

The Auditor-General  
Audit Report No.67 2001-02  
Financial Statement Audit

**Control Structures as part of the  
Audit of Financial Statements of  
Major Commonwealth Entities  
for the Year Ending 30 June 2002**

Australian National Audit Office

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Canberra ACT  
28 June 2002

Dear Madam President  
Dear Mr Speaker

The Australian National Audit Office has undertaken examinations and inspections of the accounts and records of major Commonwealth entities as part of the audits of their financial statements 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 *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Period Ending 30 June 2002*.

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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## Abbreviations/Glossary

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AAO	Administrative Arrangement Orders
AAS	Australian Accounting Standard
ACA	ANAO Assurance Control and Assessment Report
AFP	Australian Federal Police
APS	Australian Public Service
AUS	Australian Auditing Standard
ANAO	Australian National Audit Office
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CEIs	Chief Executive's Instructions
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CobiT	Control Objectives for Information related Technology model
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
HRMIS	Human Resources Management Information System
IT	Information Technology
KPI	Key Performance Indicator
RBA	Reserve Bank of Australia

# Foreword

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Governing bodies such as boards of directors, management and the accounting and auditing professions have been subject to considerable scrutiny following the corporate failures<sup>1</sup> of recent times. Stakeholders, such as shareholders, regulators and the community in general, have raised questions about:

- the independence of auditors and the adequacy of auditing practices and standards;
- the level of rigour with which governing bodies and audit committees undertake their legal and corporate responsibilities;
- the appropriateness of accounting standards and the capacity of the profession to ensure compliance with these standards;
- the competence of boards, auditors and management to address key business and financial risk issues; and
- the adequacy of internal control structures including the adequacy of warning signals.

These are all fundamental issues for governing bodies, chief executive officers (CEOs), management, the accounting and auditing professions. As such, they are also relevant to Commonwealth entities<sup>2</sup> and the way in which entities undertake their corporate governance responsibilities. Indeed, the raising of these issues has prompted a number of governing bodies to scrutinise their entity's governance arrangements, particularly relating to the functioning of their audit committee and the way in which the audit committee deals with financial information and reporting. The importance of corporate governance is further emphasised with the decision of the Joint Committee of Public Accounts and Audit to review independent auditing<sup>3</sup>.

Arising from this closer scrutiny of governance and auditing arrangements, we expect the public interest to be better served and, in particular, Commonwealth entities to benefit from the adoption of better practices. One dimension of governance that has been highlighted from this closer scrutiny is the importance of having in place an effective control structure that underpins reliable financial reporting and analysis. An internal control structure is integral to ensuring appropriate attention is directed at both performance and conformance issues

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<sup>1</sup> David Knott, Chairman, Australian Securities and Investments Commission, *Protecting the Investor: The Regulator and Audit*, Address to the CPA Congress 2002 Conference, Perth, Western Australia, 15 May 2002, p. 4.

<sup>2</sup> An entity is the term used in this report to cover agencies and/or other bodies.

<sup>3</sup> Joint Committee of Public Accounts and Audit, *Review of Independent Auditing by Registered Company Auditors*, JCPAA, Canberra, April 2002.



and that there is alignment in key business objectives and the control environment, the security and utility of information systems, the adequacy of specific control processes and the key imperatives of financial management and reporting.

This report, prepared as part of the audits of financial statements of major Commonwealth entities, continues the Australian National Audit Office's (ANAO) focus on the importance of the internal control structure within entities, as a fundamental component of corporate governance. As such, this report examines the components of the internal control structure and reports findings relating to entities':

- internal control environment—the operating style and management philosophy within an entity and its approach towards issues such as leadership, risk management and the performance of structures and mechanisms used to control and monitor financial systems, controls and reporting. This is examined in each entity by reviewing the role the senior executive group, the audit committee, the internal audit function, the risk management process, the systems of authorisation and the financial and accounting team undertake relating to financial management and reporting;
- information systems—the information technology (IT) control processes within an entity that ensure the delivery of government programs and the operation of supporting accounting systems and processes in a well controlled manner. This is examined by reviewing the controls in place over planning the IT environment, developing and delivering IT solutions, operating the IT environment and organising and monitoring IT processes; and
- control processes—the specific policies and procedures that ensure business and accounting processes operate as designed without irregularities, errors or fraud occurring. This issue is examined by reviewing the control processes such as reconciliation and approval checks that are in place over significant business and accounting processes covering appropriations, levies and taxes and other revenues, payment and benefit processing, payroll and other personnel costs, and significant assets and liabilities.

Given this focus, attention is drawn to the significant risk, control and related management issues within operating and accounting processes and financial systems that support the financial reporting processes of major Commonwealth entities for the year ending 30 June 2002. The findings are based on the results of the ANAO's interim audit activities conducted over the first nine months of the financial year ending 30 June 2002. A second report will follow in December 2002 on completion of the financial statement audits this year.

The ANAO continues to assist entities, to the extent practicable and consistent with its independence, with advice and assistance on ensuring the adequacy of their internal control structure, including effective risk management, and specific internal controls in business and accounting processes and financial systems.

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work which culminated in this report and in reporting back to the individual organisations concerned. I also record our appreciation for the cooperation of chief finance officers (CFOs) and other relevant entity staff in preparing this report. Their combined efforts enabled the tabling of this report for the information of the Parliament in a timely manner.

A handwritten signature in black ink, appearing to read 'P.J. Barrett', written in a cursive style.

P.J. Barrett

Auditor-General

# Summary



# Summary

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## Introduction

1. This report summarises audit findings relating to entity internal control structures, encompassing the internal control environment, including information systems and control processes. These findings arise from the interim phase of the financial statement audits of major Commonwealth entities for 2001–2002. Examinations of such issues are designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes.
2. A second report will follow in December of this year following completion of the financial statement audits of entities. The ANAO will also report, at that time, any additional operational and financial management issues arising out of the audits and their relationship to internal control structures.

## Background

3. This report provides an update on the financial, accounting and IT control processes adopted by entities following the implementation over recent years of Government reforms<sup>4</sup> aimed at achieving better practice financial management and corporate governance, including accrual budgeting, accounting and reporting. It also provides an update on the broader corporate governance issues that impact on financial management and reporting. Prior year audit findings outlined in ANAO Audit Reports No.1 of 2001–2002<sup>5</sup> and No.29 of 2001–2002<sup>6</sup>, noted that, while progress was made in the financial year ended 30 June 2001 in resolving many of the internal control and financial reporting issues raised in previous years, improvement was still required across all areas in most entities to improve the quality of financial management and reporting.
4. Audit findings have been classified into three groups: first, those concerned with entities' internal control environment; second, their information systems

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<sup>4</sup> The Government reforms involved a broad range of initiatives including accrual budgeting and reporting; devolved banking and payroll arrangements; the move towards electronic commerce and more networked environments; implementation of the capital use charge; a new tax system including the Goods and Services Tax; and contestability of service delivery including market testing of corporate services.

<sup>5</sup> Auditor-General, Audit Report No.1, 2001–2002, *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001*, ANAO, Canberra, July 2001.

<sup>6</sup> Auditor-General, Audit Report No.29, 2001–2002, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*, ANAO, Canberra, December 2001.

and third, their specific controls over significant business and accounting processes. These are summarised below.

## **Internal control environment**

5. As part of the financial statement audit process, the ANAO assesses whether an entity's internal control environment comprises measures that contribute positively to sound corporate governance. The measures should mitigate identified risks and reflect the specific identified requirements of each entity. For financial reporting purposes, they will normally include:

- a current corporate plan, business risk assessment and operational plans;
- sound business practices;
- a senior executive group and audit committee which meet regularly;
- clearly specified systems of authorisation, recording and procedures;
- financial and accounting skills commensurate with responsibilities;
- a timely financial reporting regime; and
- an effective internal audit function.

6. In the previous year, it was noted that improvements were still required. All entities generally acknowledged that enhancements were necessary in areas such as:

- building risk awareness and better management into operational processes;
- achieving consistency in systems of authorisation;
- enhancing the quality of financial reporting; and
- integrating financial and non-financial data as part of the development of credible performance measurement frameworks.

7. ANAO audit observations indicate that progress has been achieved across all entities in these areas. However, in nearly all cases, further progress and refinement are required. This is particularly the case in respect of risk awareness, assessment and management and the quality and presentation of monthly financial reporting.

8. In addition, the corporate failures that occurred in Australia and overseas in the past year have heightened the focus on sound corporate governance, including the role of audit committees, the capability of internal audit functions and the reliability of financial statement reporting. This increased focus has provided an opportunity for a number of entities to renew their corporate governance arrangements, particularly in respect of:

- strengthening their audit committees, the focus on risk management including business resumption planning, IT and physical security, and better practice financial management and reporting;
  - improving the capacity of internal audit functions to deliver a blend of compliance, business risk and performance audit services;
  - continuing the injection of risk awareness and management into operational processes and progress on the adoption of sound business practices;
  - promoting a greater awareness of the potential for fraud; and
  - achieving improved reconciliation processes and understanding of, and compliance with, chief executive's instructions (CEIs).
9. These are areas where most entities would benefit in terms of ensuring the adequacy of their existing corporate governance arrangements. The ANAO will look to monitor and report improvements over the coming year.

## **Information systems**

10. The use of IT within government entities has become increasingly significant in recent years, particularly following the greater dependence on the internet and organisational intranets, with a range of government services now provided directly to the public online. As a result, there is increasing dependence on information and the IT systems that support these services, as well as increasing vulnerabilities and threats that have to be effectively managed.

11. Areas noted in the prior year, where control improvements were required in relation to information systems, included:

- security controls to restrict access to authorised personnel thus reducing the possibility that unauthorised access can be gained to confidential information or that unauthorised changes can be made to programs or data; and
- business continuity planning to ensure the continuous operation of significant business processes.

12. Overall, the results of audit testing indicates that most entities have improved controls over their IT processing. The ANAO has concluded that entities, generally, have well controlled processes over the planning of their IT environment, developing and delivering IT solutions, operating their IT systems and organising and monitoring various IT processes. However, for a number of entities, continuing control weaknesses were identified in IT system security and business resumption planning. The ANAO continues to emphasise the

importance of these controls in order to reduce unauthorised access to systems and information, and risks relating to continuity of operations.

13. The area of focus for most entities in the coming year is to continue to improve processes which assist in better aligning the IT corporate governance framework with business objectives. The following are areas where opportunities exist for most entities to continue to improve their IT processes:

- integrating IT planning with strategic and risk management planning by developing and maintaining strategic processes that allow the integration of IT into the corporate planning process;
- continuing to share the lessons learned from previous system implementations and refine IT project management policies and procedures over the implementation of IT solutions and associated approval processes over system changes, to ensure they are timely and relevant;
- expanding the use of performance management and capacity to incorporate IT as an integral component of organisational monitoring;
- developing and refining business resumption plans to ensure the uninterrupted of key business operations required to support critical business activities; and
- revising and refining security strategies and policies in order to drive adequate security processes and ensure adequate monitoring and review of IT system security and activity.

14. The ANAO will focus its attention on the above areas in the next financial year.

## **Controls over financial systems and processes**

15. In recent years, the ANAO has highlighted the need for significant improvement in reconciliation processes relating to bank accounts, payroll processing, appropriations, other revenues, interface systems and asset registers. Reconciliations are integral to ensuring the information in financial systems is complete, accurate and valid. In the 2000–2001 financial year, most entities recognised the need to complete these reconciliations but were inconsistent in their application to ensure all reconciliations were prepared and reviewed in a complete and timely manner. This year, the ANAO observed that, for the most part, entities improved their consistent application of reconciliation procedures, with only a small number of entities continuing to experience inconsistencies.

16. Nevertheless, some entities continue to experience difficulty with a small number of control processes specific to their operations covering, for example, cash and receipting processes, timely completion and review of reconciliations, segregation of duties, inappropriate delegations, monitoring of grant and



funding agreements, reconciliation of program payments and reconciliation of the asset register to the financial management information system (FMIS). In addition, a persistent reconciliation issue which continues to occur in a number of entities, relates to the need to reconcile payroll and leave costs recorded in human resource management information systems (HRMIS) with balances recorded in the FMIS. The ANAO continues to reinforce the importance of this reconciliation process given the significance of personnel costs to entities and the potential impact for errors in financial reporting.

17. A monthly checklist, detailing all reconciliations to be completed, including completion and review responsibilities, is a reliable mechanism that is used by some entities to ensure a disciplined approach to end of month processing and reporting. Other entities would benefit by adopting this approach.

18. These are some of the areas that the ANAO will review to assess improvements over the coming year.

## Key findings

19. The ANAO rates its findings according to a risk scale. Audit findings which pose a significant business, or financial risk, to the entity and which must be addressed as a matter of urgency, are rated as 'A'. Findings that pose a moderate business or financial risk are rated as 'B'. Findings that are procedural in nature, or reflect relatively minor administrative shortcomings, are rated as 'C'.

20. Overall, the results of audit activity over the past year (including both interim and final audit work) indicates that there has been considerable improvement in the quality of control procedures over business and accounting processes. This is demonstrated by:

- the number of entities with 'A' category audit findings across all entities reducing from eight in 2000–2001 to four in 2001–2002;
- the total number of 'B' category audit findings across all entities reducing from 236 in 2000–2001 to 133 in 2001–2002;
- 18 of the 25 entities reporting an improvement in the number of 'A' and 'B' category audit findings compared to the previous year, with only five entities showing a deterioration in their position, with a further two entities remaining at the same level; and
- the number of entities with no category 'A' or 'B' audit findings rising from nil to three.

21. The ANAO has identified 18 'A' category ratings. The Department of Defence has 13 'A' findings, an increase of three over the previous year. The Australian Taxation Office has three 'A' findings, an increase of two over

2000–2001. The Department of the Environment and Heritage and the Health Insurance Commission each have one, the same number as last year. The Departments of Family and Community Services, Health and Ageing and the Treasury no longer have 'A' category audit findings.

22. A summary of 'A' and 'B' category audit findings by entity is outlined in Appendix 1.

### **Prospective issues to be addressed**

23. The results of the interim audit to date indicate that most entities have achieved a position where the fundamental processes relating to financial statement reporting are more or less substantially in place. This represents the culmination of efforts over a three to four year period by CEOs, CFOs and their accounting teams, in implementing substantial change associated with the Government's reform agenda. This has been a significant achievement given the size and complexity of operations of most entities. However, it is clear that a small number of entities are yet to reach this level and still face considerable challenges in this regard, particularly the Department of Defence and the Australian Taxation Office.

24. The challenge for entities now, is to further embed sound financial management practices into their operations so as the following benefits can be realised in the periods ahead:

- improving the understanding of accrual accounting, budgeting and reporting across entities so as there is greater appreciation of the financial issues relating to core operating activities;
- improving the timeliness and consistency of financial reporting so as the executive and operating areas have increased access to more relevant, including trend based information;
- improving the analysis of costs and overheads which support large core operational activities; and
- improving decision support by implementing improved performance measurement processes and analysis in key operating areas by better linking financial and non-financial information.

25. These initiatives need to be achieved in a way that is cost effective and targeted at priority areas where there are significant costs and operating issues to be managed. Taking such steps will enable entities to achieve a more efficient deployment of capital and resources. Additionally, it will also contribute positively to corporate governance through an increased understanding of financial risk and related management issues.

26. A related issue that still requires further attention is the management of IT security issues. In today's Australian Public Service (APS), the scale of IT operations is significant. Secure IT systems are therefore the fundamental building block for ensuring data integrity, which is a pre-requisite for reliable financial reporting. The use of measurement tools, particularly data metrics, is underutilised as a means of monitoring movements in risk. Analysis of data metrics provides an important reference point for assistance in the validation of IT systems. Areas where this analysis will be of value include:

- virus occurrence and detection;
- unauthorised access and denial of services;
- password management and violation reporting;
- privileged access, procedures and monitoring; and
- security and audit trail logging, reporting and monitoring.

27. The rationale for this is that risk management practices should demonstrate a coherent analysis of IT systems security issues balanced and prioritised against a defensible risk acceptance positions as part of overall risk management.

## **Report timing and importance**

28. This report's timing is significant in that it brings important matters to the attention of the Parliament in advance of completion of the audits of financial statements.<sup>7</sup> Traditionally, the ANAO has reported the results of audits of financial statements in December each year, at the conclusion of the final audit. The purpose and timing of this report specifically recognises the increased responsibility being placed on entities to maintain an effective control structure as part of good corporate governance. The ANAO is committed to the timely reporting of significant matters to assist the Parliament in its oversight of the financial aspects of public administration. The ANAO expects to report the final results of the audits to the Parliament in December 2002.

## **Structure of the report**

29. Chapter 1 briefly sets out the importance of internal control structures as part of good corporate governance and how this is taken into account from a financial statement audit perspective.

30. Chapter 2 provides a summary of major issues relating to the internal control environments of Commonwealth entities examined.

<sup>7</sup> This practice commenced with the Auditor-General's Audit Report No.10, 1999–2000, *Control Structures as part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 1999*, ANAO, Canberra, September 1999.

31. Chapter 3 provides a summary of the major issues relating to the audit of information systems focussing on the control issues associated with planning the IT environment, developing and delivering IT solutions, operating the IT environment and organising and monitoring IT processes.
32. Chapter 4 provides a summary of the entity controls over financial systems and processes from a financial statement audit perspective.
33. Chapter 5 outlines the results of internal control structure, business and accounting processes and systems examinations, for each entity covered, as part of the audits of their financial statements.

# **Control Structure Issues**



# 1. Introduction to the Audit of Control Structures

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## Introduction

1.1 This report contains a summary of issues relating to the control structures at major Commonwealth entities arising from examinations of financial and related systems, controls and processes as part of the financial statement audits of entities for the year ending 30 June 2002.

## Background

1.2 The ANAO has encouraged CEOs and boards of directors to implement effective corporate governance arrangements within their organisations. The importance of good corporate governance was brought into sharp focus in the private sector by the corporate excesses of the latter half of the 1980s and, more recently, with the high profile corporate failures of the past year including HIH Insurance, One.Tel and Ansett in Australia, and Enron and others internationally.

1.3 Within the context of the APS and Government owned businesses, good corporate governance can deal effectively with both performance and conformance requirements. The concept can be defined as:

the framework established by a governing body to ensure that stakeholders, primarily the Parliament, the Government and the Australian community, have assurance that the agency is fulfilling its responsibilities with due diligence and accountability<sup>8</sup>.

1.4 As such, the framework is reflected by an entity's corporate and other structures, organisational culture, policies, and the ways in which it deals with its various stakeholders. In particular, corporate governance is concerned with structures and processes for decision-making and with the controls and behaviours that support effective accountability for performance outputs and outcomes (i.e. results).

1.5 This focus on corporate governance not only assists with on-going organisation viability, but is also part of ensuring that APS accountability and performance imperatives remain in place, given the level of change associated with the Government's reform agenda of recent years<sup>9</sup>. In addition, the APS of

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<sup>8</sup> Australian National Audit Office, *Controlling Performance and Outcomes, Better Practice Guide to Effective Control*, ANAO, Canberra, 1997, p. 3.

<sup>9</sup> Government reforms etc., op.cit.

today is required to manage rapid policy change, improved customer focus, shorter project deadlines, and higher standards of accountability. In this environment, the challenge has become one of ensuring the elements of corporate governance are integrated, well understood and applied effectively such that an appropriate balance is maintained between conformance and performance.

**1.6** A common point of discussion over the past year, in both the public and private sectors, following public concern relating to corporate failures, has been that while improved corporate governance including more reliable audited financial statements is a worthwhile goal, making it work is an extremely difficult issue. This is the challenge that confronts all governing bodies, CEOs, other senior executives and auditors today.

## Defining and establishing an effective control structure

**1.7** The *Financial Management and Accountability Act 1997* (FMA Act) requires the CEO to manage the affairs of an entity in a way that promotes effective, efficient and ethical use of Commonwealth resources for which the CEO is responsible. This requirement cannot be achieved without effective corporate governance arrangements in place. From a financial statement perspective, an important element of corporate governance is an organisation's internal control structure.

**1.8** An entity's internal control structure is defined in Australian Auditing Standard (AUS) 402, *Risk Assessments and Internal Control*, as:

management's philosophy and operating style, and all the policies and procedures adopted by management to assist in achieving the entity's objectives<sup>10</sup>.

**1.9** The internal control structure reflects an entity's leadership style, commitment to risk management, the quality of its business processes, and its capacity to achieve required outputs and outcomes. The internal control structure is also paramount to safeguarding an entity's assets and resources.

**1.10** AUS 402<sup>11</sup> also outlines that the internal control structure consists of three elements: the control environment, information systems and control procedures. These three key components of the internal control structure are the primary focus of this report.

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<sup>10</sup> Australian Auditing Standard AUS 402, *Risk Assessments and Internal Controls*, issued by the Australian Accounting Research Foundation on behalf of the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia, October 1995, paragraph 10.

<sup>11</sup> *Ibid.*, p. 4.



## Internal control environment

**1.11** The internal control environment is concerned with establishing the right operating style, management philosophy, structures and mechanisms such as internal audit and audit committees to ensure that entities operate as required by their governing body. As such, the internal control environment is critical to ensuring that staff, both executives and lower level officers, understand the behaviour required and the policies, procedures and processes which should be applied when undertaking their roles and responsibilities. The control environment is set from the top, by both the governing body and senior executives, and should permeate down through all areas of the organisation. In this way, the attitudes that unfold towards leadership, risk taking, internal control, communication processes including committee structures, financial management and reporting, will directly influence the way entities undertake their responsibilities. The internal control environment is therefore a critical issue when assessing audit risk.

## Information systems

**1.12** Information systems have increased their importance as entities become more dependent on IT to support their major business and accounting processes. Consequently, reliance placed on IT controls has also increased requiring entities to have well controlled IT processes. Key audit and control issues include:

- planning the IT environment—defining IT strategies, information requirements and architecture;
- developing and delivering IT solutions—defining and analysing requirements for projects, building solutions, implementing application software systems, implementing technology infrastructure and providing enhancements;
- operating the IT environment—providing support and training, IT problem resolution, ensuring system security, system performance and capacity, and computing services; and
- organising and monitoring IT processes—aligning IT competencies with process needs, evaluating IT function and process performance and managing IT environmental factors.

## Control procedures

**1.13** Control procedures include the specific policies and procedures that ensure business and accounting processes operate as designed, without irregularities, errors or fraud occurring. Examples of specific control procedures include:

- reporting, reviewing and approving reconciliations;
- approving and controlling documents;
- limiting direct physical access to assets and records;
- comparing internal data with external sources of information;
- controlling access to IT data files and programs; and
- comparing and analysing financial results.

**1.14** From an accounting and operational perspective, an effective control structure, tailored to each organisation's specific needs, will enable the entity to maintain appropriate management control over its assets, liabilities, revenues and expenditures.

## Understanding an entity's internal control structure

**1.15** An important component of the ANAO's audit methodology is a sound understanding of an entity's internal control structure. This enables the ANAO to make a preliminary assessment of the risk of material error in an entity's financial statements and to plan an audit approach to minimise audit risk to an acceptable level. The ANAO therefore studies and evaluates an entity's internal control structure to assess its capacity to prevent and detect errors in business processes, accounting records and financial reporting systems. This understanding enables an assessment of control risk to determine the nature, timing and extent of audit testing necessary to form an opinion on the entity's financial statements. The ANAO recognises that the reliability of an entity's business processes, accounting records and financial systems can be enhanced through an effective control structure. This, in turn, can reduce the level of testing the ANAO needs to undertake.

**1.16** The internal controls within an entity's business and accounting processes and financial systems that relate to the authorisation, execution and recording of transactions should be:

reflected in the following general characteristics of a satisfactory control structure:

- proper segregation of duties;
- system of authorisation, recording and procedures adequate to provide accounting control of assets, liabilities, revenues and expenses;
- sound business practices in performance of duties and functions by each area of the agency; and
- staff with capabilities commensurate with their responsibilities<sup>12</sup>.

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<sup>12</sup> Grant Gay & Roger Simmet, *Auditing & Assurance Services in Australia*, Irwin McGraw-Hill, 2000, p. 305.

**1.17** The benefits ensuing from an effective control structure include:

- improved accountability through controls assurance;
- improved program and service delivery through efficient, effective and ethical use of resources;
- identification and minimisation of significant risks to achieving objectives; and
- achievement of a balance between the external demands for quality outcomes while maintaining effective internal governance.<sup>13</sup>

**1.18** In the current environment, a greater focus on an effective internal control structure is critical to the accountability processes of all entities.

## The ANAO's 2001–2002 audit cycle

**1.19** Under section 57 of the FMA Act for agencies, and under clause 3, part 2 of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) for other bodies, the Auditor-General is required to report each year to the relevant Minister on whether the entity's financial statements have been prepared in accordance with the Finance Minister's Orders (FMOs) and whether they give a true and fair view of the matters required by those orders.

**1.20** Since October 2001, the ANAO has completed its audit planning; updated its understanding of the business and corporate governance arrangements; assessed audit risk; and designed and completed interim testing up to 31 March 2002. The result of this analysis and interim testing is outlined in the following chapters. All ANAO findings have been reported in detail; discussed with entities' management; and reported in summary to the relevant Minister(s).

**1.21** The final phase of most audits will be completed in the April to September 2002 period and will be reported to Parliament in December 2002.

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<sup>13</sup> *Controlling Performance and Outcomes*, op.cit., preface.

## 2. Internal Control Environment

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### Introduction

**2.1** It is important to consider the internal control environment when assessing audit risk as it influences directly the way business and operations are undertaken. In summary, AUS 402<sup>14</sup> outlines that the environment consists of the following factors:

- management’s philosophy and operating style—management’s attitude and decision making processes relating to planning, supervision and review including risk taking, financial reporting and control;
- organisational structure—the framework within which activities for achieving its objectives are planned, executed, controlled and monitored;
- assignment of authority and responsibilities—the delegation of authority and responsibility in a way that makes the accountability process clear and which is based on sound business principles and risk assessment;
- internal audit—review and monitoring of the internal control structure independent of management;
- use of IT—the effective design, operation and control of IT in a way that is appropriate to the size and complexity of the entity’s operations;
- human resources—the competency and honesty of personnel including their qualifications, training and their awareness of the need for internal control; and
- the audit committee—a forum for communication between management, internal and external auditors to assist the governing body enhance the control framework, improve the objectivity of financial information and comply with legislation and other obligations.

### Elements which contribute to financial statement assurance

**2.2** The ANAO focuses on specific elements of the internal control environment. In doing this, the ANAO will establish whether it comprises elements that contribute positively to the internal control structure and minimises both financial and non-financial risks to the entity. These elements include:

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<sup>14</sup> Australian Auditing Standard AUS 402, op. cit., paragraph 19.

- the senior executive group and whether it meets regularly focussing attention on the outputs and outcomes that need to be achieved including the strategic directions, business planning, control framework financial results and operational issues;
- an audit committee and whether it meets at least quarterly addressing issues such as internal audit planning and results, risk assessment and the control environment relating to business and accounting processes and financial systems;
- an independent internal audit function and whether it reports directly to the CEO and /or the chair of the audit committee and works to an approved internal audit plan addressing management concerns, compliance with policies and procedures, business and financial risks;
- an updated business risk assessment plan/register and fraud control plan and whether it identifies inherent risks, controls which mitigate those risks and any further actions which may be required;
- systems of authorisation, recording and procedures to ensure that transactions are processed, recorded and accounted for correctly;
- sound business practices to ensure that operations are efficient, effective and measurable;
- financial and accounting skills commensurate with responsibilities and the complexity of business operations; and
- a monthly financial reporting regime which includes comparison to budget, variance analysis and commentary.

2.3 The on-going performance and effectiveness of these measures is critical to the level of assurance that management and the audit require for financial statement reporting purposes.

## Results in summary

2.4 The cross entity results in summary of audit testing of internal control environments for major entities examined in this report, as set out in Chapter 5, are as follows.

### The senior executive group

2.5 A critical aspect of the internal control environment is the leadership and performance of the CEO and the senior executive group. The CEOs, along with their senior executive groups, are responsible for a number of governance responsibilities including:

- establishing and communicating corporate strategy and goals;
- allocating budgets and resources;
- directing significant business processes and systems and determining policies and procedures;
- monitoring progress against goals;
- undertaking all key management decisions;
- ensuring accountability and transparency; and
- preserving the values and monitoring control frameworks.

2.6 At the financial management and reporting level, the senior executive group must ensure financial and audit issues are properly planned, executed, controlled and monitored.

### *Findings*

2.7 All entity CEOs have established management boards or senior executive leadership committees to plan and monitor the strategic direction and performance. In addition, these senior executive committees are often supported by sub-committees such as the finance committee, IT committee, or security committee to focus on specific issues and projects. It was noted that financial management and performance were in all cases key agenda items, and that these committees and the CEOs were regularly briefed on significant audit or accounting issues.

2.8 It was also evident that CEOs work closely with, and place significant reliance on the work of, audit committees. The public focus on corporate failures over the past year and the resulting increased attention to corporate governance means that CEOs and the senior executive group should advisedly reassess all aspects of corporate governance, particularly in respect of business and financial risk assessment, security issues and better practice financial management and reporting. This would involve working closely with audit committees to ensure that all areas requiring increased attention are addressed within appropriate timeframes.

2.9 Overall, the ANAO's experience over recent years is that CEOs and senior executive groups have accorded an appropriate priority to financial, accounting and audit matters even though there are issues that remain to be resolved in a number of areas.

### **Audit committees**

2.10 The role that audit committees undertake has been the subject of considerable discussion following the corporate failures of the past 12 months.

This discussion has led to greater recognition of the important role audit committees undertake in oversighting corporate governance and the relationship of corporate governance to the general wellbeing of an entity. In particular, there has been increased attention on:

- internal controls, ethics and codes of conduct;
- monitoring the internal control environment;
- recognising the importance of the internal control environment to the effectiveness of internal controls;
- business and financial risk assessment processes including the need to assess physical and technical security;
- the independence and financial, accounting and technical expertise of audit committee members and their capacity to question management on key audit and accounting issues; and
- the need to monitor the independence of the external auditor and to maintain strong lines of communications with both the internal and external auditor.

**2.11** In relation to the business and financial systems and their impact on the preparation of financial statements, an effective audit committee should provide an objective view on:

- identification, assessment and management of business and financial risks;
- internal audit strategic and operational plans and results of the work completed including the implementation of recommendations;
- internal controls over the business and accounting processes and financial systems;
- findings from ANAO audits and the implementation of recommendations;
- compliance with accounting policies, procedures and legislative requirements; and
- quality of financial reporting and analysis.

### *Findings*

**2.12** ANAO personnel attend entity audit committee meetings as observers. The ANAO has noted in the past year that a small number of audit committees have:

- reviewed their composition and charter, placing greater scrutiny on their own governance and their role over audit and accounting practices;

- devoted increased attention to risk assessment and management, IT security and business resumption planning, and the resolution of significant audit and accounting queries; and
- directed increased attention to how entities deal with financial information, particularly in relation to estimation processes, the impact of alternative presentations of financial data, and where entities sit in relation to better practice financial management and reporting.

**2.13** Of the 25 entities which are the subject of this report, 16 have independent non-executive members with specialised skills and knowledge and who bring a broader perspective to corporate governance issues. The appointment of independent non-executive members to audit committees is considered by the ANAO to constitute better practice<sup>15</sup>. Even better practice is to have an independent chair.

**2.14** A deficiency noted in prior years related to the unwillingness of a few audit committees to follow up the implementation of internal audit and ANAO recommendations. This deficiency still continues but it is only relevant to a small number of audit committees.

**2.15** Overall, entities generally have audit committees that are effective in assisting the CEO, governing bodies and the executive to foster and maintain an appropriate control culture. A small number of audit committees has used the events of the past 12 months to strengthen their focus on corporate governance. Other audit committees would benefit by more closely examining their role and charter going forward, as a means of becoming a more valuable facility to assist CEOs and governing bodies meet their governance responsibilities. This is particularly so in respect of risk assessment, security and best practice financial management and reporting.

## **Internal audit functions**

**2.16** As with audit committees, recent events highlight the importance of an independent and effective internal audit function. These events have demonstrated the need for internal audit to be an integral component of the system of internal control and a source of assurance to the CEO, governing body, the executive and audit committee on control, business and financial risk, and other corporate governance issues. To achieve this, it is critical that the internal audit function:

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<sup>15</sup> Australian National Audit Office, Better Practice Guide, *Audit Committees*, ANAO, Canberra, July 1997.



- is led by an experienced executive who has a good understanding of the audit role and unrestricted access to senior management and the audit committee;
- makes a positive contribution to corporate governance by being seen as vital source of information on control, conformance and performance issues;
- understand the inherent business risk profile of the entity, the control environment and processes necessary to minimise risk to acceptable levels;
- has the skills, knowledge and resources to be able to provide timely advice and support to the audit committee and the capacity to exercise sound judgement when dealing with, and when providing advice to, management; and
- has corporate systems to ensure compliance with auditing standards and which result in effective information systems and reporting processes to enable the achievement of high performance.

**2.17** Traditionally, the work of internal audit has had a strong compliance focus on areas such as:

- reliability of the system of internal control within business and accounting processes and financial systems;
- compliance with accounting and financial policies and procedures and instructions;
- completing reviews of systems, payments, other processes or irregularities which require investigation; and
- quality assurance of financial data to be included in the financial statements.

**2.18** Increasingly, internal audit is also being used as a management tool to undertake more value added assignments such as risk assessments, performance reviews, system pre-implementation reviews and financial reporting analysis.

### *Findings*

**2.19** The increased focus on corporate governance will present challenges to most internal audit groups, particularly as audit committees reassess their roles and requirements and seek higher levels of performance around business and financial risk and security assessment and financial reporting. Key performance issues for internal audit continue to centre on:

- the capacity to maintain effective service delivery given continuing staff turnover and the difficulties associated with recruiting and maintaining skilled audit personnel, particularly for smaller to medium sized entities; and
- the capacity to focus on the broader governance and business risk issues as well as the traditional issues of compliance and control appraisal.

**2.20** These issues are particularly relevant when entities or parts thereof are experiencing substantial change such as the implementation of new large systems or programs where the capacity to deliver a balanced blend of business risk, performance, and compliance audit reviews is essential. To assist in meeting this requirement most entities have outsourced their internal audit programs, or parts of their programs (often specialised and technical aspects) to professional auditing and consulting firms.

**2.21** In respect of compliance and control issues, the ANAO continues to note that, for the most part, entities have reasonably effective and independent internal audit functions which contribute positively to providing assurance on the key systems, processes and financial statements of entities. Nevertheless, the heightened focus on corporate governance will mean that most entities will need, in the short term, to reassess their internal audit capabilities.

## **Risk management**

**2.22** Managing risk has been an integral part of the APS reform program of recent years. A sound risk management framework can help entity managers to be more confident in their approach to achieving required results as well as being able to publicly defend their decision-making as part of their overall accountability for entity performance.

**2.23** The key messages that the APS reform program on risk management has attempted to instil over recent years are that:

- formal and systematic risk assessments should be undertaken and directly linked to business plans, strategies and supporting operational initiatives; and
- risk management planning also presents performance improvement opportunities, in addition to the assurance benefits that arise.

**2.24** In the absence of a formal risk assessment and management processes, it is difficult to be assured that resources are deployed in an efficient, effective and ethical manner. As part of corporate governance, a risk management plan which is subject to regular updates will contribute to financial statement assurance through:

- identifying business and financial risks;
- assessing the significance of and prioritising of risks according to relevant criteria;
- identifying processes required to minimise extreme, high and medium risks to acceptable levels; and
- ensuring there is appropriate risk awareness and management training.

**2.25** It is also important that, over time, entities develop control and performance measurement techniques, such as data metrics, which can be used to progressively monitor trends and movements in risk. The use of data metrics in this way requires entities to continuously evaluate risk in key functions or business operations against the background of control frameworks and performance monitoring and review. Areas where data metrics can be used to monitor risks include:

- virus occurrence and detection;
- unauthorised access and denial of services;
- password management and violation reporting;
- privileged access, procedures and monitoring; and
- security and audit trail logging, reporting and monitoring.

### *Findings*

**2.26** The events of recent times have heightened the focus on risk management and related areas such as security checking and business resumption planning.

**2.27** While most entities have formal risk management plans that extend the responsibility for managing business and financial risk to all relevant areas in the organisation, some entities are still in the process of completing their formal risk management planning. As such, education, training and awareness in risk management continues to evolve and although advances have been made, the injection of risk awareness and management into operating processes continues to be a priority with further advances still required.

**2.28** Entities are also yet to formally develop performance measurement techniques and indicators which can be used to progressively monitor risk, although a number of entities have commenced consideration of this issue. As part of addressing this issue, entities need to give increased consideration to the use and linking of control, risk and performance metrics to assist with financial and performance monitoring.

## Fraud control

2.29 Entities need to adequately address fraud control issues. The Commonwealth's approach to fraud control was enunciated through its 1994 Interim Ministerial Direction on Fraud Control<sup>16</sup>. New Fraud Control Guidelines<sup>17</sup> released in May 2002 outline principles for fraud control within the Commonwealth and set national minimum standards to assist agencies in carrying out their responsibilities to combat fraud against their programs. The importance of entities establishing effective fraud control arrangements is recognised in section 45 of the FMA Act, where CEOs are responsible for the implementation of a fraud control plan and for reporting to portfolio ministers on fraud control within their agencies.

2.30 Further explanation of the responsibility for preventing and detecting fraud is provided in the recently revised AUS 210, *The Auditor's Responsibility to consider Fraud and Error in an Audit of a Financial Report*<sup>18</sup>. This standard states:

The primary responsibility for the prevention and detection of fraud and error rests both with those charged with the governance and the management of an entity.

2.31 As with risk management plans, fraud control plans should be regularly reviewed and updated, when significant changes to roles or functions occur, to reflect the current fraud risk and control environment for the entity.

### Findings

2.32 Entities are now well into the second biennial cycle of fraud control planning as required by the Commonwealth's Interim Ministerial Direction on Fraud Control<sup>19</sup> and the new Fraud Control Guidelines<sup>20</sup>. Actions undertaken by most entities include:

- revising fraud risk assessments and fraud control plans;
- articulating fraud planning in CEIs;
- inclusion of fraud awareness topics in induction courses and the development and running of fraud training courses; and

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<sup>16</sup> Interim Ministerial Direction on Fraud Control, *Better Practice for Fraud Control*, Canberra, 1994.

<sup>17</sup> *Fraud Control Guidelines* Issued by the Minister for Justice and Customs, under Regulation 19 of the Financial Management and Accountability Regulations 1997, May 2002.

<sup>18</sup> Australian Auditing Standard AUS 210, *The Auditors Responsibility to Consider Fraud and Error in an Audit of A Financial Report*, issued by the Australian Accounting Research Foundation on behalf of the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia, January 2002, paragraph 10.

<sup>19</sup> Interim Ministerial Directions on Fraud Control, 1994, op.cit.

<sup>20</sup> *Fraud Control Guidelines*, May 2002, op.cit.

- listing of fraud control plans on entity intranet sites.

2.33 Some entities have also established links with law enforcement agencies such as the Australian Federal Police (AFP) and commenced distribution of the AFP Comfraud Bulletins to staff to increase the awareness of current fraud issues.

2.34 Larger entities have also established fraud control sub-committees to manage fraud control performance by groups/states measured against fraud control action plans. Fraud control plans are now sometimes integrated with other related documents, for example, integrity plans incorporating codes of ethics and conduct.

2.35 Notwithstanding the above achievements, there is still a need for more education, and sharing of information, in most entities to achieve:

- greater awareness by staff of the potential for fraud, particularly around access to cash, credit cards, bank accounts and other attractive items such as computer equipment. Increasingly, tendering, purchasing and contract management are also areas which are subject to fraud;
- recognition that, when entities are experiencing significant change such as system or program implementations, the risk of fraud often increases; and
- better articulation of how to deal with alleged allegations of fraud, including the referral processes to entities such as the AFP.

2.36 All entities should focus more attention on these areas in the year ahead. The recently released Commonwealth Fraud Control Guidelines 2002<sup>21</sup>, outline updated entity responsibilities for fraud prevention, reporting of fraud information, fraud investigation case handling, training of entity fraud investigators and fraud prevention officers. All entities will need to update their fraud control processes accordingly.

## **Systems of authorisation, recording and procedures**

2.37 The introduction by the Commonwealth of the accrual accounting framework on 1 July 1999<sup>22</sup> involved the implementation of new accounting and financial systems and modified business processes and practices. Implementation and process improvements were required in relation to a range of business and management systems including FMIS, HRMIS, asset management systems, cash management and devolved banking.

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<sup>21</sup> Ibid.

<sup>22</sup> Department of Finance and Administration, *Specifying Outcome and Outputs: The Commonwealth's Accrual-based Outcomes and Outputs Framework*, DoFA, Canberra, 1998.

2.38 To ensure alignment with the new systems, entities needed to update their systems of authorisation, policies and procedures. Principal amongst these were entities' CEIs.

2.39 Systems of authorisation, recording and procedures ensure that transactions are processed, recorded and accounted for in accordance with the directives of the responsible governing body or CEOs and other positions with delegated or statutory authority.

### *Findings*

2.40 The results of ANAO audit work indicates that systems of authorisation, recording and procedures have improved in most entities over the past year. The principal reason for this is that there is a more consistent application of authorisation and recording procedures. Nevertheless, there continues to be a need in some entities to achieve improvements in:

- completing and approving, and control checks over, key accounting processes;
- reconciling and checking data transferred between systems, particularly in relation to payroll, and leave costs transferred to the FMIS; and
- greater understanding and compliance with CEIs, particularly in relation to asset management.

2.41 Authorisation of reconciliation processes and compliance with approved procedures remains a critical focus of the audit process and continuous improvement in these areas is critical for some entities. Chapters 4 and 5 highlight specific entity deficiencies in this regard.

### **Sound business practices**

2.42 The focus on performance measurement and the move to a more results driven culture over the past three years has included a more commercial approach to operations within entities. Characteristics of this approach include:

- a stronger focus on the improvement of service delivery costs, liability and asset management;
- contestability of service delivery and the development of partnership or alliance arrangements with suppliers;
- greater financial input into strategic and operational business planning;
- regular review of performance including balanced scorecard (financial and non financial) and key performance indicator (KPI) reporting processes; and

- document control, including registration of contracts and pre-numbering and sequence checking.

2.43 The focus of a more commercial approach was directed at improving information and processes to enable a more efficient and effective deployment of resources. The changes also meant that most entities needed to enhance their project management skills, particularly in relation to contestability and outsourcing issues.

### *Findings*

2.44 While there continues to be inconsistency in relation to improved business practices, individual entities have adopted a range of practical and effective improvements to enhance performance including:

- contracting out services where it meets value for money criteria;
- implementing new budget software and financial reporting tools;
- undertaking business process analysis and detailed cost attribution programs;
- implementing balanced scorecard and KPI reporting;
- refining asset management plans;
- improving cash and debtor management; and
- introducing checklists and controls such as pre-numbering and sequencing over key documents.

2.45 These achievements have included considerable improvements in project management skills and greater program and corporate coordination across entities. It is expected that improvements of this kind will continue in the current year. Despite these individual entity achievements, most entities need to devote increased attention to adopting one or more business practice improvements relevant in their operations, such as outlined above.

### **Financial and accounting skills commensurate with responsibilities**

2.46 Adequate financial and accounting skills, commensurate with the size and complexity of an entity's operations, are an essential component of a successful and robust internal control environment. In addition to the capacity to process and account for financial information, implement and manage financial systems and produce accrual and cash based financial reports, an entity should also possess financial and accounting skills necessary to:

- exercise sound financial judgement on business and operational issues;
- inject costing, financial and activity analysis relating to financial performance into the management of the entity; and
- develop financial plans and business models relating to the strategic directions of an entity.

2.47 An appreciation of these issues is also becoming increasingly important for all staff given the continuing focus on understanding and containing costs, obtaining value for money on contracts for services, and ensuring program expenditures are utilised in the most efficient and effective way.

### *Findings*

2.48 Following the introduction of accrual accounting in 1999<sup>23</sup>, entities have been able to acquire and develop skills relating to managing financial systems, processing financial information, and producing transactional based accrual and cash reports. However, most entities are yet to fully develop their financial analysis and projection capabilities. The continuing tight employment market for people with financial and accounting skills has meant that entities continue to experience turnover which has made the development of these skills around their own business plans and strategic directions more difficult. In addition, most entities continue, to varying levels, to be dependent upon the use of short term and medium term contractors and/or consultants, particularly in relation to the preparation of their annual financial statements. Given these circumstances their continues to be a need for nearly all entities to:

- further develop their financial knowledge and analysis skills around their own operational issues and strategic directions;
- ensure all staff gain an appreciation of the key issues relating to accrual accounting and reporting; and
- manage their financial and accounting skills knowledge base to ensure there is not on-going reliance on contractors and consultants without appropriate longer term management and/or service arrangements in place.

2.49 While most entities have made reasonable progress on these issues, it is expected that further progress for most entities will continue to be slow, as relatively high staff turnover in financial and accounting positions, and reliance on contractors and consultants, continue.

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<sup>23</sup> Ibid.



## Financial reporting

**2.50** Better practice financial management involves producing internal management reports for decision-making which are meaningful, timely and relevant. Better examples of internal financial reporting includes a summary snapshot outlining overall performance and following this with a set of accrual based financial reports encompassing an operating statement, statement of financial position and cash flow statement accompanied by relevant notes or commentary including, where appropriate, a graphical presentation.<sup>24</sup>

**2.51** This form of management reporting is considered necessary to enable CEOs and senior management to meet their responsibilities under the FMA and CAC Acts to ensure resources are expended effectively, efficiently and ethically.

**2.52** In the 2000–2001 financial year, it was noted that while some entities had achieved or were moving quickly to this enhanced level of financial reporting, most entities had yet to specify the additional accounting, financial system and skill requirements to achieve this standard of reporting. Deficiencies in financial reporting noted in the prior year included:

- some entities producing periodic financial reports which were still largely cash rather than accrual accounting based;
- periodic financial reports which did not necessarily include all relevant information and which contained limited analysis and commentary; and
- financial reports that placed limited emphasis on administered financial data and results.

**2.53** This level of assurance is also considered important in regard to the accuracy of an entity's annual financial statements. Comprehensive financial reporting may also enable the ANAO to reduce the extent of testing required to be undertaken to issue an audit opinion on the financial statements.

### *Findings*

**2.54** Over the past year nearly all entities have enhanced their levels of financial reporting to address, or in part address, the deficiencies noted above. This is particularly so in regard to:

- the inclusion of some form of commentary or variance analysis to provide the CEO, the senior executive group and other managers with more meaningful insights into financial performance; and

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<sup>24</sup> Management Advisory Board, *Beyond Bean Counting, Effective Financial Management in the APS—1998 & Beyond*, Canberra, 1997, p. 57.

- the production of accrual based reports in addition to the traditional cash based reports.

**2.55** Most entities have also begun the process of integrating their financial and non-financial reporting data as part of the process of establishing an integrated performance measurement framework. This is evident in the improved level of balanced scorecard and KPI reporting.

**2.56** In all cases further financial reporting progress is required, particularly in respect of monthly financial reporting and the injection of improved financial analysis and commentary to assist CEOs, executives and staff with financial responsibilities to monitor financial performance. As indicated in 2000–2001, a move in this direction is necessary if entities are to obtain a more detailed understanding of their performance and from a financial perspective gain improved knowledge of:

- how resources are being consumed across major departmental activities;
- the cost behaviour of large expense items such as IT costs and their relationships to key business operations;
- the carrying costs of assets and liabilities and whether asset replacement strategies and liability reduction programs are appropriate; and
- whether the capital use charge is efficiently managed.

## Conclusion

**2.57** In the previous year, it was noted that improvement was required in:

- building risk awareness and management into operational processes;
- integrating and building consistency into systems of authorisation and sound business practices;
- enhancing the quality of monthly financial reporting to include improved presentation and financial analysis;
- enhancing the quality of accounting, budgeting and financial skills; and
- integrating financial and non-financial data as part of the development of performance measurement frameworks.

**2.58** This year's audit observations indicate that progress has been achieved in all these areas. However, further progress and refinement is required particularly in respect of:

- risk awareness, assessment and management, including the use of performance measurement tools such as data metrics to monitor trends in risk; and

- the quality and presentation of monthly financial reporting.

**2.59** Despite this progress, the increased focus on corporate governance in the past year has provided an opportunity for a small number of entities to review and refocus their corporate governance arrangements, particularly in respect of:

- strengthening their audit committees and the focus on risk management including business resumption planning, IT and physical security and best practice financial management and reporting;
- improving the capacity of internal audit functions to deliver both a blend of compliance, performance and business risk audit services;
- continuing the injection of risk awareness and management into operational processes and progress on the adoption of sound business practices;
- achieving greater awareness of the potential for fraud; and
- achieving improved reconciliation processes, understanding of and compliance with CEIs.

**2.60** These are areas that most other entities would also benefit from in terms of renewing their existing corporate governance arrangements. The ANAO will look to monitor improvements over the coming year.

## 3. Information Systems

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### Introduction

**3.1** The use of IT within government entities has become increasingly significant in recent years, particularly following the greater dependence on the internet and organisational intranets, with a range of government services now provided directly to the public online. As a result, there is increasing dependence on information and the IT systems that support these services, as well as increasing vulnerabilities and threats that have to be effectively managed. This has resulted in the continuing need to take advantage of IT advances to achieve key business objectives and to improve service delivery. IT is now a key component of business strategy and core business processing and the management of IT risk is a key part of corporate governance. Consequently, effective management of IT is critical to the success of most entities.

### IT process methodology

**3.2** The IT control environment and relevant processes are reviewed as part of the financial statement audits of entities to determine the extent of reliance that can be placed on them. The ANAO has adopted an approach based on the Control Objectives for Information and related Technology model (CobiT)<sup>25</sup> for assessing the efficiency and effectiveness of sub-processes forming the overall IT processes of an entity using maturity models<sup>26</sup>. This assessment forms a fundamental guide to the setting of audit risk and the extent of specific audit testing to be undertaken<sup>27</sup>.

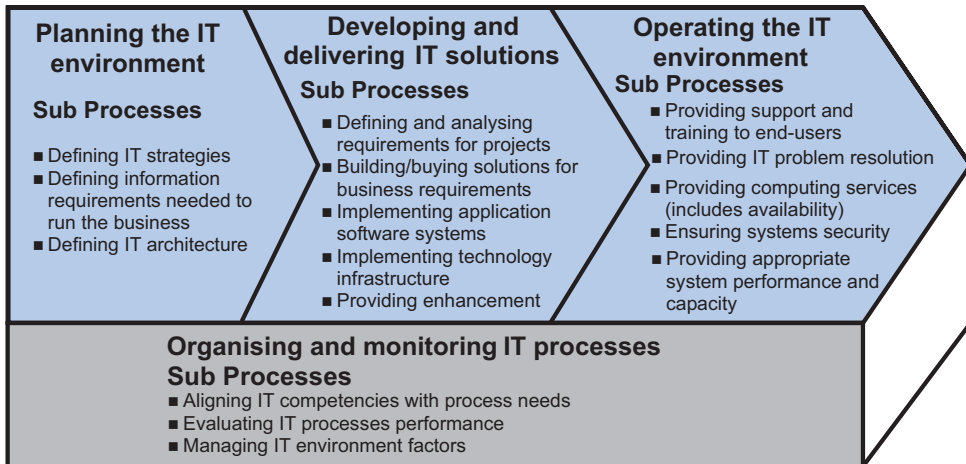
**3.3** The following diagram describes the IT process methodology used by the ANAO. Each of the sub-processes is documented according to the model to ensure that a sound understanding of IT processes is obtained. From this understanding, identified controls are then tested to confirm if they are operating effectively.

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<sup>25</sup> CobiT is a framework of internationally accepted standards that assists with the assessment of key aspects of an IT environment, as well as facilitating the understanding and management of information and IT risks. CobiT has been developed by the IT Governance Institute and Information Systems Audit and Control Foundation. (Refer to [www.isaca.org](http://www.isaca.org) for more information on CobiT).

<sup>26</sup> Maturity models—a method of scoring specific IT processes so that an entity can be graded from non-existent to optimised (0-5).

<sup>27</sup> The audit results included in this chapter relate to 24 of the 25 entities referred to in this report. The IT audit results for the National Archives of Australia are not included as the audit work is not yet complete.



3.4 To evaluate how entities were performing against the ANAO CobiT based approach, a ranking table was developed to provide a benchmark for evaluating each IT sub-process in an entity. An overview of the ranking table including a high level generic description is as follows:

Rating	Category	Detailed description
0	Non-existent	There is a complete lack of any recognisable process.
1	Initial/Ad hoc	No standardised processes, but there are ad-hoc approaches. The entity recognises that issues exist and need to be addressed. Management is reactive in addressing any issues.
2	Repeatable but Intuitive	There is global awareness of issues. Processes are developed where they are repeatable and some of them begin to be monitored. There is no formal training and the communication on standard procedures and responsibilities is left to the individual. There is high reliance on the knowledge of individuals and errors are therefore likely.
3	Defined Process	Systems and procedures have been standardised, documented, communicated and implemented. Training and application of standards is up to the individual. The need to act is understood and accepted. Most processes are monitored against some metrics and deviations are acted upon mostly through individual initiative.
4	Managed & Measurable	There is full understanding of the issues at all levels. Responsibilities are clear and process ownership is established. A completed set of policies, procedures and standards have been developed, maintained and communicated and is a composite of internal best practices.
5	Optimised	There is an advanced and forward looking understanding of issues and solutions. Processes have been refined to a level of external best practice, based on results of continuous improvements and maturity modelling with other organisations.

3.5 Each increase in ranking means that IT processes are aligning more with the entity's organisational goals. This enables the entity to maximise benefits from its IT investment decisions, through deploying IT resources more effectively and through managing IT risks more appropriately.

## Results in summary

3.6 The following details the results of IT interim audit testing of major entities (as set out in Chapter 5) for the period 1 July 2001 to 31 March 2002. It provides an overall summary assessment of where entities are ranked for each IT sub-process.

### Planning the IT environment

3.7 The ANAO, when reviewing IT planning activities, focused attention on whether entities had appropriate mechanisms in place to demonstrate sufficient IT planning (incorporating strategic objectives, information needs and architecture requirements) to assist the entity achieve its business objectives in a controlled and accountable manner.

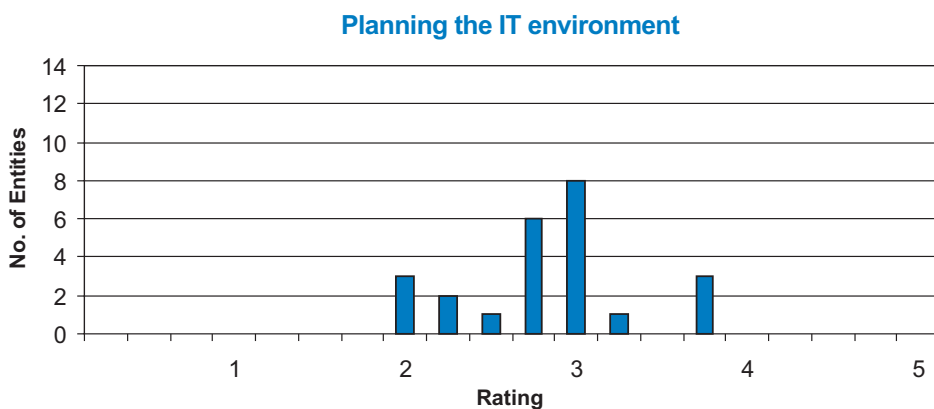
#### *Findings*

3.8 Most entities have IT strategic planning as a clearly defined management function, with senior level responsibilities clearly articulated. The audit results indicated that all entities have in place an IT strategic plan with some entities currently revising their plans. However, the ANAO noted that some entities did not regularly review and update their strategic plans to ensure that they remained current and consistent with corporate and operational plans. As a management improvement opportunity, the ANAO has suggested that these entities develop and maintain strategic processes that ensure the IT strategic plan remains current.

3.9 The ANAO also noted that most entities recognise the importance of having information architecture which facilitates the production of information needed to run an organisation. However, it was noted that some entities need to develop a data ownership policy or strategy for managing data integrity and integration within this architecture.

3.10 In terms of defining the IT architecture to ensure its development, maintenance and alignment was consistent with the IT strategic plan, most entities had clearly defined responsibility for the development and maintenance of technology infrastructure plans. However, some entities need to ensure the documentation for existing IT applications and IT infrastructure is updated as changes are made to IT strategies or the overall corporate plan.

**3.11** Overall, most entities had defined processes for planning the IT environment and were assessed around a 3 rating against the ANAO CobiT based approach. They have developed, documented and communicated a framework for policies, procedures and standards which covered IT strategic planning, IT architecture and information requirements. However, some entities were rated closer to 2, as they need to further improve the fundamentals in the above areas. There were also a number of entities approaching a 4 rating. These entities have integrated their IT strategic planning with their business needs, have a pro-active process for defining information requirements and an IT architecture which is aligned with entities' needs. The following diagram provides a snapshot of where entities reside in the model.



### Developing and delivering IT solutions

**3.12** To implement an IT strategy, relevant IT requirements and solutions need to be identified, developed or acquired and then implemented and integrated into the business process. Changes in, and maintenance of, existing systems are needed to make sure that they continue to meet user requirements. An entity's control framework needs to embrace this process to ensure:

- the right cost-effective solution is identified;
- adequate control processes are in place to ensure a successful implementation and integration into the business process; and
- changes in and maintenance of existing systems are undertaken in a controlled manner.

**3.13** The ANAO, when reviewing the development and delivery of IT solutions within entities, examined the processes entities use to:

- define and analyse requirements for projects;
- assess build/buy solutions for business requirements;

- implement application software systems and technology infrastructure; and
- provide enhancements to existing systems.

3.14 These processes were examined to identify whether appropriate control mechanisms were in place to provide management with assurances that activities are undertaken in a controlled and cost-effective manner.

### *Findings*

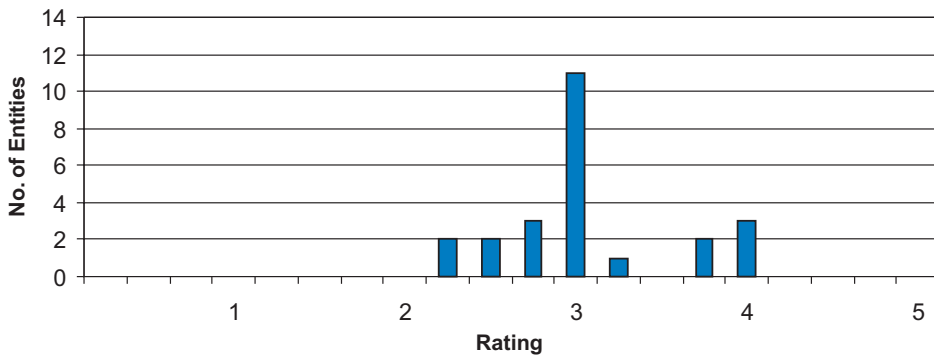
3.15 The results of audits indicated that most entities have in place an IT acquisition and implementation methodology necessary for a clear and structured approach to determining IT solutions. Formalised procedures were in place in relation to a defined test environment, software accreditation and for testing strategies and planning. However, control weaknesses were identified for a number of entities in relation to the testing of changes, authorisation and documentation processes. The majority of entities had clearly defined and documented change management practices, which included the prioritisation of changes. Some entities, due to capacity constraints (i.e. people and time frames), are unable to implement all approved changes. This can lead to increased workarounds, decreased functionality or a reduction in the scope of changes. There are also entities that did not consistently conduct post-implementation reviews to verify the integrity of change implementation.

3.16 While not a specific focus area for this report, it was noted that some entities have experienced problems with project management of systems under development. These problems include time and cost overruns as well as failure to deliver business requirements. There is an opportunity for entities to share lessons learned and prevent the same mistakes recurring from project to project and entity to entity.

3.17 Overall, the majority of entities had defined processes in place for developing and delivering IT solutions and were assessed at, or close to, a 3 rating. However, there were a number of entities where processes need to be further developed to include formalised procedures over the implementation of systems used to deliver IT solutions. These entities received a rating below 3. There were also a number of entities rated at 4, as their IT acquisition and implementation methodology was the subject of continuous improvement. The following diagram provides a snapshot of the overall performance of entities.



### Developing and delivering IT solutions



### Operating the IT environment (including business continuity planning and IT security)

**3.18** The ongoing delivery of IT services is critical for entities to fulfil their business goals and objectives. This involves the processing of data by various application systems, the appropriate security and continuity of these systems and relevant staff training. To ensure adequate service delivery, it is important that entity processing systems are able to produce timely, accurate and complete information. To assist with this, adequate policies, procedures and processes need to be in place.

**3.19** The ANAO, when examining the operations of IT environments, reviewed the support and training provided to end-users, problem resolution processes, the provision of computing services, system security, and system performance and capacity.

#### *Findings*

**3.20** In the majority of entities, it was noted that there were procedures in place to ensure that problems experienced by users were appropriately resolved. In addition, education and training programs for end-users were also often in place. All entities examined have standardised problem solving, escalation and resolution processes. However, for some entities there was scope for improvement in the IT problem resolution process.

**3.21** All entities examined had processes in place to monitor systems performance and capacity. However, there was scope for improvement in some entities by ensuring that performance and capacity information is used to predict incidents and are synchronised with business needs.

**3.22** Most entities understood and accepted the need to maintain a controlled computer environment and had IT facilities that protected the IT environment from environmental factors. Access restrictions have been applied with only

approved personnel having access to computing facilities. However, control deficiencies were identified in a significant number of entities who did not have business resumption plans in place. A business resumption plan ensures the uninterrupted availability of all key business resources required to support essential (or critical) activities<sup>28</sup>. This plan is usually part of a more broadly based business continuity plan which addresses key issue relating to business resumption and IT disaster recovery planning.

**3.23** As the use of, and dependency on, IT for decision making increases, the need for sound resumption planning to ensure the continued availability of information for critical business processes also increases. Over the last few years, business continuity planning (both business resumption and disaster recovery planning) has moved from a primary focus on disaster recovery and IT, to being an essential element of an entity's risk management process. For this reason, business continuity planning must be a shared responsibility of an entity's entire management team. The following entities were identified as not having a business resumption plan in place, still in the process of developing one, or the existing plan was assessed as not sufficient:

- Attorney-General's Department;
- Department of Communications, Information Technology and the Arts;
- Department of the Environment and Heritage;
- Department of Health and Ageing;
- Health Insurance Commission;
- Department of Immigration and Multicultural and Indigenous Affairs (overseas posts);
- Aboriginal and Torres Strait Islander Commission;
- Department of Industry, Tourism and Resources;
- Department of the Prime Minister and Cabinet; and
- Department of Transport and Regional Services.

**3.24** Details of the particular issues for each entity are outlined in Chapter 5.

**3.25** Most entities did have disaster recovery plans in place, however, for some entities weaknesses were identified as their disaster recovery plans were either not complete, did not cover the whole IT environment or were not updated to

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<sup>28</sup> In January 2000, the ANAO released a better practice guide and accompanying workbook to assist organisations in the development of a comprehensive business continuity plan. For more information, refer to the ANAO publication: *Business Continuity Management—Keeping the wheels in motion*, Canberra, January 2000.

reflect the current organisational environment and business requirements. The following entities were identified as having inadequate disaster recovery plans:

- Attorney-General's Department;
- Department of Employment and Workplace Relations;
- Department of the Environment and Heritage;
- Department of Health and Ageing; and
- Australian Taxation Office.

**3.26** Details of the particular issues for each entity are outlined in Chapter 5.

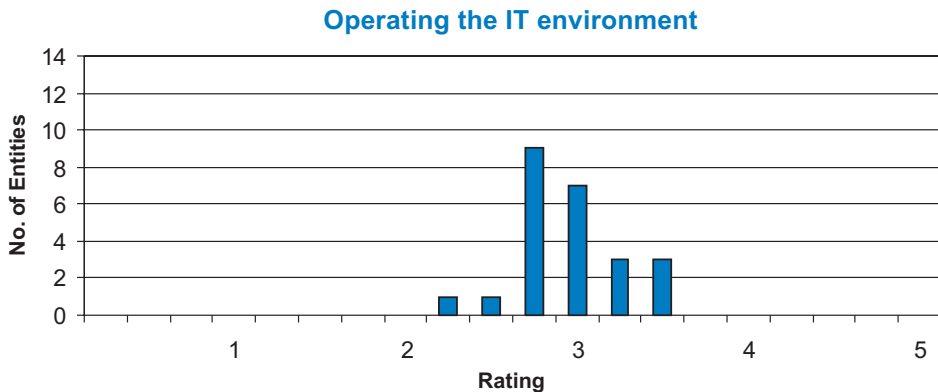
**3.27** Most entities had IT security policies, plans and procedures in place for the protection of their computer systems and data, and in the majority of entities, security awareness was prevalent and promoted by management. However, for a significant number of entities, control weaknesses were identified over the management of user access, maintenance of audit trails, monitoring and review of privileged users and in some cases the segregation of duties over the FMIS and HRMIS. The ANAO identified that there was a need to establish clearly defined IT security responsibilities and regularly undertake reviews of IT system security and activity to ensure compliance with security policies and procedures. Those entities which need to address weaknesses in their systems' security were:

- Attorney-General's Department;
- Department of Communications, Information Technology and the Arts (core);
- Department of Defence;
- Department of Employment and Workplace Relations;
- Department of Family and Community Services;
- Department of Foreign Affairs and Trade;
- Health Insurance Commission;
- Department of Immigration and Multicultural and Indigenous Affairs;
- Aboriginal and Torres Strait Islander Commission; and
- Department of Transport and Regional Services.

**3.28** Details of the particular issues for each entity are outlined in Chapter 5.

**3.29** Overall, the majority of entities had defined processes in place for operating the IT environment and were assessed at, or close to, a 3 rating. However, control weaknesses were identified for a number of entities in the area of business resumption planning and systems security and, accordingly, received a lower

rating. A number of entities were rated as approaching 4. These entities had mechanisms in place to closely monitor system availability and performance, business resumption plans were in place and driven by the business areas, IT security policies were used to drive security processes and solutions, and there were recognised procedures on problem and incident reporting. The following diagram provides a snapshot of where entities reside against the ANAO's CobiT based assessment model.



### *Organising and monitoring IT processes*

**3.30** The IT processes within an entity need to be regularly assessed over time to ensure compliance with the entity's control framework and requirements. In order to obtain assurance that IT processes are operating effectively and reliably, management should oversee and gain independent assurance on the adequacy of the entity's control processes through the use of internal or external audit, or through some other method of scrutiny.

**3.31** The ANAO, when examining the mechanisms in place to organise and monitor the IT environment, reviewed the procedures and systems in place to align the IT competencies with the process needs, the methods used to evaluate IT system performance and manage the IT environmental factors.

### *Findings*

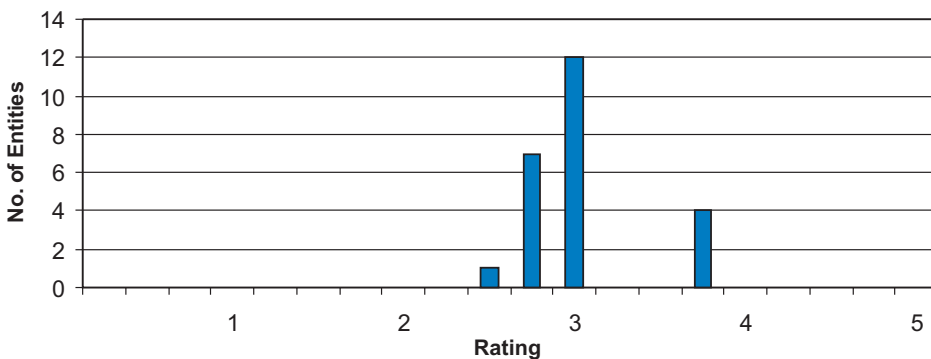
**3.32** The ANAO found that the majority of entities had clearly defined the roles and responsibilities for IT staff, had formalised relationships with other parties, including steering committees, internal audit and outsourced IT providers, where applicable. In addition, plans have been developed to manage IT human resources and the IT organisational structure was adequately documented. However, some entities have not implemented measures to identify deviations from the IT human resource management plan, including the need to manage IT personnel development and turnover. The majority of entities had management processes in place to monitor and report on IT performance.

**3.33** In most entities there were policies, procedures and processes in place to manage IT environmental factors and to ensure compliance with legal, regulatory and contractual obligations. In addition, most entities had internal audit or other independent parties involved in undertaking IT assurance audits.

**3.34** For those entities which had outsourced their IT infrastructure, the majority had established a framework that provided for the implementation, management and monitoring of services in accordance with the contractual arrangement between the entity and outsourcer. However, for some entities there was need to ensure that adequate mechanisms were in place to ascertain the adequacy of the IT security control over the environment of the outsourcer.

**3.35** Overall, the majority of entities had defined processes in place for organising and monitoring IT processes and were rated at a 3. However, there was scope for improvement in some areas such as human resource planning, evaluating critical business processes and managing IT environmental factors. There were several entities which were assessed at a higher rating as they had not only defined processes, but processes which were also managed and measurable. For example, there was a continuous improvement and accreditation process in place, all project approvals were based on consistency with the IT strategic plan and associated business plans and internal reviews were in place to assist in mitigating risks associated with non-compliance. The following diagram provides a snapshot of where these entities reside in the ANAO's CobiT based assessment model.

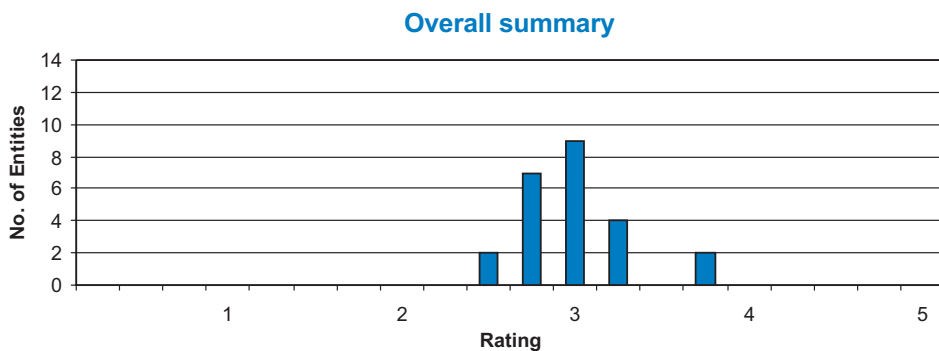
**Organising and monitoring IT processes**



## Conclusion

**3.36** Overall, most entities have defined processes over the planning of the IT environment, developing and delivering IT solutions, operating the IT environment and organising and monitoring various IT processes and were therefore assessed around a 3 rating. A small number of entities had further

developed and more mature processes in place to operate and support the IT environment, and for organising and monitoring IT, and were assessed as approaching a 4 rating. However, for a number of entities, control weaknesses were identified in business resumption planning and IT systems security and accordingly they have been assigned a rating below 3. These weaknesses will need to be addressed by entities in order to reduce any unnecessary risks relating to continuity of operations and unauthorised access to systems and information, in order to improve processes over the operation of their IT environment. The following diagram provides an overall summary of where entities reside in the model.



**3.37** The areas of focus for entities in the coming year is to continue to improve processes which assist in better aligning the IT corporate governance framework with business objectives. The amount of effort necessary in this area is dependent upon an assessment of the risk versus return equation on the level of investment required and the extent an entity is dependent on IT to achieve its corporate goals. The following are areas where opportunities exist for most entities to continue to improve their IT processes in the coming year:

- integrating IT planning with strategic and risk management planning by developing an maintaining strategic processes that allow the integration of IT into the corporate planning process;
- continuing to share the lessons learned from previous system implementation experiences, and refine IT project management policies and procedures over the implementation of IT solutions and associated approval processes over system changes, to ensure they are timely and within budget;
- expanding the use of performance management and capacity to incorporate IT as an integral component of organisational monitoring;
- developing and refining business resumption plans to ensure continuous business operations to support the critical business activities; and

- revising and refining security strategies and policies in order to drive adequate security processes and ensure monitoring and review of IT system security and activity.

**3.38** The ANAO will focus its attention on the above areas in the next financial year.

# 4. Control Procedures

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## Introduction

**4.1** An entity's system of internal control includes the procedures established to provide reasonable assurance that business objectives and goals are achieved. Internal control procedures within significant business and accounting processes and financial systems are audited as part of the audit of an entity's financial statements. In most entities, key areas covered will include:

- appropriations and other revenues;
- payment of expenses;
- employment and related costs;
- cash management; and
- asset management.

**4.2** The final phase of the audit will build on the interim audit results through follow-on procedures and a more extensive focus on the verification of assets, liabilities and statutory reporting disclosures.

## Results in summary

**4.3** Overall, the results of the interim audits indicate that there has been considerable improvement in the quality of control procedures over business and accounting processes. This is demonstrated by:

- the number of entities with 'A' category audit findings reducing from eight in 2000–2001 to four in 2001–2002; and
- the total number of 'B' category audit findings across all entities reducing from 236 in 2000–2001 to 133 in 2001–2002;
- 18 of the 25 entities reporting an improvement in the number of 'A' and 'B' category audit findings and only five entities showing a deterioration of their position, with two entities remaining at the same position; and
- the number of entities with no category 'A' or 'B' audit findings rising from nil to three.

**4.4** A summary of the results of interim audit testing for the major entities set out in Chapter 5, for the period 1 July 2001 to 31 March 2002, follows.



## Appropriations and other revenues

4.5 Appropriations, both departmental and administered, represent the primary source of revenue for most entities. There are entities which also collect significant revenues in the form of taxation, excise and administered levies. Moderate amounts of other revenues are also generated from the sale of goods and services and from interest earned from cash funds on deposit.

### *Findings*

4.6 The ANAO's testing disclosed that control frameworks in entities relating to the collection, receipt and management of appropriations, levies and other revenues have improved significantly over the past year. Common weaknesses noted in the past year relating to inconsistency in the application of one or more controls over the timely completion and review of the reconciliation process for appropriation and other revenue accounts continue to exist, but only in a small number of entities. Despite this overall improvement, individual entities continue to have weaknesses which are specific to their operations covering issues such as:

- control over cash and receipting processes;
- establishment of appropriate debt provisioning policies;
- recognition of unearned revenue;
- management of debt recovery processes; and
- audit of quality assurance programs over revenue collection.

4.7 Entities where control issues relating to appropriations, revenues or related issues have been noted include:

- Australian Customs Service;
- Department of Defence;
- Department of the Environment and Heritage (Bureau of Meteorology);
- Department of Family and Community Services;
- Department of Immigration and Multicultural and Indigenous Affairs; and
- Australian Taxation Office.

4.8 Details of the particular issues for each entity are outlined in Chapter 5. In all cases, entities concerned have agreed to improve their processes over the remaining months of the financial year.

**4.9** The ANAO recently undertook an Assurance and Control Assessment (ACA) audit on Accounts Receivable<sup>29</sup> in selected entities, the findings of which were consistent with the above observations from a control perspective. This report also outlined sound and better practice observations for the management of accounts receivable and revenue accounts, many of which would be of benefit to entities in their endeavour to enhance control and performance.

## **Payments of expenses**

**4.10** Departmental appropriations are largely disbursed to meet employment costs and supplies relating to rental of premises, administrative costs, contractors and consultants costs and other services. Most entities also disburse administered funds on behalf of the Government on items such as grants, subsidies, benefits, levies and other similar forms of financial assistance.

**4.11** In most entities, payment processes are well established. The ANAO's interim testing has disclosed that payment control frameworks are generally effective with a number of improvements achieved over the past year. Prior year issues relating to the potential for a number of entities to be at risk of disbursing appropriations in breach of legislative requirements have been addressed. Nevertheless, individual entities continue to have weaknesses over payment processes which are specific to their operations covering issues such as:

- special account reconciliation processes;
- appropriate segregation of duties;
- appropriate delegations;
- creditor account management;
- monitoring of grant and funding agreements;
- reconciliation of payment programs, GST business activity statements, supplier invoices including resolution of disputes;
- authorisation of disbursements;
- management of appropriations by outcome;
- review and clearance of outstanding purchase orders;
- maintenance of appropriate controls over payment data issues; and
- reconciliation of program payments to FMIS.

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<sup>29</sup> Auditor-General, Audit Report No.25, 2001–2002, *Accounts Receivable*, ANAO, Canberra, December 2001.

**4.12** Reconciliation processes, segregation of duties, appropriate delegations and access controls, combined with other measures, provide an effective means of ensuring that payments are valid, accurately recorded and that funds are not mismanaged or subject to endemic fraud.

**4.13** Entities where control issues relating to control over payments or related issues have been noted include:

- Department of Agriculture, Fisheries and Forestry–Australia;
- Attorney-General’s Department
- Department of Communications, Information Technology and the Arts (ScreenSound);
- Department of Defence;
- Department of Education, Science and Training;
- Department of Employment and Workplace Relations;
- Department of the Environment and Heritage;
- Department of Family and Community Services;
- Department of Health and Ageing;
- Health Insurance Commission;
- Department of Immigration and Multicultural and Indigenous Affairs; and
- The Australian National University.

**4.14** Details of the particular issues for each entity are outlined in Chapter 5. As noted above for appropriations and other revenues, entities have agreed to address these issues.

**4.15** In June 2001, the ANAO published an ACA audit on Payment of Accounts<sup>30</sup>. The findings of this report were consistent with the above observations from a control perspective. The report did, however, identify opportunities to implement better practice through the use of formal process risk assessments and greater use of advanced cost-effective IT.

## **Employment and related costs**

**4.16** Employment and related entitlements normally represent the largest departmental expenditure item or running costs. In many instances, personnel costs represent one of the larger liabilities entities will need to meet, in particular, the accumulated recreation and long service leave balances.

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<sup>30</sup> Auditor-General, Audit Report No.52, 2000–2001, *Payment of Accounts*, ANAO, Canberra, June 2001.

## *Findings*

**4.17** FMISs and HRMISs, including those contracted to external providers, have been reasonably stable in most entities, with control frameworks assessed as generally effective. However, a number of entities continue to have difficulty with reconciling costs incurred in their salary and personnel systems with balances recorded in their FMISs.

**4.18** As indicated in the last year's report, given the significance of salaries as an expense item, those entities that do not have an integrated FMISs and HRMISs, require a reconciliation process which ensures fortnightly payroll amounts are accurately recorded. Without this reconciliation process, monthly financial reporting may not be accurate and could be potentially misleading to management and other internal users of financial reports. Payroll reconciliations need to be addressed progressively, preferably fortnightly but at least monthly, to clear any differences prior to the preparation of the monthly or annual financial reports.

**4.19** Entities where control issues relating to employment costs or related issues have been noted include:

- Department of Communications, Information Technology and the Arts (core and ScreenSound);
- National Archives of Australia;
- Department of Education, Science and Training;
- Department of Employment and Workplace Relations;
- Department of the Environment and Heritage; and
- Department of Immigration and Multicultural and Indigenous Affairs; and
- Department of the Treasury.

**4.20** Details of the particular issues for each entity are outlined in Chapter 5.

**4.21** The ANAO recently conducted an ACA audit on Payroll Management<sup>31</sup>, the findings of which were consistent with the above, with all entities meeting at least minimum standards. However, the report noted room for improvement in the application of risk management to payroll arrangements and the need to continue to improve IT controls to respond to changing working processes and IT advances. All entities need to monitor developments in this regard.

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<sup>31</sup> Auditor-General, Audit Report No.19, 2001–2002, *Payroll Management*, ANAO, Canberra, November 2001.

## Cash management

4.22 Departmental appropriations are deposited into entities' bank accounts each fortnight attaching responsibility for entities to manage their cash flows to ensure they have the necessary liquidity to meet their commitments as they fall due. Surplus funds are usually placed on overnight deposit with the Reserve Bank of Australia (RBA) as part of cash management and banking arrangements and they can also be placed on deposit for selected periods of time with approved financial institutions. In this environment, it is essential that funds transferred to the RBA and other bodies are approved and that bank reconciliation and management processes track the movement of funds to and from all bank accounts.

### *Findings*

4.23 Cash management processes are integrally linked to the management of appropriations and receipts and also to the payment of employment and suppliers costs. Control weaknesses identified this year generally related to inconsistency in the timely completion and review of bank reconciliations, as noted above, for appropriations, receipts and payments.

4.24 Entities where control issues relating to cash management or related issues have been noted include:

- Department of Communications, Information Technology and the Arts (ScreenSound);
- National Archives of Australia;
- Health Insurance Commission; and
- Department of Immigration and Multicultural and Indigenous Affairs.

4.25 Details of the particular issues for each entity are outlined in Chapter 5.

4.26 These findings are consistent with the ACA audit on Management of Bank Accounts by Agencies<sup>32</sup> in selected entities.

## Asset management

4.27 Asset management, particularly in relation to the maintenance of reliable asset registers, has been an issue of concern raised consistently by the ANAO in previous years particularly in relation to:

- acquisitions and disposals not being recorded in a timely manner;
- assets on hand not being recorded on the asset register;

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<sup>32</sup> Auditor-General, Audit Report No.10, 2001–2002, *Management of Bank Accounts by Agencies*, ANAO, Canberra, September 2001.

- asset registers not being regularly reconciled to financial systems; and
- depreciation rates not being consistent with the useful lives of assets.

4.28 These problems appear to have been substantially addressed with only a small number of entities experiencing on-going issues of this type. However, a continuing issue in some entities is the regular reconciliation of the asset register to the FMIS. Details of the particular issues for each entity are outlined in Chapter 5.

4.29 Entities where control issues relating to asset management or related issues have been noted include:

- Department of Communications, Information Technology and the Arts (ScreenSound and Questacon);
- National Archives of Australia;
- Department of Defence;
- Department of Employment and Workplace Relations;
- Department of the Environment and Heritage; and
- Health Insurance Commission.

4.30 These findings are consistent with the ACA audit on Disposal of Assets<sup>33</sup> in selected entities published in August 2001.

## Conclusion

4.31 In recent years, the ANAO has highlighted the need for significant improvement in reconciliation processes relating to bank accounts, payroll processing, appropriations, other revenues, interface systems and asset registers. Reconciliations are integral to ensuring the information in financial systems is complete, accurate and valid. In the 2000–2001 financial year, the ANAO observed that most entities recognised the need to complete these reconciliations but were inconsistent in their application to ensure all reconciliations were prepared and reviewed in a timely and complete manner. For 2001–2002, the ANAO noted that most entities improved the consistent application of reconciliation procedures, with only a small number of entities continuing to experience inconsistency. However, a persistent continuing problem in many entities relates to the need to reconcile payroll and leave costs recorded in the HRMIS to the balances recorded in the FMIS. The ANAO continues to reinforce the importance of this reconciliation process, given the significance of personnel costs to entities and the potential impact for errors in financial reporting.

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<sup>33</sup> Auditor-General, Audit Report No.8, 2001–2002, *Disposal of Infrastructure, Plant and Equipment*, ANAO, Canberra, August 2001.

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<sup>34</sup> Commonwealth Government of Australia, *Consolidated Financial Statements for the Year Ended 30 June 2001*, Canberra, December 2001.

**4.32** A monthly checklist, listing all reconciliations to be completed, including completion and review responsibilities, is a reliable mechanism used by some entities ensure to a disciplined approach to monthly reporting. Other entities would benefit by adopting this approach.

**4.33** These are areas that the ANAO will review to assess improvements over the coming year.





**Results of the  
Examinations of Control  
Structures—by Major Entity  
for the Year Ending  
30 June 2002**



## 5. Results of the Examinations of Control Structures—by Major Entity

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### Introduction

5.1 This part of the report summarises the results of examinations of internal control structures of major individual Commonwealth entities as part of the interim audits of their financial statements for the year ending 30 June 2002. These entities primarily comprise the portfolio departments that manage the majority of the Commonwealth's financial activities and operate the more significant and complex financial systems. The Aboriginal and Torres Strait Islanders Commission, Australian Customs Service, the Repatriation Commission and Department of Veteran Affairs, Centrelink, Health Insurance Commission, National Archives of Australia, and the Australian Taxation Office are also included, given their Budget significance. In addition, this part includes the results of the audit of the financial report of the Australian National University for the year ended 31 December 2001.

5.2 The ANAO's audits of Commonwealth authorities, companies and subsidiaries are performed on a continuous basis and are structured to meet Board commitments as well as the Commonwealth reporting deadline of September 2002. The results of the audit of these bodies will also be included in the Auditor-General's *Report on the Audits of Financial Statements of Commonwealth Agencies* expected to be tabled in December 2002.

5.3 The summary of each major entity's interim audit results contains:

- introductory commentary regarding its business operations;
- key business and financial statement risks;
- comments on selective corporate governance arrangements;
- audit results, including reference to the more significant issues identified covering general audit procedures, IT processes, IT security and business resumption planning;
- a summary of financial reporting capability; and
- a conclusion.

5.4 In respect to the business and financial statement risks, these were identified and reported to each entity as part of the planning phase of each audit. They represent the ANAO's assessment of the key factors that give rise to the potential for material misstatement in the financial statements. The ANAO's

work during the interim phase of the audit, which is the basis of this report, focuses on steps taken by entities to manage those risks with potential impacts on the financial statements.

5.5 Issues arising from audit activity are rated in accordance with the seriousness of the particular matter. The rating, which is included in ANAO interim reporting to entities, indicates to the respective entity the priority it needs to give to remedial action. The ratings are defined as follows:

- A: Those matters that pose significant business or financial risk to the entity and must be addressed as a matter of urgency;
- B: Control weaknesses which pose moderate business or financial risk to the entity or matters referred to management in the past which have not been addressed satisfactorily; and
- C: Matters that are procedural in nature or minor administrative shortcomings.

5.6 Significant category 'B' or 'C' issues remaining unresolved at the time of the next audit may, depending on the seriousness of the issue, be given a higher rating.

5.7 This part of the report discusses the more significant matters identified ('A' and 'B') in separate sections for each entity. A table of the more significant matters is also included for each entity. The various tables track progress on matters raised from our audits of the 30 June 2001 financial statements.

5.8 A summary of 'A' rated findings by entity is outlined in Appendix 1.

## Department of Agriculture, Fisheries and Forestry—Australia

### Business operations

5.9 The Department of Agriculture, Fisheries and Forestry—Australia (the department) has the objective of increasing the profitability, competitiveness and sustainability of Australian agricultural, food, fisheries and forestry industries and enhancing the natural resource base to achieve greater national wealth and stronger rural and regional communities. As such, the department is primarily responsible for the delivery of policy and technical advice, program administration and services in the areas of:

- natural resources access and management;
- innovation and operating environment;
- industry development and adjustment;
- food processing and through chain development;
- market access and biosecurity;
- product integrity, animal (including aquatic animal) and plant health;
- quarantine and export services;
- scientific advice; and
- economic research.

5.10 The Australian Quarantine and Inspection Service (AQIS) provides meat inspection and quarantine services and forms a significant part of the department. AQIS operates on a cost-recovery basis and negotiates its fees with relevant industry bodies. AQIS reports separately and as part of the department's consolidated financial statements.

5.11 The department's appropriation funding for the year ending 30 June 2002 totals \$1408 million. This funding covers:

- its price of departmental outputs (including AQIS fees)—\$424 million; and
- administered expenses—\$1167 million.

5.12 The department's average staffing for 2001–2002 is 3190.

### Key business and financial statement risks

5.13 In order to manage its business risks, the following key issues are addressed:

- delivery of timely and effective policy advice in accordance with the Government's and Ministers' agendas;
- detection and prevention of unwanted diseases and exotic pests from entering Australia;
- provision of quality goods and services at a cost that is comparable with other competitive organisations;
- implementation of information system changes to satisfy the needs of users and the whole-organisation;
- management of outsourced contract arrangements, including IT, human resources, laboratory testing, and the administration of some grants and personal benefits; and
- management of significant cash payments arising from a possible realisation of employee provisions.

**5.14** The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- the accuracy of levy revenues given the reliance on self assessment in levy collections; and
- accounting for, and funding of, employee provisions.

**5.15** The financial statement audit will focus on the material financial reporting issues flowing from the business risks and key business and accounting processes, including the above issues.

## **Corporate governance**

**5.16** The department has created a strong corporate governance framework which is reflected in the number of committees, sub-committees and teams with specific roles and duties pertinent to a timely and structured approach to the management of the department's resources and associated risks. Aspects of the department's corporate governance arrangements which impact on financial statement assurance include:

- an executive management meeting which is held monthly to determine management policy, monitor progress and assess performance against the business plan;
- an audit committee, which meets eight times a year, and focuses on the efficiency, effectiveness and probity of activities, including risk assessment and management, internal audit planning and results, ANAO audit activities and fraud control;

- a finance sub-committee, which meets eight times a year, primarily oversees the production of the annual financial statements and provides advice to the audit committee;
- the creation of a departmental business risk management plan, its application at the project, business and corporate levels, and reporting on key risks and treatments to the audit committee and at quarterly project performance reviews;
- the preparation of monthly financial reports for review by departmental executives and the AQIS business and finance committee; and
- an executive budget committee which determines funding priorities and allocations.

## Audit results

5.17 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	1	1	0	0
B	0	0	1	1
<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

### *General audit findings*

5.18 Segregation of duties between the approval of new suppliers and placing new suppliers on the vendor master file is an important control in the procurement process. This control minimises the risk to the department of inappropriate vendors being created and inappropriate expenditure occurring, whilst also reducing the risk that duplicate payments may arise. Controls employed by the department and requirements within key procedural documents were considered insufficient for the purposes of attaining this objective. Additionally, inadequate procedures existed to confirm the validity and/or authenticity of new vendors. These issues have since been addressed by the department's management.

## Financial reporting

5.19 The department's financial reporting framework has continued to evolve and has matured to the extent that detailed reporting and control issues are now being addressed. Improvements are expected to continue with a strong

focus on financial management and reporting. An example of progress in financial reporting is the preparation and utilisation by management of detailed monthly financial reports, including analyses of variances. These reports are utilised by the executive and business heads for decision-making and financial management purposes.

## **Conclusion**

**5.20** The department has continued to strengthen its financial reporting and internal control structure and has responded positively to ANAO observations and recommendations. Initiatives have been created which assist in the identification of control deficiencies or financial statement related issues in a timely manner, and the underlying framework facilitates the management of these issues. It is expected that the department will consider automating further its current systems and controls to enhance the efficiency and effectiveness of the internal control framework. Current initiatives relating to this issue have been observed with the pending introduction of the new levies system.



## Attorney-General's Department

### Business operations

5.21 The Attorney-General's Department (the department) is the central policy and coordinating element of the Attorney-General's portfolio and plays a key role in serving the people of Australia by providing essential expert support to the Government in the maintenance and improvement of Australia's system of law and justice.

5.22 The Administrative Arrangement Orders (AAO) of 26 November 2001 resulted in the inclusion of three new divisions arising from the transfers of Emergency Management Australia from the Department of Defence, and Royal Commissions (HIH and Building Industry) from the Department of Finance and Administration.

5.23 The total appropriation for the department, including additional estimates and special appropriations for 2001–2002, is \$501.1 million. In summary, the appropriations for the year ending 30 June 2002 for the department covers its:

- special appropriations—\$30 million;
- administered expenses—\$286 million;
- price of outputs—\$170.1 million (including \$1.8 million accrued appropriation for Protective Security Coordination Centre counter terrorism measures); and
- equity injections—\$15 million for the Administrative Review Tribunal.

5.24 The department's average staffing level for 2001–2002 is 1437, including 814 staff of the Australian Protective Service and 32 staff of the CrimTrac agency.

### Key business and financial statement risks

5.25 In order to manage its business risks, the department addresses key issues relating to the timely and efficient delivery of effective legislative policy and advice and other services (e.g. administration of legislation, coordinating national security, implementing Commonwealth policy on family law and legal aid) and its reputation and relationship with its business partners.

5.26 In managing these business risks, disciplined management practices are required over the professional service areas of the department and supporting services, including human resources and financial management. Given the specialist staffing required, a critical risk management issue continues to be succession planning.

5.27 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the low level. The key issues for the current year include:

- IT issues, including a proposed upgrade to its FMIS and the implementation of a new HRMIS to replace the existing module; and
- accounting for the restructuring associated with the AAO.

5.28 The financial statement audit focuses on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including those above.

## **Corporate governance**

5.29 The ANAO's audit approach considers departmental goals and priorities, objectives and strategies along with the critical success factors management considers are necessary to achieve them. Measures which impact on financial statement assurance include:

- a corporate plan which outlines broad strategic directions and is supported by operational plans which detail activities and associated resourcing and performance information;
- an executive which conducts weekly meetings with division heads, evaluates key issues and reviews divisional performance against operational plans for the next 6–12 months. Each division is reviewed twice a year;
- an audit committee that meets quarterly and actively focuses on audit planning, internal controls, management of financial risks, review of financial reporting, control of finances, assets and regulatory compliance;
- a monthly reporting regime which reports actual versus budgeted departmental and administered activity across outputs and outcomes and provides an analytical review of performance; and
- risk management plans which identify the strategic risks at divisional level to make divisional managers aware of the risks they are required to manage.

## **Audit results**

5.30 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO during the interim phase of the audit.

Ratings	Issues outstanding at March 2001	Issues Resolved prior to March 2001	New issues to March 2001	Closing position at March 2001
A	0	0	0	0
B	7	5	2	4
<b>Total</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>4</b>

### *IT security*

5.31 During the audit of the FMIS and its operating environment, the ANAO noted:

- a lack of control over restricting the access of employees who no longer have FMIS responsibilities;
- a lack of segregation of incompatible functions relating to accounts payable and purchasing in the FMIS; and
- an excessive number of users with access to make amendments to staff access privileges.

5.32 The department has advised of appropriate action taken, or proposed, to address and/or minimise the exposure from these issues.

### *Business resumption planning*

5.33 The department has recognised the need to have in place a comprehensive and up to date business resumption plan. To this end, a project is underway to update and review the detailed business continuity plans and disaster recovery plans developed in connection with year 2000 IT issues. However, as a result of slippage in the project's delivery, at the time of audit, there were no procedures in place to ensure that restart and recovery processes are subject to regular testing and review of results.

5.34 The department has advised that the documentation of IT restart and recovery processes will be reviewed and a program to test these processes will be developed.

### **Financial reporting processes**

5.35 The department has developed financial reporting processes that include monthly reports on administered and departmental revenues, expenses, assets and liabilities and cash flows. The reports provide actual results versus budget information on both an accrual and a cash basis.

## **Conclusion**

5.36 Departmental initiatives are evident which have addressed prior year audit findings. A number of control weaknesses were identified in this year's audit. The department has advised of appropriate remedial action.

## Australian Customs Service

### Business operations

5.37 The Australian Customs Service (customs) is responsible for providing effective border management that, with minimal disruption to legitimate trade and travel, prevents illegal movement across the Australian border, raises revenue and provides trade statistics.

5.38 Customs contributed to implementing the Government's tax reform measures at the border by having responsibility for the assessment and, where appropriate, the collection of Goods and Services Tax (GST) on imported goods, Wine Equalisation Tax (WET) and Luxury Car Tax (LCT). Customs also administers the Tourist Refund Scheme and the compliance activity, in conjunction with the Australian Taxation Office, in relation to the GST, WET and LCT for both imported and exported goods.

5.39 Customs also plays a key role in the fight against illicit drugs, other quarantine risks and terrorism.

5.40 Total appropriation for customs in 2001–2002 for its price of outputs is \$728.6 million. In addition, customs will receive an equity injection of \$11.1 million for its marine vessel finance lease, the purchase of assets for Australia's response to foot and mouth disease, and other quarantine risks.

5.41 Customs' average staffing level for 2001–2002 is 5101.

### Key business and financial statement risks

5.42 In order to manage its business risks, customs addresses key issues associated with:

- the assessment and collection of Commonwealth revenue;
- safeguarding Australian borders;
- the protection of the community against illegal importation and the dumping of goods into Australia;
- the fight against illicit drugs and other quarantine risks; and
- the operation of detection programs to identify non-compliance with legislative requirements for revenue leakages and border control including terrorism.

5.43 In managing these business risks, disciplined management and operational policies, practices and procedures are required over revenue protection and law enforcement, compliance and regulatory standards, including quality assurance

programs. Central to this framework is a comprehensive resource infrastructure including trained staff supported by specialist assets and information systems. Key business issues for current year include the:

- proposed phased implementation of the cargo management re-engineering system that will replace the existing sea and air cargo automation systems and its impact on revenue;
- implementation of measures for Australia's response to foot and mouth disease and other quarantine risks for which additional resources have been allocated;
- collection and reporting of custom revenues, including difficulties associated with import duties, self assessment, and complicated legislation; and
- control over complex IT systems, processes and databases, including electronic commerce related activities.

**5.44** The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- the adequacy of compliance programs and their impact on revenue;
- debt management; and
- the financial statement close process and the adequacy of documentation of the audit trail.

**5.45** The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks, key business and accounting processes, including the above issues.

## **Corporate governance**

**5.46** Customs continues to have in place measures that contribute to sound corporate governance and to financial statement assurance. These measures include:

- a structured framework for incorporating risk management into the broader management and business processes;
- a monthly reporting regime to the executive that provides key financial information and performance measures;
- an internal audit strategy and plan that addresses key business and financial risks which, in turn, aims to improve custom's business and management practices; and

- an audit committee that meets at least quarterly and which focuses on risk management and internal audit issues and take an active role in monitoring all key findings.

5.47 These measures also contributed to the reliability of systems of internal control and compliance with accounting and financial policies.

## Audit results

5.48 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	13	12	1	2
<b>Total</b>	<b>13</b>	<b>12</b>	<b>1</b>	<b>2</b>

### *General audit findings*

5.49 The significant business financial controls were found to be operating satisfactorily, with no major control breakdowns noted. However, the ANAO noted that the quality assurance program over audits conducted under the National Compliance Improvement Plan has still not been implemented in a number of regions. In addition, there is the need to manage better debt recovery process associated with post warrant amendments.

## Financial reporting

5.50 Customs has a sound financial reporting framework in place that incorporates key financial and non-financial measures to monitor the organisation's performance and financial management by key business areas and by regions. Monthly reports are produced promptly and seek to explain variances from budget or expected outcomes and detail any areas that are of interest to the executive.

## Conclusion

5.51 Customs has improved its internal control structure by taking remedial action on audit issues raised in the previous year relating to asset management, reconciliation of subsidiary ledgers to the FMIS and the IT environment.

## Department of Communications, Information Technology and the Arts

### Business operations

5.52 The Department of Communications, Information Technology and the Arts (the department), supports the communications, IT, cultural and sports sectors by providing strategic policy advice to Government and delivering a range of Commonwealth grants, payments and incentive programs.

5.53 The AAO of 26 November 2001 resulted in the transfer to the department, the responsibility for sport and government information. The Cultural Heritage program was transferred to the Department of the Environment and Heritage.

5.54 The department also incorporates Artbank, the National Science and Technology Centre (Questacon) and ScreenSound Australia (ScreenSound). The results of the audit of Artbank have not been included in this report as audit work is still progressing.

5.55 The department's appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$187.1 million; and
- administered expenses—\$616.9 million.

5.56 The department's average staffing level for 2001–2002 is 871.

### Key business and financial statement risks

5.57 In order to manage its business risks, the department addresses the following key issues relating to:

- the delivery of timely and effective policy advice in line with the Government's and Minister's requirements;
- the efficient and effective delivery of Government telecommunications and arts programs; and
- ensuring there are adequate business management and accountability arrangements across the department.

5.58 In managing the business risks, disciplined governance arrangements and management policies are required over program administration. Central to this is sound contract, financial and resource management.

5.59 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:



- management and reporting of special accounts;
- asset management and reporting; and
- management and reconciliation of appropriation drawdowns.

5.60 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## Corporate governance

5.61 Generally, a strong corporate governance regime imposes an alignment in the authority, responsibility and accountability within an entity. Measures which impact on financial statement assurance include:

- an executive management group which meets regularly to advise the secretary on departmental wide issues and monitor financial performance;
- the preparation of monthly financial data and reports for analysis by branches and the senior executive group. From July 2001, the nature of these reports has changed from a cash to an accrual basis;
- an audit, risk and evaluation committee which meets at least quarterly, focusing on risk management and the control environment, particularly relating to financial systems, accounting processes, audit planning and reporting. An external member has recently been appointed to the committee; and
- an internal audit strategy and plan which, within available resources, addresses key financial and business risks based on management priorities. The annual plan is presented to the audit committee for approval and performance is reviewed quarterly against the approved plan.

5.62 The department is currently reviewing its risk management and fraud control plans to assist with the identification, assessment and prioritisation of risks.

5.63 Artbank, Questacon and ScreenSound provide monthly reports and financial data for incorporation into the department's monthly reports.

5.64 The operation and effectiveness of these measures are subject to ongoing review by the department and the ANAO.

## Audit results

5.65 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	18	14	4	8
<b>Total</b>	<b>18</b>	<b>14</b>	<b>4</b>	<b>8</b>

## *General audit findings*

### *Payroll and bank reconciliations*

5.66 Reconciliations are a fundamental control procedure used to ensure that information posted from various sources to the FMIS is valid. Deficiencies were identified in the performance of:

- bank reconciliations—it was noted that monthly bank reconciliations for ScreenSound were not in balance and that evidence of review and checking procedures were not in place; and
- payroll reconciliations—reconciliations of the core department’s payroll data recorded in the HRMIS to the FMIS contained variances which had not been cleared. In addition, evidence of review and checking procedures could not always be sighted. Further, ScreenSound does not perform monthly reconciliations of payroll costs recorded in its HRMIS to balances recorded in its FMIS.

5.67 The above issues relate to aspects of financial information processing which should be undertaken and checked at least on a monthly basis.

### *Management of special accounts*

5.68 The department is responsible for a number of special accounts including the Federation Fund, the Television Fund, the Untimed Local Calls account, and the Remote Communities account. Monthly reconciliations of special accounts have not been consistently performed since July 2001. In addition, the completed reconciliations contained no evidence of review and checking procedures.

5.69 Given the large number of special accounts that the department has to manage and the size of the payments which can be made from these accounts, regular reconciliation processes are necessary to ensure the accuracy of account balances and financial reporting.

### *Asset management*

5.70 ANAO noted that ScreenSound needs to improve its asset management processes relating to asset write-offs and disposals, recording of capital expenditure, timely entering of asset purchases to the asset register and the reconciliation of differences between the balances recorded in the asset register and the FMIS. It was also noted that Questacon is currently including certain payments, which should be written-off, into the capital cost of its exhibitions. The ANAO has recommended that management review and update its asset capitalisation policy.

### *Accounting for employee entitlements*

5.71 To improve the reliability of financial information, ScreenSound needs to improve its monthly accounting processes relating to leave liabilities by ensuring they are recorded on an accrual basis and adjusted on a monthly basis.

### *Security over payment processing*

5.72 The ANAO noted that ScreenSound payment files are forwarded to ReserveLink for payment processing by one officer. To ensure appropriate segregation of duties, a second authorisation involving separate identification and password protection should be required.

5.73 The department has advised the ANAO of remedial action already taken, or proposed, to address all general audit findings.

### *IT business processes*

5.74 The processes used to control the movement and authorisation of changes to systems are a key element in ensuring only appropriately authorised and tested changes are implemented into a production environment. The ANAO identified weaknesses in these processes in the core department and Questacon. These included the promotion of system upgrades directly into a live production environment without adequate testing, and the lack of formal procedures detailing the authorisation and system documentation requirements. The ANAO has recommended that processes be implemented to ensure these risks are addressed.

### *IT security*

5.75 It was noted that staff who leave the department do not have their user access to systems denied immediately following departure. Currently, procedures to prevent unauthorised access by former staff are ad hoc. The ANAO has recommended that procedures be strengthened to ensure a more timely locking of redundant user accounts.

## *Business resumption planning*

5.76 The objective of a business resumption plan is to ensure the uninterrupted availability of all key business resources necessary to support critical business activities. The ANAO noted that, while each entity (Core, Questacon and ScreenSound) had a disaster recovery plan in place which addressed the availability and recoverability of IT infrastructure and key business applications, there was no risk assessment of the issues that may impact upon key business processes from an organisational wide perspective. The ANAO has recommended that each entity undertake such an assessment.

## **Financial reporting**

5.77 Over the past year improvements have been achieved in the quality of financial data and reporting available to the secretary, the executive and business areas. In prior years, management has largely relied on cash based reports. However, over the past year attention has been given to improving the quality of monthly accrual based reporting and the level of analysis which accompanies the reports. Improvements should continue in the quality of financial reporting as initiatives undertaken in the past year are improved and streamlined.

## **Conclusion**

5.78 Progress has been achieved in strengthening the control environment. However, further enhancements to controls are necessary relating to end of month financial reporting procedures, security over payment processing, IT change management processes and business resumption planning. The department has accepted ANAO findings and has agreed to implement remedial action.

## National Archives of Australia

### Business operations

5.79 The National Archives of Australia (the archives) is responsible for playing the leading role in the management of Commonwealth records, making available to the public non-exempt Commonwealth records over 30 years old, encouraging and facilitating the use of the archival resources of the Commonwealth and providing leadership in developing and coordinating the preservation and use of the archival resources of Australia. The archives meets these responsibilities by providing public access to official records, and by developing policy and providing advice to Government and its entities on the management, preservation and disposal of Commonwealth records. It maintains information systems about the structure of government and those records agencies create which are part of the archival resources of the Commonwealth.

5.80 The archives' total price of outputs for the year ending 30 June 2002 is \$148.2 million.

5.81 The archives' average staffing level for 2001–2002 is 395.

### Key business and financial statement risks

5.82 In order to manage its business risks, the archives addresses key issues relating to:

- the management of archive items to ensure history is maintained and service delivery is in-line with clients' expectations;
- ensuring the archives' collection meets appropriate appraisal standards; and
- maximising public awareness of the archives' collection.

5.83 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the low to medium level. Key issues for the financial year include:

- the valuation of the archives' collection; and
- the implementation of a new asset module.

5.84 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## Corporate governance

5.85 Generally, a strong corporate governance regime imposes an alignment in the authority, responsibility and accountability within an entity, aspects of which are critical to the preparation of reliable financial statements. Corporate governance arrangements in the archives which contribute to financial statement assurance include:

- an executive group which meets at least monthly to advise the acting director-general on performance relating to strategic, operational and financial issues;
- an audit committee which meets at least quarterly, focusing on risk management and the control environment, in particular relating to financial systems, accounting processes, audit planning and reporting;
- an internal audit strategy and plan which, within available resources, addresses key financial and business risks based on management priorities;
- production of monthly financial reports for review and analysis by the executive; and
- an updated fraud control plan.

5.86 The ongoing operation and effectiveness of these measures are subject to ongoing review.

## Audit results

5.87 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	3	1	1	3
<b>Total</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>3</b>

### *General audit findings*

#### *Bank reconciliations*

5.88 The ANAO noted that efforts had been made to improve the frequency of bank reconciliations. Nevertheless, audit testing identified a number of months where reconciliations had not been completed in a timely manner.

### *Payroll reconciliations*

5.89 Improvements have also been achieved relating to the reconciliation of data transferred from the HRMIS to the FMIS. However, instances were noted where reconciliations were not always timely.

### *Asset management*

5.90 The ANAO noted that weaknesses still exist in obtaining timely approvals for asset disposals. It was recommended that those responsible for asset management be made aware of the importance of obtaining the necessary timely approvals for asset disposals.

## **Financial reporting**

5.91 Over the past year the archives has continued to improve its financial reporting processes. In 2000–2001 it was noted that the archives' financial reporting and related financial decision-making was largely based on cash as opposed to an accrual basis of accounting. This aspect has been improved with the preparation of accrual based reports in 2001–2002. Improvements are expected to continue in the quality of financial reporting and the level of financial analysis as the archives refines its accrual management and internal reporting framework.

## **Conclusion**

5.92 The archives has achieved improvements in its financial reporting and internal control structure and it has responded positively to ANAO findings and recommendations. Continued attention to the reconciliation regime and asset disposal procedures will further improve the archives' control processes.

## Department of Defence

### Business operations

5.93 The Department of Defence (the department) is responsible for achieving the single outcome of the prevention or defeat of the use of armed force against Australia and its interests. The output targets for the department in 2001–2002 consist of:

- Defence Operations;
- Army Capabilities;
- Air Force Capabilities;
- Navy Capabilities;
- Strategic Policy; and
- Intelligence.

5.94 The department's appropriation funding for the year ended 30 June 2002 totals \$22 158 million. This funding covers:

- its price of departmental outputs—\$17 859 million; and
- administered expenses—\$2300 million.

5.95 The department's current average staffing level for 2001–2002 is 88 274, including total permanent forces of 50 911, total reserves of 20 348, and total civilian staff of 17 015.

### Key business and financial statement risks

5.96 The department's key business risks include:

- corporate governance—inadequate processes and controls to provide appropriate assurance over the information being produced for operational and reporting purposes;
- strategic planning—the inability of the department to allocate effectively resources due to inadequate planning processes, most importantly asset procurement;
- change management—the potential threat to the department of not maximising resources made available for core department activities in an environment of significant organisational change;
- outsourcing—inability to deliver or enhance current service levels while ensuring they are delivered in a cost-effective manner;



- human resources—difficulties in recruiting and retaining adequately skilled staff to allow the department to achieve its business objectives; and
- military operations—insufficient capability and preparedness for timely responsiveness.

5.97 The ANAO assessment of the risk of material misstatement in the 2001–2002 department financial statements is at the high level. Key issues for the current year include:

- accounting issues, including inventory valuation and consumption, asset recognition and write downs and specialist military equipment componentisation;
- assets under construction—capitalisation and expense classification;
- debtor and creditor management and accounting processes;
- system and data integrity;
- related management issues, including the need for implementation of a risk management plan together with an evaluation of fraud exposure; and
- understanding Defence resource management processes.

5.98 The ANAO financial statement audit will focus on the material financial reporting risks flowing from these areas and the data streams of all material areas.

## **Corporate governance**

5.99 Significant areas of difficulty continue to emerge. Issues in the main, centre on the control framework and related management information aspects, as follows:

- in 2000–2001, there were more than \$1 billion of correcting asset adjustments processed. This represented a continuation of the large adjustments resulting from errors and breakdowns in business processes that were recognised in subsequent reporting periods;
- as at 28 February 2002, the department financial statements indicate \$388 million of unexplained asset writedowns and an off-system adjustment of \$236 million associated with the Asset Purchase Accounts; and
- while the 2002 Defence fraud control plan (DFCP4) and enterprise risk management plan were ratified in May 2002, they have yet to be tested. Accordingly, results will need to be compared and evaluated against identified parameters within each respective plan.

5.100 Corporate governance issues will be responded to by the department as part of their reply to the 2001–2002 interim audit.

## Audit results

5.101 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues to March 2002	Issues resolved prior to March 2002	Issues reclassified*	Closing position at March 2002
A	10	6	5	2	13
B	34	14	14	(2)	32
<b>Total</b>	<b>44</b>	<b>20</b>	<b>19</b>	<b>0</b>	<b>45</b>

\*In the 2001 closing audit report, two issues previously categorised as 'B' findings were upgraded to category 'A' findings.

5.102 Twelve of the above Category 'A' findings remain outstanding from reports issued in prior years. In summary, these findings relate to:

- inventory valuation;
- asset accounting; and
- monthly reporting and fraud control issues.

5.103 The new issue arising from the 2002 interim audit relates to creditor management.

### *Creditor management*

5.104 At the date of this report, the department is currently reviewing its understanding of processes together with the management of its relationships with suppliers. The departmental position in regards to this will be evaluated throughout the financial statement audit.

### *Other findings*

5.105 The department acknowledges the extent of underlying problems in both financial and accounting processes, indicating that Defence continues to experience difficulties resulting from past neglect of major information systems.

5.106 The secretary has concluded that, for the financial year 2001–2002, the department will still not have achieved permanent solutions to improve many of the financial controls currently still at issue. As a result, the 2001–2002 audit of the department's financial statements will again largely involve a substantive approach.

## Conclusion

**5.107** The Defence secretary has stated that the extent of underlying problems in the department's financial and accounting processes and systems are well documented by the ANAO. Furthermore, the secretary has acknowledged that the department's management information systems and processes require dramatic improvement, particularly in regards to accounting for specialist military equipment.

**5.108** As audit work progresses, the ANAO will be looking for a high level of assurance from the department over control of its financial exposures. Management standards need to ensure that the financial statements are constructed so that there is a reasonable expectation of detecting material misstatements resulting from error, including fraud. Of significance, will be the application of robust evidentiary standards. The outcome of the assurance process will be fundamental input for the production of credible financial statements for the 2002 financial year.

## Repatriation Commission and the Department of Veterans' Affairs

### Business operations

5.109 The Repatriation Commission is responsible, under the *Veterans' Entitlements Act 1986*, for granting pensions, allowances and other benefits, and providing treatment and other services through hospitals and institutions, or community facilities, to veterans.

5.110 The Department of Veterans' Affairs (the department), in its role of providing administrative support to the Repatriation Commission, delivers its responsibilities by making pension, allowances and other benefit payments to veterans and other entitled persons. The department also administers the commemoration program and the *Defence Service Homes Act 1918*. These activities require the department to deal with complex demographic and geographic issues in serving the veteran community.

5.111 The department's appropriation funding for the year ending 30 June 2002 covers;

- its price of outputs—\$265.2 million; and
- administered expenses—\$8.7 billion.

5.112 The department's average staffing level for 2001–2002 is 2468 across Australia.

### Key business and financial statement risks

5.113 Key business risks include:

- the effective management of service level arrangements with the Health Insurance Commission, the Department of Health and Ageing and Centrelink for the payments of benefits;
- decentralised and devolved operations to State Offices, which are managed through quality assurance and monitoring processes;
- frequent changes in veterans' legislation covering the applicability of benefits and levels of benefits to be paid; and
- the reliance on external parties to provide information to support entitlements for various government benefit programs.

5.114 In managing these risks, the department has put a strong emphasis on maintaining efficient contract management and monitoring procedures for the effective administration of payments.

**5.115** The ANAO's assessment of the risk of material misstatement in the 2001–2002 financial statements is at the moderate level. Key issues for the current year include:

- management and controls over the commercial banking arrangement for processing receipts and expenditures and reconciliations with the FMIS;
- payments to veterans together with verification of end of year accrual calculations; and
- the quality of contract management for the Defence Service Homes Insurance Scheme, as well as the adequacy of the reinsurance coverage due to the recent failure of some insurance companies.

**5.116** The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and selected key business and accounting processes, including the above issues.

## **Corporate governance**

**5.117** As part of the financial statement audit, the ANAO observed that the department has particular strategies and actions in place which contribute to the management of the above risks. The arrangements include:

- establishment of a national audit and fraud committee with a primary focus on resolution of audit and fraud control issues together with aligning the strategic audit coverage with the department's overall risk assessment;
- an executive management group which meets quarterly to determine and evaluate progress on the agreed strategic directions of the department. The group is supported by sub-committees that assess the overall performance of the department's operations through a variety of reporting mechanisms;
- a strong focus on the management of service delivery costs. This is evidenced through the department entering into a pricing agreement with the Department of Finance and Administration and with the detailed cost attribution process in place; and
- a monthly financial reporting regime.

## **Audit results**

**5.118** The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

<b>Ratings</b>	<b>Issues outstanding at March 2001</b>	<b>Issues resolved prior to March 2002</b>	<b>New issues to March 2002</b>	<b>Closing position at March 2002</b>
A	0	0	0	0
B	12	12	0	0
<b>Total</b>	<b>12</b>	<b>12</b>	<b>0</b>	<b>0</b>

5.119 The results of the audit to date indicate that the department has taken a proactive role towards resolving major controls and accounting issues raised in 2000–2001.

### **Financial reporting**

5.120 The reporting processes implemented by the department are comprehensive and includes both financial and non-financial information. The balanced scorecard report measures performance against cost, quantity, timeliness, quality and outcome. In addition, monthly reports of actual versus budgeted expenditure are distributed for review by each state and branch manager and are discussed at a quarterly meeting of the corporate resources committee.

### **Conclusion**

5.121 The control framework was found to be operating satisfactorily for financial statement reporting purposes. Improvements have been noted in resolving prior year issues and in maintaining the systems of control within the department.

## Department of Education, Science and Training

### Business operations

5.122 The Department of Education, Science and Training (the department) is responsible for providing assistance and support programs that help Australians to achieve in a learning society. The department is responsible for education, other than migrant adult education, the provision of training services including new apprenticeships, science policy, promotion of collaborative research in science and technology, and the co-ordination of research policy, research grants and fellowships.

5.123 Following the AAO of 26 November 2001, the department's outcomes remain unchanged. However, the outputs have been revised to reflect:

- the move of the youth functions to the Family and Community Services portfolio; and
- the inclusion of the newly assigned science functions from the former Industry, Science and Resources portfolio.

5.124 The department's key business processes relate to:

- the administration of grant payments for infrastructure, education and training and research;
- the delivery of services which provide access to education and training assistance; and
- the provision of expert advice and analysis to the Government.

5.125 The department is predominantly budget funded and the appropriations for the 2001–2002 financial year cover:

- its price of outputs—\$212.7 million; and
- administered expenses—\$12.3 billion.

5.126 The department's average staffing level for 2001–2002 is 1470 across Australia.

### Key business and financial statement risks

5.127 In order to manage its business risks, the department addresses key issues relating to:

- the reputational risk associated with the provision of policy advice and service delivery;
- the management of external service providers and service recipients;

- the management of procurement of goods and services;
- the availability and cost of insurance for service providers and funded bodies; and
- the management of grant expenditure.

**5.128** In managing these business and financial risks, disciplined management and operational policies, practices and procedures are required over policy advising and program management activities and grant administration.

**5.129** The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- the recognition of unfunded superannuation commitments relating to universities;
- restructuring under the AAO of 26 November 2001;
- the absence of timely reconciliations between the systems which support the reporting of payments for the Higher Education Contributions Scheme; and
- the adequacy of systems and processes to allocate costs against agreed goods and services (outputs) and resulting benefits (outcomes).

**5.130** The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## **Corporate governance**

**5.131** The ANAO's audit approach considers departmental goals and priorities, objectives and strategies along with the critical success factors management considers are necessary to achieve them. Measures which impact on financial statement assurance include:

- the department's corporate direction as outlined in the corporate plan with short term priorities being assessed on an annual basis and reflected in the business plans of each work unit. A strategic risk management plan and risk assessment process has been developed through the corporate leadership group, taking into account the high priority risks and risk minimisation strategies identified by all divisions, which links the critical success factors set down in the corporate plan;
- the executive which conducts regular meetings with branch managers focusing on key issues. The executive has also implemented detailed



business planning and reporting processes to enhance divisional performance;

- the audit and business assurance committee which meets quarterly and actively focuses on internal and external audit, risk management and fraud issues, as well as monitoring departmental performance;
- a monthly reporting regime which reports actual versus budgeted departmental and administered activity across the department's outputs and outcomes. Included in this process is an analytical review of performance;
- a recently completed national risk assessment exercise which will be used to contribute to an assessment of the overall effectiveness of the department's control framework and identify and plan compliance audits; and
- an internal audit strategy and plan which addresses key business and financial risks and covers all programs administered by the department.

## Audit results

5.132 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	4	4	3	3
<b>Total</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>

### *General audit findings*

#### *Reconciliations*

5.133 Reconciliations are an important control check to ensure that information recorded in departmental systems is accurate. Deficiencies were noted as follows:

- Reconciliations between the department's FMIS and the following significant payment programmes were not performed on a timely basis in accordance with the department's CEIs:
  - Indigenous Education Programmes Payment System; and
  - Higher Education Payment Scheme.

### *Employee entitlements*

5.134 The department is not accounting for or finalising employee entitlement transfer settlements on a timely basis.

### **Financial reporting processes**

5.135 The department continues to refine its financial reporting processes which provides monthly reports on administered and departmental revenues, expenses, assets and liabilities and cash flows. The reports provide actual versus budget information on both an accrual and cash basis allowing management to assess effectively the department's financial position and operating performance.

### **Conclusion**

5.136 Improvements are required in relation to the performance of timely reconciliations for the significant payment and grant programmes and the processing of employee entitlements. This will ensure that the department has adequate systems and procedures to produce accurate and complete information for financial reporting purposes. The department has responded positively to ANAO recommendations made in relation to the above audit findings.

## Department of Employment and Workplace Relations

### Business operations

5.137 The aim of the Department of Employment and Workplace Relations (the department) is to support strong employment growth and the improved productive performance of enterprises in Australia. The department's most significant business process is the management of contracts associated with the employment program.

5.138 The department contributes to the achievement of two government outcomes, namely:

- an efficient and equitable labour market that links people to jobs and promotes the transition from welfare to work; and
- flexible and fair workplace relations at the enterprise level.

5.139 The AAO of 26 November 2001 resulted in the following changes:

- transfer of the Office of Small Business and the Business Entry Point to the Department of Industry, Tourism and Resources;
- transfer of responsibility for Area Consultative Committees, the Regional Assistance Programme and the Dairy Regional Assistance Programme to the Department of Transport and Regional Services; and
- transfer of the Remuneration Tribunal to this department from the Department of Finance and Administration.

5.140 The department's appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$411.7 million; and
- administered expenses—\$1692 million.

5.141 The department's average staffing level for 2001–2002 is 2038 across Australia.

### Key business and financial statement risks

5.142 The department's key business risks include:

- contract management—in delivering its programs the department relies on contractors and other government entities. A strong contract management framework must be in place. Critical elements include legal and probity issues associated with tender selection, contract management and performance monitoring;

- policy advice and analysis—policy advice given by the department to its ministers and other stakeholders must be accurate and well informed;
- program administration and output delivery—the department’s ongoing relationships with its varied stakeholders is fundamental. These relationships must be managed effectively to ensure Government outcomes are achieved;
- downturn in the economy—the demand for the department’s services is affected by a downturn in the economy. With any increase in demand for employment program services, there is a risk that the quality of services will be compromised;
- Government restructuring—the restructuring of the department following the AAO of 26 November 2001, mean that the process will have to be managed to ensure the delivery of services is not compromised and the restructure arrangements are accurately reported in the financial statements; and
- IT systems and policy changes—the department is heavily dependent on the effectiveness and integrity of IT systems for program delivery. The department must manage its critical IT systems to ensure IT failures are prevented, especially when changes occur to key IT systems as policy is developed and implemented for the department.

**5.143** The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the moderate level. Key issues for the current year include:

- reporting of administered and departmental items against their correct classifications;
- completion of asset reconciliations;
- reporting financial outcomes and outputs; and
- accurate accounting of the restructuring.

**5.144** The ANAO financial statement audit will focus on the material financial reporting risks flowing from the major business risks and key business and accounting processes, including the above issues.

## **Corporate governance**

**5.145** The department continues to have in place elements which contribute to sound corporate governance and in particular to financial statement assurance. Measures which impact on financial statement assurance include:

- a corporate plan, which has a strategic risk assessment process covering the main areas of business, including the assessment of group and state business plans and the allocation of resources;
- an executive/management group which is responsible for monitoring business planning processes, monthly evaluations of key performance indicators, budgets and other financial and non-financial measures;
- a committee framework that includes the management board, the corporate leadership committee, the audit committee and the fraud sub-committee;
- a reporting regime, which includes a monthly accrual financial report that provides the executive and operational areas with key financial information;
- a review and monitoring framework, including a strategic internal audit plan and an annual internal audit work plan endorsed by the audit committee and approved by the executive; and
- a fraud control plan, which is incorporated into the department's integrity plan 2001–2003. All major business areas conduct fraud risk assessments, which contribute to the development of fraud control action plans. The fraud control action plans, together with mandatory coverage required by the fraud control policy of the Commonwealth, form the department's integrity plan.

5.146 The audit committee recently completed reviews of its charter and the role and charter of the internal audit function.

## Audit results

5.147 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	17	15	6	8
<b>Total</b>	<b>17</b>	<b>15</b>	<b>6</b>	<b>8</b>

## *General audit findings*

5.148 Controls over accounting and financial processes were found to be generally sound, but a number of control aspects were noted as requiring attention. Recommendations were made to improve:

- the management of appropriations and outcomes to ensure moneys were only expended for the purpose for which they are appropriated;
- the review and authorisation of payroll disbursements; and
- the full reconciliation and review of the asset register to the FMIS, including more formal referencing to supporting documentation.

## *IT security*

5.149 Overall, the department has a sound security policy and this is used to drive security processes and solutions throughout the department. In order to improve documentation standards and to minimise the possibility of unauthorised access to systems, recommendations were made to activate audit trails on two servers and to introduce formal reviews of security logging and privileged account usage on two systems.

## *Business resumption planning*

5.150 In order to ensure the uninterrupted availability of all key business resources required to support critical business activities, recommendations were made to ensure updates of the IT disaster recovery plan were undertaken to mirror the current environment following the relocation of an IT site and introduction of new systems.

## **Financial reporting**

5.151 The department has implemented a strong financial management process that provides monthly reports to managers within five days of the end of each month. The reports provide actual performance against budget information on an accrual basis allowing management to assess the financial position and operating performance of the department. The reports are supplemented with a balanced score card reporting system, which reports against a range of financial and non-financial indicators, including client, business and people management needs and goals.

## **Conclusion**

5.152 The department continues to strengthen its internal control structure and is in a sound position to produce reliable information for its annual financial statements. The department has agreed to action all ANAO recommendations.

## Department of the Environment and Heritage

### Business operations

5.153 The Department of the Environment and Heritage (the department) consists of three separate functional units involved in the following operations:

- *Environment Australia*—the provision of advice on and implementation of policies and programs for the protection and conservation of the environment. This includes assistance to the Australian community to appreciate and conserve Australia’s natural and cultural heritage places for present and future generations;
- *Bureau of Meteorology*—the provision of meteorological and related hydrological and oceanographic services for the Australian community; and
- *Australian Antarctic Division*—the maintenance of an Australian presence at stations on the Antarctic continent and the pursuit of Australia’s Antarctic interests involving the protection of the Antarctic environment and the conduct of scientific research.

5.154 The department’s appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$679.4 million; and
- administered expenses—\$324.6 million.

5.155 The department’s average staffing level for 2001–2002 is 2588 across Australia.

### Key business and financial statement risks

5.156 In order to manage its business risks, the department addresses key issues relating to:

- *Environment Australia*
  - policy advice and analysis;
  - implementation of the new environment legislation; and
  - reliance on third parties to deliver outputs (including state governments).
- *Bureau of Meteorology*
  - management of commercial services.

- *Australian Antarctic Division*
  - changing nature of business operations.

5.157 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- *Environment Australia*
  - accounting for the IT outsourcing lease;
  - attribution of revenues and expenses to major activities; and
  - the resolution of accounting treatment differences between Environment Australia and the Natural Heritage Trust.
- *Bureau of Meteorology*
  - appropriations and bank account management.
- *Australian Antarctic Division*
  - asset management.

5.158 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks, business and accounting processes, and the above issues.

## **Corporate governance**

5.159 The ANAO's audit approach considers departmental goals and priorities, objectives, and strategies along with the critical success factors management considers are necessary to achieve them. Measures which impact on financial statement assurance include:

- the establishment of a senior executive committee which meets regularly to evaluate and determine the department's strategic direction, financial planning and operational results;
- an audit committee that meets at least quarterly and acts as an advisory body on matters relating to internal audit, evaluation, fraud control and risk assessment. The audit committee contains two external members;
- the endorsement by the audit committee of the strategic audit plan and the annual audit plan;
- The plans identify available resources, address key business and financial risks and detail the rationale behind each audit;
- a fraud control plan and publication of fraud control arrangements and guidelines on the department's intranet;



- a documented risk management strategy (currently under review) which identifies and treats medium and high rated exposures; and
- the preparation and reporting of monthly financial data and reports for analysis and action by managers and the senior executive committee.

## Audit results

5.160 The following table provides a summary of the status of prior year and 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
<b>Environment Australia</b>				
A	1	1	1	1
B	8	6	1	3
	9	7	2	4
<b>Bureau of Meteorology</b>				
A	0	2	2	0
B	1	5	14	10
	1	7	16*	10
<b>Australian Antarctic Division</b>				
A	0	0	0	0
B	9	9	0	0
	9	9	0	0
<b>Department of the Environment and Heritage (totals)</b>				
A	1	3	3	1
B	18	20	15	13
<b>Total</b>	<b>19</b>	<b>23</b>	<b>18</b>	<b>14</b>

\* Includes two category 'A' and nine category 'B' findings, relating to the 2000–2001 financial year, noted in the April to June 2001 period.

## **Environment Australia**

### *General audit findings*

#### *Grant administration*

5.161 Recommendations were made to improve controls over the exercise of Ministerial delegations under section 45(1) of the *National Heritage Trust of Australia Act 1997*, to ensure officers approving expenditure were appropriately delegated by the Minister.

#### *Payments to employees*

5.162 The lack of reconciliation of payroll data to the FMIS was again referred to the department for action.

#### *Asset management*

5.163 Controls over asset management have improved over the past year, however, the lack of completed reconciliations between the asset register and the FMIS was again referred to the department.

#### *Business resumption planning*

5.164 While the department has completed an IT business contingency plan, issues relating to the development of business continuity plans (disaster recovery plan and a business resumption plan) for each key service area and a departmental disaster recovery plan were referred for attention. The department advised that it was undertaking a risk-based approach to business continuity planning and that it has commenced the development of business continuity plans for identified key service areas and a departmental wide disaster recovery plan.

## **Bureau of Meteorology**

### *General audit findings*

#### *Revenues*

5.165 Recommendations were made to correct the treatment for the recognition of unearned revenue, to ensure revenue only related to services performed by the Bureau of Meteorology in appropriate accounting periods.

#### *Payment of expenses*

5.166 Recommendations were made to remedy the following control deficiencies:

- the lack of timely review and clearance of outstanding purchase orders;
- the lack of reconciliation of the goods and services tax business activity statement to the general ledger account; and
- apportionment of prepaid services over the life of service contracts.

#### *Payments to employees*

5.167 Control weaknesses were noted in relation to:

- the adequacy of monitoring of changes to personal details in the payroll system;
- a number of long outstanding acquittals for overseas travel advances; and
- the lack of timely transfer of capitalised salaries from work in progress to project assets.

#### *Asset management*

5.168 Asset management control issues included the need to record accurately and review the write-off of assets, the more timely take up of asset revaluations in the financial information management system and the need to adopt a risk based approach to regional office stocktakes.

#### *Inventory management*

5.169 Inventory management control issues included the need for regular inventory stocktakes and the introduction of obsolescence reviews.

### **Financial reporting**

5.170 The executive and operational areas are provided with financial information in relation to the department's financial position and operating performance. The reports provide results by outcome on a budget versus actual basis. In addition, the executive is also provided with reports in relation to cash management practices and investment results.

### **Conclusion**

5.171 Control frameworks for both Environment Australia and the Australian Antarctic Division have improved over the past year but some enhancements are still required. A number of improvements to the Bureau of Meteorology's control environment are required to ensure that its accounting processes provide accurate financial information. The department has responded positively to ANAO's findings and has advised of remedial action.

## Department of Family and Community Services

### Business operations

5.172 The Department of Family and Community Services (the department) is the principal policy formulation and advising body within the Family and Community Services portfolio. The department is responsible for income support, housing policy, community support, disability services, child care services and family issues, including family payments, child support and family relationships. As well as families, the department focuses on groups with differing needs, such as young people and students, people living in rural and remote areas, Aboriginal and Torres Strait Islander peoples and people from diverse cultural and linguistic backgrounds.

5.173 The department advises the Government on all policy issues within the portfolio and manages the delivery of departmental services through a range of service providers, including Centrelink, State and Territory governments and state-based Non-Government Organisations (NGOs). The department also advises the Government on the social policy implications of wider government policy including taxation, superannuation and savings policy.

5.174 The department's appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$2238 million; and
- administered expenses—\$55 175 million.

5.175 The department's average staffing level for 2001–2002 is 5630 across Australia.

5.176 Under the AAO of 26 November 2001, the department gained responsibility for youth affairs from the then Department of Education, Training and Youth Affairs (DETYA).

5.177 The department incorporates the Child Support Agency (CSA), CRS Australia (CRS) and the Social Security Appeals Tribunal (SSAT). These entities maintain distinct identities.

### Key business and financial statement risks

5.178 In order to manage its business risks, the department addresses key issues relating to:

- provision of timely and effective social policy advice in line with the government's and Ministers' agenda;

- ensuring an adequate framework for the management of service providers including the building of effective partnership arrangements to achieve desired outcomes; and
- maintenance of sensitive and confidential information.

**5.179** In managing these business risks, disciplined governance, management and operational policies, practices and procedures are required to ensure the adequacy of business management arrangements across the department (including CRS, CSA and SSAT). This involves ensuring that appropriate communications systems and accountabilities are in place, and that staff have the necessary contract management, project management and corporate skills and knowledge.

**5.180** The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- accounting for administered payments which are based on complex legislation, voluntary disclosure and reliant on complex information systems;
- costing and valuation of a new CSA administrative system;
- accounting for the transfer-in of youth affairs from DETYA;
- accounting for appropriations in accordance with pricing agreements and approved policies; and
- establishment and implementation of a policy in relation to estimated recovery of benefits overpayments.

**5.181** The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## **Corporate governance**

**5.182** The department's corporate governance regime has strengthened over the past year. This is a continuing process, especially in the area of the overarching risk framework and supporting risk management initiatives covering the department and its service providers, particularly Centrelink.

**5.183** The risk assessment and audit committee meets quarterly. It focusses on risk management and the effectiveness of the control environment, particularly in relation to financial systems, accounting processes, audit planning and reporting.

5.184 The executive board takes an active interest in the financial operations of the department and receives detailed monthly reports from the CFO. The CFO was recently appointed as a member of the executive board.

5.185 The fraud control plan is currently being reviewed, with an expectation that this will be completed by June 2002. The intention is to implement a fraud control plan that is continuously under review to ensure it is current and comprehensive.

## Audit results

5.186 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	1	1	0	0
B	8	5	1	4
<b>Total</b>	<b>9</b>	<b>6</b>	<b>1</b>	<b>4</b>

### *General audit findings*

#### *Overarching risk framework*

5.187 In the 1999–2000 financial year, the ANAO recommended that the department undertake a high level risk assessment against existing controls, including those provided by other service entities to determine the adequacy and effectiveness of existing mechanisms. The department focused attention on this issue in 2000–2001 and has continued to make further progress on this recommendation during 2001–2002 including:

- developing a risk management framework requiring staff to assess their risks and to develop a risk management plan for their area as part of the strategic and business planning processes of the department; and
- continuing to progress its analysis of inherent risks relating to its main service provider, Centrelink, through the development and sign-off of a business assurance framework, as part of its Business Partnership Agreement with Centrelink.

5.188 It is envisaged that, once the overall risk management framework has been fully implemented, the ANAO will then review this framework in more detail to determine whether appropriate action on the prior ANAO recommendation has been completed.

*Debt management information system (DMIS)—debt provisioning for benefit payments*

5.189 In 2000–2001, the department and Centrelink agreed to work together to develop an appropriate debt provisioning policy for on-going application to Centrelink customers who have an accumulated debt due to the Commonwealth. Work on this policy is continuing. The ANAO will review progress later this financial year, once final agreement has been reached between the two entities.

*CSA—Reconciliation, confirmation and management of Australian Taxation Office charges*

5.190 At the time of the ANAO review, it was noted that CSA did not perform regular formal reconciliation of amounts owed to the Australian Taxation Office. CSA should address this issue prior to the completion of this year's financial statements.

*IT Security*

5.191 Controls over access to computer facilities and systems provide the department with confidence in the integrity of its client data, financial information and transactions. To ensure a satisfactory level of IT access control, the department has established appropriate policies and procedures in order to reduce potential access risks to an acceptable level. Despite this, the audit identified the potential for unauthorised users to gain access to financial and confidential information and make unauthorised changes or amendments which could compromise data integrity. The department has agreed to review its IT security policies to address this issue.

## **Financial reporting**

5.192 The department has an effective transactional based monthly financial reporting process which is supplemented by financial analysis in key result areas. Financial reports to the executive board set out financial information on actual results against budget, analysis of significant variances, percentage of year to date budget utilised, and a performance scorecard. The performance scorecard incorporates both financial and non-financial measures of the department's overall performance.

## **Conclusion**

5.193 The department continues to strengthen its internal control structure with further gains made in the past year on the quality of its internal control environment including financial reporting. The department is working towards the timely resolution of outstanding control matters.

## Centrelink

### Business operations

5.194 Centrelink is an autonomous statutory authority, established under the *Commonwealth Services Delivery Agency Act 1997*, and is located in the Family and Community Services portfolio. It is the principal service delivery organisation within the portfolio and is responsible for linking Australian Government welfare services.

5.195 Centrelink's customers include retired people, families, sole parents, people looking for work, people with disabilities, illnesses or injuries, carers, widows, primary producers, students, young people, indigenous people and people from diverse cultural and linguistic backgrounds.

5.196 Centrelink operates under a purchaser/provider framework and obtains the majority of its funding through business partnership arrangements, on a fee for service basis, with client entities that purchase Centrelink's services. Centrelink's estimated total revenue from client entities and other sources for the year ending 30 June 2002 is \$1856 million. Centrelink disburses benefits totaling in excess of \$50 billion for client entities.

5.197 Centrelink operates an extensive customer service centre network across Australia has an average staffing level for 2001–2002 of 22 115 people.

### Key business and financial statement risks

5.198 To manage its business risks, Centrelink addresses key issues relating to:

- the delivery of services to customers in accordance with client requirements including the accurate processing and disbursing of benefit payments in accordance with legislation;
- the management and maintenance of complex IT systems and processes to support on-line electronic service delivery across a large network of customer service centres; and
- the security of confidential client information.

5.199 The requirement for customer self-disclosure adds additional risk to the accuracy of Centrelink eligibility assessments and the associated benefit payment processing. In this environment, Centrelink should ensure that an appropriate level of preventative and detective measures are in place to encourage timely self-disclosure by customers.

5.200 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. A key issue for the current year is the carrying value of internally developed software.



**5.201** The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issue.

## **Corporate governance**

**5.202** Key elements of Centrelink's control structure which contribute positively to financial statement assurance include:

- a board of management which determines corporate strategy, provides guidance and oversight to senior management in the delivery of Centrelink's service charter, and reviews overall business strategy, plans and significant policies to ensure that Centrelink fulfils its obligation to client agencies and other stakeholders;
- a five year corporate and business strategy which is supported by a national business plan that details how the strategies outlined will be achieved. This provides the basis for a range of other plans within the organisation;
- a reliable and comprehensive monthly accrual based financial reporting regime which includes statements of financial performance and position, cash flow, analysis of actual results to budget, key statistics and the integration of non-financial performance information;
- an audit committee of the board which ensures Centrelink operates with appropriate financial management and complies with established internal controls by reviewing specific matters that arise from the audit process;
- an internal audit function which undertakes a program of audits covering all key aspects of Centrelink's business. This program is approved by the audit committee and is developed on a risk assessment basis in conjunction with client agencies;
- a fraud control plan which is supported by fraud control action plans that list the necessary measures to overcome the risks identified as contributing to program, information and administrative fraud;
- CEIs which provide a framework for Centrelink's financial operations; and
- a review and monitoring framework which includes an assessment and compliance review of benefit payments.

**5.203** The ongoing operation and effectiveness of these measures are critical to the level of assurance that the CEO and the ANAO require for financial statement purposes.

## Audit results

5.204 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO during its interim audit procedures.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	11	10	2	3
<b>Total</b>	<b>11</b>	<b>10</b>	<b>2</b>	<b>3</b>

### *General audit findings*

#### *Overarching risk framework*

5.205 During the interim phase of 2001–2002 financial statement audit, the ANAO observed that Centrelink continues to progress the development and implementation of its high-level risk management framework. It is envisaged that, once the overall risk management framework and supporting strategies have been implemented, the ANAO will then review the operation of this framework in more detail to determine whether the prior ANAO recommendation on risk management has been appropriately implemented. Implementation of the full risk management framework within Centrelink is not expected to be completed until later this calendar year.

#### *Monthly reconciliation control checklist*

5.206 Centrelink has made progress from the prior year in respect of the regular performance and review of reconciliations. However, some further improvement is needed to enhance and refine the reconciliation process. Centrelink has established a checklist that records the status of monthly balance sheet reconciliations. The ANAO audit noted some balance sheet accounts that had not been reconciled and monthly reconciliations which had not been reviewed by management. The ANAO recommended that all departmental and administered balance sheet accounts be reconciled and reviewed each month. In addition, a review of the reconciliation control checklist should also be undertaken to verify the status of the reconciliation program.

#### *National Distribution Account*

5.207 The National Distribution Account (NDA) records monies drawn down from the Official Public Account for the payment of benefit entitlements to eligible recipients. Centrelink has established a number of balance sheet

accounts that relate to the NDA. Such accounts include unpresented cheques NDA, direct credits NDA and trace clearing NDA. The ANAO noted that these NDA accounts have not been reconciled consistently every month and that reconciling differences of a significant nature have not been resolved on a timely basis. The ANAO recommended that the NDA accounts be reconciled on a monthly basis and that Centrelink should consider whether further efficiencies could be gained from reconciling a number of the accounts on a daily rather than monthly basis. Centrelink treasury staff are taking steps to investigate and resolve the unreconciling differences.

### **Financial reporting**

**5.208** A formal monthly financial reporting program is in place, including analysis of key business and financial aspects of Centrelink's operations. In addition, Centrelink has a balanced scorecard approach to assess progress against key performance indicators and targets.

### **Conclusion**

**5.209** The control framework over Centrelink's significant business processes has been strengthened over the past year and can be relied upon for the production of reliable, complete and valid financial statement information. Centrelink has responded positively to ANAO findings and recommendations.

## Department of Finance and Administration

### Business operations

**5.210** The role of the Department of Finance and Administration (the department) is to assist the Government achieve its objectives by providing policy advice and services. The department accomplishes this by contributing to three key outcomes:

- sustainable government finances;
- improved and more efficient government operations; and
- an efficiently functioning Parliament.

**5.211** The department's operations are diverse, ranging from budget preparation and managing a large property portfolio, to providing cars and drivers for Senators and Members of Parliament.

**5.212** The department has continuing outsourcing arrangements in place for the provision of human resource management, internal audit, office services, IT services, property portfolio management and Comcover's client services.

**5.213** The AAO of 26 November 2001 had a significant impact on the department, resulting in:

- the transfer of the overseas property portfolio to the Department of Foreign Affairs and Trade;
- the moving of functions of the Office of Asset Sales and Commercial Support to the department;
- the transfer of responsibility for Information Access to the Department of Communications, Information Technology and the Arts;
- the transfer of responsibility for the Remuneration Tribunal Secretariat to the Department of Employment and Workplace Relations;
- the transfer of responsibility for the Royal Commission into the Collapse of HIH Insurance Group and the Royal Commission into the Building and Construction Industry to the Attorney General's Department; and
- the transfer of responsibility for the administration of Natural Disaster Relief and the Sugar Industry Assistance package to the Department of Transport and Regional Services.

**5.214** The department's appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$150 million; and

- administered expenses—\$5418 million.

5.215 The department's average staffing level for 2001–2002 is 743.

### **Key business and financial statement risks**

5.216 In order to manage its business risks, the department addresses key issues relating to:

- appropriateness and rigidity of Commonwealth financial management framework;
- appropriateness and accuracy of advice provided to Ministers, Members of Parliament and departments;
- valuation of superannuation liabilities administered on behalf of the Commonwealth;
- valuation of insurance liabilities administered on behalf of the Commonwealth and the appropriateness of asset cover and reinsurance policies;
- valuation of Commonwealth domestic property portfolio and adequacy of asset management procedures;
- validity and accuracy of entitlements paid to parliamentarians and their staff; and
- appropriateness of contract management procedures over outsourced arrangements for the provision of human resource management, financial reporting, internal audit, office services, IT services, property portfolio management and Comcover's client services.

5.217 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- accounting for restructuring as a result of the AAO;
- accounting for asset management; and
- reliability of valuations provided from third parties for assets and liabilities.

5.218 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## Corporate governance

5.219 The department has in place structures and processes that contribute to effective corporate governance and, in particular, to gaining assurance over the financial statement process. Specific processes assisting the department in achieving this assurance include the following:

- business planning;
- defining policy and procedures to operate within legal and social requirements;
- establishing control and accountability systems;
- reviewing, monitoring and evaluating the department's performance; and
- risk management.

5.220 These processes are exercised by management and articulated to all staff within the department.

## Audit results

5.221 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	4	4	0	0
<b>Total</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>0</b>

5.222 The results of the audits to date indicate that the department has taken a pro-active role towards control issues raised in the prior 2000–2001 year.

## Financial reporting

5.223 The department has developed sound financial reporting processes that provide monthly reports on administered and departmental revenues, expenses, assets and liabilities and cash flow statements. The reports provide actual versus budget information on an accrual basis, allowing management to assess reliably the department's financial position and operating performance.

5.224 During 2000–2001 the department managed the 'close the books' process successfully. The department has already distributed comprehensive financial statement instructions detailing procedures and a timetable for the department

to achieve the 15 August 2002 deadline. In ANAO's opinion, the department is well placed to again manage this process to meet effectively the reporting timeframe for 2001–2002.

## **Conclusion**

**5.225** Audit noted improvements in the strength of internal controls, particularly in the Ministerial and Parliamentary Group and the overall IT environment. In relation to the current audit cycle, based on the work performed to-date, the control framework and the internal controls are operating satisfactorily.

## Department of Foreign Affairs and Trade

### Business operations

5.226 The Department of Foreign Affairs and Trade (the department) contributes to Australia's security, supports Australia's economic and trade performance, and strengthens international cooperation in ways that advance Australia's interests. The department provides high-quality advice to the Government across the spectrum of foreign and trade policy issues, assists the increasing number of Australian travellers and Australians overseas, and projects a positive image of Australia internationally. The department's work towards its four outcomes is carried out by staff serving at its network of overseas posts as well as in Canberra, State and Territory capitals and some regional centres.

5.227 The AAO of 26 November 2001 resulted in the transfer to the department of the overseas property activities from the Department of Finance and Administration.

5.228 The department's principal appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$804.3 million; and
- administered expenses—\$187.6 million.

5.229 The department's average staffing level for 2001–2002 is 3259 in Australia and overseas.

### Key business and financial statement risks

5.230 In order to manage its business risks, the department addresses key issues relating to:

- the delivery of timely and effective policy advice in line with the government's and ministers' agenda;
- maintaining effective relations with other countries and the ability to influence global and regional developments to protect Australia's interests;
- maintaining a secure and effective overseas network; and
- meeting client expectations and demands for consular and passport services, including the requirement to have continued security over passport operations.

5.231 In managing these business risks, disciplined governance arrangements and management practices are required over foreign and trade policy and related diplomatic activities. Integral to this are human resource, IT, financial and



corporate management processes and systems that support a large network of overseas posts.

5.232 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- infrastructure, plant and equipment assets, including depreciation following the transfer to the department the responsibility for overseas property activities from 26 November 2001; and
- the recoverability of debts on the National Interest Account.

5.233 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks, business and accounting processes, including the above issues.

### **Corporate governance**

5.234 Generally, a strong corporate governance regime imposes an alignment in the authority, responsibility and accountability within an entity. Aspects of the department's corporate governance arrangements which impact on financial statement assurance include:

- an executive committee which oversees the operational performance of divisions; reviews departmental wide issues and monitors financial performance;
- the preparation of monthly financial data and report for the secretary. The distribution of reports and the access to financial information for analysis by divisions and branches enhances the reliability of accrual information within the department;
- an audit committee which meets quarterly and focuses on the efficiency, effectiveness and probity of activities including risk assessment and management, internal audit planning and results, fraud control and ANAO audit activities; and
- an internal audit function which undertakes a program of audits in central office, and across the overseas network, in accordance with an approved plan to develop on a risk assessed basis.

5.235 The department is currently revising its risk management plan. This will assist in strengthening the risk identification, assessment and prioritisation processes including the implementation or refinement of controls to minimise risks to acceptable levels.

## Audit results

5.236 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	4	3	0	1
<b>Total</b>	<b>4</b>	<b>3</b>	<b>0</b>	<b>1</b>

5.237 The results of the audit indicate that departmental systems and procedures have the capacity to produce accurate and complete information for financial reporting purposes.

### *IT security*

5.238 The department has been active in enhancing its overall control structure resulting in improvements in IT security and the quality of financial information and reporting. A continuing weakness exists relating to the management of access profiles to its HRMIS with ANAO noting instances where staff had access to privilege functions that were inconsistent with their job responsibility. The department has advised that it has subsequently rectified this situation.

## Financial reporting

5.239 The department has maintained a strong focus on continuously improving the quality of its financial information and reporting systems and processes covering an extensive overseas network. Improvements are expected to continue in the quality of financial reporting and analysis as the department continues to integrate accrual based financial information into its management and decision making processes.

## Conclusion

5.240 The department has strengthened its financial reporting and internal control structure and has responded positively to ANAO findings and recommendations.

## Department of Health and Ageing

### Business operations

5.241 The role of the Department of Health and Ageing (the department) as set out in its mission statement is 'to lead the development of Australia's health and aged care system'. The department's key business processes relate to:

- the provision of expert policy advice, analysis and other services to the Government;
- implementation of new Government policy in a manner which addresses both individual and population needs and focuses on quality and outcomes to improve the delivery of health and aged care;
- promotion of investment in preventative and early intervention practices, through the identification of best practice and effective service delivery incentives;
- supporting health and medical research activities, and working with the States and Territories to set priorities and strategic directions for developing progressive policies and reforms to provide an internationally recognised health care system to all Australians; and
- the administration of grant and subsidy payments.

5.242 The AAO of 26 November 2001 resulted in the following change:

- transfer of the National Industrial Chemicals Notification and Assessment Scheme to this department from the Department of Employment and Workplace Relations.

5.243 The department's appropriation funding for the year ending 30 June 2002 (rounded) covers:

- its price of outputs—\$693 million; and
- administered expenses—\$29 billion.

5.244 The department's average staffing level for 2001–2002 is 3048.

### Key business and financial statement risks

5.245 In order to manage its business risks, the department manages key issues relating to:

- the delivery of timely and appropriate health care policy which ensures adequate health services are available to all Australians and adequately addresses community health issues;

- compliance with grant funding agreements and Commonwealth specific health and aged care related legislation;
- management of systems and programs relating to the delivery of a wide range of services; and
- public perception of the department.

5.246 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the high level. Key issues for the current year include:

- monitoring and reconciliation of funds;
- information transfer from feeder systems into the FMIS;
- compliance with all relevant legislation;
- integrity of the FMIS; and
- the transfer of the National Industrial Chemical Notification and Assessment Scheme to the Health portfolio.

5.247 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## **Corporate governance**

5.248 The ANAO's audit approach considers the department's business processes in association with departmental goals and priorities, objectives and strategies together with critical success factors. Measures which impact on financial statement assurance include:

- a corporate plan, which sets the broad strategic direction for the department and which is supported by divisional operational plans which detail activities and associated resourcing and performance information;
- a departmental management committee which is chaired by the secretary and assesses the overall performance of the department's operations;
- an audit committee that meets at least quarterly and which focuses on risk assessment, internal audit activities, external audit activities, and fraud control;
- a monthly reporting regime, through the finance committee, which reports actual versus budgeted departmental and administered activity; and
- an audit and fraud control branch which develops an internal audit strategy and plan and coordinates the departmental risk management plan.

5.249 In the previous year, the ANAO recommended to the department that its ability to achieve disciplined stewardship of resources would be enhanced by:

- an increased financial management skill-base in central office commensurate with the size and complexity of the department's operations and budget;
- an improved financial management reporting structure to provide executive management with meaningful and sufficiently high level strategic financial advice and analysis; and
- refining its approach to risk management by ensuring all key areas prepare risk plans consistent with the high level plan prepared for the department as a whole. Furthermore, all plans could then be prioritised and consolidated on a departmental basis and be used more effectively in the development of operational business plans.

5.250 Whilst it is understood that the department has developed a number of mechanisms to address the above matters, the ANAO is still to review whether all issues have been adequately addressed.

## Audit results

5.251 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	1	1	0	0
B	12	12	5	5
<b>Total</b>	<b>13</b>	<b>13</b>	<b>5</b>	<b>5</b>

### *General audit findings*

#### *Payments made for up to five years without the receipt of acquittals information*

5.252 The Office of the National Health and Medical Research Council makes payments to fund medical research in accordance with an agreed schedule of payments in the funding agreement. The ANAO notes that most funding agreements include clauses that require the provision of annual statements of expenditure and other performance data relating to research to be provided to the department for acquittal purposes. Furthermore, the funding agreements permit the Commonwealth to withhold grant payments if these requirements

are not satisfactorily met. It was observed that grant payments continued to be made for a period of up to five years despite the fact that statements of expenditures in accordance with the agreements had not been submitted by certain 'block funded' institutions. The department accepts and endorses the principles of better practice in grants administration and will continue to pursue improvements in key areas as suggested.

*Insufficient review of actual payments compared to budget (Multi Purpose Services)*

5.253 The department's state offices make grant payments to Multi Purpose Services (MPS) based on projected expenditure calculations for a twelve-month period as determined by central office. In order to assess the accuracy of grant payments made by the state offices, a variance analysis approach is undertaken on a cumulative year to date basis each month by central office. However, the department's monitoring approach has a number of weaknesses. The variance analysis is undertaken at a national rather than at a state level and this may lead to monthly state variances being offset against each other and/or may go unexplained. Further, the variance analysis was not completed on a consistent basis for some months and no evidence of investigation of variances above the assessed limit for two months could be sighted.

5.254 It was also noted that the projected expenditure figures used by the budget and financial management section differed to those determined by the MPS staff in central office. The department has undertaken to review and resolve this difference, and has taken a number of steps to clarify accountabilities and improve financial controls with respect to the MPS program.

*Authenticity of delegates' signatures on RCS forms and payments claims*

5.255 The department determines the validity of any claims for payment received from approved providers by comparing the signature on the claim form against a copy of specimen signatures of authorised delegates held in the department. This is considered a strong control, however, a number of instances of non-compliance were noted.

5.256 The subsidies paid to aged care facilities for patients are based on the category of assessment on the Residential Classification Scale (RCS). The department receives RCS forms signed by a delegate with authority to make RCS assessments. It was observed that one state office did not conduct signature checks on RCS forms. Further, during sample testing it was noted that in 50 per cent of cases the delegate's signature on the form did not match the specimen signature on the file or the list of specimen signatures could not be found despite the assistance of departmental officers.

5.257 On examination of the validation process of signatures on claims for payment, it was observed that when specimen signatures were not kept on the permanent file of a provider, no attempt was made by one state office to verify the signature on the claim to the authorised specimen signatures. During sample testing it was noted that in 66 per cent of cases, specimen signatures could not be located despite the assistance of departmental officers.

5.258 In addition, it was noted that one state office has not regularly updated the specimen signatures of the authorised delegates for aged care providers.

5.259 The department has subsequently put a process in place to check signatures on all claims for payments and has also undertaken a review of work practices for the payments team.

#### *Vendor creation in the FMIS*

5.260 An examination of the accounts payable processes and related controls of the Therapeutic Goods Administration revealed that an independent staff member does not review the master data of newly created vendors or any changes to existing vendors. This is an important control, particularly in an environment where inadequate segregation of incompatible duties is unavoidable due to the small number of staff. The department agrees with this finding.

#### *Business resumption planning*

5.261 The objective of business resumption planning is to ensure the uninterrupted availability of all key business resources required to support critical business activities. The range, source and impact of risk to which an entity is exposed requires that business resumption planning be ranked highly for ongoing management attention. Business resumption planning is therefore an integral element of an entity's risk management strategy and consists of two components, IT and business processes.

5.262 The holistic view of business resumption planning differs from what many traditionally term disaster recovery planning, which is associated primarily with IT. In considering business resumption planning, the emphasis is placed upon the whole business, not just on technology issues alone. Other essential resources to be considered by entities under the business continuity planning component include people, infrastructure, assets and supplies, and finances. This reinforces the concept of continuity of all key processes, extending beyond IT systems.

5.263 As part of a separate IT system review of the department, a number of specific issues relating to the IT business resumption planning were noted.

5.264 The department has not conducted an appropriate level of IT systems disaster recovery and business processes continuity planning activity to provide sufficient assurance that business functions and systems would be restored within timeframes that reflect their critical nature in a disaster situation.

5.265 The disaster recovery planning is the responsibility of the outsourced provider and under the contract is required to provide a disaster recovery plan with the same level of protection that the department had prior to the contractor assuming responsibility. The department developed the current disaster recovery plan. The contract also requires the outsourced provider to conduct annual testing of the disaster recovery strategy, but this has only been undertaken once, and the current arrangements only address the mainframe. The network and mid-range platforms have not been addressed to date.

5.266 The department agrees with this finding and will review and update work completed to date on the business continuity plan, taking into account issues raised by the ANAO.

## **Financial reporting**

5.267 Over the past year, the department has made improvements in its financial reporting processes with the new FMIS being fully implemented. This has further enhanced the process of management reporting and analysis. The department utilises monthly reporting procedures, with internal financial reports being prepared mid-month for distribution and discussion at finance committee meetings. Included with these reports is a commentary on the department's financial position. However, any necessary follow up action on these reports is not consistently undertaken. The divisions and the state and territory offices undertake a review of the internal reports prior to distribution to the finance committee. A consultant accounting firm undertakes a quality assurance review of the department's external financial reports.

## **Conclusion**

5.268 Improvements have been made to the internal control structure of the department in the past year. However, testing of accounting and IT systems and controls indicates that there are weaknesses relating to business resumption planning, monitoring of funding agreements and payment processing.



## Health Insurance Commission

### Business operations

5.269 The Health Insurance Commission (the commission) is a Commonwealth statutory authority that supports the delivery of quality health care to Australian residents. This is achieved by providing the Australian community with convenient access to government benefit and grant payments. Among the commission's main activities are the administration of Medicare, the Pharmaceutical Benefits Scheme (PBS), on behalf of the Department of Health and Ageing (DoHA) and the 30% Private Health Insurance Rebate. The commission also administers a number of health incentive programs and grant schemes for DoHA and processes the payment of benefits for the Department of Veterans' Affairs (DVA) Treatment Accounts, and the Office of Hearing Services, and assists in administering the Family Assistance program for the Department of Family and Community Services.

5.270 All commission activities are conducted within the policy framework set by the government and related legislative requirements. The commission focuses on the operational service delivery of the programs and payments within the policy and legislative framework.

5.271 In 2000–2001, the commission received administered funding of \$13.96 billion for benefit and other payments. The commission also received \$396 million in operational revenues for the processing of administered payments, from the relevant entities. The cost of providing these services totalled \$379 million.

5.272 The commission had an average staffing level for 2000–2001 of 4459.

### Key business and financial statement risks

5.273 In order to manage its business risks, the commission addresses key issues relating to:

- identification and management of fraud and inappropriate practices;
- administration of the 30% Private Health Insurance Rebate;
- delivery of critical services by outsourced service providers; and
- management of service level agreements with other entities.

5.274 In managing these business risks, disciplined management practices are required over the management of the commission's IT control environment and associated operating and accounting systems.

5.275 The ANAO assessment of the risk of material misstatements in the 2001–2002 financial statements is at the high level. Key issues for the current year include:

- financial statement preparation;
- reduced reporting timetable;
- funding management; and
- accrual calculations.

5.276 The financial statement audit will focus on the material financial reporting risks flowing from the significant business risks and key business and accounting processes, including the above issues.

## **Corporate governance**

5.277 The ANAO's audit approach considers the commission's goals and priorities, objectives and strategies along with the critical success factors management believe are necessary to achieve them. In considering the commission's strategies, the ANAO focussed on the key initiatives in place to meet its objectives and the management of the business risks associated with those initiatives. Key elements of the control structure which have contributed to sound corporate governance and financial statement assurance within the commission include:

- the commission's strategic plan including key performance objectives;
- regular board meetings;
- a framework of committees such as the audit committee, the fraud and service audit committee, business outcomes committee, human resource committee and remuneration committee;
- six monthly financial reporting of actual results against budget;
- a formal policy on risk management; and
- an internal audit function which acts as a review and monitoring tool extending to all operations and systems. The audit and risk assurance service branch conducts audits in accordance with an approved plan resulting from formal risk assessments as well as input from senior management.

## **Audit results**

5.278 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	1	0	0	1
B	20	12	4	12
<b>Total</b>	<b>21</b>	<b>12</b>	<b>4</b>	<b>13</b>

### *General audit findings*

#### *FINNET (Financial management information system) review*

5.279 The ANAO has undertaken an update review of the FINNET system in 2001–2002, with the objective of identifying control weaknesses that currently impact on the reliability of the information provided to the commission. Financial and accounting aspects within FINNET still need strengthening. Key issues include:

- the need to utilise the FINNET reporting function;
- the need to use separate company codes to distinguish between administered and departmental accounts; and
- using asset and liability accounts as revenue and expense accounts which are not subject to automatic adjustment at the end of each reporting period.

#### *30% Private Health Insurance Rebate (PHIR)*

5.280 The ANAO's evaluation of the internal controls surrounding payments made under the PHIR is that they are not yet sufficient to ensure the accuracy and validity of all payments. In 2001–2002 the commission has focussed resources into the maintenance and control framework surrounding the registration database as required by the *Private Health Insurance Incentive Act 1998*. However, plans for maintaining the accuracy of the registration database are limited. The commission has also directed the resources of the program review division to complete a range of internal audits of all Health Funds in 2001–2002. When completed this program will allow further analysis of payments made to the Health Funds.

5.281 However, as in prior years, reliance will need to be placed on audit certificates received from the Health Funds at the end of the financial year. The ANAO has concerns that by having to place significant reliance on the audit certificates at the end of the financial year, there is the risk that audit certificates will not be received in a timely manner or that certificates may be qualified, resulting in continued uncertainty over the accuracy and validity of payments, although this has been reduced following the introduction of detailed reconciliation procedures in February 2002. The ANAO has recommended that the commission

continue to implement appropriate alternate internal controls to ensure the accuracy and validity of the PHIR payments made by the commission. The commission has separately advised that significant improvements in the administration of the PHIR have been implemented to overcome the issues raised by the ANAO.

*Pharmaceutical Benefits Scheme (PBS) and operating controls within Medicare*

5.282 The ANAO review of the major findings reported in the prior year has shown that the commission has recently implemented actions which will begin to improve the controls in this area. Controls surrounding the PBS system have been tightened through the introduction of a requirement to present a Medicare card when claiming for a prescription. However, this control was not mandatory until 1 May 2002. The following issues remain of concern to the ANAO:

- controls surrounding the eligibility of non-concession PBS claim recipients for 2001–2002; and
- the extent to which quality control procedures can be applied within both PBS and Medicare.

5.283 These issues should be addressed as a matter of priority in the remaining period of 2001–2002 and in 2002–2003.

5.284 The ANAO was previously advised that quality control procedures being undertaken would assist in providing adequate assurance within these areas. At the time, no formal advice as to the progress of these additional procedures has been received by the ANAO. The ANAO will review the work performed by the program review division as it becomes available and will continue to perform audit testing during the year. However, the lack of progress on implementing quality control procedures may result in a requirement to assess other methods of gaining assurance over key aspects of the scheme, but which may not provide adequate and timely audit evidence at year end.

*Reconciliations*

5.285 The ANAO has seen an improvement from prior years, in the controls surrounding the reconciliation processes completed by the commission. However, the ANAO noted that there were no comprehensive procedures or daily processes for the Benefit Reconciliation, Update, Cheque, Enquiry system reconciliations.

5.286 These reconciliations are seen as an important management control to ensure the validity, accuracy and completeness of information contained in the FMIS. Currently, errors could go undetected due to the number of incidences of failure to adequately complete reconciliations or to apply the appropriate level of diligence and review. Without adequate attention being given to the purpose and procedures required, the validity of the reconciliation process is undermined.

*Asset management and recording*

5.287 Asset management and recording issues continue to arise due to a lack of non-adherence to procedures and a lack of resources to ensure that processes set in place by management are competently followed. Deficiencies include:

- inadequate review procedures, as per the Managing Director's Instructions, over asset management processes outsourced to IBM GSA to ensure that the commission is only paying for the assets they are using; and
- not maintaining a central 'portable and attractive assets' register, as per the commission's portable and attractive asset policy within the Managing Director's Instructions.

*IT control environment*

5.288 In 2001–2002 the ANAO has again undertaken a review of the commission's IT control environment, to identify any control weaknesses that currently impact, or have the potential to impact, on the commission as well as to ensure that the ANAO can gain sufficient reliance on the financial information within the systems.

5.289 The ANAO review addressed controls in logical and physical security, mainframe operations and change management. The ANAO has concluded that the IT environment is stable and operating in a satisfactory manner, however, the following issues should be addressed:

- security access management; and
- security incident detection.

*Business resumption planning*

5.290 The commission has a business continuity plan in place which the commission had contracted a consultancy to address in February 2002. However, it has not been reviewed for several years and the plan focuses solely on addressing the loss of IT systems and does not address the loss of other critical resources. The commission's disaster recovery plan has also not been reviewed for several years. Furthermore, under the contract between the commission and IBM GSA, testing of the disaster recovery strategy is to be tested at least annually, however, this plan has not been tested since being outsourced in April 2000.

**Financial reporting**

5.291 Improvements have been achieved in the financial reporting provided to management on a monthly basis. However, additional significant resources

would be required to allow the commission to comprehensively report in a more accurate and timely manner. The information currently provided to management includes high level explanation of variances from budget on a monthly basis. A half-yearly financial analysis incorporating assumptions utilised in deriving forward projections is prepared in a similar format to the statutory financial statements.

## **Conclusion**

**5.292** Improvements are required to the internal control structure. In a number of cases, the commission has already taken action to address aspects of the deficiencies identified by the ANAO. The commission has advised that a continuing high priority has been placed on resolution of all matters.

## Department of Immigration and Multicultural and Indigenous Affairs

### Business operations

**5.293** The Department of Immigration and Multicultural and Indigenous Affairs (the department) is responsible for enriching Australia through the entry and settlement of people, valuing its heritage, citizenship and cultural diversity; and recognising the special place of Indigenous people as Australia's original inhabitants. The department's business is focussed on managing the permanent and temporary entry of people into Australia, enforcing immigration law, successfully settling migrants and refugees, promoting the benefits of citizenship and cultural diversity, and working with other portfolio agencies and departments to promote practical reconciliation.

**5.294** Following the AAO of 26 November 2001, the Department of Reconciliation and Aboriginal and Torres Strait Islander Affairs was merged within the Department of Immigration and Multicultural Affairs.

**5.295** The department's principal appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs —\$857.27 million; and
- administered expenses —\$176.67 million.

**5.296** The department's average staffing level for 2001–2002 is 4344 in Australia and overseas.

### Key business and financial statement risks

**5.297** In order to manage its business risks, the department addresses key issues relating to:

- the delivery of timely and effective policy advice in line with the government's and minister's agenda;
- the enforcement of immigration law in relation to all classes of visas, and entry and stay conditions;
- the identification and management of unauthorised arrivals including the administration of detention centres; and
- maximising the economic benefits of migration, tourism and visitors such as full fee paying international students.

**5.298** In managing these business risks, disciplined governance arrangements and management practices are required over policy and program management

activities, including compliance and regulatory issues. Integral to achieving this is adequate support services including IT, contract management, and financial and human resource management across an extensive network of offices in Australia and around the world.

**5.299** The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- accounting for asset construction, upgrades and maintenance programs;
- accounting for large contractual arrangements including leased IT assets and detention centre management; and
- accounting for appropriation revenue in line with the pricing agreements with the Department of Finance and Administration.

**5.300** The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks, business and accounting processes, and the above issues.

## **Corporate governance**

**5.301** Generally, a corporate governance regime imposes an alignment in the authority, responsibility and accountability within an entity, aspects of which are critical to the preparation of reliable financial statements. Corporate governance arrangements in the department which contribute to financial statement assurance include:

- a management board which meets at least monthly to advise the secretary on progress against the achievement of key departmental outcomes and related strategic and operational issues including risk management;
- a finance committee which meets as required, to assist the management board by providing advice on expenditure and budget allocations;
- an audit and evaluation committee which meets at least quarterly, focusing on risk management and the control environment, particularly relating to financial systems, accounting processes, audit planning and reporting. Currently the audit committee does not contain an external member. The committee regularly reviews performance and monitors achievements against internal audit plans;
- preparation of monthly financial reports for review and analysis by branches and the executive;
- an internal audit strategy and plan which, within available resources, addresses key financial and business risks based on management priorities;



- a security steering committee, which meets regularly to develop, set and review IT and protective security policies and procedures; and
- an updated fraud control plan.

5.302 The department is currently developing a risk management strategy. The development of such a plan will assist in strengthening the risk identification, assessment and prioritisation processes including the implementation or refinement of controls to minimise risk to an acceptable level.

## Audit results

5.303 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	8	6	12	14
<b>Total</b>	<b>8</b>	<b>6</b>	<b>12</b>	<b>14</b>

### *General audit findings*

#### *Reconciliation regime*

5.304 It is essential that a formal reconciliation regime be maintained to ensure the integrity of the data within the FMIS. ANAO testing noted that:

- the payroll reconciliation between the FMIS and the HRMIS was not being regularly performed; and
- the reconciliation between bank accounts and the FMIS were incomplete as items in bank clearing accounts were not being identified and followed up in a timely manner.

5.305 The department has agreed to take immediate action to ensure reconciliation processes are improved with all necessary reconciliations completed in a timely manner.

#### *Compliance with required departmental procedures—state offices*

5.306 During interim testing at a number of state offices, it was noted that minimum control requirements stipulated in departmental procedural advices relating to daily reconciliations, completion of monthly and quarterly checklists, mail opening procedures and security over public monies were not always fully complied with. The department has reinforced the importance of adhering to

required departmental procedures to mitigate the risk of unauthorised transactions or errors occurring.

#### *Compliance with required departmental procedures—overseas posts*

5.307 The ANAO observed that a number of posts are experiencing difficulty in ensuring compliance with administrative procedures. In addition, posts have not always addressed broader financial checks and related issues. The following issues were noted at various posts:

- significant delays in the receipting of visa applications;
- departmental procedures not always being complied with relating to daily and monthly reconciliations, monthly review of revenue coding and controls over public monies;
- audit and security checklists not always being completed in a progressive or timely manner;
- stocktake procedures not always being undertaken in a timely manner; and
- procedures for accounting for visa labels not ensuring that all labels have been issued.

5.308 The ANAO has noted that the department has since reinforced to regional managers the need for a stronger control environment at certain posts.

#### *ReserveLink payment initiation*

5.309 The ANAO noted that payment files are sent through to ReserveLink (transactional banker) by one officer. A second authorisation is not required to initiate a payment run and the payment file is not presently encrypted or subject to any other protection. Whilst a review is conducted by a second officer ensuring amounts within the payment run file agree to the bank statement, the second officer also has access to ReserveLink to initiate payment runs. The department advised the ANAO that the second officer who conducts the review has since had their ReserveLink access adjusted to prevent the ability to initiate payment runs.

#### *IT security*

5.310 The ANAO noted that:

- regular reviews of user access to the FMIS are not occurring. The ANAO recommended that the department undertake regular reviews to ensure that assigned access levels are appropriate;

- the review of current user profiles in the ICSE system (on-shore receipts and visa processing) indicates that some users have inappropriate access. It was recommended that a regularly conducted independent review of all user profiles occur to ensure appropriate segregation of duties; and
- the level of security provided to IRIS computer equipment (off-shore receipting and visa processing) at overseas posts varied. At certain posts it was observed that the equipment was located in a room accessible to all staff and back up tapes were not being secured in a fireproof location. The ANAO recommended that clear instructions be issued on the level of security necessary for IRIS computer equipment and back up tapes.

5.311 The ANAO noted that security over the FMIS security is currently being reviewed as the department prepares to upgrade the application. The ANAO will revisit FMIS security as part of the final audit process.

### *Business resumption planning*

5.312 During auditing of the offshore posts, the ANAO identified the need for a review of the risks potentially affecting critical business processes and an assessment of the business impact. The department has agreed to review and address this issue.

### **Financial reporting**

5.313 The department has a stable and efficient financial reporting process. Improvements are expected to continue in the quality of financial reporting and the level of financial analysis as the department improves the level of accrual accounting and financial management knowledge across the department.

### **Conclusion**

5.314 Improvement in the internal control structure is required. The department has acknowledged the findings and initiated corrective action to ensure all ANAO recommendations are addressed.

## Aboriginal and Torres Strait Islander Commission

### Business operations

5.315 The Aboriginal and Torres Strait Islander Commission (the commission) is responsible for formulation of policies and programs that benefit Australia's Indigenous people. The commission is part of the Immigration and Multicultural and Indigenous Affairs portfolio. The commission's key business processes relate to:

- promotion of cultural authority;
- advancement of Indigenous rights and equity;
- improvement to social and physical well-being;
- economic development; and
- capacity building and quality assurance.

5.316 The commission's principal appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$1.1 billion; and
- administered expenses—\$84.2 million.

5.317 The commission's average staffing level for 2001–2002 is 1268.

### Key business and financial statement risks

5.318 The commission's key business risks have been identified and promulgated to staff as part of the commission's risk management policy and associated risk assessment. The commission's key business risks relate to:

- meeting stakeholder expectations;
- resourcing/capacity to meet objectives;
- the commission's standing;
- securing the commission functions and funding;
- effective commission systems and products; and
- partnering/alliances with other parties.

5.319 In managing these business risks, disciplined management and operational policies, practices and procedures are required over policy advising, program management and the operations of a regional office network.

**5.320** The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- accounting for grants expenditure and commitments; and
- accounting for loans receivable, interest revenue and the provision for doubtful debts.

**5.321** The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## **Corporate governance**

**5.322** The commission’s corporate plan 2001-2004, which was endorsed in June last year sets out the commission’s vision, statement of purpose, role, funding policy and goals. Each of the organisation’s major work units is responsible for implementing the corporate plan. Through the development of operational plans individual work areas are able to reflect the themes of the plan in their various activities.

**5.323** The commission’s corporate governance regime is rigorous especially in the area of awareness raising particularly in regards to risk managing initiatives and key organisational development issues.

**5.324** The executive board meets every two months and focuses on strategic management issues as well as the financial operations of the commission. Monthly reports are received from the CFO and aid the board in its decision-making.

**5.325** The commission’s audit committee role is essentially advisory. The committee meets at least quarterly and is used as a forum of communication between commissioners, senior managers and auditors. It also focuses on risk management, effectiveness of the commission’s internal controls and implementation of evaluation or audit reports.

**5.326** The executive board recently endorsed its fraud control plan for 2001-2003. It discusses in detail the strategies that the commission has adopted to address each area of fraud risk. The commission is aware that there should be a continuous review of the fraud control plan to ensure it is current and comprehensive.

## Audit results

5.327 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	9	8	2	3
<b>Total</b>	<b>9</b>	<b>8</b>	<b>2</b>	<b>3</b>

### *General audit findings*

#### *Employee prepayments*

5.328 A fundamental requirement of accrual accounting is the recognition of prepaid expenses. Audit testing identified that employee prepayments are not being recognised in the FMIS due to the human resource information system being unable to recognise these prepayments. As a result, the commission's monthly reporting understates assets.

#### *IT security*

5.329 The commission has a high reliance on IT systems to support its major business processes. An IT security policy exists which is used to drive security processes and solutions throughout the commission. Despite this, the audit identified that members of the FMIS support team are required to 'unblock' failed financial transactions due to problems with the FMIS configuration. This procedure is inappropriate given the high level of access granted to members of the support team. An adequate process of review has not been implemented. The commission is currently reviewing this problem with a view to disabling a number of low risk system configurations. This will eliminate the need for the FMIS team to 'unblock' any failed financial transactions.

#### *Business resumption planning*

5.330 The commission is aware of the overall concept of business resumption planning, however, it primarily relies upon the IT infrastructure disaster recovery plans developed in conjunction with its outsourced contractor to provide the risk assurance. An IT infrastructure disaster recovery plan is necessary to ensure the recoverability of IT systems, however, this alone does not cover the broader aspects of business continuity. The commission needs to undertake a risk assessment and implement processes to address any residual risks identified. An updated business continuity plan is required to ensure that a 'whole of

business' approach is adopted rather than the IT-specific disaster recovery plan currently in place.

### **Financial reporting**

5.331 Over the past year, the commission has strengthened its financial analysis and reporting processes for both its departmental and administered activities. Accrual based financial reports are provided to management on actual versus budget performance, enabling a reliable assessment of the commission's financial position and operating performance.

### **Conclusion**

5.332 The commission has strengthened its financial reporting and internal control structure over the past year. However, further improvements are necessary. The commission has accepted ANAO findings and has agreed to implement remedial action.

## Department of Industry, Tourism and Resources

### Business operations

5.333 The Department of Industry, Tourism and Resources (the department) is responsible for the development, implementation and administration of policies, programs and services designed to increase the international competitiveness of Australian manufacturing, resourcing and service industries and the development of Australia's technology capabilities and infrastructure.

5.334 The AAO of 26 November 2001 resulted in the transfer of science policy and programs, the sports function and science and sport entities to other portfolios. It also resulted in the department accepting responsibility for the Office of Small Business and Business Entry Point. The department was previously known as the Department of Industry, Science and Resources.

5.335 The department's appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$205 million;
- administered appropriations primarily for grant payments and petroleum royalties—\$825 million; and
- equity injections predominantly for the Industry Innovation Fund and concessional loans—\$66 million.

5.336 The department's average staffing levels for 2001–2002 is estimated at 1533.

### Key business and financial statement risks

5.337 Key business and financial statement risks of the department are:

- ensuring that policy, programs and services are current and relevant;
- the maintenance of adequate processes and controls for the effective administration of grant and innovation programs; and
- the collection of petroleum revenue and administration of relevant legislation.

5.338 In managing these risks, the department has put strong emphasis on maintaining efficient program administration and providing timely and effective policy advice.

5.339 The ANAO's assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the year include:



- accounting for the impact of recent administrative arrangement orders;
- the capture and reporting of commitments; and
- the recognition of revenue.

5.340 The financial statement audit will focus on the material financial reporting risks flowing from the significant business risks and key business and accounting processes, including the above issues.

## Corporate governance

5.341 The department has an effective corporate governance framework which contributes to the management of the above risks, including:

- an audit and evaluation committee which oversees and provides direction to risk management activities and assesses outcomes of external reviews of programs including follow-up actions. The committee also approves the strategic direction and planning for internal audit and fraud control;
- an audit and business evaluation team which develops an internal audit strategy and plan and coordinates the risk management plan;
- weekly portfolio managers meetings which consider and coordinate views on portfolio activities; and
- a monthly financial reporting regime.

## Audit results

5.342 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	2	1	2	3
<b>Total</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>3</b>

### *General audit findings*

5.343 Two new category 'B' issues were raised in 2001–2002 which are as follows:

- accounting systems supporting administered investments had not been updated to reflect capital injections of \$165.8 million received by portfolio entities. It was also noted that the value of the administered investment in the Snowy Mountain Hydro-electric Authority (SMHEA) is currently

\$2447 million, which is the carrying value of the SMHEA as at 30 June 1997. SMHEA's net asset position at 30 June 2001 was \$2131 million, a decrease of \$316 million. Although this investment is valued in accordance with the FMO's, a significant write off will be required when the SMHEA is corporatised. Discussions are being held with the Department of Finance and Administration on the valuation of the investment in SMHEA; and

- the provision of guidance for the capture and recognition of commitments in the department's financial system should resolve the current inaccuracies in commitment values. The department is currently reliant upon year-end manual collection processes to provide it with accurate commitments values.

### *Business resumption planning*

5.344 In response to an ANAO prior year audit finding, the department has developed a disaster recovery plan covering their IT systems and processes. However, to ensure the uninterrupted availability of all key business resources to support critical business activities a more broadly based business resumption plan is also required. The department has agreed to address this issue.

### **Financial reporting**

5.345 The department's financial reporting processes are maturing. Confidence in the reliability of monthly management reports has improved from the prior year. To date, all deficiencies relating to financial management and reporting have not been resolved. However, significant progress has been made in respect to matters raised.

### **Conclusion**

5.346 The department has responded positively to audit recommendations. Although a small number of improvements to the current control framework are required, the ANAO is able to place reliance on a number of significant accounting processes to provide assurance for financial statement purposes.

## Joint House Department

### Business operations

5.347 The Joint House Department (the department) is responsible for the operation and maintenance of an effective and functioning legislative building for the Parliament of Australia which preserves its value as a heritage complex and raises public awareness of the Australian Federal Parliamentary system and the Parliament House building. The department's key business processes relate to:

- management of a contemporary heritage building;
- provision of services and amenities to Parliamentarians, visitors and staff;
- capital works and refurbishment; and
- building life cycle planning.

5.348 The department's funding for the year ending 30 June 2002 covers:

- its price of outputs—\$39.5 million; and
- administered revenue—\$11.7 million.

5.349 The department's average staffing level for 2001–2003 is 267.

### Key business and financial statement risks

5.350 In order to manage its business risks, the department addresses key issues relating to:

- the delivery of building services to its clients including Parliamentarians, visitors and staff;
- the adequacy of building management and planning; and
- maintenance of satisfactory stakeholder relations particularly with Parliamentarians and visitors.

5.351 In managing these business risks, disciplined management practices are required over supporting corporate, engineering, maintenance and improvement services to ensure there is cost effective and efficient service delivery.

5.352 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- infrastructure plant and equipment, including accounting for IT equipment leases, accuracy of registers for asset acquisitions and capital works; and
- the revaluation of artworks.

5.353 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## Corporate governance

5.354 Generally, a corporate governance regime imposes an alignment in the authority, responsibility and accountability within an entity, aspects of which impact on the preparation of reliable financial statements. Corporate governance arrangements which contribute to financial statement assurance include:

- a corporate plan which sets strategic directions and which is supported by operational business plans;
- quarterly executive board of management meetings which focus on operational issues especially where timetable and operational targets need close monitoring and review;
- an audit committee that meets at least quarterly and focuses on internal audit, ANAO audit activity, risk management and fraud control issues;
- a risk management plan which identifies major operational risk areas for Parliament House and strategies to manage these risks;
- an asset management plan which addresses the requirement to keep Parliament House and supporting infrastructure to a high standard for the next 200 years;
- a monthly financial reporting regime informing the executive on how the department is fulfilling and managing its operations within the overall budget; and
- an internal audit strategy and plan which addresses key business and financial risks.

## Audit results

5.355 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	3	3	0	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>

**5.356** The results of the audit to date indicate that the department has taken a proactive role towards resolving IT control environment issues raised in 2000–2001.

### **Financial reporting**

**5.357** The department has maintained a strong focus on continuously improving the quality of its financial reporting. Over the past year, the department has strengthened its financial analysis and reporting processes for both its departmental and administered activities. Accrual based financial reports are regularly provided to management on actual versus budget performance, enabling a reliable assessment of the department’s financial position and operating performance and the progress of the delivery of its outputs. These reports are subject to regular feedback and improvement in order to continue to meet the needs of users for the management and decision making of the department.

### **Conclusion**

**5.358** The department has strengthened its financial reporting and internal control structure. A number of departmental initiatives are evident which have addressed prior year audit findings.

## Department of the Prime Minister and Cabinet

### Business operations

5.359 The Department of the Prime Minister and Cabinet (the department) is responsible for providing:

- economic, social and international policy advice to the Prime Minister and the coordination of relevant portfolios and other stakeholders involved in the policy advising process; and
- a range of support services for government operations including the provision of secretariat services to Cabinet and its committees and to the Executive Council, developing and coordinating the Government's legislative programme, providing policy advice on coordination and promotion of national awards and symbols, coordination of Government communications and advertising, arranging and coordinating Government hospitality and official ceremonial occasions.

5.360 The department's appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$80.2 million; and
- administered expenses—\$28.2 million.

5.361 The department's average staffing level for 2001–2002 is 395.

### Key business and financial statement risks

5.362 In order to manage its business risks, the department addresses key issues relating to:

- the delivery of timely and effective policy advice to the Prime Minister;
- coordination of policy advice on a whole of Government basis, including identification of emerging issues; and
- maintenance of appropriate security over Cabinet documents and other confidential departmental information.

5.363 In managing these business risks, disciplined governance arrangements and management practices are required over contract management and support services including human resources and financial management.

5.364 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the medium level. Key issues for the current year include:

- accounting for special accounts relating to Government communications and advertising;
- accounting for grants and special programs/events including the Commonwealth Heads of Government Meeting; and
- contract management over payroll, payment and assets management processes.

5.365 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks, business and accounting processes, including the above issues.

### **Corporate governance**

5.366 Generally, a strong corporate governance regime imposes an alignment in the authority, responsibility and accountability within an entity. Aspects of the department's corporate governance arrangements which impact on financial statement assurance include:

- an executive committee which oversights the operational performance of the various divisions; reviews departmental wide issues; and monitors financial performance;
- a monthly reporting regime;
- an audit committee which meets quarterly and focuses on the efficiency and effectiveness and probity of activities including risk assessment and management, internal audit planning and results, ANAO audit activities and fraud control; and
- an annual internal audit program covering key areas of departmental operations.

5.367 The department has recently developed a risk management plan. This will assist in strengthening the risk identification, assessment and prioritisation processes including the implementation or refinement of controls to minimise risk to an acceptable level.

### **Audit results**

5.368 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	5	5	1	1
<b>Total</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>1</b>

5.369 The results of the audit indicate that departmental systems and procedures have the capacity to produce accurate and complete information for financial reporting purposes.

### *Business resumption planning*

5.370 The department has a disaster recovery plan that covers its IT Infrastructure. However, there has been no assessment undertaken of risks which may impact upon the continued availability of all business resources required to support critical business processing. The department's IT function has been outsourced, with the contractor responsible for disaster recovery plans for the FMIS and HRMIS. Work is currently being undertaken in consultation with the contractor on the development of an appropriate business resumption plan.

### **Financial reporting**

5.371 The department has a stable and efficient transactional financial reporting system. Consideration needs to be given to improving the level of analysis to accompany the monthly financial reports.

### **Conclusion**

5.372 The department has a sound internal control structure and has accepted ANAO findings and recommendations aimed at further strengthening its controls.



## Department of Transport and Regional Services

### Business operations

5.373 The Department of Transport and Regional Services (the department) is responsible for supporting the Government in achieving a better transport system for Australia, and greater recognition and opportunities for local, regional and territory communities. The department provides a range of transport and regional services to achieve this. The department conducts research, analysis and safety investigations; provides safety information and advice based on those investigations; and performs a range of regulatory functions. The department is also responsible for the provision of services to Australia's external territories.

5.374 The AAO of 26 November 2001 resulted in the transfer to the department the responsibility for Area Consultative Committees, Natural Disaster Relief Finances and the Regional Assistance Programme.

5.375 The department's appropriation funding for the year ending 30 June 2002 covers:

- its price of outputs—\$213 million; and
- administered expenses—\$3376 million.

5.376 The department's average staffing level for 2001–2002 is approximately 900 across Australia.

### Key business and financial statement risks

5.377 The department's key risks are associated with delivery of core programmes and in order to manage these, the department addresses key issues relating to:

- the delivery of transport systems which are safer, more efficient, internationally competitive, sustainable and accessible;
- enabling regional communities to have better access to opportunities and services, and lead in their own planning and development;
- assisting local governments to serve their communities more efficiently and effectively; and
- enabling residents of regional territories to have the same opportunities and responsibilities as other Australians enjoy in comparable communities.

5.378 To address these business risks, disciplined governance arrangements and management practices are required over program management activities, including compliance and regulatory issues. Integral to achieving this is are

adequate support services including management systems, IT, contract management, financial and sound human resource management.

5.379 The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements, given the extent of resources managed by the department, is at the medium level. Key issues for the current year include:

- change of accounting treatment for grants provided for road funding;
- accounting for assets located in the territories; and
- accounting for the Air Passenger Ticket Levy introduced in October 2001.

5.380 The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key processes, including the above issues.

## **Corporate governance**

5.381 Corporate governance arrangements in the department which contribute to financial statement assurance include:

- fortnightly meetings attended by all members of the executive board which focuses on departmental-wide issues and monitors financial performance;
- an audit committee that meets at least quarterly and which focuses on risk management, internal audit and strategic issues;
- a monthly financial reporting regime that includes variance analysis of financial results as compared to internal budgets and presentation of reports to divisions and the executive board;
- an increased focus on risk management (including the development of a fraud control plan)—risk management has been integrated into business planning;
- an internal audit plan which addresses compliance, business and financial risks; and
- an internal audit function which is independent and reports directly to the audit committee.

## **Audit results**

5.382 The following table provides a summary of the status of prior year as well as 2000–2001 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	9	9	1	1
<b>Total</b>	<b>9</b>	<b>9</b>	<b>1</b>	<b>1</b>

### *General audit findings*

#### *Administration of Christmas Island*

5.383 Issues raised in the 2000–2001 audit relating to the administration of Christmas Island have now been satisfactorily reviewed by internal audit.

#### *Business resumption planning*

5.384 The department through its IT contract outsourcer have developed a disaster recovery plan. This plan will assist the recovery of key IT infrastructure in the event of interruption to services. However, the disaster recovery plan does not address the broader aspects of business continuity. The department requires a business resumption plan (BRP) to provide for the continuous operation of key business operations in the event of an interruption. To initiate the development of a BRP, the department needs to undertake a risk assessment and implement processes to address any identified residual risks. An updated BRP is required to ensure that a whole of business approach is adopted rather than the IT-specific disaster recovery plan currently in place.

### **Financial reporting**

5.385 The department has a stable financial reporting process which has been operating reliably for a significant period. The department has continued with its policy of producing detailed monthly financial statements for management purposes along with variance analyses and relevant commentary. This process enables progressive assessment of financial performance.

### **Conclusion**

5.386 Management has been proactive in ensuring deficiencies identified in previous years have been corrected. Action to address the issue of business resumption planning is planned to allow it to be cleared prior to the end of the financial year.

## Department of the Treasury

### Business operations

5.387 The Department of the Treasury (the department) is the primary advisory body to the Commonwealth Government on economic policy and development, whose mission is to improve the wellbeing of the Australian people, by providing sound and timely advice to the Government. In accordance with this mission, the Treasury's advice is aimed at achieving the following three major policy outcomes:

- a sound macroeconomic environment;
- effective government spending and taxation arrangements; and
- well functioning markets.

5.388 In 2001–2002 the department's administered funding includes Government revenues of \$31 billion and \$81.8 million for departmental running costs.

5.389 The department's staffing level for 2001–2002 is approximately 525 (exclusive of the Royal Australian Mint).

### Key business and financial statement risks

5.390 In order to manage its key financial statement related business risks, the department addresses key issues relating to:

- payment of grants to the States and Territories under the inter-governmental agreement;
- Commonwealth investments and the management of the Commonwealth's participation within the International Monetary Fund;
- the administration of the Commonwealth's HIH Claims Support Program; and
- the administration of the Royal Australian Mint in the production of the Commonwealth's circulating coin.

5.391 In managing these financial statement related business risks, disciplined management practices are required over the management of the department's IT control environment and associated operating and accounting systems.

5.392 The ANAO assessment of the risk of material misstatements in the 2001–2002 financial statements is at the moderate level. Key issues for the current year include:

- financial statement preparation processes;
- financial and other regulatory requirements and their application;
- legislation and policy interpretation and application; and
- FMIS controls and management.

5.393 The financial statement audit will focus on the material financial reporting risks flowing from the significant financial statement related business risks and key business and accounting processes, including the above specific issues.

### Corporate governance

5.394 The ANAO's audit approach considers the departmental goals and priorities, objectives and strategies along with the critical success factors management believe are necessary to achieve them. In reviewing the department's strategies, the ANAO focussed on the key initiatives in place to meet its objectives and the management of the financial statement related business risks associated with those initiatives. Measures which impact on financial statement assurance include:

- regular executive board meetings and direction on high level policy issues;
- the support to the executive board by audit committee. The committee provides a focus for the evaluation of the operations of the policies and procedures put in place by the secretary and the executive board;
- monthly financial reporting of key financial information;
- a comprehensive business risk assessment; and
- an effective internal audit function and fraud control plan development and evaluation framework.

### Audit results

5.395 The following table provides a summary of the status of prior year and 2001–2002 audit issues raised by the ANAO.

Ratings	Issues outstanding at March 2000-01	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	1	1	0	0
B	1	0	3	4
<b>Total</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>4</b>

## *General audit findings*

### *Employment and related costs*

5.396 Payroll processing is completed on the department's HRMIS. However, an outsourced provider, CITEC, has been subcontracted to process the payments on behalf of the department. A number of issues with reconciliations have been noted again in 2001–2002, by both internal audit and the ANAO. Payment processes also need to be strengthened and at present full reliance cannot be placed on the internal controls. The ANAO notes that the personnel section has already instigated action to remedy the issues identified, and will review the progress of action prior to 30 June 2002.

### *IT business processes*

5.397 The department is a large user of IT resources and hence has a significant focus on providing adequate IT support mechanisms to sustain the provision of IT needs to its key business processes. The IT support structure is provided by an in-house support unit and there is a range of architecture, policy, standards, procedures and guidelines in place to support its key business processes.

5.398 Overall, the department is aware of the need to maintain a controlled computing environment and has several levels of management in place to ensure this. This includes the information management group which prepared an 'IT Infrastructure Statement of Direction 2002 to 2005' document detailing the department's IT directions for the next three years.

5.399 In the financial year 2001–2002, the ANAO was able to adopt an overall controls reliance approach to the financial statement audit. This reflects the effort that the department has directed to improving the internal controls and processes utilised within their IT systems. However, the ANAO has raised a number of operational issues for management's consideration. These include the need to ensure that incompatible processes do not exist without separate review in relation to access to the FMIS, that is, procedures are in place to ensure the adequate maintenance and usage of the FMIS, and to ensure that adequate controls are in place surrounding the generation of payment files.

## **Financial reporting**

5.400 The department produces monthly financial reports which are distributed to the members of the executive board and the business areas within each division. Key issues arising in the monthly reports are discussed at monthly executive board meetings. The reports include a trial balance and statements of financial performance and financial position. Additionally, some analysis of budgeted versus actual results is provided.

## **Conclusion**

**5.401** The department's management has responded positively to ANAO findings and the associated recommendations. In a number of cases, the department has already taken action to address deficiencies identified by the ANAO.

## Australian Taxation Office

### Business operations

5.402 The Australian Taxation Office's (the ATO) role is to manage and shape taxation, excise and superannuation systems that give effect to the government's social and economic policy and fund services for Australians. Through these systems, the ATO is the Government's principal revenue collection agency. The ATO's key business processes relate to revenue collection and compliance.

5.403 There have been significant changes to the business and operational environment within the ATO in recent years. The introduction of 'A New Tax System' continues to place high demands on the ATO's systems, processes and staff.

5.404 The level of tax system changes and assistance taxpayers required in order to understand and comply with the new tax obligations were higher than expected. As a result, in 2000–2001 the ATO systems were placed under considerable strain coping with the large volume of returns, processing problems, associated congestion and data contamination that accompanied the introduction of Activity Statements. During this period the ATO focused on error containment and taxpayer education.

5.405 In 2001–2002 the continuing high level of taxpayer related errors and processing problems has placed the existing controls and review processes under considerable strain. Accordingly, it is possible that low risk errors and fraud will not be detected. Nevertheless, it is recognised that the ATO has made good progress in bedding down the new systems, is managing the processing peaks and is resolving the critical data integrity problems.

5.406 The ATO's appropriation funding for the year ending 30 June 2002 covers its:

- price of outputs—\$1898 million;
- administered expenses—\$3090 million; and
- estimated administered revenue —\$170 132 million.

5.407 The ATO's average staffing level for 2001–2002 is 18 402 across Australia.

### Key business and financial statement risks

5.408 In order to manage its key business risks, the ATO addresses issues relating to:

- tax administration covering policy and reforms including the progressive implementation and bedding-in of a range of businesses tax initiatives which continue to present challenges to the ATO;



- self-management and voluntary compliance including the collection and reporting of taxation revenues;
- the complexity and dynamics of the IT environment which are required to support on-line processing on a national scale;
- workforce planning challenges including managing resource constraints that have seen an overall reduction in staff numbers and significant staff movements; and
- maintaining community confidence.

**5.409** In managing these business risks in a dynamic environment, a flexible management approach is required over complex business returns processing and compliance activities, which need to be supported by specialist staff.

**5.410** The ANAO assessment of the risk of material misstatement in the 2001–2002 financial statements is at the high level. Key issues for the current year include:

- fully supported reconciliations associated with business systems and the FMIS;
- progress on the management of credit balances on client accounts; and
- the integrity of internal management reporting.

**5.411** The financial statement audit will focus on the material financial reporting issues flowing from the significant business risks and key business and accounting processes, including the above issues.

## **Corporate governance**

**5.412** The ANAO's audit approach considers the ATO goals, priorities, objectives and strategies along with the critical success factors management considers are necessary to achieve them. In reviewing the ATO's strategies, the ANAO focused on the key initiatives in place to meet the ATO's objectives and the management of the business risk associated with those initiatives. Measures which impact on financial statement assurance include:

- a corporate plan and the associated planning framework comprising four sub-plans namely compliance, operations, people and place and IT;
- an executive board that meets at least monthly and has a formal biannual corporate governance process;
- a committee framework including an audit committee. The audit committee meets at least quarterly and focuses attention on risk assessment, internal audit activities and fraud control;

- a monthly financial reporting regime which provides actuals versus budget expenditures and revenues;
- an internal assurance branch that has a planned risk based coverage of the ATO's activities; and
- a fraud control plan.

## Audit results

5.413 The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	1	1	3	3
B	12	9	4	7
<b>Total</b>	<b>13</b>	<b>10</b>	<b>7</b>	<b>10</b>

### *General audit findings*

#### *Administered reconciliations*

5.414 Reconciliations are integral to ensuring information in the financial systems is complete, accurate and valid. The ATO's administered financial statements are prepared via a series of complex spreadsheets that extract data from the ATO's business systems, the FMIS and supporting schedules. This makes the completion of key reconciliations critical.

5.415 In September 2001, the ANAO raised with the ATO serious concerns over the completion of key reconciliations between the FMIS and the ATO business systems. To address this issue a project was implemented to perform the reconciliations, then redesign and streamline the reconciliation processes. The ATO has made reasonable progress to date in identifying the problems associated with the reconciliations and expect to be able to complete all the related reconciliations by the end of the financial year.

#### *Billpay bank reconciliation*

5.416 Billpay is a mechanism which taxpayers can use to pay their tax liabilities over the counter at an Australia Post office. Australia Post provides the ATO with an electronic file of payment details and the money is deposited into the ATO's bank account.

5.417 Reconciliations are performed daily between the FMIS and the Billpay Deposit Trust Account. However, the reconciliation between the FMIS and the

Billpay Deposit Trust Account has a significant discrepancy, which varies substantially depending on where the ATO is in the income return and activity statement cycle. The discrepancy as at the end of February 2002 was \$1700 million, but the discrepancy has been as low as \$200 million. It is likely that the discrepancy can be attributed directly to timing differences, and the ATO is currently liaising closely with Australia Post to obtain details of the discrepancy.

#### 5.418 Other findings

5.419 In addition, the audit highlighted the following issues that should be addressed to ensure the adequacy of the control environment and the reliability of information:

- credit balances—additional analysis of credit balances is required to enable effective strategies to be introduced to ensure a reduction in the instances of credit balances and to enable credit balances to be correctly treated in the financial statements;
- activity statement reconciliations—deficiencies exist in the reconciliation process, which may impact on the identification of potential areas where activity statements may be lost during processing; and
- provision for doubtful debts and credit amendments—the ATO do not undertake a regular review of these provision accounts and there is currently little guidance available to enable a reasonable and consistent estimation process for those provision accounts.

#### *Business resumption planning*

5.420 The ATO has in place a well-defined business resumption planning process that is coordinated nationally in Brisbane. This process has been successfully implemented following several incidents at branch offices in recent years. However, the ANAO has concerns that the disaster recovery plan has a recovery timeframe for the ATO's mainframe computer of eight to 10 weeks and that the mainframe processing is located at one site only. The ANAO considers it unlikely that the ATO can sustain a period up to 10 weeks without the mainframe, should an accident or disaster causing major disruption occur. It was recommended that the disaster recovery plan be reviewed. The ATO national business resumption plan coordinator is currently initiating a review of disaster recovery plans, with the aim of providing a risk assessment for mainframe recovery time.

#### **Financial reporting**

5.421 The ATO reporting procedures included internal financial reports prepared for distribution and discussion at monthly executive meetings. These reports

include an overall commentary, statements of financial position, financial performance and cash flows for departmental items. These internal reports also include analyses of actual expenditure compared to budget estimates.

5.422 For the administered position, a formal report is prepared for the executive meeting at the end of each month related to revenue. This report is focused on cash collections, however, there is no standard format. The majority of the report is an analysis of the actual position for the month compared to budget estimates.

## **Conclusion**

5.423 The ATO has made improvements to the control environment and returns processing during a period of resource constraint. Priority issues for resolution in 2001–2002 are in the area of reconciliations and business resumption planning. The ATO has responded by taking or proposing appropriate steps to strengthen the respective controls and to implement projects to facilitate a timely completion of these issues. These issues will be reviewed at the time of the end of financial year audit. ANAO evaluation of risk mitigation practices and compliance strategies over the administration of tax revenues will also feature significantly as part of the final audit for 2001–2002.

## The Australian National University

### Business operations

5.424 The Australian National University's (the university) mission is to be one of the world's great research institutions, distinguished by outstanding teaching, guiding students to the frontiers of knowledge and the best standards of scholarship. The university's research and teaching activities are funded from three principal sources: Commonwealth Government grants; income generated competitively from public and private sources for research and teaching; and from full-fee paying students.

5.425 The total operating expenses of the university for the 2001 calendar year amounted to approximately \$422 million, against total operating revenue of approximately \$480 million, which included approximately \$275 million in Commonwealth government grants. The total operating revenue for the 2001 calendar year also includes approximately \$32 million resulting from a first time valuation of the university's major holdings of land, which are occupied on perpetual lease. This first time valuation is not a cash inflow but is included in the university's total operating revenue for 2001 as required by the Australian Accounting Standards (AAS).

5.426 The university employed a total of 3225 full-time equivalent staff at 31 December 2001.

### Key business and financial statement risks

5.427 The key business risk areas for the university relate to the maintenance of revenue streams in a highly competitive domestic and international student market. In addition, and against a background of reductions in budget funding, there is varying market capacity to increase non-government sources of revenue. The ANAO assessment of the risk of material misstatement in the 2001 financial statements was medium. The key issues for the current year included the implementation of additional modules of the university's new management information system.

5.428 The 2001 financial statement audit focused on the material financial reporting risks flowing from the significant business risks and key business and accounting processes including the above specific issues.

### Corporate governance

5.429 The university is governed by a 22 member council, which may receive advice on any matter relating to the academic work of the university by two

academic boards, the Board of the Institute of Advanced Studies, and the Board of the Faculties (BTF). The Board of the Institute of the Arts also reports to the council through the BTF. The Vice-Chancellor is the CEO of the university and is responsible for the overall leadership and management of resources. Aspects of the university's corporate governance arrangements, which impact on financial statement assurance include:

- an audit committee, which meets quarterly and oversees and reviews the operations of the internal audit function and provides advice and assurance to council on accountability and audit related matters. The university's internal audit function has been contracted out to a chartered accounting firm;
- a finance committee which meets bi-monthly and makes recommendations and decisions concerning financial and accounting matters of the university;
- a risk assessment program, which is undertaken with the assistance of internal audit every two years together with the development/revision of the university's fraud control plan, which is a comprehensive document that covers all risks identified in the risk assessments;
- a system of authorisations, recording and procedures, which are considered to be relevant and useful to staff and are available on the university's intranet; and
- a monthly reporting regime, which the university has recently strengthened by implementing new integrated FMIS.

**5.430** The committees, together with members of the new executive, provide a satisfactory means to focus attention on the outputs and outcomes that need to be achieved, including the strategic directions, business planning, financial and operational results of the university. ANAO experience over recent years has been that the Vice-Chancellor, the executive and audit committee, and supporting managers have accorded an appropriate level of priority to audit, financial and accounting matters. This priority is continuing into the 2001–2002 financial year.

## **Audit results**

**5.431** The following table provides a summary of the status of prior year as well as 2001–2002 audit issues raised to date by the ANAO.

Ratings	Issues outstanding at March 2001	Issues resolved prior to March 2002	New issues to March 2002	Closing position at March 2002
A	0	0	0	0
B	2	1	0	1
<b>Total</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>1</b>

#### *Financial statement audit report*

5.432 The university signed its financial statements for the year ended 31 December 2001 on 4 April 2002. An unqualified audit report was issued on 8 April 2002.

#### *Prior year qualification resolved*

5.433 In prior years, the audit report on the financial statements of the university contained a qualification in respect of land, which had not been valued and brought to account in accordance with the requirements of AAS 4-*Depreciation* and the FMOs issued under the CAC Act. Action taken by the university in 2001 to value and bring to account land occupied on perpetual lease throughout Australia and overseas, has resulted in an increase of approximately \$32 million in assets and an unqualified audit opinion being issued on the 2001 financial statements.

5.434 Specific audit results requiring comment are as follows.

#### *General audit findings*

##### *Non-compliance with established procedures for the authorisation/approval of payments*

5.435 During the audit, the ANAO noted a number of payments, which had not been appropriately authorised/ approved within the delegation limits specified in the university's CEIs. In many instances, either the position held by an approving officer was not listed in the delegations, or the delegate had exceeded the limit of his/her delegation. This is an ongoing issue, which has been raised by both the ANAO and the university's internal auditors in prior years. However, it is recognised that the university is attempting to address these issues via internal reviews, which have resulted in an overhaul of the university's Delegates and Agents System, and regular health checks performed by internal audit.

#### **Financial reporting**

5.436 Over the past year, the university has made considerable improvements to its financial reporting processes. A major redevelopment of the university's

management information systems, which commenced in 1998 with a decision to implement an enterprise solution system architecture, was completed in 2001 with the implementation of the final modules of the new system. The systems, which have been subject to post implementation reviews by internal audit and ongoing review by internal audit and the ANAO, have enhanced the university's controls framework and the timeliness and quality of financial management information available.

## Conclusion

5.437 In 2001, the university has further strengthened its financial reporting and internal control structure. Procedures and controls have been standardised, documented and communicated through to all staff. There has been formalisation of existing practices and refinement of new practices throughout the period.

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Canberra ACT  
28 June 2002



P. J. Barrett  
Auditor-General



# Appendices



## Appendix 1

### Significant Findings by Major Entity

1. The following table sets out 'A' rated findings (significant business or financial risks) identified in the interim audit of entities as part of the 2001–2002 financial statement audit cycle.

Entity	No of 'A' findings	Explanatory Comment
Department of Defence	13	Twelve of the Category A findings are carried forward from the previous year. There are issues in corporate governance, debt management processes and generally asset accounting. The new issue relating to the interim audit for 2002 involved creditor management. Accounting issues, comprising inventory pricing and consumption, in conjunction with asset recognition and write-downs and specialist military equipment componentisation are key areas of concern. Risk management and fraud control are areas where the Department needs to validate that their plans are comprehensive.
Department of the Environment and Heritage	1	The Department needs to ensure that officers approving expenditure under section 45(1) of the <i>National Heritage Trust of Australia Act 1997</i> , are properly delegated by the Minister to do so.
Health Insurance Commission (HIC)	1	The internal controls surrounding payments made under the 30 per cent Rebate Scheme are not sufficient to ensure the accuracy and validity of the payments made to the Health Funds. Legislative amendments were made in order for HIC to obtain the necessary information to substantiate the claims but system constraints have yet to be resolved to ensure the system operates effectively.
Australian Taxation Office (ATO)	3	The administered cash reconciliations and reconciliations of supporting business systems to the FMIS are key controls over the accuracy and validity of the financial information. A number of deficiencies have been noted relating to the completion and significant progress has been made to date of these critical reconciliations. The ATO has responded by implementing a project to address the completion of these reconciliations. Significant exposure to the risk of mainframe inoperability exists, which is not adequately addressed in the business resumption plan or disaster recovery plan.

Further details on each of these findings, and on the 'B' rating findings, are included in the individual entity summaries contained in Chapter 5 of this report. A table summarising the number of 'A' and 'B' findings follows.

## Table of 'A' and 'B' ratings by entity

Entity	2002 Rating		2001 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry—Australia	0	1	1	0
Attorney-General's Department	0	4	0	7
Australian Customs Service	0	2	0	13
Department of Communications, Information Technology and the Arts	0	8	0	18
National Archives of Australia †	0	3	0	3
Department of Defence	13	32	10	34
Repatriation Commission and the Department of Veterans' Affairs	0	0	0	12
Department of Education, Science and Training	0	3	0	4
Department of Employment and Workplace Relations	0	8	0	17
Department of the Environment and Heritage	1	13	1	18
Department of Family and Community Services	0	4	1	8
Centrelink	0	3	0	11
Department of Finance and Administration	0	0	0	4
Department of Foreign Affairs and Trade	0	1	0	4
Department of Health and Ageing	0	5	1	12
Health Insurance Commission	1	12	1	20
Department of Immigration and Multicultural and Indigenous Affairs	0	14	0	8
Aboriginal and Torres Strait Islanders Commission †	0	3	0	9
Department of Industry, Tourism and Resources	0	3	0	2
Joint House Department	0	0	0	3
Department of the Prime Minister and Cabinet	0	1	0	5
Department of Transport and Regional Services	0	1	0	9
Department of the Treasury	0	4	1	1
Australian Taxation Office	3	7	1	12
Australian National University	0	1	0	2
<b>Total</b>	<b>18</b>	<b>133</b>	<b>17</b>	<b>236</b>

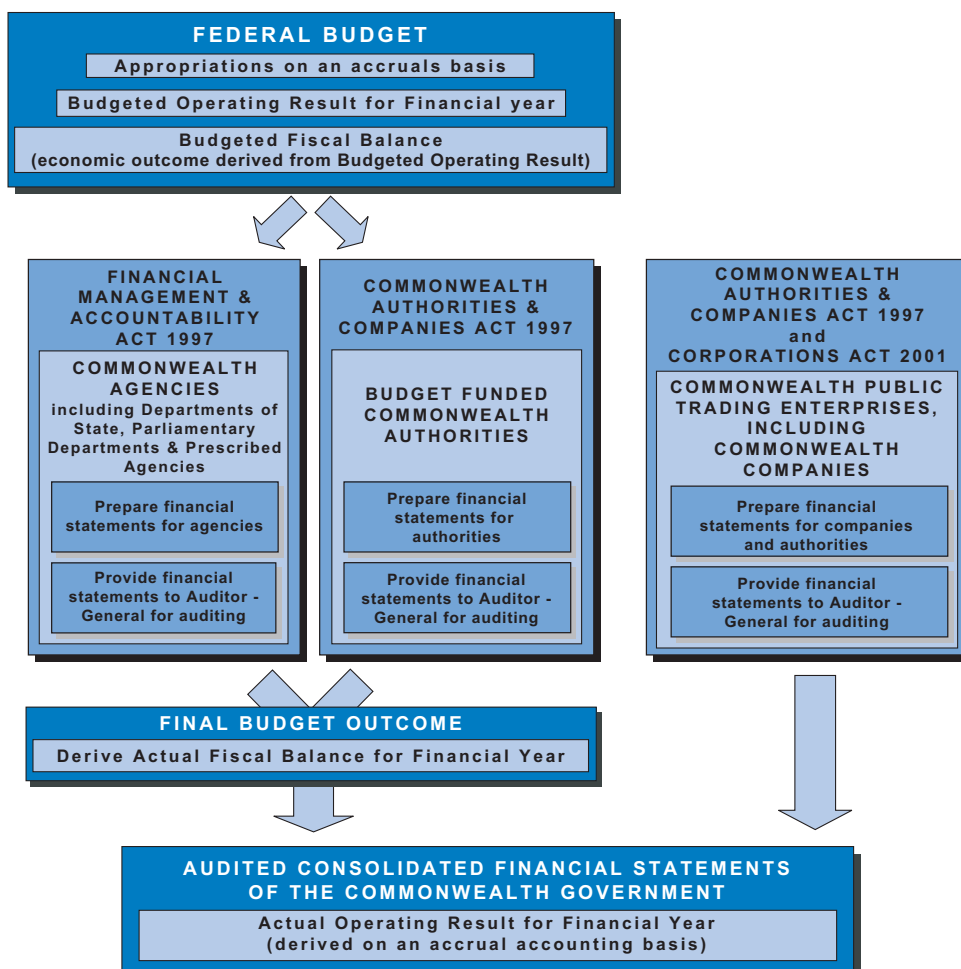
† These entities were not included in the report for the year ending 2001.

## Appendix 2

### 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. The financial reporting framework is summarised in the diagram below, followed by a more detailed discussion of its various components.



#### Commonwealth Government of Australia

Section 55 of the *Financial Management and Accountability Act 1997* (FMA Act) requires the Finance Minister to prepare annual financial statements for the Commonwealth Government of Australia. These financial statements are a

general purpose financial report consolidating the financial activities of all agencies, authorities and other entities controlled by the Commonwealth.

The financial statements for the year ended 30 June 2001 and the audit report therein were published by the Department of Finance and Administration (Finance) in December 2001.<sup>34</sup> The results of the audit of those financial statements were reported to Parliament in the Auditor-General Report No.29, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*.

## **Commonwealth agencies**

Commonwealth agencies are those organisations that are legally part of the Commonwealth Government and are subject to the provisions of FMA Act. They include departments of State, Parliamentary departments and prescribed agencies.

The FMA Act requires the CEOs to prepare financial statements for their agencies in accordance with the Finance Minister's Orders (FMOs). The FMOs require compliance with accounting standards and accounting interpretations issued by:

- the Australian Accounting Standards Board (established under section 226 of the *Australian Securities and Investment Commission Act 1989*); and
- the former Public Sector Accounting Standards Board, not yet reissued by the present Board.

The FMOs also require agencies to have regard to the Explanatory Notes to Commonwealth Accounting Policies and Finance Briefs issued by the Finance.

## **Commonwealth authorities and subsidiaries**

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

The Act requires the governing bodies of authorities to prepare financial statements in accordance with the FMOs. Directors must also ensure that subsidiaries prepare financial statements in accordance with the *Corporations Act 2001* (where applicable) and the CAC Act.

## 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 Act 2001* and provisions of the CAC Act.

Directors of a Commonwealth company must ensure subsidiaries of the company prepare financial statements in accordance with the *Corporations Act 2001* and the CAC Act.

## Other bodies

The ANAO also audits the financial statements of Commonwealth Authorities controlled by the Commonwealth or where the Commonwealth has significant influence. These consist primarily of trusts or joint ventures entered into by controlled Commonwealth bodies.

## Financial statement audit scope

The CEOs 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 entity's records and its control environment, information systems, control procedures and statutory disclosure requirements.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards (AUS), 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 true and fair.

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

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. The respective responsibilities of those charged with governance and management may vary by entity. An audit conducted in accordance with AUS is designed to provide reasonable assurance that the financial report, taken as a whole, is free from material misstatement, whether caused by fraud or error. The fact that an audit is carried out may act as a deterrent. However, the auditor is not, and cannot be held, responsible for the prevention of fraud and error.

## **The audit report on financial statements**

The audit report on the financial statements includes a statement of the auditor's opinion as to whether the statements give a true and fair view of the entity's financial position, the results of its financial operations and its cash flows in accordance with Australian Accounting Standards, and other mandatory professional reporting requirements, and statutory requirements.

If the auditor is not satisfied the financial statements are true and fair, the audit opinion is qualified, with the reasons being indicated.

A qualified audit opinion is given when the auditor is not satisfied that the financial statements are true and fair. Audit reports may be qualified due to a disagreement between the auditor and management of the entity on the application of accounting standards or other reporting requirements, where the scope of the audit work needed to form an opinion has been limited in some way, or where there is a conflict between applicable reporting frameworks.

An audit report containing an 'emphasis of matter' is used to draw attention to a matter that is relevant to the readers of the financial statements and does not qualify the audit opinion being given. In many cases, an 'emphasis of matter' relates to inherent uncertainty about an aspect of the financial statements, where the outcome is contingent upon future events and the effects of the matter are not capable of reasonable measurement at the date the audit report is signed.



# Series Titles

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Audit Report No.66 Performance Audit  
*Aviation Safety Compliance Follow-up Audit*  
Civil Aviation Safety Authority

Audit Report No.65 Performance Audit  
*Management of Commonwealth Superannuation Benefits to Members*

Audit Report No.64 Performance Audit  
*Management of Learning and Development in the Australian Public Service*

Audit Report No.63 Performance Audit  
*Management of the DASFLEET Tied Contract*

Audit Report No.62 Information Support Services  
*Benchmarking the Finance Function Follow-up Report*  
Benchmarking Study

Audit Report No.61 Information Support Services  
*Managing People for Business Outcomes*  
Benchmarking Study

Audit Report No.60 Performance Audit  
*Costing of Operational Activities and Services Follow-up Audit*  
Centrelink

Audit Report No.59 Performance Audit  
*AusAID Contract Management*  
Australian Agency for International Development

Audit Report No.58 Performance Audit  
*Defence Property Management*  
Department of Defence

Audit Report No.57 Performance Audit  
*Management Framework for Preventing Unlawful Entry into Australian Territory*  
Department of Immigration and Multicultural and Indigenous Affairs

Audit Report No.56 Performance Audit  
*Workforce Planning in the Department of  
Immigration and Multicultural and Indigenous Affairs*

Audit Report No.55 Performance Audit  
*Administration of Tobacco Excise*  
Australian Taxation Office

Audit Report No.54 Performance Audit  
*Drug Detection in Air and Containerised Sea Cargo and Small Craft*  
Australian Customs Service

Audit Report No.53 Assurance and Control Assessment Audit  
*Goods and Services Tax Administration by Commonwealth Organisations*

Audit Report No.52 Financial Control and Administration Audit  
*Internal Budgeting*

Audit Report No.51 Performance Audit  
*Research Project Management*  
Commonwealth Scientific and Industrial Research Organisation (CSIRO)

Audit Report No.50  
*A Preliminary Examination into the Allocation of Grant Funding for the Co-Location of National General Practice Organisations*

Audit Report No.49 Performance Audit  
*The Management of Commonwealth National Parks and Reserves  
'Conserving our Country'*  
Department of the Environment and Heritage

Audit Report No.48 Performance Audit  
*Regional Assistance Programme*  
Department of Transport and Regional Services

Audit Report No.47 Performance Audit  
*Administration of the 30 Per Cent Private Health Insurance Rebate*  
Department of Health and Ageing, Health Insurance Commission, Australian Taxation Office, Department of Finance and Administration, Department of the Treasury

Audit Report No.46 Performance Audit  
*Management of an IT Outsourcing Contract*  
Department of Veterans' Affairs

Audit Report No.45 Assurance and Control Assessment Audit  
*Recordkeeping*

Audit Report No.44 Performance Audit  
*Australian Defence Force Fuel Management*  
Department of Defence

Audit Report No.43 Performance Audit  
*Indigenous Education Strategies*  
Department of Education, Science and Training

Audit Report No.42 Performance Audit  
*Integrity of the Electoral Roll*  
Australian Electoral Commission

Audit Report No.41 Performance Audit  
*Transactional Banking Practices in Selected Agencies*

Audit Report No.40 Performance Audit  
*Corporate Governance in the Australian Broadcasting Corporation*  
Australian Broadcasting Corporation

Audit Report No.39 Performance Audit  
*Management of the Provision of Information to Job Seekers*  
Department of Employment and Workplace Relations

Audit Report No.38 Performance Audit  
*Management of Australian Defence Force Deployments to East Timor*  
Department of Defence

Audit Report No.37 Performance Audit  
*Purchase of Hospital Services from State Governments—Follow Up Audit*  
Department of Veterans' Affairs

Audit Report No.36 Benchmarking Study  
*Benchmarking Implementation and Production Costs of Financial Management Information Systems*

Audit Report No.35 Performance Audit  
*ATO Progress in Addressing the Cash Economy*  
Australian Taxation Office

Audit Report No.34 Assurance and Control Assessment Audit  
*Management of Travel—Use of Taxis*

Audit Report No.33 Assurance and Control Assessment Audit  
*Senate Order of 20 June 2001 (February 2002)*

Audit Report No.32 Performance Audit  
*Home and Community Care Follow-up Audit*  
Department of Health and Ageing

Audit Report No.31 Performance Audit  
*Audit Activity Report: July to December 2001*  
Summary of Outcomes

Audit Report No. 30 Performance Audit  
*Test and Evaluation of Major Defence Equipment Acquisitions*  
Department of Defence

Audit Report No.29 Financial Statement Audit  
*Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*

Audit Report No.28 Information Support Services  
*An Analysis of the Chief Financial Officer Function in Commonwealth Organisations*  
Benchmark Study

Audit Report No.27 Assurance and Control Assessment Audit  
*Agency Management of Software Licensing*

Audit Report No.26 Performance Audit  
*Management of Fraud and Incorrect Payment in Centrelink*

Audit Report No.25 Assurance and Control Assessment Audit  
*Accounts Receivable*

Audit Report No.24 Performance Audit  
*Status Reporting of Major Defence Acquisition Projects*  
Department of Defence

Audit Report No.23 Performance Audit  
*Broadcasting Planning and Licensing*  
The Australian Broadcasting Authority

Audit Report No.22 Protective Security Audit  
*Personnel Security—Management of Security Clearances*

Audit Report No.21 Performance Audit  
*Developing Policy Advice*  
Department of Education, Training and Youth Affairs, Department of Employment,  
Workplace Relations and Small Business, Department of Family and Community Services

Audit Report No.20 Performance Audit  
*Fraud Control Arrangements in the Department of Agriculture, Fisheries and Forestry—  
Australia (AFFA)*  
Department of Agriculture, Fisheries and Forestry—Australia

Audit Report No.19 Assurance and Control Assessment Audit  
*Payroll Management*

Audit Report No.18 Performance Audit  
*Performance Information in Portfolio Budget Statements*

Audit Report No.17 Performance Audit  
*Administration of Petroleum Excise Collections*  
Australian Taxation Office

Audit Report No.16 Performance Audit  
*Defence Reform Program Management and Outcomes*  
Department of Defence

Audit Report No.15 Performance Audit  
*Agencies' Oversight of Works Australia Client Advances*

Audit Report No.14 Performance Audit  
*Client Service Initiatives Follow-up Audit*  
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