Revenues, expenses, assets and liabilities over which the agency or authority has control are classified as 'departmental items'. Items which the agency or authority oversees or manages on behalf of the Government, and does not control, are classified as 'administered items'.

66. The concept of control is defined in Statement of Accounting Concepts 4 (SAC 4) '*Definition and Recognition of the Elements of Financial Statements*' in relation to assets. The critical elements of control of an asset are the capacity of the agency or authority to:

- benefit from the asset in pursuit of its objectives; and
- deny or regulate the access of others to that benefit.

67. In some cases, the distinction between departmental and administered items will not be clear cut. Control must be assessed in a practical and effective sense having regard to the substance of the situation, rather than in strictly legal terms. For example, an agency displaying cultural or heritage assets effectively controls the assets, despite not having the legal capacity to buy and sell relevant collection assets, if they are able to utilise those assets to further their own objectives. In these circumstances, judgement needs to be applied in determining the appropriate classification. The rationale for that judgement must be transparent.

Accounting for IT outsourcing contracts

68. During 1999–2000, many Commonwealth entities brought to account for the first time in their financial statements the financial effects of their participation in the Commonwealth's IT Outsourcing program. The IT Outsourcing contracts entered into typically cover the provision of information technology and telecommunications services as well as the lease of desktop and other equipment.

69. A significant issue for the preparation and audit of these statements was to determine the appropriate classification of the equipment leases for financial reporting purposes.

70. Under Australian Accounting Standard AAS17 *Leases*, a lease under which the lessor effectively transfers to the lessee substantially all the risks and benefits incident to ownership of the leased asset is termed a finance lease. AAS 17 requires that finance leases are accounted for by lessees by recognition in the Balance Sheet of the leased asset and a corresponding liability to make future lease payments. Lease expenses are recognised as the asset is depreciated and as financing costs on the liability are accrued.

71. Conversely, an operating lease is a lease under which the lessor effectively retains substantially all the risks and benefits incident to ownership of the leased asset. Operating leases are accounted for by the lessee recognising lease payments as expenses and by recording an "off balance sheet" commitment for future lease payments.

72. In applying AAS 17, each outsourcing contract requires separate consideration to assess whether substantially all of the risks and benefits incident to ownership of the leased asset effectively remain with the lessor or pass to the lessee.

73. In some cases, it is clear enough that the Commonwealth entities carry little in the way of risk or the risks have been novated. In these cases, it is appropriate to account for the equipment leases under these contracts as operating leases. However, in other cases, substantially all the risks and benefits of ownership for significant classes of assets passed under the contracts to the Commonwealth entities. The risks passed included the residual value risk, typically on early termination of individual equipment leases and expiry or termination of the overall contracts. In addition, the tests contained within the accounting standard were also met. In these cases, the ANAO expected entities to account for these transactions as finance leases.

74. In some cases, entities did not recognise finance leases where it was appropriate to do so. While materiality is taken into account in considering the accounting and disclosure for these transactions in financial statements, entities should adopt the required accounting approach for these transactions as a matter of good practice.

75. Performance aspects related to IT outsourcing have been addressed in performance Audit Report No.9 2000–01 on the *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*.

Summary Results of the Audits of Financial Statements

Introduction

76. The ANAO was responsible for forming an opinion and reporting on the financial statements of 293 Commonwealth entities for the period ended 30 June 2000. This part of the report summarises the results of these audits, including the Commonwealth Government of Australia Consolidated Financial Statements (CFS). Details of the scope of these audits are provided in the Appendix of this Report.

Summary of Audit Reports Issued

77. An unqualified audit report indicates that 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>1999–00</i>	<i>1998–99</i>
Qualified	10	7
Containing an emphasis of matter	5	6
Not modified	271	269
Total Issued	286	282
Signed financial statements not presented for audit at the time of report	7	5
Total Entities	293	287

Qualified Audit Reports

78. Qualified audit reports are issued when the scope of audit work required to form an opinion has been limited in some way and/or a breach of legislation has occurred and/or there has been a departure from Australian Accounting Standards or other mandatory reporting 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.

79. A summary of qualifications follows, discussed in the order of departures from financial reporting requirements, breaches of the Constitution or other legislation and 'limitation of scope' matters.

Departures from Financial Reporting Requirements

Commonwealth Government of Australia Consolidated Financial Statements

Accounting treatment for taxation revenues

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 1999–2000 consolidated financial statements was issued on 5 October 2000.

Prior to 1998–99, taxation revenue was recognised when the Government gained control of the future economic benefits that flowed from taxes. This approach is consistent with accrual principles. It also reflects 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.

In 1999–2000, the accounting treatment of taxation revenue adopted in the preparation of the CFS 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 consolidated financial statements, the financial effect of this accounting treatment is to understate the operating result attributable to the Commonwealth for the year by \$3.9 billion (1998–99 \$0.4 billion) and to understate accrued taxation revenues by \$29.5 billion (1998–99 \$24.5 billion), accrued taxation liabilities by \$15.6 billion (1998–99 \$14.6 billion) and net assets by \$13.9 billion at 30 June 2000 (1998–99 \$9.9 billion).

In summary, the effect of the accounting treatment on the financial statements of the Commonwealth Government of Australia in 1999–2000 is to defer the time at which taxation revenue is recognised in the financial statements.

This issue resulted in a similar qualification for the prior year.

Australian National University

Non-recognition of land

The audit report on the University's 31 December 1999 financial statements was qualified due to non-compliance with Australian Accounting Standards in relation to bringing the land at Acton campus, Mount Stromlo, Tennant Creek and other sites to account.

The ANAO considered that the value of the land in question can be reliably measured and should therefore be recognised in the University's financial statements. The non-recognition of the value of this land is a departure from the provisions of Australian Accounting Standards, and from Schedule 2 of the Finance Minister's Orders issued under the *Commonwealth Authorities and Companies Act 1997*. The qualification has been reported in detail by the ANAO in Audit Report No.52, tabled in June 2000.

This issue resulted in a similar qualification in the prior.

Australian Taxation Office

IT outsourcing—Non-capitalisation of finance lease for IT equipment

The Australian Taxation Office leases computer equipment under an information technology outsourcing contract and this lease has been recognised as an operating lease in the Agency financial statements. A number of substantial ownership risks, including residual value risk on early termination or expiry of the lease, have passed to the Australian Taxation Office under the contract. Accordingly, the lease should be accounted for as a finance lease, as explained in Part One of this Report under the section headed “*Accounting for IT Outsourcing Contracts*”. The recognition of the lease as an operating lease in the Agency financial statements represents a departure from Australian Accounting Standard AAS 17 *Leases*, which requires leases to be classified as finance leases where substantially all of the risks and benefits incident to ownership pass from the lessor to the lessee. The effect of this departure is to understate assets by \$70.9 million and liabilities by \$62.2 million on the Agency balance sheet, and overstate expenses in the Agency operating statement by \$8.7million

This is the first time that the Agency’s financial statements have been qualified in relation to this matter.

Department of Communications, Information Technology and the Arts

Non-recognition of National Archives assets

The Department has not recognised the National Archives of Australia collection of heritage assets as at 30 June 2000. 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 in the financial statements. 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 issue resulted in a similar qualification in the prior year.

Breaches of the Constitution or Other Legislation

Department of Agriculture, Fisheries and Forestry

Breach of Section 83 of the Constitution

During the year, and as a result of issues surrounding the introduction of new financial systems, the Department made certain disbursements of levies, which at the time were in excess of the amounts collected. The excess levy payments totalling \$3.699 million were made in breach of section 83 of the Constitution, which states that no money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law.

Department of Family and Community Services

Breach of Section 83 of the Constitution

The Department made payments for the Child Care Benefit, prior to 30 June 2000, ahead of the enabling legislation coming into effect on 1 July 2000, thus breaching section 83 of the Constitution. The breach occurred when the Department made payments totaling \$74.986 million for Child Care Benefit on 29 June 2000 when the standing appropriation in the *A New Tax System (Family Assistance) (Administration) Act 1999* was not yet in force. The breach resulted from a lack of adequate internal controls to ensure that such payments were made in accordance with legal authority.

Director of National Parks and Wildlife

Breaches of legislation

During 1999–00 the Director of National Parks and Wildlife failed to maintain proper accounts and records required under section 20 of the *Commonwealth Authorities and Companies Act 1997*. In particular the general ledger did not accurately reflect the financial position and results of operations of the Director of National Parks and Wildlife and the financial statements had to be derived using spreadsheets to capture opening balances, revenues and expenses. In addition, bank reconciliations were not performed on a regular basis and the bank account of the Director of National Parks and Wildlife was overdrawn on several occasions breaching section 49 of the *Australian National Parks and Wildlife Conservation Act 1975*, which prohibits borrowing.

‘Limitation of Scope’ Matters

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

Bilioara Pty Limited and Bilioara Unit Trust

Lack of access to financial records

Bilioara Pty Limited is the Trustee Company for Bilioara Unit trust (the “Trust”). As the trustee company, Bilioara Pty Limited, is legally liable for any excess of Trust liabilities over Trust assets. The Trust is currently involved in litigation with their joint venture partner in the Mirambeena Tourist Resort. As a result, the Trust has not been able to gain access to the financial records of the partnership for the 12 months ending 30 June 2000. The audit reports of both the Trust and the Trustee Company have been qualified due to limitation of scope to obtain all the information and explanations required in order to form an opinion on the financial reports.

This is the first time the entities’ financial statements have been qualified in relation to this matter.

National Gallery of Australia Foundation

Completeness of revenue

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 these activities is such that the completeness of revenue was not assured.

This issue resulted in a similar qualification in the prior year.

Audit Reports Containing an ‘Emphasis of Matter’

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.

Australian Wool Research and Promotion Organisation
International Wool Secretariat
Woolmark Pty Ltd

Restructure and privatisation

The Minister for Agriculture, Fisheries and Forestry announced in August 2000 that the Australian Wool Research and Promotions Organisation and its controlled entities will be restructured into a company that will be privately owned by woolgrowers as shareholders. The Government is planning the new arrangements to be in place by 1 January 2001, subject to legislation passing through Parliament. This has resulted in inherent uncertainty as to the future business environment and operations of these entities.

This is the first time this uncertainty has arisen for these entities.

Snowy Mountains Hydro-electric Authority

Proposed corporatisation

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

This issue resulted in a similar emphasis of matter in the prior year.

Australian River Co Limited

Residual operations following restructure of the company

The audit report of the Australian River Co. Limited contained an emphasis of matter regarding the uncertainty of the final structure and remaining operations of the company. The Government commenced a trade sale process of the Australian River Co. Limited and all of its remaining businesses effective April 1998. On 13 August 1999, the Minister for Finance and Administration wrote to Australian River Co. Limited and stated that the sale process of the core operating businesses of the economic entity had been concluded. However, at the date of finalisation of the audit, the Government had not announced its intention regarding the final structure of the Australian River Co. Limited and its remaining operations.

This issue resulted in a similar emphasis of matter in the prior year.

Results of the Audits of Financial Statements— by Portfolio

Introduction

This Part summarises the results of the audits of the financial statements for individual Commonwealth entities. Also included are any additional control matters arising as a result of finalising these audits since Audit Report No.52. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 21 October 1998, as amended.

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.

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

Unless otherwise indicated, entities have advised of appropriate remedial action taken, or proposed, to address the matters included in this report, as is also the case for the matters reported in the earlier Audit Report No.52.

Agriculture, Fisheries and Forestry Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Agriculture Fisheries & Forestry	Q	18-Sep-00	◆
Australian Quarantine and Inspection Service			◆
—Meat Inspection Service	✓	18-Sep-00	
—Quarantine and Export Certification Services	✓	18-Sep-00	
National Residue Survey Trust Account	✓	06-Oct-00	
Australian Dairy Corporation	✓	29-Sep-00	
Australian Dried Fruits Board	✓	14-Sep-00	
Australian Fisheries Management Authority	✓	29-Aug-00	
Australian Horticultural Corporation	✓	26-Sep-00	
Australian Pork Corporation	✓	26-Sep-00	
Australian Wine and Brandy Corporation	✓	04-Sep-00	
Australian Wool Research and Promotion Organisation	E	14-Sep-00	
International Wool Secretariat	E	14-Sep-00	
Woolmark Pty Ltd	E	14-Sep-00	
Cotton Research and Development Corporation	✓	14-Aug-00	
Dairy Research and Development Corporation	✓	19-Sep-00	
Fisheries Research and Development Corporation	✓	14-Aug-00	
Forest and Wood Product Research and Development Corporation	✓	25-Sep-00	
Grains Research and Development Corporation	✓	05-Sep-00	
Grape and Wine Research and Development Corporation	✓	04-Sep-00	
Horticultural Research and Development Corporation	✓	21-Sep-00	
Land and Water Research and Development Corporation	✓	04-Sep-00	
Landcare Australia Limited	✓	23-Oct-00	
Murray–Darling Basin Commission	✓	28-Sep-00	
National Registration Authority for Agricultural and Veterinary Chemicals	✓	04-Sep-00	
Pig Research and Development Corporation	✓	27-Sep-00	
Rural Industries Research and Development Corporation	✓	11-Sep-00	
Sugar Research and Development Corporation	✓	04-Sep-00	
Tobacco Research and Development Corporation	✓	18-Sep-00	
Wheat Export Authority + (01-Jul-99 to 30-Sep-99)	✓	14-Feb-00	

✓ 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 at this time

≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of financial statement audits

Department of Agriculture, Fisheries and Forestry

Qualification

During the year, and as a result of issues surrounding the introduction of new financial systems, the Department made certain disbursements of levies, which at the time were in excess of the amounts collected. The excess levy payments totalling \$3699 million were made in breach of Section 83 of the Constitution, which states that no money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law.

Australian Wool Research and Promotion Organisation

International Wool Secretariat

Woolmark Pty Ltd

Emphasis of matter

The Minister for Agriculture, Fisheries and Forestry announced in August 2000 that the Australian Wool Research and Promotions Organisation and its controlled entities will be restructured into a company that will be privately owned by woolgrowers as shareholders. The Government is planning the new arrangements to be in place by 1 January 2001, subject to legislation passing through Parliament. This has resulted in inherent uncertainty as to the future business environment and operations of these entities.

Internal control matters

Department of Agriculture, Fisheries and Forestry

Australian Quarantine Inspection Service

The following control matters were observed for the systems and procedures that support the Department of Agriculture, Fisheries and Forestry and the Australian Quarantine Inspection Service.

Payment delegations

In the course of testing expenditure the ANAO noted a number of issues relating to delegations. The findings included expenditure with no indication of approval by a delegate and authorised payments in excess of the delegate's limit. In addition, the number of staff with delegations reflected a time, before the introduction of accrual reporting and the use of the department's FMIS, when the accounting function in AFFA was decentralised. Given the importance of delegations as a control, the ANAO recommended a review of delegations and more stringent and

standardised procedures for payment processing. The AFFA Corporate Rules Team is reviewing expenditure delegations and steps are being taken to improve the payment processing audit 'trail'.

IT access and security controls

Due to the lack of functionality of the FMIS, the IT access and security controls in place are more common to a system under development rather than a 'live system' in 'production'. A review is required to address the issue of appropriate and effective levels of IT access and security control.

Multiple user identifications

The practice of allocating multiple user identifications (IDs) provides a potential avenue to bypass system controls, such as two-person authorisation of payments. Although no specific breaches of segregation were noted, a significant number of staff had multiple user IDs and several of these user accounts had not been accessed for greater than 60 days. The ANAO recommended users should not be allocated multiple user IDs and user accounts should be disabled when not accessed for periods of 30 days or longer.

Privileged users

Privileged users have the ability to perform systems administration functions within the department's FMIS. Testing showed an excessive number of staff with the highest level of access within the FMIS and, of these user accounts, some had not been accessed for a period of greater than 60 days. This situation may impact on the reliability and integrity of the financial information within the FMIS. The ANAO recommended that the list of privileged users within the FMIS be reviewed on a regular basis, with a view to limiting the number of users with administration access to as few as possible and that the FMIS activity of these users be logged and monitored.

Unbalanced 'forced' reconciliations

The newly implemented FMIS has functionality for automatic or manual reconciliation of transactions. Where manual reconciliation features are used, the FMIS does not require the transaction values to be equal. The ANAO recommended a modification to the FMIS, which would generate a warning in instances where transactions to be manually reconciled are unequal in value.

Estimation of employee entitlement liabilities

The review of the AFFA human resources management information system showed that it did not have the functionality to calculate leave liabilities for staff who changed from full-time to part-time, or vice versa. The

Department has agreed to monitor the effectiveness of recent system upgrades and ensure that no staff were disadvantaged.

The following control observations relate specifically to the Department of Agriculture, Fisheries and Forestry systems and procedures.

Reconciliation of administered revenue and payments

The ANAO review of bank reconciliation procedures showed inconsistencies such as incomplete reconciliations, inconsistent review and an ambiguous audit trail of documentation. AFFA noted difficulties in completing such reconciliations in light of systems problems (referred to above). Documentation of procedures were to be included in a comprehensive accounting manual.

Access rights

Standing data for levies revenue and levies disbursements is held in a reference file. The ANAO noted that, in some instances, instead of utilising the proper procedures, which retained historical data, agency staff had direct access rights that allows them to amend the existing information in the reference file. This discrepancy between the level of access provided and the level required to carry out their duties resulted in data being overwritten. This lack of adequate security contributed to the qualification of the financial statements. As AFFA had significant exposure to incorrect and/or improper changes to this data, the ANAO recommended that a review be undertaken of the access rights currently granted to staff, as compared to the access actually required by the relevant staff, in order to complete their duties.

Attorney-General's Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Attorney-General's Department	✓	14-Aug-00	
Australian Protective Service	✓	14-Aug-00	◆
Administrative Appeals Tribunal	✓	22-Aug-00	
Australian Bureau of Criminal Intelligence	✓	27-Oct-00	
Australian Customs Service	✓	30-Aug-00	
Australian Federal Police	✓	29-Aug-00	
ACT Community Policing	✓	08-Sep-00	
Australian Government Solicitor	✓	06-Oct-00	
Australian Institute of Criminology	✓	24-Aug-00	
Australian Law Reform Commission	✓	11-Sep-00	
Australian Security Intelligence Organisation	✓	08-Sep-00	
Australian Transaction Reports and Analysis Centre	✓	31-Aug-00	
Criminology Research Council	✓	20-Sep-00	
Family Court of Australia	✓	17-Aug-00	
Federal Court of Australia	✓	11-Sep-00	
High Court of Australia	✓	16-Aug-00	
Human Rights and Equal Opportunity Commission	✓	15-Sep-00	◆
National Crime Authority	✓	08-Sep-00	
National Native Title Tribunal	✓	20-Sep-00	
Australasian Centre for Policing Research	✓	25-Oct-00	
Australian Institute of Police Management		➤	
Office of Film and Literature Classification	✓	13-Sep-00	
Office of the Director of Public Prosecutions	✓	06-Sep-00	
Office of Parliamentary Counsel	✓	14-Sep-00	

✓ 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 at this time

≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Internal control matters

Australian Protective Service (APS)

Management controls

Issues arising from the audit included control weaknesses in relation to lack of an effective personnel system, employee entitlement liability balances and cash and ledger reconciliations.

Human Rights and Equal Opportunity Commission

Bank reconciliation

The ANAO noted that the Commission should improve procedures and controls in relation to the reconciliation of bank accounts.

Communications, Information Technology and the Arts Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Communications, Information Technology and the Arts	Q	30-Aug-00	
Artbank Trust Account	✓	28-Aug-00	
Australia Council	✓	14-Sep-00	
Australia Foundation for Culture and the Humanities Limited	✓	27-Sep-00	
Australian Broadcasting Authority	✓	01-Sep-00	
Australian Broadcasting Corporation	✓	15-Aug-00	
Adelaide Symphony Orchestra Pty Ltd ^{ESP} (31-Dec-99)	✓	29-Mar-00	
Melbourne Symphony Orchestra Pty Ltd ^{ESP} (31-Dec-99)	✓	03-Apr-00	
Sydney Symphony Orchestra Holdings Pty Ltd ^{ESP} (31-Dec-99)	✓	17-Apr-00	
Symphony Australia Holdings Pty Ltd ^{ESP} (31-Dec-99)	✓	22-May-00	
Tasmanian Symphony Orchestra Pty Ltd ^{ESP} (31-Dec-99)	✓	25-May-00	
West Australian Symphony Orchestra Holdings Pty Ltd ^{ESP} (31-Dec-99)	✓	01-May-00	
Australian Communications Authority	✓	21-Aug-00	
Australian Film Commission	✓	18-Sep-00	
Australian Film Finance Corporation Limited	✓	17-Aug-00	
Australian Film, Television and Radio School	✓	15-Sep-00	
Australian National Maritime Museum	✓	11-Sep-00	
Australian Postal Corporation	✓	14-Aug-00	
Bundanon Trust	✓	07-Nov-00	
Film Australia Limited	✓	28-Aug-00	
National Australia Day Council	✓	04-Sep-00	
National Gallery of Australia	✓	16-Aug-00	
National Gallery of Australia Foundation	Q	16-Aug-00	
National Library of Australia	✓	22-Aug-00	
National Museum of Australia	✓	13-Sep-00	
NetAlert Ltd.	✓	12-Sept-00	
Regional Telecommunications Infrastructure Fund	✓	30-Aug-00	
Special Broadcasting Service Corporation	✓	22-Sep-00	
Multilingual Subscriber Television Limited	✓	12-Sep-00	
Telstra Corporation Limited	✓	30-Aug-00	
Telstra Growthshare Trust	✓	1-Aug-00	
Telstra Employee Ownership Plan Trust	✓	28-Jul-00	
Telstra Employee Ownership Plan Trust II	✓	28-Jul-00	
Qantas Telstra Card Trust	✓	24-Aug-00	
Telstra Visa Business Card Trust	✓	24-Aug-00	
Telstra Visa Card Trust	✓	24-Aug-00	
Telstra Finance Limited	✓	24-Aug-00	
Atlas Travel Technologies Pty Limited and Controlled Entities	✓	24-Aug-00	
Network Design and Construction Limited	✓	17-Oct-00	

✓ 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 at this time

^{ESP} financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of financial statement audits

Department of Communications, Information Technology and the Arts

Qualification

The Department has not recognised the National Archives of Australia collection of heritage assets as at 30 June 2000. 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 in the financial statements. 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 issue resulted in a similar qualification in the prior year.

National Gallery of Australia Foundation

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 these activities is such that the completeness of revenue was not assured.

This issue resulted in a similar qualification in the prior year.

Defence Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Defence	✓	14-Sep-00	◆
Department of Veteran's Affairs	✓	23-Aug-00	◆
Army and Airforce Canteen Service	✓	14-Sep-00	
Australian Military Forces Relief Trust Fund	✓	20-Sep-00	
Australian War Memorial	✓	17-Aug-00	
Defence Housing Authority	✓	08-Sep-00	
Wattle Grove Development Joint Venture	✓	23-Oct-00	
Fairview Rise Joint Venture	✓	06-Nov-00	
Defence Service Homes Insurance Schemes	✓	21-Sep-00	
Military Superannuation and Benefits Scheme	✓	25-Sep-00	
Royal Australian Air Force Veteran's Residences Trust Board of Trustees No. 1	✓	07-Sep-00	
Royal Australian Air Force Welfare Trust Fund No. 3	✓	13-Sep-00	
Royal Australian Navy Relief Trust Fund	✓	28-Sep-00	

✓ 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 at this time

≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Internal control matters

Department of Defence

Audit work continues to indicate the Department's corporate systems are not yet appropriately and effectively linking budget information, resource planning, monthly management accounts and operational management.

Deficiencies in the Defence control environment continue to occur. These, coupled with some fundamental problems in system design, functionality and supporting staff skills, continue to inhibit the provision of meaningful and timely financial information to facilitate decision making.

Asset management

The revaluation of specialist military equipment (SME), the grouping of assets that were previously expensed and the determination of the provision for inventory obsolescence, introduce unpredictable elements into Defence financial reporting. Defence consistently completes and accounts for these adjustments very late in the financial year. The consequence of this is unpredictable movements against the accrual budget of Defence and of the Commonwealth as a whole, because of their significance.

It is clearly in the overall Commonwealth's and the Department's interest for the unpredictable elements of asset management to be resolved early in the financial year. This would mean that the budget estimates for Defence and the Commonwealth would be more predictable and more easily managed.

IT system implementation and related matters

The 1999–2000 financial year was characterised by the introduction of two major IT systems—PMKeyS and ROMAN. These processes continue to present significant implementation difficulties and reveal issues of skill gaps in staff and general system functionality. The ANAO and Defence Management Audit Branch (MAB) audit reports, during the year, identified major control and system deficiencies. These underlying factors, together with the enhancement of SDSS through the new Open Enterprise implementation, represent a significant challenge to the Department going forward. In addition, the number of unresolved ANAO and MAB findings should be a matter of concern to management and other stakeholders.

Key ANAO findings include the following:

- The functionality of the corporate systems and, in some cases, the supporting staff skills, are inadequate to provide meaningful and timely financial data and reports to Defence management.
- The business processes supporting the transfer of assets under construction into assets in use are not well coordinated and have been a significant source of error. For example the ANAO found that there was some double counting of assets relating to this process.
- ANAO and MAB fieldwork found significant quantity variances in repairable items (RIs) recorded on SDSS. This indicates business process failure and stocktake deficiencies and also increases the scope for employee fraud.
- Ownership and general understanding of data needs to be improved. There was no meaningful review of RI disposals in Support Command Australia (SCA). This figure was overstated by more than \$350 million in the draft financial statements. In addition, inventory was allowed to be double counted in corporate systems. The current Defence culture does not encourage staff to take responsibility for, and ownership of, corporate data.
- Asset capitalisation policy needs to be revisited to ensure that the Department of Defence captures at least 95 per cent of assets in the financial statements. There may be up to \$1.7 billion not recorded on

corporate systems as a result of this policy. In addition, work needs to be continued to bring to account currently unrecognised assets such as IT infrastructure and to ensure that all SME is recorded and managed on corporate systems.

- Appropriation revenue recognition policy needs to be agreed with the Department of Finance and Administration. The current Defence funding model is poorly defined and was subject to lengthy debate in 1999–2000.

The Department is in the process of determining appropriate responses to address these matters.

Department of Veterans' Affairs

Reconciliations and management controls

The final phase of the audit identified some significant issues affecting the preparation of the Department's financial statements, including lack of complete reconciliation of the general ledger (DOLARS) with the human resource system (PAHRIS), inaccurate banking and coding of administered monies leading to significant variances in the bank reconciliations and inadequate controls in place in the Department over nursing home payments made by Department of Health and Aged Care on behalf of the Department.

Education, Training and Youth Affairs Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Education, Training and Youth Affairs	✓	5-Sep-00	◆
Anglo-Australian Telescope Board	✓	7-Nov-00	
Australian National Training Authority	✓	4-Sep-00	
Australian National University ^E (31-Dec-99)	Q	7-Apr-00	
ANUTECH Pty Ltd ^E (31-Dec-99)	✓	7-Apr-00	

✓ 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 at this time

^E financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of financial statement audits

Australian National University

Qualification

The audit report on the University's 31 December 1999 financial statements was qualified due to non compliance with Australian Accounting Standards in relation to bringing the land at Acton campus, Mount Stromlo, Tennant Creek and other sites to account.

The ANAO considered that the value of the land in question can be reliably measured and should therefore be recognised in the University's financial statements. The non recognition of the value of this land is a departure from the provisions of Australian Accounting Standards, and from Schedule 2 of the Finance Minister's Orders issued under the *Commonwealth Authorities and Companies Act 1997*. The qualification has been reported in detail by the ANAO in Audit Report No.52, tabled in June 2000.

This issue resulted in a similar qualification in the prior year.

Internal control matters

Department of Education, Training and Youth Affairs

Default passwords in the Financial Management Information System (FMIS)

The Department's FMIS contains a number of User Identification accounts (IDs) with standard default passwords. Unless these are protected they can be vulnerable to change. While the Department has adhered to best

practice by changing the default passwords for a number of these IDs, ANAO noted the standard default passwords were still being used in some cases. To reduce the risk of unauthorised and unknown changes occurring to data or programs in the FMIS, the ANAO recommended all these passwords should be changed to a site-specific value.

The Department has advised that the passwords have now been changed.

Business Partnership Agreement—Centrelink

Centrelink provide a range of services on behalf of the Department under a Business Partnership Arrangement (BPA) between the two organisations. As well as defining the services to be provided, the BPA contains a series of protocols, which amongst other things, outline the key working arrangements and the accountability measures over the services provided. Breakdowns occurred in the operation of the accountability measures, in particular the conduct of system reconciliations and delays in the provision of accurate and complete financial information. While these breakdowns were largely outside of the Department's control, they nevertheless raised questions about the Department's ability to satisfy its financial management responsibilities.

The Department has advised it was seeking Centrelink's endorsement of a monthly reconciliation process it had developed and provided to them for consideration.

Employment, Workplace Relations and Small Business Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Employment, Workplace Relations and Small Business	✓	04-Sep-00	◆
Australian Industrial Registry	✓	19-Sep-00	
Coal Mining Industry(Long Service Leave Funding) Corporation	✓	20-Sep-00	
Comcare Australia	✓	16-Aug-00	
Quality of Working Life Corporation	✓	16-Aug-00	
Employment Services Regulatory Authority	✓	29-Sep-00	
Equal Opportunities for Women in the Workplace Agency	✓	15-Sep-00	
National Occupational Health and Safety Commission	✓	06-Sep-00	

✓ 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 at this time

≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Internal control matters

Department of Employment, Workplace Relations and Small Business

Access security

ANAO found users with an inappropriate level of access to privileged user functions, inadequate monitoring and review of the use of these functions, ineffective separation of duties and weaknesses in the management of passwords. These were detected across all processing platforms.

A number of these issues were also reported to the Department as a result of the 1998–99 financial statement audit and the Department has advised that it is addressing these matters.

Environment and Heritage Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of the Environment and Heritage (refer below)	✓	30-Aug-00	◆
Natural Heritage Trust of Australia Account		☞	
Australian Greenhouse Office	✓	15-Sep-00	
Australian Heritage Commission	✓	20-Sep-00	◆
Director of National Parks and Wildlife	Q	14-Nov-00	◆
Great Barrier Reef Marine Park Authority	✓	9-Oct-00	
National Environment Protection Council Service Corporation	✓	15-Sep-00	

✓ 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 at this time

≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of financial statement audits

Department of the Environment and Heritage

Revision and Re-issue of Financial Statements

The Department produced signed financial statements for 1999–2000 on 29 August 2000 and an audit report thereon was issued on 30 August 2000. These documents formed part of the Department’s annual report, which was tabled in Parliament on 12 October 2000. The financial statements of the Department include the operations of the Natural Heritage Trust of Australia Account (NHT), which are reflected as administered transactions and balances within the financial statements. Subsequent to the tabling of the Department’s annual report, advice received from the Australian Government Solicitor and the Department of Finance and Administration has determined the need for a change in the basis of calculation used to calculate interest due to NHT. Accordingly, the Department has advised that it intends to revise and re-issue its financial statements. Consistent with the requirements of Australian Auditing Standards, the ANAO intends to issue an audit report containing an ‘emphasis of matter’ in relation to the Department’s revised financial statements.

Director of National Parks and Wildlife

Breaches of Legislation

During 1999–00 the Director of National Parks and Wildlife failed to maintain proper accounts and records required under section 20 of the *Commonwealth Authorities and Companies Act 1997*. In particular the general ledger did not accurately reflect the financial position and results of operations of the Director of National Parks and Wildlife and the financial statements had to be derived using spreadsheets to capture opening balances, revenues and expenses. In addition, bank reconciliations were not performed on a regular basis and the bank account of the Director of National Parks and Wildlife was overdrawn on several occasions breaching section 49 of the *Australian National Parks and Wildlife Conservation Act 1975*, which prohibits borrowing.

Internal control matters

Department of the Environment and Heritage

Cash management—Environment Australia

The lack of timely reconciliation of Environment Australia's (EA) departmental bank account as reported in Report No. 52 was again noted during the ANAO's final audit review. In addition, reconciliations between the general ledger system and the Department of Finance and Administration's system which records the Department's appropriations and expenditure (CMM) had not been performed throughout the financial year.

The ANAO notes the implementation of an IT banking solution should assist the Department in further addressing these issues.

Improvements to security within the HRMIS—Environment Australia

EA's Human Resource Management Information System (HRMIS) provides financial information relating to its employees. The results of the audit indicated opportunities to improve security over this application and recommendations aimed at greater accountability of user actions and enhancing the integrity of the information for financial statement purposes were made.

The Department has responded positively to the ANAO recommendations and progress on these issues is being made.

Cash management—Bureau of Meteorology

The reconciliation of the Bureau's bank accounts to the general ledger and consequently to the financial statements, was incomplete. The Bureau is presently taking steps to resolve this issue.

Australian Heritage Commission

HRMIS

The ANAO's review identified problems with the integrity of the employee accrual data contained within the Commission's HRMIS system. There was an inability of HRMIS to calculate employee accruals in accordance with the accounting standards. Salary reconciliations between the general ledger and the HRMIS were not performed.

The Commission's management has advised the Department to take necessary remedial action.

Director of National Parks and Wildlife

Incomplete general ledger

The financial data in the general ledger was not complete and therefore could not be relied upon to prepare the financial statements. This was due to the opening ledger balances not reflecting the 1998–99 audited closing position, various clearing accounts not being cleared, bank reconciliations not performed on a regular basis and unexplained variances in the bank reconciliations. The ANAO recommended that immediate action be taken to update ledger balances and that monthly close-off procedures to address these problems be completed.

Overdrawing of cheque account

As previously indicated, the cheque account was overdrawn on several occasions during the financial year. This amounted to borrowing money which is prohibited under section 49 of the *Australian National Parks and Wildlife Conservation Act 1975* and consequently resulted in a breach of the Act. The ANAO recommended that cash management procedures be reviewed and controls established to prevent the cheque account from going into overdraft and that relevant staff and supervisors be provided with appropriate training.

Service Level Agreement

An arrangement with Environment Australia exists for the provision of certain corporate services. However, there is no formal service level agreement specifying the nature and level of services to be provided. The ANAO recommended that a formal Service Level Agreement (SLA) be put in place as a matter of priority.

Family and Community Services Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Family and Community Services	Q	31-Aug-00	
Commonwealth Rehabilitation Service	✓	31-Aug-00	
Australian Institute of Family Studies	✓	13-Sep-00	
Centrelink	✓	17-Aug-00	

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

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≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of financial statement audits

Department of Family and Community Services

Qualification

The Department made payments for the Child Care Benefit, prior to 30 June 2000, ahead of the enabling legislation coming into effect on 1 July 2000, thus breaching Section 83 of the Constitution. Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law. The breach occurred when the Department made payments totaling \$74.986 million for Child Care Benefit on 29 June 2000 when the standing appropriation in the *A New Tax System (Family Assistance) (Administration) Act 1999* was not yet in force. The breach resulted from a lack of adequate internal controls to ensure that such payments were made in accordance with legal authority.

Finance and Administration Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Finance and Administration	✓	15-Aug-00	
Commonwealth Grants Commission	✓	14-Sep-00	
Australian Electoral Commission	✓	01-Sep-00	
Comland Limited	✓	12-Oct-00	
Commonwealth Superannuation Administration (ComSuper)	✓	25-Sep-00	◆
Commonwealth Superannuation Scheme (CSS)	✓	25-Sep-00	
CSS/PSS Pty Ltd	✓	25-Sep-00	
Employment National Limited	✓	05-Oct-00	
Employment National (Administration) Pty Limited	✓	05-Oct-00	
Office of Asset Sales and IT Outsourcing	✓	09-Aug-00	
Public Sector Superannuation Scheme (PSS)	✓	25-Sep-00	
Sydney Airports Corporation Limited	✓	14-Aug-00	
Bankstown Airport Limited	✓	14-Aug-00	
Camden Airport Limited	✓	14-Aug-00	
Hoxton Park Airport Limited	✓	14-Aug-00	
Essendon Airports Limited	✓	24-Aug-00	
Telstra Instalment Receipt Trustee Limited	✓	16-Aug-00	

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

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◆ significant internal control issues noted (since Audit Report No.52)

Internal control matters

Commonwealth Superannuation Administration (ComSuper)

Control structure

During the audit of the CSS and PSS, 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 the need for monthly reconciliations of contributions recorded in ComSAS to other key financial records. It was also noted that several other key system security parameters and monitoring functions, including improvements in the maintenance of user access and password controls, should be implemented. The first of these was seen as a high priority as it relates to the accuracy of member records.

Foreign Affairs and Trade Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Foreign Affairs and Trade	✓	31-Aug-00	◆
AusAid	✓	05-Aug-00	
Australia—Japan Foundation	✓	22-Sept-00	
Australian Centre for International Agricultural Research	✓	18-Sep-00	
Australian Secret Intelligence Service	✓	11-Aug-00	
Australian Trade Commission	✓	24-Aug-00	
Export Finance and Insurance Corporation	✓	11-Aug-00	

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

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≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Internal control matters

Department of Foreign Affairs and Trade

IT control structure

The ANAO noted there was scope for improvement in the control structure surrounding the department's human resource system. This included reporting on employee entitlements, reconciliations and systems access management. In addition, further control issues were noted in regard to errors related to FMIS data and the manual information collection returns received from overseas posts.

Health and Aged Care Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Health and Aged Care	✓	12-Sep-00	◆
Therapeutic Goods Administration	✓	24-Aug-00	
Aged Care Standards and Accreditation Agency Ltd	✓	11-Sep-00	
Australia and New Zealand Food Authority	✓	11-Sep-00	
Australian Hearing Services	✓	30-Aug-00	
National Hearing Aids System Pty Ltd		➤	
Australian Institute of Health and Welfare	✓	8-Sep-00	
Australian Radiation Protection and Nuclear Safety Authority	✓	15-Aug-00	
Health Insurance Commission	✓	15-Aug-00	
Health Services Australia Ltd	✓	26-Sep-00	
Medibank Private Ltd	✓	22-Aug-00	
Private Health Insurance Administration Council	✓	13-Sep-00	
Private Health Insurance Ombudsman	✓	11-Sep-00	
Professional Services Review	✓	15-Sep-00	

✓ 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 at this time

≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Internal control matters

Department of Health and Aged Care

Accrual reconciliations

Cash reconciliations of subsidiary payment systems to the Department's FMIS have been performed on a regular basis, however, the ANAO has recommended that the Department needs to establish processes and implement procedures for reconciliation of the accrual financial information. The importance of such reconciliations is even greater in the context of the Department's implementation of its new FMIS. These reconciliations are fundamental in ensuring the integrity of information maintained on the systems and used in the generation of management reports throughout the year.

Other matters

Australia New Zealand Food Authority

Removal of emphasis of matter

In 1998–99 the ANAO reported an emphasis of matter on the inherent uncertainty relating to the Authority's financial support, namely, the Authority incurred significant operating losses and had a net asset deficiency. As at 30 June 2000 the net asset deficiency had improved to \$228 347, (prior year \$907 847) and the Authority made an operating profit of \$490 375. On this basis the emphasis on matter was removed from the audit opinion and an unmodified audit opinion issued.

Immigration and Multicultural Affairs Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Immigration and Multicultural Affairs	✓	23-Aug-00	
Migration Review Tribunal	✓	10-Oct-00	
Refugee Review Tribunal	✓	18-Sept-00	

✓ 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 at this time

≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Industry, Science and Resources Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Industry, Science and Resources	✓	28-Sep-00	
Australian Government Analytical Laboratories	✓	13-Sep-00	
Australian Surveying and Land Information Group	✓	15-Sep-00	
Bureau of Tourism Research	✓	15-Sep-00	
Australian Geological Survey Organisation	✓	26-Sep-00	
Australian Industry Development Corporation	✓	05-Sep-00	
Australian Institute of Marine Science	✓	15-Sep-00	
Australian Marine Science and Technology Limited	✓	7-Nov-00	
Australian Nuclear Science and Technology Organisation	✓	15-Aug-00	
Australian Sports Commission	✓	15-Sep-00	
Australian Sports Foundation	✓	28-Aug-00	
Australian Sports Drug Agency	✓	22-Sep-00	
Australian Technology Group Limited	✓	19-Sep-00	
Australian Tourist Commission	✓	21-Aug-00	
Commonwealth Scientific and Industrial Research Organisation	✓	14-Sep-00	
Energy Research and Development Corporation ^{ESP} (01-Jul-99 to 15-Dec-99)	✓	04-Jul-00	
IP Australia	✓	11-Sep-00	
IIF Investments Pty Ltd		◀	
IIF (CM) Investments Pty Ltd		◀	
Joint Coal Board	✓	15-Sep-00	
National Standards Commission	✓	03-Aug-00	
Snowy Mountains Hydro-electric Authority	E	16-Aug-00	

✓ 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 at this time

^{ESP} financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of 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 the reform of the Snowy Mountains Hydro-electric Scheme that will ultimately lead to corporatisation of the Scheme. The likely terms of the proposed corporatisation, including the settlement of the superannuation provisions, are uncertain and are being negotiated. Accordingly, the effects, if any, of the proposed corporatisation on the financial statements cannot be determined.

A similar emphasis of matter was also reported in the prior year.

Parliamentary Departments Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of the Senate	✓	18-Sep-00	
Department of the House of Representatives	✓	24-Oct-00	
Department of the Parliamentary Library	✓	28-Jul-00	
Department of the Parliamentary Reporting Staff	✓	6-Sep-00	
Joint House Department	✓	17-Aug-00	

✓ 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 at this time
 financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Prime Minister and Cabinet Portfolio

Reporting entity as at 30 June 2000	Audit Report	Opinion Issued	Internal Control
Department of the Prime Minister and Cabinet	✓	04-Aug-00	
Aboriginal and Torres Strait Islander Commercial Development Corporation	✓	13-Oct-00	
Barra Base Holdings Pty Ltd	✓	23-Oct-00	
Barra Base Unit Trust	✓	23-Oct-00	
Bonner House Trust	✓	23-Oct-00	
Gagudju Crocodile Hotel Trust	✓	23-Oct-00	
Gagudju Lodge Cooida Trust	✓	23-Oct-00	
CDC Investments (Tasmanian Aquaculture) Pty Ltd	✓	23-Oct-00	
CDC Nominees (Cairns Art) Pty Ltd	✓	23-Oct-00	
Cairns Art Joint Venture Participation Trust	✓	23-Oct-00	
CDC Nominees (Ceduna) Pty Ltd	✓	23-Oct-00	
Ceduna Joint Venture Participation Trust	✓	23-Oct-00	
CDC Nominees (Dandenong) Pty Ltd	✓	23-Oct-00	
Sunwood Joint Venture Participation Trust	✓	23-Oct-00	
Bowen Basin Investments Pty Ltd	✓	23-Oct-00	
Bowen Basin Investments Trust	✓	23-Oct-00	
Bowen Basin Holding Trust	✓	23-Oct-00	
CDC Nominees (GPI Ferry) Pty Ltd	✓	23-Oct-00	
Palm Island Ferry Shipping Trust	✓	23-Oct-00	
CDC Nominees (GRC) Pty Ltd	✓	23-Oct-00	
Gordon River Cruises Participation Trust	✓	23-Oct-00	
CDC Nominees (McArthur River Shipping) Pty Ltd	✓	23-Oct-00	
Carpentaria Shipping Trust	✓	23-Oct-00	
CDC Nominees (Mt Todd) Pty Ltd	✓	23-Oct-00	
Mt Todd Joint Venture Participation Trust	✓	23-Oct-00	
CDC Nominees (QBH) Pty Ltd	✓	23-Oct-00	
Queensland Bulk Haulage Participation Trust	✓	23-Oct-00	
CDC Nominees (SES) Pty Ltd	✓	23-Oct-00	
South East Sydney Trust	✓	23-Oct-00	
CDC Nominees (TCTP) Pty Ltd	✓	23-Oct-00	
TCTP Participation Trust	✓	23-Oct-00	
CDC Nominees (WWLS) Pty Ltd	✓	23-Oct-00	
WWLS Participation Trust	✓	23-Oct-00	
CDC Services Pty Ltd	✓	23-Oct-00	
Ngarrindjeri Community Orchard Pty Ltd	✓	23-Oct-00	

continued next page

Reporting entity as at 30 June 2000	Audit Report	Opinion Issued	Internal Control
Tasmanian Investments Unit Trust	✓	23-Oct-00	
Torres Strait Islander Investment Corporation Pty Ltd	✓	23-Oct-00	
Torres Strait Islander Investment Trust	✓	23-Oct-00	
Indigenous Property Trust	✓	23-Oct-00	
Indigenous Investment Trust	✓	23-Oct-00	
IBA Property Investments Pty Ltd	✓	23-Oct-00	
IBA Participation Trust	✓	23-Oct-00	
Aboriginal and Torres Strait Islander Commission	✓	25-Sep-00	
Aboriginal Benefit Reserve	✓	18-Aug-00	
Aboriginal and Torres Strait Islander Education and Cultural Advancement Trust	✓	21-Sep-00	
Aboriginal and Torres Strait Islander Land Fund Reserve	✓	25-Sep-00	
Bilioara Pty Limited	Q	15-Sep-00	
Bilioara Unit Trust	Q	15-Sep-00	
Morr Morr Pastoral Company Pty Ltd	✓	06-Sep-00	
Yeperenye Pty Limited	✓	06-Sep-00	
Aboriginal Hostels Limited	✓	18-Aug-00	
Australian Institute of Aboriginal and Torres Strait Islander Studies	✓	13-Sep-00	
Indigenous Land Corporation	✓	12-Sep-00	◆
Anindilyakwa Land Council	✓	18-Sep-00	
Central Land Council	✓	17-Oct-00	
Northern Land Council	✓	29-Sep-00	
Tiwi Land Council	✓	15-Sept-00	
Office of the Commonwealth Ombudsman	✓	15-Sep-00	
Office of the Inspector-General of Intelligence and Security	✓	28-Sep-00	
Office of National Assessments	✓	22-Sep-00	
Office of the Official Secretary to the Governor-General	✓	29-Aug-00	
Public Service Merit Protection Commission	✓	01-Sept-00	
Torres Strait Regional Authority	✓	10-Sep-00	
Wreck Bay Aboriginal Community Council		☞	

✓ 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 at this time

≠ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of financial statement audits

Bilioara Pty Limited and Bilioara Unit Trust

Qualifications

Bilioara Pty Limited is the Trustee Company for Bilioara Unit Trust (the "Trust"). As the trustee company, Bilioara Pty Limited, is legally liable for any excess of Trust liabilities over Trust assets. The Trust is currently involved in litigation with their joint venture partner in the Mirambeena

Tourist Resort. As a result, the Trust has not been able to gain access to the financial records of the partnership for the twelve months ending 30 June 2000. The audit reports of both the Trust and the Trustee Company have been qualified due to limitation of scope in obtaining all the information and explanations required in order to form opinion on the financial reports.

Internal control matters

Indigenous Land Corporation

Reporting and monitoring of subsidiaries

The ANAO noted that controls over monitoring of subsidiaries, to ensure that quarterly results are prepared on an accurate and consistent basis, should be improved.

The Corporation has proposed appropriate remedial action on this matter.

Transport and Regional Services Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of Transport and Regional Services	✓	21-Sep-00	◆
Airservices Australia	✓	15-Aug-00	
Albury–Wodonga Development Corporation	✓	18-Sep-00	
Australian River Co. Limited ^{§§} (07–Dec–98 to 30–Nov–99)	E	16-May-00	
Australian Maritime College ^{§§} (31–Dec–99)	✓	23-Mar-00	
Australian Maritime College Search Ltd ^{§§} (31–Dec–99)	✓	23-Mar-00	
Australian Maritime Safety Authority	✓	20-Sep-00	
Australian National Railways Commission	✓	12-Sep-00	
Australian Rail Track Corporation Limited	✓	04-Oct-00	
Civil Aviation Safety Authority	✓	25-Aug-00	
Maritime Industry Finance Company Ltd	✓	04-Aug-00	
Stevedoring Industry Finance Committee		◀	
National Capital Authority	✓	13-Sep-00	
National Rail Corporation Limited	✓	31-Aug-00	
National Road Transport Commission	✓	13-Sep-00	

✓ 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 at this time

§§ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of financial statement audits

Australian River Co Limited

Emphasis of matter

The audit report of the Australian River Co. Limited contained an emphasis of matter regarding the uncertainty of the final structure and remaining operations of the company. The Government commenced a trade sale process of the Australian River Co. Limited and all of its remaining businesses effective April 1998. On 13 August 1999, the Minister for Finance and Administration wrote to Australian River Co. Limited and stated that the sale process of the core operating businesses of the economic entity had been concluded. However, at the date of finalisation of the audit, the Government had not announced its intention regarding the final structure of the Australian River Co. Limited and its remaining operations.

This issue resulted in a similar emphasis of matter in the prior year.

Internal control matters

Department of Transport and Regional Development

Cash management

During 1999–2000, the Department assumed additional cash management responsibilities with the introduction of devolved banking arrangements throughout the Commonwealth. Controls over cash management were not of an appropriate standard within this new regime. In particular, the Department did not maintain a complete and up to date register of bank accounts; bank accounts were not reconciled in a timely manner; and there was a lack of evidence of the reconciliations having been performed.

Access control and security

A number of weaknesses in relation to access security over the Insight accounting applications were noted. An excessive number of users currently hold extensive access rights. Further, an audit trail and reporting facility is not in place to enable monitoring and reporting of activities within Insight. Inappropriate access rights and a lack of monitoring of use of these rights can lead to changes being made to the Insight system without the appropriate authorisations or change control procedures being adhered to.

Treasury Portfolio

<i>Reporting entity as at 30 June 2000</i>	<i>Audit Report</i>	<i>Opinion Issued</i>	<i>Internal Control</i>
Department of the Treasury	✓	15-Aug-00	
Royal Australian Mint	✓	14-Aug-00	
—Sydney 2000 Olympic Coin Program	✓	14-Aug-00	
Australian Bureau of Statistics	✓	14-Aug-00	
Australian Competition & Consumer Commission	✓	28-Aug-00	◆
Australian Office of Financial Management	✓	30-Aug-00	
Australian Prudential Regulation Authority	✓	31-Jul-00	◆
Australian Securities & Investment Commission	✓	22-Aug-00	
Australian Taxation Office	Q	01-Sep-00	
Australian Valuation Office	✓	01-Sep-00	
Companies and Securities Advisory Committee	✓	15-Sep-00	
National Competition Council	✓	30-Aug-00	
Productivity Commission	✓	25-Sep-00	
Reserve Bank of Australia	✓	03-Aug-00	
Note Printing Australia Pty Ltd	✓	27-Jul-00	
Reserve Bank of Australia Officers' Superannuation Fund	✓	20-Oct-00	

✓ 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 at this time

≡ financial year end date other than 30 June 2000

◆ significant internal control issues noted (since Audit Report No.52)

Results of financial statement audits

Australian Taxation Office

Qualification

The Australian Taxation Office leases computer equipment under an information technology outsourcing contract and this lease has been recognised as an operating lease in the Agency financial statements. A number of substantial ownership risks, including residual value risk on early termination or expiry of the lease, have passed to the Australian Taxation Office under the contract. Accordingly, the lease should be accounted for as a finance lease. The recognition of the lease as an operating lease in the Agency financial statements represents a departure from Australian Accounting Standard AAS 17 *Leases*, which requires leases to be classified as finance leases where substantially all of the risks and benefits incident to ownership pass from the lessor to the lessee. The effect of this departure is to understate assets by \$70.9 million and liabilities by \$62.2 million on the Agency balance sheet, and overstate expenses in the Agency operating statement by \$8.7million.

The Agency's financial statements have been qualified in relation to this matter.

Internal control matters

Australian Competition and Consumer Commission

IT access controls

The ANAO noted that user access rights within IT systems be restricted to those processing functions and data files required for the user's normal duties. In that regard the audit revealed that there are no documented security procedures governing the granting, administration and revocation of IT user privileges, the entry and maintenance of system data and monitoring activities for either the FMIS or HRMIS.

Accounting controls

Accounting control issues were identified including;

- inadequate cash receipting and recording procedures;
- lack of control over administered receipts and receivables;
- untimely bank reconciliations; and
- lack of segregation of duties within the finance and payroll areas of the Commission.

Australian Prudential Regulation Authority

Revenue from Government

From 1999–2000, the Authority has been funded through a Special Appropriation, which is limited in amount to certain levy monies received by the Commonwealth under the provisions of levy legislation applying to financial institutions. During the year, the Authority drew down amounts in excess of the limit of the appropriation, resulting in the appropriation being overdrawn for a considerable period, including by an amount of approximately \$20 million at 31 December 1999. The 'excess' amount was reduced as the year progressed with there being no overdrawn as at 30 June 2000.

The Authority has advised that procedures would be implemented to prevent overdrawn of the Special Appropriation in future years.

Late payment of levies

The Authority has applied late payment penalty on overdue levy payments, except for superannuation levies, during its two years of existence. The non-application of a penalty on superannuation accounts was raised last year and is considered to be contrary to the relevant legislation. The Authority acknowledged that late payment penalty should be applied under the law and estimated the amount of unapplied penalty for the 1999–2000 year at \$5.332 million.

The Authority advised that it had modified the financial system to enable the automatic calculation of late payment penalty and that overdue accounts would be updated as soon as practicable.

Outstanding superannuation levy debt

The Authority had reduced outstanding superannuation levy debt during the year through the application of additional resources and the targeting of higher value older debt. However, the outstanding debt continued to require management's attention, as the level of debt remained relatively high at 30 June and a high proportion of the debt was significantly overdue.

The Authority advised that there has been a further substantial reduction in the overdue debt since 30 June 2000.



Canberra ACT
15 December 2000

P. J. Barrett
Auditor-General

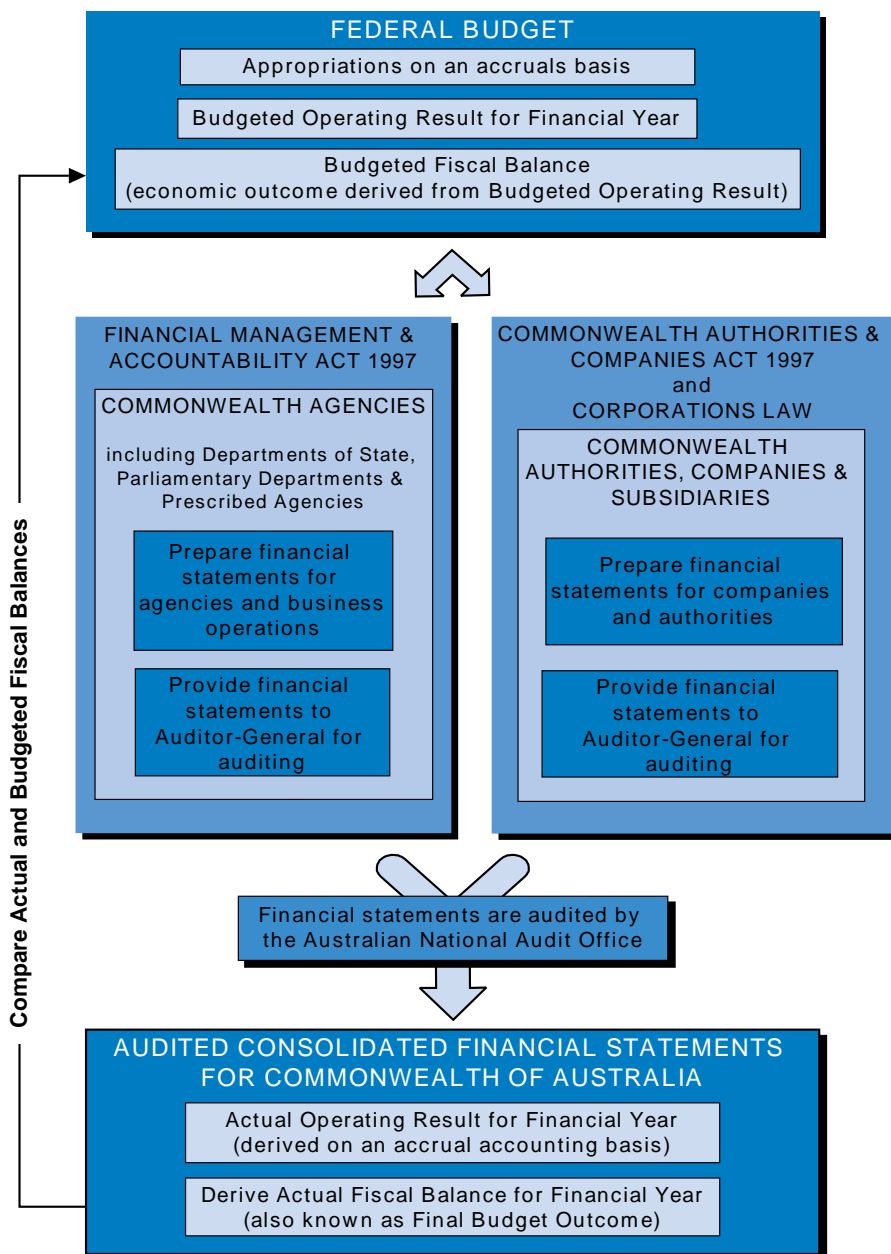
Appendix

Appendix

Accounting 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. This framework is summarised in the diagram below, followed by more detailed discussion.



Commonwealth of Australia

Section 55 of the *Financial Management and Accountability (FMA) 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. These consolidated financial statements show the Actual Operating Result. This figure is used to calculate the Actual Fiscal Balance, which can then be compared to the Budgeted Fiscal Balance.

Fiscal balance is the Government's key fiscal policy measure. The fiscal balance is an accrual measure of the Commonwealth's investment savings balance. It measures the extent that the Government is adding to or drawing from private savings.

The fiscal balance is derived, through several adjustments to revaluations and capital, from the standard accounting operating result as presented under Australian Accounting Standard AAS31 '*Financial Reporting by Government*'.

Commonwealth agencies

Commonwealth agencies are those agencies that operate on the Commonwealth Public Account under provisions of the *FMA 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 (CAC) 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 *CAC 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 *CAC Act 1997*.

Directors of a Commonwealth company must ensure subsidiaries of the company prepare financial statements in accordance with relevant legislation and the *CAC 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 that 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 on Financial Statements

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.

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