

The Auditor-General  
Audit Report No.25 2002-03  
Financial Statement Audit

**Audits of the Financial Statements  
of Commonwealth Entities for the  
Period Ended 30 June 2002**

**Summary of Results**

Australian National Audit Office

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Canberra ACT  
23 December 2002

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the financial statements of Commonwealth entities and examinations and inspections of the accounts and records of those entities in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present this report of these audits, and the accompanying brochure. The report is titled *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002*.

Following its presentation and receipt, 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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# Foreword

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This report draws together the results of the audits of the financial statements of all Commonwealth reporting entities, including the Commonwealth Government of Australia Consolidated Financial Statements. It also provides an outline of the frameworks in which the audits are conducted.

It complements my mid year report, *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2002* (Audit Report No.67 2001–2002), which discussed the more significant risk and control issues identified during the interim phase of the financial statements audits of major Commonwealth entities.

The reporting deadline for Commonwealth entities for the 2001–2002 financial year was determined to facilitate the preparation of the Final Budget Outcome Report which was required to be tabled in the Parliament by 30 September 2002 in accordance with the requirements of the *Charter of Budget Honesty Act 1998*. The Government's acceptance of the recent recommendation of the Budget Estimates and Framework Review by the Department of Finance and Administration to improve the timeliness of financial outcome reporting over the next three years will have a significant impact on Commonwealth entities and is discussed further in this report. The ANAO supports more timely reporting of financial information to empower decision-making and agrees that a managed approach is necessary to enable entities to meet this challenge.

There are a number of financial statement reporting issues to be further addressed before the Government's financial reforms will achieve their full potential. Foremost amongst these is the need to improve the quality of financial information particularly in regard to budget and financial outcomes and outputs which is central to the Government's reform initiatives to achieve improved performance and results. Not unexpectedly, the experience across entities in this respect still varies widely. For some, it is a question of setting appropriate priority within their corporate governance framework. For others, there continues to be a need to enhance their understanding and use of the accrual-based environment, including having the necessary skills and experience to do so.

In order to fulfil our mission 'to add value to public sector performance and accountability', the ANAO must be in a position to freely investigate and report on public sector administration, including, in particular, financial matters. This is underpinned by the concept of audit independence, a key concept for the auditing profession, which has been reinforced by recent corporate failures in Australia and overseas.

The notion of audit independence, within the context of sound corporate governance, has been addressed by the Joint Committee of Public Accounts and Audit in its Report 391 *Review of Independent Auditing by Registered Company Auditors*, and as part of the Government's Corporate Law Economic Reform Program (CLERP 9) *Corporate Disclosure—strengthening the financial reporting framework*. The accounting and auditing profession has been active in contributing both to the related public debate and to making changes that reflect public concerns.

The ANAO has been involved directly, and indirectly, in the on-going debate relating to audit independence. The office has taken, and continues to take, steps to ensure its independence is unquestioned. We have participated in recent government and industry reviews and continue to comply with professional requirements and relevant better practices. Similar imperatives apply to both the public and private sectors with important mutual learning processes for both.

Accounting firms and individuals contracted by the ANAO to assist in the delivery of financial statement audits are required to maintain the ANAO's high standards of independence. In addition, the ANAO has strict policies on the provision of other services by its contractors to Commonwealth entities, aimed at maintaining audit independence. The ANAO is grateful for the assistance and cooperation provided by the various accounting and auditing firms in these respects.

The ANAO also 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 relation to business and accounting processes and financial systems. In particular, the office has provided considerable assistance in the development and application of accounting and auditing standards and their international harmonisation, including by direct representation on relevant national and international bodies.

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.

P.J. Barrett  
Auditor-General



# Summary



# Executive Summary

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This report summarises the final results of the audits of the financial statements of Commonwealth entities, forming the second report this year on financial statement audits for the financial year ended 30 June 2002. It complements Audit Report No.67 2001–2002<sup>1</sup>.

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

## The 2001–2002 Audit Cycle

Under section 57 of the *Financial Management and Accountability Act 1997* for agencies, and under clause 3, part 2 of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997* for other bodies, the Auditor-General is required to report each year to the relevant Minister(s) 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.

Since the compilation of Audit Report No.67 2001–2002, the Australian National Audit Office (ANAO) has updated its understanding of the business and corporate governance arrangements; confirmed entities' audit risks; completed audit testing; and largely completed its program of final audits. All ANAO findings have been fully reported to entities' management and to the responsible Minister(s).

## Results of the audits of financial statements

The ANAO is responsible for the audit of the financial statements of 257 Commonwealth entities (see Table 1) compared with 272 last year.

The reduction in number of Commonwealth reporting entities in the current financial year is largely due to the corporatisation of a small number of Research and Development Corporations, a reduction in the number of business operations identified as reporting entities, and the sale or windup of a number of companies/corporations.

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<sup>1</sup> Australian National Audit Office 2002 Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2002, Audit Report No.67 2001–2002, Canberra 2002.

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

| <b>Reporting Entity</b>                                | <b>2001–2002</b> | <b>2000–2001</b> |
|--|------------------|------------------|
| Commonwealth's Consolidated Financial Statements (CFS) | 1                | 1                |
| Agencies:  |                  |                  |
| – Departments of State                                 | 17               | 18               |
| – Parliamentary Departments                            | 5                | 5                |
| – Prescribed Agencies                                  | 52               | 44               |
| – Business Operations                                  | 8                | 12               |
| Commonwealth authorities and their subsidiaries        | 117              | 170              |
| Commonwealth companies and their subsidiaries          | 42               | 20               |
| Other  | 15               | 2                |
| <b>Total</b>   | <b>257</b>       | <b>272</b>       |

The material portion of the Commonwealth's revenues, expenses, assets and liabilities in the 2001–2002 financial year are accounted for by a relatively small number of Commonwealth entities. Notably, among the latter are the Departments of Defence, Family and Community Services, Health and Ageing, as well as the Australian Taxation Office. The focus of this report is on the final results of the financial statement audits for the 2001–2002 financial year. Financial management issues (where relevant) arising out of the audits and their relationship to internal control structures are also included in this report.

The report is organised as follows:

- Part One—The Commonwealth Reporting Framework—provides ongoing commentary on the structure of and issues in relation to the Commonwealth's financial framework. Comment is also made on the quality and timeliness of the preparation of entities' annual financial statements.
- Part Two—Results of the Audit of the Commonwealth Government of Australia Consolidated Financial Statements—provides details of the audit of the Commonwealth's Consolidated Financial Statements for 2001–2002.
- Part Three—Summary Results of the Audits of Financial Statements—discusses, in summary, the final results of audits of the financial statements, providing details regarding qualifications and any matters emphasised in audit reports.
- Part Four—Results of Final Audit Testing—provides an overview of the results of our year end substantiation of financial balances. It also provides a summary of continuing significant accounting issues.

- Part Five—Results of the Audits of Financial Statements by Portfolio—provides the detailed results of the individual financial statement audits and any additional significant control matters identified since Audit Report No.67 2001–2002. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 26 November 2001. For reporting purposes, this reflects the portfolio arrangements which existed at 30 June 2002.



# **Financial Statement Issues**





# 1. Commonwealth Reporting Framework

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## The Commonwealth Government of Australia Consolidated Financial Statements and the Final Budget Outcome Report

### Introduction

1.1 This part provides a brief outline of the annual financial statement reporting requirements for Commonwealth entities including the Commonwealth Government of Australia Consolidated Financial Statements. In addition, this part includes discussion of proposals to change the current Commonwealth Financial Reporting Framework and issues in regard to delivery against the current framework.

### *Annual Financial Reporting Requirements*

1.2 As indicated in my corresponding report of 2000–2001, at the close of each financial year the Government prepares two key financial reports:

- the Commonwealth Government of Australia Consolidated Financial Statements (CFS) which are prepared and audited pursuant to sections 55 and 56 of the *Financial Management and Accountability Act 1997* (FMA Act) to present the financial results and the financial position of the Commonwealth; and
- the Final Budget Outcome Report (FBO Report) which is prepared pursuant to section 18 of the *Charter of Budget Honesty 1998* (the Charter) to present Commonwealth budget sector and Commonwealth general government sector fiscal outcomes for a financial year.

1.3 Each financial report serves different purposes and is based on different sets of external reporting standards.

1.4 The CFS are prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), including *Financial Reporting by Governments* AAS 31, and other mandatory professional reporting requirements in Australia and statutory requirements. The CFS are a general purpose financial report which discloses the assets controlled and liabilities incurred by the Government, the Government's revenues and expenses, and its related cash flows. Reporting under this framework provides a consolidated overview of the financial performance and position of the Government.

1.5 Consistent with the requirements of the Charter of Budget Honesty, the FBO Report is based on the Australian Bureau of Statistics accrual Government Finance Statistics (GFS) framework as well as on AAS. The Charter also requires that departures from applicable external reporting standards be identified.

1.6 The FBO Report, which is required to be produced within three months of the end of each financial year, comprises:

- unaudited information;
- general government sector budget aggregates with an analysis of final budget outcomes;
- Commonwealth financial statements in accordance with GFS;
- unaudited general government financial statements in accordance with AAS 31 *Financial Reporting by Governments*; and
- updated federal financial relations data.

1.7 An explanation is provided in the FBO Report of the key differences between the GFS aggregates and their counterparts prepared on the basis of Australian Accounting Standards.

### *The harmonisation of the CFS and GFS frameworks*

1.8 As noted earlier, the CFS and FBO reports serve different purposes and are based on different sets of external reporting standards. The CFS are prepared on an accrual basis in accordance with applicable AAS, including AAS 31.

Whereas the FBO report, consistent with the requirements of the Charter, is based on the GFS as well as on AAS.

1.9 The Budget Estimates and Framework Review recently completed by the Department of Finance and Administration (Finance), and approved by the Government<sup>2</sup>, recommended that Finance continue to work towards the development with the Australian Accounting Standards Board (AASB) of an Australian Accounting Standard for government that is harmonised with the Government Finance Statistics framework.

1.10 The drive for harmonisation comes from the desire to have one outcome reporting framework. The two frameworks often result in confusion and difficulties in interpreting information. While a considerable amount has been done to harmonise the reporting frameworks, significant differences remain, including in respect of the treatment of: revaluation of assets; foreign exchange gains and losses; interest flows related to swaps and other financial derivatives; and acquisition of defence weapons platforms.

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<sup>2</sup> Department of Finance of Administration September 2002 *The Budget Estimates and Framework Review*

**1.11** Harmonisation towards a single reporting framework as a means of overcoming user concerns is supported. The development of such a framework through an industry specific accounting standard is primarily a matter for the AASB's due process for promulgating accounting standards. However, its development will need the support of respective stakeholders involved in public sector accounting. These issues also need to be considered in the broader context of Australia's commitment to adopt international accounting standards by 2005.

### *Potential audit of FBO Report*

**1.12** While the CFS are audited, the FBO Report is not currently subject to audit. In this context, and in addressing a recent JCPAA Review<sup>3</sup>, the ANAO confirmed its willingness to audit the FBO Report if requested to do so but this was a matter for the Government and Parliament to decide. The issue of relevant standards to be used would be central to such an audit.

**1.13** An audit of the FBO Report would, in the first instance, entail a review of the general government sector component of the CFS, to ensure consistency of input to, and presentation of, the FBO Report. Secondly, a component of such an audit would include a review of the Commonwealth financial statements to determine adherence with the relevant GFS framework.

## **Timing for Financial Statements Preparation**

**1.14** For Commonwealth entities, under Section 57 of the *Financial Management and Accountability Act 1997*, and under clause 3, part 2 of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997*, 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. Both Acts outline the responsibilities of Commonwealth entities regarding the maintenance of adequate accounting records and reporting obligations.

**1.15** The *Charter of Budget Honesty Act 1998* requires the FBO Report to be tabled by 30 September of each year. To meet this deadline, all material entities forming part of the CFS are currently required to produce audit cleared material financial statement balances by 15 August of each year. This timetable continues to present significant challenges to most entities involved, including the ANAO.

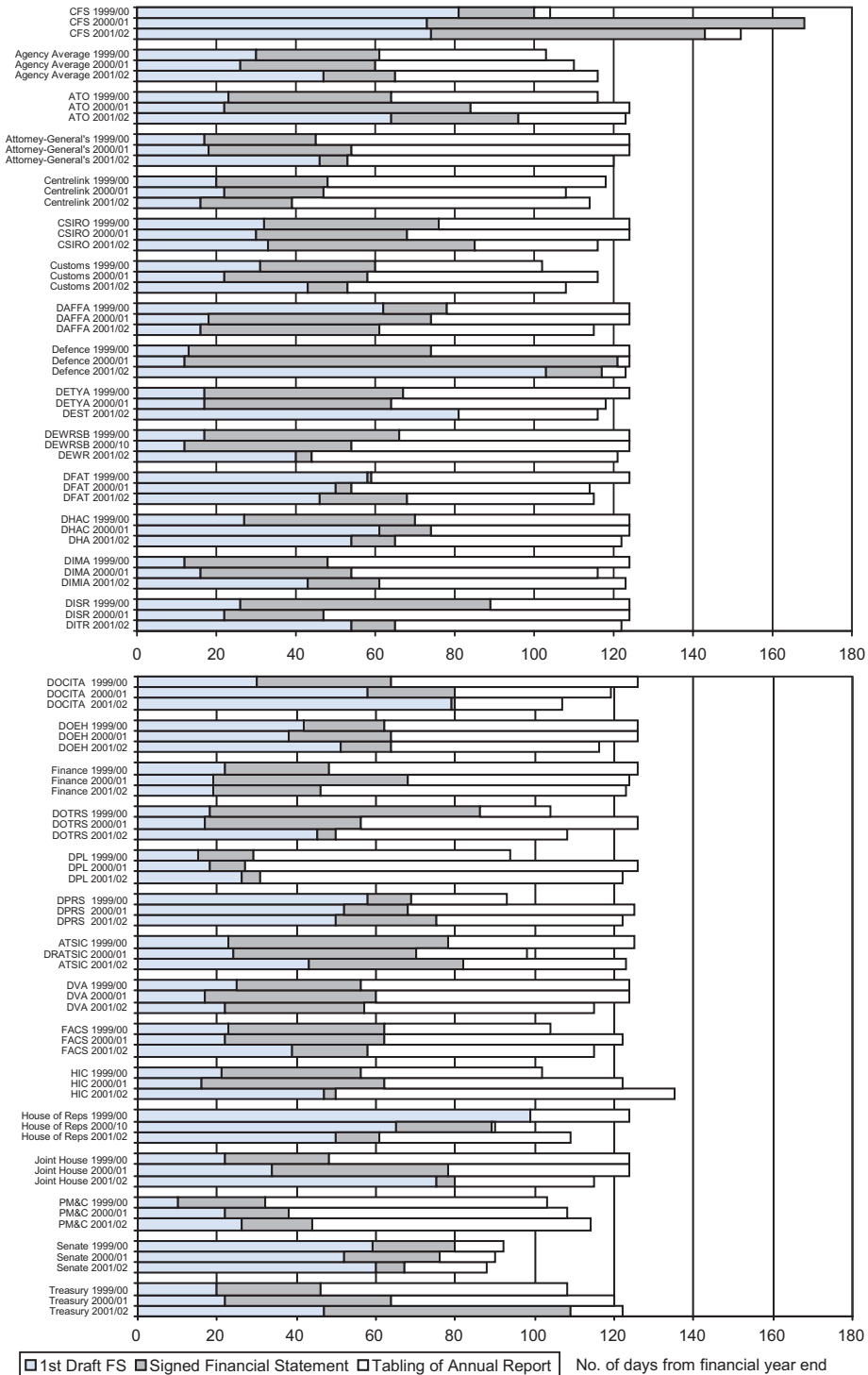
**1.16** To ensure success in meeting the 15 August timetable, entities and the ANAO need to bring forward as much of the financial statements preparation and audit processes as practically possible prior to 30 June of each year.

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<sup>3</sup> Australia, Parliament 2001 *Joint Committee of Public Accounts and Audit: Review of Accrual Budget Documentation*, Official Committee Hansard, Canberra.

**Figure 1**

**Cycle times to tabling financial statements in the Parliament**



**1.17** Figure 1 graphs the timing of the financial statement preparation, audit and tabling process for major Commonwealth entities.

**1.18** The graph shows that, on average, Commonwealth entities needed:

- 45 days to prepare first draft financial statements for presentation to the ANAO compared with 26 days in the 2000–2001 financial year;
- 65 days to produce signed financial statements, a relatively small decline on the prior year’s achievement of 60 days after balance date; and
- 116 days to table their financial statements in the Parliament, compared to 110 days in the prior year.

**1.19** Entities which achieved an improvement of 5 or more days in the time required to obtain a signed audit report before 15 September compared to the experience in the previous year were as follows:

- Department of Agriculture, Fisheries and Forestry—Australia;
- Australian Customs Service;
- Department of Employment and Workplace Relations;
- Centrelink;
- Department of Finance and Administration;
- Department of the House of Representatives;
- Department of Health and Ageing;
- Health Insurance Commission;
- Department of the Senate; and
- Department of Transport and Regional Services.

**1.20** The restructuring, following the Administrative Arrangements Order of 26 November 2001, impacted significantly on a number of entities, resulting in additional time to account for large areas impacted by restructuring. In some cases, additional audit time was also required to confirm the financial statement balances involved. The above information indicates that, in the past year, there has been a decline in the timeliness of the financial statement preparation process and, following on from this, the audit and tabling of Annual Reports in the Parliament of major Commonwealth entities. It is apparent that a number of entities see the preparation of financial statements as a once a year process and not a continuous process, which needs to be constantly addressed and improved, as necessary, over the course of the year. The decline in the timeliness of the

financial statement preparation processes was attributed to a number of factors, including, but not limited to, the following factors outside of the control of individual entities:

- the Administrative Arrangements Order of 26 November 2001, which resulted in the restructuring of a number of agencies; and
- the number of significant changes to financial reporting requirements outlined in the 2002 FMOs.

Nevertheless, it is reasonable to expect that entities should be actioning these issues in a more timely manner.

**1.21** The recent Finance Budget Estimates and Framework Review, accepted by Government, made twenty recommendations. A number of the recommendations relate to the progressive improvement in the timeliness of reporting accrual budget outcomes over the next three years. At the end of the three years, the delivery targets will be:

- 20 days from the end of the financial year for financial statements submissions to Government;
- 25 days from the end of the financial year for providing a preliminary accrual budget outcome to Government; and
- 45 days from the end of the financial year for the final budget outcome report to Government.

The submission of financial statements within 20 calendar days will be phased in over the 2003–2004 and 2004–2005 financial years. Based on the 2001–2002 financial statement reporting achievements, as indicated above, entities would need to improve the timeliness of their financial reporting by, on average, at least 25 days.

**1.22** To meet this amended timetable, entities will have two years in which to significantly improve the timeliness of their financial reporting processes. Most entities could improve their current financial statement preparation processes by:

- ensuring that the executive and audit committees are always fully appraised on key financial issues and contentious accounting treatments and their financial impacts;
- ensuring that key decisions on significant financial and accounting issues, such as whether large IT equipment leases should be accounted for as finance leases, are resolved with the ANAO well before the end of the financial year;
- ensuring that significant tasks such as undertaking, processing and accounting for property, plant and equipment revaluations and actuarial assessments for employee entitlements are not left until late in the financial year;

- ensuring that the asset register is regularly updated by processing asset additions and disposals each month, reviewing depreciation rates and ensuring that depreciation calculations are accurate;
- ensuring that reconciliation processes for key financial statement balances, including administered and special accounts, are occurring at least on a monthly basis; and
- ensuring that time consuming tasks such as executive remuneration calculations are commenced well before the end of the financial year.

1.23 Fully implementing these measures would improve the performance of most agencies in the coming year. However, in order to achieve sustainable long term benefits for both internal management purposes and to also meet the revised financial reporting timeframe, further substantial change will be required in nearly all cases. To achieve such improvement, considerable re-engineering and upgrading of processes is necessary, focussing on both the speed of processing and reporting, while at the same time, improving data integrity and financial analysis. The production of quality monthly financial reports and supporting analysis consistent with best practice and the strong involvement of the senior executive group as part of this process are required. As well, desirably, there needs to be 'real ownership' of the outcomes by all concerned.

## Best Practice Financial Reporting

1.24 The ANAO's Better Practice Guide *Building Better Financial and Management Support*<sup>4</sup> notes that world's best practice organisations have reduced the total time for monthly financial statement preparation to two days, through process re-engineering. It also indicates that it is now common better practice to produce financial reports within five to seven days following the end of the designated financial period. As annual financial statements are usually more comprehensive than those produced as part of monthly or periodic financial statements, an allowance of between 5 to 10 days may be required to produce the additional statutory information required for annual financial statement reporting, taking better practice elapsed time to around 10 to 15 days.

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<sup>4</sup> ANAO 1999, *Building Better Financial Management Support, Functions, systems and activities for producing financial information—guide to effective control*.

**1.25** Better practice financial management involves producing internal management reports for decision making which are meaningful, timely and relevant. The following observation is appropriate:

... better examples of internal financial reporting include a summary snapshot outlining overall performance, following this with a set of accrual based financial reports encompassing a statement of financial performance, statement of financial position and cash flow statement accompanied by relevant notes or commentary including, where appropriate, a graphical presentation<sup>5</sup>.

**1.26** The provision of timely and quality information and analysis to the executive and senior management is critical to the assessment of performance and for ensuring financial information is accurate and consistent with the entity's operational and strategic objectives.

**1.27** Audit Report No.67 2001–2002 also noted that, while some entities had achieved or were moving quickly to achieve this enhanced level of financial reporting, most entities had yet to specify, obtain and implement the additional accounting, financial system skill requirements to achieve this standard of reporting. The decline over the previous year's performance, as illustrated in Figure 1, reflects the continued deficiencies in financial reporting noted in the prior year, which included:

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

**1.28** ANAO monitoring of these issues over the past year has confirmed that a number of entities continue to be committed to a partial cash basis for managing their financial reporting. In practical terms, this approach may be reasonable for a limited number of smaller entities.

**1.29** While closely monitoring operations and capital commitments, using a cash basis of accounting is essential. The broader benefits gained by monitoring performance using an accrual basis of accounting also need to be realised. These include:

- ensuring the full cost of outputs delivered are recorded, regardless of whether all costs have been paid at the reporting date;
- ensuring all revenues have been brought to account, regardless as to whether they have been received at the reporting date; and

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<sup>5</sup> Management Advisory Board 1997, *Beyond Bean Counting, Effective Financial Management in the APS—1998 & Beyond*, Canberra, p. 57.



- ensuring all assets and liabilities have been recognised, regardless as to whether they have been fully paid for, or received, at the reporting date.

**1.30** While most entities prepare some form of analysis and commentary as part of their periodic reporting processes, indicative data gathered by the ANAO during the course of audits indicates that most entities are yet to systematically develop sound financial analysis processes. This observation applies to particular aspects relating to the use of key performance indicators and data metrics, including the integration of financial and non-financial performance measures.

**1.31** Indicative monitoring by the ANAO suggests that entity financial reporting falls into one of the following categories.

|  |   |
|--|---|
| Basic Transaction Reporting                      | Formalised transaction reporting of results (budget versus actual) is in place on a monthly / quarterly basis and may include output / outcome reporting. However, there is little or no analysis to accompany the reports.   |
| Transaction and Analysis Reporting               | In addition to the formalised transaction reporting of results, there is quality analysis reporting relating to the key business / financial aspects of the entity. (For example, key financial indicators, direct cost analysis, overhead analysis, and balance sheet management.)   |
| Integrated financial and non-financial reporting | Financial and non-financial reporting is integrated and translates the agency's strategic objectives into a useful performance measurement system. Reporting embraces a balanced scorecard type approach where traditional financial measures are supplemented with information on additional perspectives such as customer satisfaction, internal business processes, innovation and learning. |

**1.32** While some agencies are still in the basic transaction reporting category, most agencies are in the process of moving into the transaction and analysis reporting category. A few agencies, that have achieved this level, are in the process of moving into the integrated financial and non-financial reporting category. Only a limited number of agencies have achieved this level. That level incorporates the financial reporting capability, consistent with the timely production of quality financial reports and analysis necessary to meet the 20 calendar day timeframe now envisaged by the Budget Estimates and Framework Review.

**1.33** As outlined in Audit Report No.67 2001–2002, the challenge for entities continues to be one of further embedding sound financial management practices into their operations so that the following benefits can be realised in the periods ahead:

- an improvement in the understanding of accrual accounting, budgeting and reporting across entities, providing a greater appreciation and understanding of the financial issues relating to core operating activities;

- an improvement in the timeliness and consistency of financial reporting, so that the executive and operating areas have increased access to more relevant management information including trend based information;
- an improvement in the analysis of costs and overheads which support large core operational activities; and
- an improvement in decision-making supported by implementing improved performance measurement processes and analyses in key operating areas and by better linking financial and non-financial information.

**1.34** 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 would enable entities to achieve a more efficient deployment of capital and other resources. Additionally, it would also contribute positively to corporate governance through an increased understanding of financial risk and related management issues.

**1.35** Within the contracted financial statement timeframe envisaged by Finance, the financial statement audit process will also need to change significantly with an increased audit effort being undertaken prior to the end of the financial year, particularly in the April to June period. However, there will be little audit benefit or audit work that can be undertaken in this period unless most entities substantially strengthen the quality of their monthly reporting processes, as outlined earlier. The ANAO will look to adopt a more continuous audit approach over the course of the financial year, provided suitable quality monthly financial reports are available.

**1.36** The level of executive support for, and focus on, financial management issues within entities have increased considerably in recent years as entities developed their understanding of the Commonwealth's outcomes/output framework and the related financial management reforms. There is little doubt, however, that in respect of most entities this commitment will need to again increase significantly in the year ahead, as entities make the necessary changes to meet the timeliness and quality challenges of the future.

## 2. Results of the Audit of the Commonwealth Government of Australia Consolidated Financial Statements

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### Background

2.1 The Commonwealth Government of Australia Consolidated Financial Statements (CFS) are an important element of open and accountable government. They also fulfil a key stewardship obligation of the Government to report its financial performance during the reporting period.

2.2 The Minister for Finance and Administration is required under sections 55 and 56 of the *Financial Management and Accountability Act 1997* (FMA Act) to table audited CFS in each house of Parliament, as soon as practicable after the end of the financial year.

2.3 The CFS were signed on 20 November 2002 and tabled in Parliament on 29 November 2002.

### Audit Report

2.4 The audit report on the CFS for the year ended 30 June 2002 was issued on 21 November 2002.

2.5 The audit report expressed an opinion containing three qualifications and an ‘emphasis of matter’, which are explained in detail below. Two qualifications were the result of differences in accounting policies and the associated disclosures in the CFS, the third qualification covered two limitations of scope. The ‘emphasis of matter’ was due to inherent uncertainty regarding two components of the Commonwealth Government’s liability position.

### Qualifications

#### *Taxation Revenue*

2.6 As in past years, the CFS for 2001–2002 have been prepared using the taxation liability method (TLM). This method recognises taxation revenue at the time when tax payments are due and payable. The adoption of TLM does not conform with AAS 31 *Financial Reporting by Governments*, in that it does not recognise all taxation revenue, assets and liabilities in the period in which the underlying transactions occur.

**2.7** In contrast, the Australian Taxation Office (ATO) has continued to recognise taxation revenue in its annual financial statements on an accruals basis using the economic transactions method (ETM). Under ETM, taxation revenue is recognised in the period when underlying economic activity giving rise to a taxation obligation actually takes place. As a result, the ATO reports estimates of accrual revenues in relation to taxation assessments that will be raised in the following reporting period; the amount of revenue reported takes into account estimated refunds; and/or credit amendments to which taxpayers may be entitled. This treatment is also consistent with the requirements of taxation legislation wherein a taxation liability exists prior to a formal assessment.

**2.8** The ETM basis of estimating taxation revenue for accounting purposes is stronger both conceptually and on legal grounds than the TLM and, most importantly, clearly meets the requirements of AAS 31. The TLM is aligned to modified cash accounting. This view is supported both by expert legal and accounting advice and reflects the basis on which the Commissioner for Taxation has prepared his financial statements in recent years (which were unqualified).

**2.9** The use of TLM, rather than ETM, has a material effect on the CFS. The financial effects of employing the former approach are as follows:

- the operating result for the year is understated by \$2.8 billion (2001: overstated by \$9.1 billion); and
- there are understatements as at 30 June 2002 in accrued revenues of \$25.7 billion (2001: understatement of \$21.6 billion), in liabilities of \$18.1 billion (2001: \$16.8 billion). Reported net liabilities are overstated by \$7.6 billion (2001: \$4.8 billion).

**2.10** The difference between TLM and ETM revenue is the result of ETM revenue being recognised at an earlier point in the taxation cycle, other things being equal. In a growing economy, ETM revenue would generally be higher than TLM revenue. For this reason, the use of TLM in the current financial year has contributed to the size of the deficit reported in the CFS. A qualified audit opinion was issued on the 2001–2002 CFS due to TLM being used as the basis for the recognition of taxation revenues.

**2.11** Currently, the use of the TLM method is consistent with the treatment adopted for the 2001–2002 Budget. While the Departments of Finance and Administration and Treasury take the view that the ETM method does not currently provide a reliable measure of taxation revenue recognition for both budget and actual reporting purposes, both departments recognise that the comparable reliability of the two methods should be reviewed in future years. The Minister for Finance and Administration has been made aware of the issues involved.

## *Goods and Services Tax and Related Grants Expense*

**2.12** As in the previous year, the CFS for 2001–2002 have been prepared without recognising the GST as a revenue of the Commonwealth Government.

**2.13** The Commonwealth Government's reason for excluding GST and associated grant payments to the states is based on the argument that the GST is a State tax collected by the Commonwealth in an agency capacity, in accordance with the intent of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

**2.14** From an accounting perspective, the GST is a Commonwealth revenue. It is imposed under Commonwealth legislation and the Commonwealth Government therefore controls the revenue raised. The Government's decision to enter into an agreement to pass the GST revenue collected to the States is a separate transaction conducted to meet its particular objectives.

**2.15** The Commonwealth Government's control of the GST revenue is also illustrated by the fact that the distribution of GST revenue is based on population share adjusted by a relativity factor embodying per capita financial needs. The relativity factor is determined by the Commonwealth Treasurer based on advice given by the Commonwealth Grants Commission and following consultation with the States and Territories. Thus, the actual distribution will only coincidentally reflect the amount of tax collected within the jurisdictions of the beneficiary governments, so that there is no direct connection between the tax revenue arising in, and the tax revenue returned to, a particular State or Territory.

**2.16** The financial effects of not recognising the GST as a Commonwealth revenue are to understate the net result for the period and to overstate net liabilities as at period end. The financial effects of not recognising the GST, calculated by reference to the amounts that would have been recognised had all other tax revenue been recognised on an accrual basis, are as follows:

- The consolidated statement of financial performance for the 2001–2002 year involves an understatement of revenues by \$27.6 billion (2000–2001: \$27.5 billion), expenses by \$26.9 billion (2000–2001: \$23.8 billion) and hence the net result by \$0.7 billion (2000–2001: \$3.7 billion).
- The consolidated statement of financial position as at 30 June 2002 involves an understatement of accrued revenues by \$4.7 billion (2000–2001: \$3.8 billion) and liabilities by \$0.3 billion (2000–2001: \$0.1 billion), and hence an overstatement of net liabilities by \$4.4 billion (2000–2001: \$3.7 billion).
- The consolidated statement of cash flows, total operating cash inflows and outflows are each understated by \$23.1 billion (2000–2001: \$19.2 billion) (that is a difference which takes account of GST-related cash flows within the Commonwealth Government).

**2.17** This treatment of GST in the CFS is contrary to the treatment adopted in the financial statements of the administering agencies. The ATO has reported the GST as a Commonwealth tax and the associated payments to the states and territories are recognised by the Department of the Treasury as grant expenses. In addition, the Australian Bureau of Statistics treats GST as a tax of the Commonwealth Government for statistical purposes.

**2.18** For the reasons set out above, the GST should be recognised as revenue of the Commonwealth Government in the CFS. The CFS audit opinion includes a qualification in relation to the omission of GST from the CFS.

## **Department of Defence Inventory and Repairable Items**

**2.19** A qualification contained in the audit report on the 2001–2002 financial statements of the Department of Defence (Defence) has been carried forward to the CFS audit opinion. The Defence audit report was qualified on the basis of limitations of scope over inventory and that part of the Specialist Military Equipment (SME) balance involving repairable items which is managed by the logistics Standard Defence Supply System (SDSS). This, in turn, impacted both on the inventory and SME balances reported in the CFS. A limitation of scope on the auditor’s work arises when sufficient appropriate audit evidence does not exist to support a reported balance.

**2.20** Controls over the SDSS system were inadequate to protect the integrity of data supporting the inventory balance reflected in the Defence financial statements and consolidated into inventory in the CFS. Users of the SDSS system were able to enter information directly into the price field without sufficient controls. The ANAO and Defence agreed that the cumulative financial effect of inventory prices that had been inadvertently adjusted or incorrectly calculated could not be assessed confidently, despite assurance work undertaken for a sample of items from the total population of some 1.7 million inventory line items.

**2.21** In addition, ANAO fieldwork in the 2001–2002 financial year identified significant issues relating to the price integrity of explosive ordnance on the COMSARM logistics system. A statistical test of explosive ordnance did not support the reported balance due to a lack of supporting documentation and business process problems, particularly in relation to price variations in contracts.

**2.22** For these reasons, there was insufficient appropriate audit evidence to support the reported balance of CFS inventory due to Defence system inadequacies, thus resulting in a limitation of scope of the audit work. Given the scope limitation, the audit opinion was qualified as to the effect on the financial statements of such adjustments, if any, as might have been required had the limitation not existed.

2.23 Similarly, there was insufficient appropriate audit evidence to support the reported figure for repairable items, which forms part of the SME balance in the Defence financial statements and consolidated into the SME balance in the CFS. Inadequate controls and problems with key business processes around the SDSS logistics system resulted in a significant range of uncertainty about the repairable items balance.

2.24 In light of these deficiencies, there was an inadequate basis to support the reported repairable items balance in the CFS. This resulted in a limitation of scope of audit, with a similar affect on the audit opinion, as described above.

### **HIH Claims Support Scheme and Medical Defence Organisation Assistance Package**

2.25 An emphasis of matter, which is not a qualification of the audit opinion, concerning inherent uncertainties over certain liabilities contained in the audit report of the Department of the Treasury's 2001–2002 financial statements has also been carried forward in the CFS audit opinion. During 2000–2001, the Commonwealth Government entered into an arrangement with HIH Claims Support Limited (HCSL) to provide assistance to policyholders suffering financial hardship as a result of the failure of the HIH Insurance Group. The CFS and the Department of Treasury's financial statements recognise a liability of \$496 million (2001: \$640 million) for this support, based on an independent actuarial assessment. However, there is an inherent uncertainty regarding the measurement of the Commonwealth's liability. The actuarial assessment noted that, due to the relative immaturity of the Scheme, and because at the time of the assessment a significant portion of the major claim types were yet to be reviewed by the claims managers, the result remains highly uncertain and requires close monitoring.

2.26 In addition, the Commonwealth Government has committed to provide indemnity to the provisional liquidator of United Medical Protection Limited and Australasian Medical Insurance Limited (UMP/AMIL). The CFS and the Department of the Treasury's financial statements recognise a liability of \$500.8 million for this support, based on an independent actuarial assessment. There is an inherent uncertainty regarding the measurement of the Commonwealth's liability. The uncertainty is exacerbated by the instability in the number and risk composition of incidents and claims notified in recent years, and by uncertainty regarding the effects on claims costs of recent legislative changes and the visiting medical officers initiative in NSW.

## **Audit and Accounting Issues**

### *Executive Remuneration*

2.27 As with previous CFS, these financial statements do not include disclosure of the remuneration of Ministers or Executive Officers of Commonwealth entities. Whilst the accounting standards do not currently require the disclosure of this information, its inclusion within the CFS would generally be seen as a positive contribution to enhanced accountability and better practice financial reporting.

2.28 Debate has continued during 2001–2002 over the proposed disclosures of remuneration and benefits at the whole of government level including Ministers. Events over the past twelve months within the corporate arena, and the ensuing demands for increased disclosure, continue to highlight the importance of transparency and accountability. It would be good practice for the Commonwealth to provide such disclosure in the CFS for future financial years.

### *Controlled Entities*

2.29 In the 1999–2000 financial year, the ANAO formed the view that the Commonwealth has control over the Australian National University (ANU). ANU is not consolidated in the CFS; relevant grants and investments are recognised through the Department of Employment, Science and Training. The ANAO continues to recommend that the ANU should be consolidated in the CFS.

### *Tax Expenses Previously Offset Against Revenue*

2.30 In prior years, Family Tax Benefit and Private Health Insurance rebates, which are described as tax expenditures, were accounted for as offsets against taxation revenue within the CFS. This treatment has also been applied to financial statements of the ATO, including the 2001–2002 financial statements.

2.31 For the 2001–2002 CFS, the offset has been reversed resulting in the disclosure of additional tax revenue and additional personal benefit expenditure of \$505 million. The ANAO agrees that, conceptually, under the accounting framework, there is merit in not offsetting such revenues and expenditures. However, in the ANAO's recently completed audit of the ATO's 2001–2002 financial statements, we agreed with the ATO that more assurance work was required to be confident about the reliability of the measure of Family Tax Benefit and Private Health Insurance rebates.



**2.32** In addition, there are many other tax arrangements currently described as tax expenditures. These arrangements are disclosed in the 2001 Tax Expenditure Report Estimates, published by Treasury. The ANAO considers it is necessary for a detailed review to be performed on all tax expenditure arrangements to determine the consistency of accounting treatment and the reliability of the measurement of tax expenditures. We have recommended to the Department of Finance and Administration that this review be undertaken by the relevant agencies in the near future so that its findings can be incorporated into the 2002–2003 CFS.

## 3. Summary Results of the Audits of Financial Statements

### Summary of Audit Reports Issued

3.1 The Auditor-General is required to provide an audit report on the financial statements to the relevant Minister for each Commonwealth entity. The opinion included in the audit report would be either unqualified or qualified. Unqualified and qualified audit opinions may also include an emphasis of matter. Explanation of the various types of audit opinions is provided in this part of the report. A summary of the audit opinions included in audit reports issued by the ANAO for the past two years is provided below.

**Table 3**

#### Summary of audit conclusions in audit reports issued

| Financial Statement Audit Reports   | 2001–2002  | 2000–2001  |
|---|------------|------------|
| Qualified (includes CFS audit report)                                     | 4          | 7          |
| Containing an emphasis of matter  | 10         | 8          |
| Not modified  | 237        | 251        |
| Total Issued  | 251        | 265        |
| Signed financial statements not presented for audit at the time of report | 6          | 7          |
| <b>Total reports</b>  | <b>257</b> | <b>272</b> |

### Unqualified Audit Reports

3.2 An unqualified audit opinion is provided when the financial statements are, in all material respects, presented fairly, in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with the entity's financial position, its financial performance and its cash flows.

### Qualified Audit Reports

3.3 Qualified audit reports are issued when the financial statements do not present a fair view of the entity's financial position, nor of the results of its operations and its cashflows as well as reducing the readers' ability to analyse, interpret and compare financial statements.

**3.4** The types of qualified audit opinions and the basis for providing these opinions are as follows:

- An *except for* opinion—is expressed when the auditor concludes that an unqualified opinion is inappropriate because of a disagreement with management; a conflict between applicable financial reporting frameworks or a scope limitation, the effects or possible effects of which are not of such a magnitude or so pervasive or fundamental as to require the expression of an adverse opinion or an inability to form an opinion.<sup>6</sup>
- An *adverse* opinion—is expressed when the effects of a disagreement with management or a conflict between applicable financial reporting frameworks is of such a magnitude or is so pervasive or fundamental that the financial report taken as a whole is, in the auditor’s opinion, misleading or of little use to the addressee of the report.<sup>7</sup>
- An *inability to form* an opinion—commonly referred to as a disclaimer, is expressed when a scope limitation exists and sufficient appropriate audit evidence to resolve the uncertainty resulting from the limitation cannot reasonably be obtained; and the possible effects of the adjustments that might have been required had the uncertainty been resolved are of such a magnitude or so pervasive or fundamental that the auditor is unable to express an opinion on the financial report taken as a whole.<sup>8</sup>

## **Emphasis of matter**

**3.5** In certain limited circumstances it will be appropriate for the auditor to draw attention to, or emphasise, a matter that is relevant to the users of the audit report but is not of such a nature that it affects the audit opinion.<sup>9</sup> The circumstances in which an emphasis of matter is appropriate are:

- when an inherent uncertainty exists and the uncertainty and its potential impacts have been adequately disclosed in the financial statements;
- when information in a document containing the audited financial report is materially inconsistent with that financial report; and
- when it is highly improbable that an entity will continue as a going concern because of an event occurring after reporting date which provides new information that does not relate to conditions existing at reporting date, and there has been adequate disclosure in the financial statements.

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<sup>6</sup> AUS702 ‘Consideration of Laws and Regulations in an Audit of a Financial Report’.

<sup>7</sup> *ibid.*

<sup>8</sup> *ibid.*

<sup>9</sup> *ibid.*

3.6 A summary of the qualifications and unqualified reports with an emphasis of matter issued by the ANAO during the 2001–2002 financial year is contained below.

## **Audit Reports Containing a Qualification**

### **Commonwealth Government of Australia Consolidated Financial Statements**

3.7 The audit report for the CFS for the 2001–2002 financial year contains three *qualifications* and an *emphasis of matter*. Two qualifications were the result of differences in accounting policies and the associated disclosures in the CFS. The third qualification covered two limitations of scope over inventory, and that part of the Specialist Military Equipment balance involving repairable items. A limitation of scope on the auditor’s work arises when sufficient appropriate audit evidence does not exist to support a reported balance. The ‘emphasis of matter’ was due to inherent uncertainty regarding two components of the Commonwealth Government’s liability position. Further details in regard to the qualifications and emphasis of matter can be found in Part 2 of this report.

## **Australian Taxation Office (ATO)**

### *IT Outsourcing—Non capitalisation of finance lease of IT equipment*

3.8 The audit report for the ATO’s financial statements for the 2001–2002 financial year was *qualified* due to a disagreement with management on the accounting treatment for the lease of computer equipment.

3.9 The lease of certain computer equipment under the information technology outsourcing contract has been recognised as an operating lease in the financial statements. A number of substantial ownership risks, including residual value risk on early termination or expiry of the lease, have passed to the ATO under the contract. Accordingly, the lease should be accounted for as a finance lease. The recognition of the lease as an operating lease in the financial statements represents a departure from AAS 17 *Leases*, which requires leases to be classified as finance leases where substantially all of the risks and benefits incident to ownership pass from the lessor to the lessee. The effect of this departure is to understate assets by \$48.978 million and liabilities by \$49.273 million on the Statement of Financial Position, and to understate expenses in the Statement of Financial Performance by \$0.945 million.

This issue resulted in a similar qualification in the two prior years.

## **Department of Defence**

### *Inventory and Repairable Items*

**3.10** The audit report for Defence's financial statements for the 2001–2002 financial year was *qualified* on the basis of two limitations of scope. The first limitation relates to the inventory balance in the Statement of Financial Position and its potential impact on the Statement of Financial Performance. The ANAO finding was based on the ongoing lack of data integrity over prices, shortcomings in the detective controls employed in fiscal 2002, and gaps in the collective evidentiary support for the final balance at 30 June 2002.

The second limitation relates to the potential impact of corrections that might need to be made to that part of the Specialist Military Equipment (SME) balance known as Repairable Items (RIs) and their subsequent impact on the Statement of Financial Performance. In this case, the ANAO decision was also based on the ongoing lack of data integrity over quantities and prices, shortcomings in key processes employed, and significant gaps in the collective evidentiary support for the final balance at 30 June 2002.

## **National Gallery of Australia Foundation**

### *Completeness of revenue*

**3.11** The National Gallery of Australia Foundation raises funds through public donations and various other fund raising activities. The audit report on the Foundation's financial statements for the 2001–2002 financial year was *qualified* because the nature of these activities is such that the completeness of revenue is not assured.

This issue resulted in a similar qualification in the two prior years.

## **Audit Reports Containing an 'Emphasis of Matter'**

### **National Crime Authority**

#### **Australian Bureau of Criminal Intelligence**

### **Inherent uncertainty about future operations**

**3.12** The Commonwealth Government has announced its intention to abolish the National Crime Authority (Authority) and replace it with an Australian Crime Commission, which would also encompass the functions of the Australian Bureau of Criminal Intelligence (ABCI) and the Office of Strategic Crime Assessments. At the time of preparation of the financial statements, legislation to give effect to this decision was in preparation. Accordingly, there was

significant uncertainty whether the Authority and ABCI would continue as going concerns and therefore, whether they would realise their assets and extinguish their liabilities at the amounts stated in the financial reports. The audit reports of the respective two entities' financial statements for the 2001–2002 financial year each contain an *emphasis of matter* outlining the uncertainty of the Authority and ABCI continuing as going concerns.

## **Australian Dairy Corporation**

### *Inherent uncertainty regarding realisation of a receivable from an associated company*

3.13 Austdairy Limited, a company controlled by the Australian Dairy Corporation, has an equity interest in and has traded with the Thai Dairy Industry Co. Ltd (the associated company). The consolidated financial statements contain the gross amount due from the associated company of \$32 million, against which a provision of \$19.5 million has been recorded. The recovery of the net amount is dependent on the successful outcome of current negotiations and other matters. The consolidated financial statements do not include any adjustment relating to the recoverability of the net amount that might be necessary should the controlled entity not be successful in the negotiations. The audit report for the Australian Dairy Corporation's financial statements for the 2001–2002 financial year contains an *emphasis of matter* outlining the uncertainty of the recovery of the liability.

## **Australian River Co. Limited**

### *Inherent uncertainty regarding restructure of Australian River Co. Limited*

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

3.15 The financial statements have been prepared under the assumption that there will be no changes in the corporate structure, leasing arrangements, Deed of Guarantee and operations of the business of Australian River Co. Limited for a period of 12 months from the date of signing the audit report. The directors have no grounds to believe that this assumption is not reasonable in the circumstances. Accordingly, no adjustments or reclassifications were made in

the financial statements to reflect any changes that may arise as a result of the Government finalising its deliberation on the above matters. The audit report for the Australian River Co. Limited's financial statements for the 2001–2002 financial year contains an *emphasis of matter* regarding this matter.

## **Bilioara Pty Limited and Bilioara Unit Trust**

### *Inherent Uncertainty Regarding Litigation*

**3.16** Bilioara Pty Limited is the trustee company for Bilioara Unit Trust (the Trust). As the trustee company, Bilioara Pty Limited is legally liable for any excess of Trust liabilities over Trust assets.

**3.17** The Trust was involved in two major legal cases at balance date. The first case is in relation to the ongoing litigation with the Trust's previous 50 per cent partner in the Mirambeena Tourist Resort, and the second is in relation to the rescission by the Aboriginal and Torres Strait Islander Commission (ATSIC) of a capital restructure agreement. The audit reports for Bilioara Pty Ltd and the Trust's financial statements for the 2001–2002 financial year each contain an *emphasis of matter* as there is uncertainty surrounding the potential impact of each of the legal cases and their magnitude to materially affect the extent of the Trust assets available to settle Trust liabilities.

## **Morr Morr**

### *Inherent Uncertainty Regarding Recoverable Amount of Non-Current Assets*

**3.18** Morr Morr Pastoral Company Pty Ltd is in the process of divesting freehold and leasehold land and associated structural improvements to the Kurtijar Charitable Land Trust in accordance with the policies of the Aboriginal and Torres Strait Islander Commission. The cash consideration to be received from the divestment is expected to be nominal. However, the directors of Morr Morr Pastoral Company Pty Ltd have indicated that the divestment will not proceed unless a leaseback is secured on acceptable terms to the Company.

**3.19** The circumstances of the divestment and associated leaseback transaction are such that the recoverable amount of the assets that will be subject of the transactions cannot presently be determined and, accordingly, no adjustment to the carrying value has been made in the financial report. The audit report for Morr Morr's financial statements for the 2001–2002 financial year contains an *emphasis of matter* regarding this matter.

## **Queensland Orchestras Pty Ltd**

### *Inherent uncertainty regarding going concern*

3.20 The audit report for the Queensland Orchestras Pty Ltd's financial statements for the year ended 31 December 2001 contains an *emphasis of matter* outlining an uncertainty surrounding the ability of the Orchestras to continue as a going concern, and therefore whether it can realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The on-going operation of the Orchestras in their current form is dependent upon its ability to meet the criteria specified in the Tripartite funding agreement (with State and Federal Governments), to meet income as budgeted from ticket sales, corporate sponsorship and orchestra hire, and control its costs as budgeted.

## **Symphony Australia Holdings Pty Ltd**

### *Inherent uncertainty regarding going concern*

3.21 The audit report for Symphony Australia Holdings Pty Ltd's financial statements for the year ended 31 December 2001 contains an *emphasis of matter* outlining an uncertainty surrounding the ability of the Orchestra to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The on-going operation of the Orchestra in its current form is dependent upon its ability to maintain its planned cost level and revenue targets in accordance with management forecasts for the year ended 31 December 2002.

## **Department of the Treasury**

### *Inherent uncertainty regarding the liabilities for the HIH Claims Support Scheme and Medical Defence Organisations (MDO) Assistance Package*

3.22 The audit report for the Department of the Treasury's financial statements for the the 2001–2002 financial year contains an *emphasis of matter* reflecting the inherent uncertainty regarding the measurement of the liabilities for the HIH Claims Support Program and the MDO Assistance Package.



**3.23** The Department of the Treasury had recorded estimates of \$496.35 million and \$500.80 million respectively in relation to the Commonwealth's liabilities for the HIH Claims Support Scheme and a component of the Commonwealth's assistance package for the UMP/AMIL Group and other Medical Defence Organisations at 30 June 2002. These estimates are based on independent actuarial assessments. There is inherent uncertainty regarding these estimates as the provisional liquidator has indicated to the Treasury that the estimates are uncertain due to their timeframe and nature.

**3.24** The issue regarding the HIH Claims Support Scheme liability resulted in a similar emphasis of matter in the prior year.

## 4. Results of Final Audit Testing

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### Substantiating Financial Balances

4.1 Much of the work undertaken in the final phases of the audit is directed at substantiating financial statement balances. This is achieved through testing which is designed to gather appropriate audit evidence to meet specific audit objectives and financial statement assertions. Australian Auditing Standards (AUS) set out the professional requirements which must be applied to all audits. AUS 502 *Audit Evidence* describes the financial statement assertions critical to substantiating financial statement balances. The assertions are as follows:

#### In relation to Assets and Liabilities:

- *Existence* Each reported asset and liability exist at reporting date.
- *Valuation* Each asset and liability is recorded at the appropriate carrying value.
- *Rights and obligations* Each reported asset and liability pertains to the entity at the reporting period.

#### In relation to Revenues and Expenses:

- *Occurrence* A transaction or other event took place which pertains to the entity in the reporting period.
- *Measurement* Each transaction or other event is recorded at the proper amount and revenue or expense is allocated to the proper period.

#### In relation to Assets, Liabilities, Revenues and Expenses:

- *Disclosure* All items in the statements are disclosed, classified and described in accordance with the FMOs and AAS, mandatory professional reporting requirements in Australia and statutory requirements.
- *Completeness* There are no unrecorded assets, liabilities, transactions or other events, or undisclosed items.

4.2 These assertions are critical to substantiating information in all parts of the financial statements but they are particularly relevant to the statement of financial position in which assets and liabilities are stated as at a particular point of time, usually 30 June of each year in respect of Commonwealth entities. These assertions are applied to assets (future economic benefits controlled by the entity as a result of past transactions) and liabilities (sacrifices of economic benefits

that the entity is presently obliged to make as a result of past transactions or past events) and to other financial information such as guarantees and contingencies.

**4.3** The ANAO's approach, when auditing account balances, is to work closely with the entity's accounting staff and, when errors are noted, verify the financial impact with the CFO or senior accounting officer. Where the amount is material, adjustments are processed to correct the errors. In addition, most agencies process adjustments to correct non-material errors. Only in rare circumstances are material audit initiated adjustments not accepted by entities. These nearly always relate to areas where the accounting treatment is contentious. Audit evidence gathered across all audits suggests that, while audit initiated corrections result in both increases and decreases to financial statement balances, by far the most significant adjustments result in increases in expenses and decreases in departmental assets and administered revenues. During the final audit phase, some of the more significant audit initiated adjustments made to the financial statements of material entities totalled as follows:

- increases to departmental and administered expenses of \$145.9 million and \$803.2 million respectively;
- decreases to administered revenues of \$11.3 billion;
- decreases to departmental and administered assets of \$204.2 million and 2.5 billion respectively;
- increases to departmental and administered revenues of \$34.3 million and \$726 million respectively;
- increases to departmental and administered liabilities of \$47.3 million and \$657 million respectively; and
- decreases to departmental and administered liabilities of \$141.2 million and \$366.6 million respectively.

At the end of the audit process, the ANAO was satisfied that there were no material un-adjusted audit balances.

## Continuing Significant Accounting Issues

### Accounting for leases

**4.4** The accounting classification of several Commonwealth Information Technology (IT) outsourcing agreements continues to be a significant issue addressed in the course of audits of financial statements.

4.5 The ANAO's overall view remains that, while costs relating to service provision under the agreements can appropriately be expensed in the statement of financial performance, the equipment lease components of the agreements should in many cases be capitalised as finance leases in the statement of financial position. This view is based on AAS 17 *Leases*, which requires a lessee to recognise leased assets and the related lease liability where the lessee bears substantially all the risks and benefits of asset ownership under the lease. Many Commonwealth entities have guaranteed the residual value of the equipment on expiry of their agreements or where the equipment becomes surplus to their needs. As such, they bear all the risk associated with a decline in residual value below fair market value at all times. Given that residual value risk is the most significant risk associated with asset ownership, the ANAO's conclusion remains that such leases are, in substance, finance leases.

4.6 A number of Commonwealth entities have in the past accounted for these type of leases as operating leases, contrary to AAS 17 requirements in the ANAO's view. In 2001–2002, the following entities changed their accounting treatment from an operating lease to a finance lease:

- Department of Immigration and Multicultural and Indigenous Affairs;
- Australian Communications Authority; and
- Joint House Department.

The impact of this change was to recognise for the first time in the statement of financial position assets and liabilities with a value of \$8.8 million and \$9.6 million respectively.

4.7 Entities which continue to account for their IT leases as operating leases, contrary to AAS 17 requirements in the ANAO's view, are:

- Australian Taxation Office;
- Department of Communications, Information Technology and the Arts;
- Department of Finance and Administration;
- Department of Industry, Tourism and Resources;
- Department of Transport and Regional Services; and
- Department of the Environment and Heritage.

4.8 Of these, only the Australian Taxation Office has leases which are considered to be material relative to its total operations. Consequently, it has had its financial statements qualified in this respect.

## Outputs and Outcomes

4.9 The FMOs require entities to report outcomes and outputs in their financial statements including:

- total cost / contribution of outcomes;
- major departmental revenues and expenses by output;
- major classes of Departmental assets and liabilities by output;
- major classes of administered revenues and expenses by outcome; and
- major classes of administered assets and liabilities by outcome.

4.10 To meet this requirement, Commonwealth entities need to have in place direct and indirect cost allocation systems by outcome and output types. Although outcome/output reporting has been in place for several years, most entities are yet to fully implement the necessary systems to efficiently calculate and report this information. Entities use a combination of system and estimation processes, and, in some cases, manual estimation processes that are both time consuming and unreliable. Some entities are unable to allocate assets and liabilities by outcome or output. Entities that utilise manual estimation processes include the following:

- Aboriginal and Torres Strait Islander Commission;
- AusAid;
- Department of Industry, Tourism and Resources;
- Department of Transport and Regional Services; and
- Department of Agriculture, Fisheries and Forestry—Australia.

These entities should assess the cost-effectiveness of automated cost and overhead allocation processes. It is envisaged that such improvements would contribute to the timeliness of financial reporting processes and would, consistent with the government's objective, also assist with broader management and resource allocation issues resulting in better performance.

## Appropriations

4.11 Revenue recognition principles relating to appropriations have again been subject to close scrutiny following amendments to the FMOs which provide that:

There is a rebuttable presumption that the full appropriation for outputs should be recognised as revenue in the year of appropriation. In the instance that any variation between appropriation and revenue 'earned' for the respective periods arises, providing that the variation is measurable, either accrued or unearned revenue should be recognised.<sup>10</sup>

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<sup>10</sup> FMOs Clause 9.1.

**4.12** To ensure that this requirement could be applied practically, the ANAO and Finance agreed that output unearned appropriation revenue should not be recognised unless:

- the purchase of specific quantities of measurable outputs were agreed by Government for a particular price;
- those outputs have not been performed by financial year end; and
- it is probable that repayment of the funding will be required if the outputs remain unperformed.

**4.13** This policy was a change from the prior year where appropriations were recognised as revenue only to the extent they had been drawn down.

**4.14** AAS 29 *Financial Reporting by Government Departments* also requires appropriations controlled by a government entity to be recognised as revenue except in circumstances where an owner/purchaser or similar model of financial management is in place and appropriation monies can be deferred. In these circumstances, the characteristics of an appropriation may change and will not necessarily be accounted for as revenue if the outputs to be delivered by the agency have not yet been delivered. Where the outputs are still to be delivered, the appropriations will be accounted for as a liability until the output delivery is complete. Finance has indicated that the Outcomes/Outputs Accrual Budgeting and Reporting Framework which Commonwealth entities are reporting under is not a purchaser/provider model (also referred to as an owner/purchaser model) and therefore departmental appropriations will be recognised as revenue, unless criteria outlined in paragraph 4.12 are met.

**4.15** A key issue for the 2001–2002 financial year related to a desire by some entities to defer the recognition of departmental appropriation revenue to a subsequent financial year for appropriations received but not spent in respect of outputs which were incomplete or not yet commenced, and where there was not a purchaser/provider model in place.

**4.16** Agencies that presented the ANAO with a rebuttable case for the deferral of appropriation revenue were as follows:

- Australian Securities and Investment Commission; and
- Department of Immigration, Multicultural and Indigenous Affairs.

**4.17** Agencies that were not able to provide a rebuttable case for the deferral of appropriation revenue, and that deferred revenue contrary to ANAO advice were as follows:

- Department of Family and Community Services; and
- Department of Finance and Administration.

4.18 In both cases the amounts were not material, to warrant a qualification to the audit opinion.

## Capital Use Charge

4.19 With the introduction of accrual budgeting, a capital use charge (CUC) was imposed upon the 'departmental' net assets of budget-funded agencies. In the absence of a pricing agreement, or where otherwise agreed, agencies are funded for the CUC by way of appropriation from the Government. The CUC is imposed on the net assets of the agency at the end of the year and is required to be treated as a dividend back to the Commonwealth.

4.20 Many entities felt that the 'below the line' treatment of the CUC, whereby funding for the CUC is disclosed as revenue but the imposition of the CUC is not shown as a corresponding expense, directly increased their operating results by the amount of the charge, resulting in a misinterpretation of their financial results. For example, in 1999–2000, the Department of Defence reported an operating surplus of \$5.3 billion compared to an equivalent of \$3.6 billion (pre-dividend) for one of Australia's largest corporate entities, Telstra. The significant difference is that \$4.6 billion of the Defence surplus was subsequently remitted to Government by way of the CUC.

4.21 A number of entities endeavoured to provide additional disclosure to clarify the potential misinterpretation of their financial results. These entities included the Australian National Gallery and Department of Family and Community Services.

4.22 The Budget Estimates and Framework Review undertaken by Finance recommended that the Capital Use Charge be discontinued from 1 July 2003. As noted earlier, the Government has agreed to all the recommendations of that Review.

## New Internal Control Issues

4.23 The ANAO rates audit 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'. Issues that pose a moderate business, or financial, risk are rated as 'B'. Issues that are procedural in nature, or reflect relatively minor administrative shortcomings, are rated as 'C'.

**4.24** Overall, the results of the final audit phase indicate that many of the control issues raised in Audit Report No.67 2001–2002 have been addressed, or are in the process of being addressed. A number of new issues have been raised with entities during the final phase of the audit. Overall, the quality of the control environment and internal controls in business and accounting processes continue to improve. This is demonstrated by:

- 22 of the 68 material entities reporting an improvement in the number of 'A' and 'B' category audit issues and only five entities showing a deterioration of their position, with two entities remaining at the same position; and
- 40 of the 68 material entities had no category 'A' or 'B' audit issues.

**4.25** A summary table of the movement in the number of audit issues from the time of the interim audit (up to March 2002) to completion of the audits in September 2002 is provided for each material entity by portfolio in part 5. Appendix 1 provides a summary of significant issues by major entity (up to March 2002), and a table of 'A' and 'B' ratings by entity for 2002 and 2001 as reported in Audit Report No.67 2001–2002.

**4.26** Individual portfolio results included in part 5 of this Report summarise the progress made by entities on audit issues carried over from the interim audit as well as highlighting any new audit issues. A broad range of internal control issues were raised as part of the final audit phase, all of which were consistent with issues from the interim audit phase and previous years. Most were specific to the entity concerned and covered issues such as the need to:

- improve debt management processes including the need to establish clear lines of responsibility for their collection;
- monitor the integrity, accuracy and completeness of asset registers including formalising policy and guidelines associated with the identification and classification of expenditure relating to capital work-in-progress;
- restrict high-level privileged access to systems which is inconsistent with the functions required to perform particular jobs;
- undertake independent officer reviews of key monthly financial reconciliations to reduce the possibility of exposure to errors or fraud; and
- ensure that appropriate costing systems are in place relating to the capitalisation of software development projects.

In addition, it was noted that a number of agencies still need to substantially improve their financial statement preparation processes, including their quality assurance and review processes for reasonable results.



## Carryover of Interim Audit Internal Control Issues

### Control over financial systems and processes

4.27 In respect of interim audit issues, Audit Report No.67 of 2001–2002 noted that there had been considerable improvement in the quality of control procedures over business and accounting processes concerning appropriations and other revenues, payments of expenses, employment and related costs, cash management and asset management when compared to those of the previous year. Nevertheless, that Report also noted that some entities continued 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, related to the need to reconcile payroll and leave costs recorded in human resource management information systems (HRMIS) with balances recorded in the FMIS. This weakness required ANAO audit teams to place less reliance on entity control processes and to strengthen substantive audit processes. The ANAO continues to reinforce the importance of these reconciliation processes and, in general, the final audit phase noted that reasonable progress continues to be achieved in these areas. Monitoring of improvements will continue as part of the forthcoming 2002–2003 financial statement audit process.

### Controls related to information systems

4.28 Interim audit procedures concluded that entities, generally, have well controlled IT processes. However, for a number of entities, continuing control weaknesses were identified in IT system security and business resumption planning. Subsequent to the interim audit phase, the ANAO notes that progress has been achieved with a number of the IT security issues. 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.

### Internal Control Environment

4.29 Audit Report No.67 of 2001–2002 also noted that a sound internal control environment is an essential component of corporate governance and that improvements were required particularly in respect of risk awareness, assessment and management and the quality and presentation of monthly financial reporting. In addition, the Report noted that 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 review their corporate governance arrangements. The ANAO is actively encouraging entities to review and update their existing corporate governance arrangements for more effective performance. The ANAO plans to monitor and report improvements over the coming year.

**4.30** The ANAO acknowledges that the majority of Commonwealth entities are proactive in their construction of efficiently controlled accounting processes supporting their business systems. In addition, the majority of entities are receptive to recommendations for improvement provided by the ANAO. The ANAO will continue to work with the Commonwealth agencies to improve their corporate governance arrangements which support business processes.

## 5. Results of the Audits of Financial Statements—By Portfolio

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### Introduction

5.1 This part of the report summarises the results of the audits of the financial statements of individual Commonwealth entities.

5.2 Also included are any additional significant internal control matters arising from finalising these audits since Audit Report No.67 of 2001–2002.

5.3 This part of the report is structured in accordance with the portfolio arrangements established in the Administrative Arrangements Order of 26 November 2001, as amended. For reporting purposes, the structure of this part reflects the portfolio arrangements which existed at 30 June 2002.

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

- the outcome of the audit (nature of audit opinion);
- the date the audit report was issued; and
- whether any additional significant internal control matters were identified in the course of finalising the financial statement audit since Audit Report No.67 of 2001–2002.

5.5 Details of modified (qualified or containing an emphasis of matter) audit opinions are also provided following the respective tables.

5.6 In addition, for each material entity a brief commentary covering both departmental and administered activities is provided on:

- the financial results for the year; and
- audit issues including those carried over from the interim audit phase and new issues arising from the final audit phase.

5.7 As part of the commentary on entity financial results, information has been included in the form of ratios. The financial ratios used are a broad indicator only of an entity's financial position but, while the context of these ratios will vary between entities, the general principles apply in each case. A description of the two ratios used is as follows:

|  |  |
|--|--|
| <p><u>The current ratio</u><br/>Ratio of current assets to current liabilities</p> | <p>Indicates whether an entity has sufficient short-term (less than twelve (12) months) assets to cover its short-term liabilities. A ratio of greater than one (1) indicates that current assets exceeds current liabilities, therefore working capital is positive. A ratio of less than one (1) therefore indicates a negative working capital position. Generally, the higher the ratio, the greater the level of financial stability and the lower the risk for owners and suppliers.</p> |
| <p><u>The debt ratio</u><br/>Ratio of total liabilities to total assets</p>        | <p>Shows whether the entity could cover all liabilities, whether short or long term, with the value of its assets. A ratio of greater than one indicates that total assets exceed total liabilities and all debts of the entity would be covered. Generally the higher the ratio, the stronger the financial position of the entity and the lower the risk for owners and suppliers.</p>   |

5.8 Issues arising from audit activity are rated in accordance with the seriousness of the particular matter identified. The rating 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.
- C. Matters that are procedural in nature or minor administrative shortcomings.

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

5.10 This part of the report discusses the more significant matters identified ('A' and 'B') in separate sections for each material entity. The various tables track progress on matters raised at the time of our interim audits, conducted earlier this year, to the completion of those audits in August and September.

5.11 Unless otherwise indicated, entities have advised of appropriate remedial action taken, or proposed, to address the matters included in this report.

# Agriculture, Fisheries and Forestry Portfolio

| Reporting Entity as at 30 June 2002  | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|--|-----------------|--------------|----------------|--------------|
| Department of Agriculture, Fisheries and Forestry — Australia                      | Yes             | ✓            | 30-Aug-02      |              |
| - Australian Quarantine and Inspection Service                                     | No              | ✓            | 30-Aug-02      |              |
| - National Residue Survey  | No              | ✓            | 30-Aug-02      |              |
| Australian Dairy Corporation   | Yes             | E            | 24-Sep-02      |              |
| Australian Fisheries Management Authority  | No              | ✓            | 16-Sep-02      |              |
| Australian Wine and Brandy Corporation   | No              | ✓            | 19-Sep-02      |              |
| Commission for the Conservation of Southern Bluefin Tuna <sup>¶¶</sup> (31-Dec-01) | No              | ✓            | 30-May-02      |              |
| Cotton Research and Development Corporation  | No              | ✓            | 11-Sep-02      |              |
| Dairy Adjustment Authority   | No              | ✓            | 29-Aug-02      |              |
| Dairy Research and Development Corporation   | No              | ✓            | 16-Sep-02      |              |
| Fisheries Research and Development Corporation                                     | No              | ✓            | 15-Aug-02      |              |
| Forest and Wood Product Research and Development Corporation                       | No              | ✓            | 20-Sep-02      |              |
| Grains Research and Development Corporation  | Yes             | ✓            | 14-Aug-02      |              |
| Grape and Wine Research and Development Corporation                                | No              | ✓            | 19-Sep-02      |              |
| Land and Water Research and Development Corporation                                | No              | ✓            | 16-Sep-02      |              |
| Murray Darling Basin Commission  | No              | ✓            | 09-Dec-02      |              |
| National Registration Authority for Agricultural and Veterinary Chemicals          | No              | ✓            | 23-Aug-02      |              |
| Rural Industries Research and Development Corporation                              | No              | ✓            | 13-Sep-02      |              |
| Sugar Research and Development Corporation   | No              | ✓            | 04-Oct-02      |              |
| Tobacco Research and Development Corporation                                       | No              | ✓            | 06-Sep-02      |              |
| Wheat Export Authority <sup>¶¶</sup> (30-Sep-01)                                   | No              | ✓            | 20-Nov-01      |              |

✓ audit report not modified  
 E audit report contains an emphasis of matter  
 Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time  
<sup>¶¶</sup> financial year end date other than 30 June 2002  
 ◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.12 The Agriculture, Fisheries and Forestry Portfolio consists of:

- the Department of Agriculture, Fisheries and Forestry—Australia;
- 16 statutory authorities engaged in research and development, regulation and marketing and promotion; and
- the Murray Darling Basin Commission.

5.13 Through these bodies, the Portfolio seeks the Outcome of more sustainable, competitive and profitable Australian agricultural, food, fisheries and forestry industries.

5.14 The following comments relate only to material entities in the portfolio.

## Department of Agriculture, Fisheries and Forestry—Australia

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus from ordinary activities               | 4.73        | 2.78        |
| Capital use charge and dividend paid to government | 2.19        | 1.57        |
| Commonwealth's equity investment                   | 9.87        | 3.44        |
| Ratio of current assets to current liabilities     | 1.30:1      | 1.19:1      |
| Ratio of total assets to total liabilities         | 1.07:1      | 1.03:1      |

5.15 The improved net surplus was the result of an increase in government funding. Together with a net equity injection of \$3.7 million during the year, these two factors had a positive impact on the Commonwealth's equity interest.

#### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 564.61      | 463.57      |
| Total expenses                      | 1,119.44    | 991.00      |
| Total assets                        | 539.19      | 556.41      |
| Total liabilities                   | 52.16       | 40.81       |

**5.16** The increase in total revenues is principally due to an increase in primary industry levies resulting from the establishment of the wool levy, a general growth in other primary industry levies, and the full year's effect of the dairy adjustment levy. The increase in total expenses is essentially the result of the general growth in primary industry levies that have been collected and passed on to growers as grants. The Australian Pork Corporation and the Pig Research and Development Corporation ceased to operate during the year and their activities were corporatised into Australian Pork Limited (a separate entity established by the pig industry group). This resulted in a reduction in total administered assets.

## Audit results

### *Summary of significant agency and administered audit findings*

**5.17** One moderate risk audit issue noted during the interim audit, relating to controls over the creation of vendors on an electronic masterfile, has been subsequently resolved. There were no new significant audit issues arising from the final audit.

**5.18** The following table provides a summary of the status of previously reported audit issues as well as new audit issues.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 1                              | 1                                    | 0                         | 0                               |
| <b>Total</b> | <b>1</b>                       | <b>1</b>                             | <b>0</b>                  | <b>0</b>                        |

## Australian Dairy Corporation

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) from ordinary activities     | 4.37        | (12.42)     |
| Capital use charge and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                   | 11.58       | 7.16        |
| Ratio of current assets to current liabilities     | 1.19:1      | 1.06:1      |
| Ratio of total assets to total liabilities         | 1.20:1      | 1.10:1      |

**5.19** The 2001 operating deficit was mainly attributable to the write down of assets totalling \$12.35 million. The current year's operating surplus shows the net effect of:

- the return to surplus in the current financial period due to the reduction in the write down of assets (from \$12.35 million to \$0.6 million);
- domestic promotion decreasing from \$12.28 million to \$9.82 million, consistent with the decision not to continue Category Marketing Programs as part of the domestic promotion programs;
- lower interest rates and borrowing levels for purchases and credit sales, reducing borrowing costs from \$4.9 million to \$1.64 million;
- interest revenue falling from \$6.06 million to \$1.35 million, reflecting a reduction in income relating to credit sales and lower interest rates relating to such sales; and
- a reduction in related levy revenue and expenditure following the closure of the Domestic Market Support Fund.

#### **Items administered on behalf of the Commonwealth**

| <b>Key financial measures for the year</b> | <b>2002<br/>\$m</b> | <b>2001<br/>\$m</b> |
|--|---------------------|---------------------|
| Total revenues                             | 217.21              | 166.62              |
| Total expenses                             | 342.77              | 229.33              |
| Total assets                               | 13.40               | 11.16               |
| Total liabilities                          | 203.47              | 75.68               |

**5.20** Levy income increased (from \$166.2 million to \$216.57 million) and represents a full year of levy receipts. The commencement of the Supplementary Dairy Adjustment Scheme, which resulted in expenditure of \$95.80 million and the expansion of the Dairy Regional Adjustment Program from \$8.7 million to \$17.8 million, accounts for the major portion of the increase in administered expenditure. There has also been a reduction in corporate operating expenses from \$15.2 million to \$9.7 million with the completion of the registration and assessment phase of the scheme.

**5.21** Borrowings to help fund the early years of the scheme increased from \$64.3 million to \$200.4 million. Interest expenses relating to borrowings also increased from \$2.3 million to \$11.3 million. Total asset balances have not moved significantly.



## Audit results

### *Summary of significant agency and administered audit findings*

5.22 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no new audit issues arising from the final audit phase.

5.23 The unqualified audit report included an emphasis of matter due to the uncertainty regarding realisation of receivables from an associated company. Refer to Part 3 of this report for details.

## Grains Research and Development Corporation

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | 0.43        | (22.21)     |
| Capital use charge and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                   | 99.90       | 99.50       |
| Ratio of current assets to current liabilities     | 3.52:1      | 5.27:1      |
| Ratio of total assets to total liabilities         | 2.99:1      | 3.85:1      |

5.24 The Corporation's surplus for the year is a result of the large increase in gross value of production in the grains industry. This has resulted in the industry contributions for wheat and course grains increasing. Commonwealth contributions also increased.

5.25 The Corporation's current and debt ratios decreased slightly compared to those last year, as a result of the increase in research and development payables which was due to the signing of two new contract arrangements worth \$12.29 million.

## Audit results

### *Summary of significant agency audit findings*

5.26 There were no significant audit issues carried forward from the interim audit and there were no new issues arising from the final audit.

## Comments on non-material entities

5.27 There were no significant audit issues impacting on non-material entities.

# Attorney-General's Portfolio

| Reporting Entity as at 30 June 2002                | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|--|-----------------|--------------|----------------|--------------|
| Attorney-General's Department                      | Yes             | ✓            | 22-Aug-02      |              |
| Australian Protective Service                      | No              | ✓            | 22-Aug-02      |              |
| Administrative Appeals Tribunal                    | No              | ✓            | 06-Sep-02      | ◆            |
| Australasian Centre for Policing Research          | No              | ✓            | 23-Sep-02      |              |
| Australian Bureau of Criminal Intelligence         | No              | E            | 10-Oct-02      |              |
| Australian Customs Service                         | Yes             | ✓            | 22-Aug-02      | ◆            |
| Australian Federal Police (AFP)                    | Yes             | ✓            | 03-Sep-02      | ◆            |
| AFP—ACT Community Policing                         | No              | ✓            | 26-Sep-02      |              |
| Australian Government Solicitor                    | No              | ✓            | 11-Sep-02      |              |
| Australian Institute of Criminology                | No              | ✓            | 23-Sep-02      |              |
| Australian Institute of Police Management          | No              | ✓            | 28-Oct-02      |              |
| Australian Law Reform Commission                   | No              | ✓            | 05-Sep-02      |              |
| Australian Security Intelligence Organisation      | No              | ✓            | 30-Sep-02      |              |
| Australian Transaction Reports and Analysis Centre | No              | ✓            | 17-Sep-02      |              |
| Criminology Research Council                       | No              | ✓            | 23-Sep-02      |              |
| CrimTrac   | No              | ✓            | 21-Aug-02      | ◆            |
| Family Court of Australia                          | Yes             | ✓            | 15-Aug-02      |              |
| Federal Court of Australia                         | No              | ✓            | 06-Sep-02      |              |
| Federal Magistrate Service                         | No              | ✓            | 26-Sep-02      |              |
| High Court of Australia                            | Yes             | ✓            | 21-Aug-02      |              |
| Human Rights and Equal Opportunity Commission      | No              | ✓            | 27-Sep-02      |              |
| Insolvency and Trustee Service Australia           | No              | ✓            | 13-Sep-02      |              |
| National Native Title Tribunal                     | No              | ✓            | 11-Oct-02      |              |
| Office of Film and Literature Classification       | No              | ✓            | 05-Sep-02      |              |
| Office of Parliamentary Counsel                    | No              | ✓            | 20-Sep-02      |              |
| Office of the Director of Public Prosecutions      | No              | ✓            | 19-Sep-02      |              |
| Office of the Federal Privacy Commissioner         | No              | ✓            | 27-Sep-02      |              |
| National Crime Authority                           | No              | E            | 11-Sep-02      | ◆            |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time

☞ financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.28 The Attorney-General's portfolio covers a broad range of law and justice matters and services including legal policy and services to the Commonwealth; administrative, constitutional, civil, family, and international law; law reform; bankruptcy estate administration and regulation; Commonwealth courts and tribunals; legal aid; native title; national and international human rights issues; censorship; the provision of protective services to property and individuals; criminal law and law enforcement; national security; and some aspects of customs and border control.

5.29 The structure of agencies within the portfolio is aligned to the Government's overall commitment to a fairer and safer Australian society. The portfolio comprises the Attorney-General's Department and a number of statutory and non-statutory bodies. The Department is the central policy and coordinating agency within the portfolio.

5.30 The following comments relate only to material entities in the portfolio.

## Attorney-General's Department

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 67.33       | 14.38       |
| Capital use charge and dividend paid to government | 4.36        | 2.52        |
| Commonwealth's equity investment                   | 72.24       | 8.43        |
| Ratio of current assets to current liabilities     | 3.04:1      | 2.41:1      |
| Ratio of total assets to total liabilities         | 3.00:1      | 2.14:1      |

5.31 Increases in appropriations as a result of administrative rearrangements, the 11 September 2001 terrorist attacks in the US, deferral of appropriations from 2000–2001, as well as accounting for assets previously unrecognised, contributed to a large increase in revenue in 2001–2002. The net surplus for the year, and the Commonwealth's equity investment, are mainly attributable to departmental and Australian Protective Service appropriations which remained unspent at year end.

## Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 43.89       | 34.76       |
| Total expenses                  | 292.46      | 224.90      |
| Total assets                    | 496.00      | 453.31      |
| Total liabilities               | 298.23      | 271.95      |

5.32 The increase in revenue is mainly due to a \$25 million repayment of working capital by the Australian Government Solicitor, offset by reductions in dividends from the Australian Government Solicitor and competitive neutrality payments made by Australian Protective Service. Expenses have increased mainly as a result of the transfer of Royal Commissions from the Department of Finance and Administration and a general increase in grants expenditure. The increase in assets is principally due to Royal Commissions' assets transferred in, the recognition of the investment in the Australian Government Solicitor as an administered asset for the first time in 2001–2002, and an increase in receivables (recoveries of benefit payments), which is in line with a general increase in the provision for personal benefits (judges pensions) payable. Liabilities have also increased as a result of the transfer of Royal Commissions from the Department of Finance and Administration.

## Audit results

### *Summary of significant agency and administered audit findings*

5.33 The Department is in the process of satisfactorily addressing a number of control issues reported previously in relation to IT security and business resumption planning. There were no significant departmental or administered audit issues arising from the final audit phase.

5.34 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 4                              | 0                                    | 0                         | 4                               |
| <b>Total</b> | <b>4</b>                       | <b>0</b>                             | <b>0</b>                  | <b>4</b>                        |

## Australian Customs Service (ACS)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 23.44       | 9.72        |
| Capital use charge and dividend paid to government | 15.09       | 12.69       |
| Commonwealth's equity investment                   | 32.53       | 23.81       |
| Ratio of current assets to current liabilities     | 2.59:1      | 3.34:1      |
| Ratio of total assets to total liabilities         | 1.93:1      | 1.95:1      |

5.35 The increase in net surplus is attributed to additional appropriation funding for increased quarantine intervention and unauthorised boat arrival initiatives that were not fully utilised in the 2001–2002 financial year. Other results were consistent with those in the previous year.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 4,960.85    | 4,928.18    |
| Total expenses                  | 1.78        | 4.66        |
| Total assets                    | 90.94       | 97.54       |
| Total liabilities               | 26.08       | 18.70       |

5.36 The key measures are consistent with those in the prior year, although it should be noted that total revenues (custom duties) include an amount of \$602 million (2000–2001: \$88 million) in customs duty offsets. These relate to the Automotive Competitiveness and Investment Scheme (ACIS) credits redeemed to 30 June 2002.

### Audit results

#### *Summary of significant agency and administered audit findings*

5.37 As part of the interim audit, the ANAO noted that ACS had not implemented the quality assurance program over audits conducted under the National Compliance Improvement Plan in a number of regions. In addition, there was a need to better manage the debt recovery processes associated with post warrant amendments. ACS has advised that it is reviewing its approach to its quality assurance program and is implementing procedural changes for follow-up of outstanding post warrant amendments.

5.38 In the final phase of the audit, the ANAO noted that there is still scope for improvement in relation to ACS's debt management processes. Clear lines of responsibility for the collection of debts need to be established and action taken to review and follow-up long-term outstanding departmental and administered debts.

5.39 There is a continuing need for ACS to regularly monitor the integrity, accuracy and completeness of its asset register and formalise policy and guidelines associated with the identification and classification of expenditure relating to work-in-progress.

5.40 ACS has initiated remedial action to address the above issues. ACS is also in the process of implementing a financial management improvement program aimed at providing an efficient and effective financial management reporting framework that focuses on decision support and strategic business management that will complement its business processes. These initiatives should aid the financial statement preparation process at year-end.

5.41 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 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>                        |

## Australian Federal Police (AFP)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 21.28       | 13.95       |
| Capital use charge and dividend paid to government | 5.63        | 0           |
| Commonwealth's equity investment                   | 66.45       | 37.13       |
| Ratio of current assets to current liabilities     | 1.91:1      | 1.95:1      |
| Ratio of total assets to total liabilities         | 1.62:1      | 1.39:1      |

5.42 The increased operating surplus for the year is mainly attributed to an increase in appropriations and increased sales of goods and services. The AFP also received a capital injection of \$13.24 million which, together with the operating surplus, largely accounted for the increase in the Commonwealth's equity position. A capital use charge appeared for the first time due to a movement from a negative equity position.

## Audit results

### *Summary of significant agency audit findings*

5.43 There were no internal control issues carried forward from the interim audit. During the final audit phase, the ANAO noted that the AFP had several users with high-level privilege access to its financial management information system, which allowed unrestricted access to all system resources. It was recommended that the AFP ensure that these users are only provided access to those functions required to perform their job and that their activities are periodically reviewed. The AFP has advised of appropriate action taken, or proposed, to address and/or minimise the exposure from these issues.

5.44 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 0                              | 0                                    | 1                         | 1                               |
| <b>Total</b> | <b>0</b>                       | <b>0</b>                             | <b>1</b>                  | <b>1</b>                        |

## Family Court of Australia

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | 3.69        | 5.41        |
| Capital use charge and dividend paid to government | 0           | 0.96        |
| Commonwealth's equity investment                   | 12.76       | 8.40        |
| Ratio of current assets to current liabilities     | 1.35:1      | 3.16:1      |
| Ratio of total assets to total liabilities         | 1.58:1      | 1.44:1      |

5.45 The increase in operating surplus for the year was due mainly to the reversal of prior period asset write-downs of \$3.04 million associated with the revaluation of fixed assets. The increase in the Commonwealth's equity investment is mainly attributable to the asset revaluation and the net surplus for the year.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 0.01        | 0.01        |
| Total expenses                  | 1.00        | 0           |
| Total assets                    | 0.04        | 0.04        |
| Total liabilities               | 0           | 0           |

5.46 The overall results are consistent with the prior year and budget expectations.

### Audit results

#### *Summary of significant agency and administered audit findings*

5.47 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## High Court of Australia

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 15.46       | 15.86       |
| Capital use charge and dividend paid to government | 14.55       | 15.79       |
| Commonwealth's equity investment                   | 156.17      | 155.26      |
| Ratio of current assets to current liabilities     | 3.10:1      | 2.49:1      |
| Ratio of total assets to total liabilities         | 76.24:1     | 94.80:1     |

5.48 The results are consistent with the prior year and budget expectations.



### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 0.78        | 0.72        |
| Total expenses                  | 0           | 0           |
| Total assets                    | 0           | 0           |
| Total liabilities               | 0           | 0           |

5.49 Administered revenues relate mainly to court filing and hearing fees. The revenue is largely dependent on the number of filings during each year.

### Audit results

#### *Summary of significant agency and administered audit findings*

5.50 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no significant issues arising from the final audit phase.

### Comments on non-material entities

5.51 The significant audit issues relating to non-material entities within this portfolio are provided below.

### Administrative Appeals Tribunal

5.52 The major issues noted during the audit related to internal controls over changes to employee master files, processing of payroll, and the time allowed for user account log out time. The Tribunal has indicated that it is in the process of introducing adequate controls in these areas.

### Australian Bureau of Criminal Intelligence

5.53 The unqualified audit report included an emphasis of matter due to the significant uncertainty as to whether the Bureau would continue as a going concern. Refer to Part 3 of this report for details.

### CrimTrac

5.54 CrimTrac developed an initial corporate plan for the 2000–2001 period. This plan identified the need to develop a detailed IT strategic plan and to develop and implement a risk management plan as two of CrimTrac’s critical

service deliverables. During the audit, it was noted that limited work had been conducted in relation to these plans as much of CrimTrac's resources have been focussed on establishing operations and ensuring established services were maintained. CrimTrac management has advised that draft risk management plans have been developed and work has commenced on developing an IT Strategic Plan in conjunction with the various other jurisdictions.

## **National Crime Authority**

**5.55** The unqualified audit report included an emphasis of matter due to the significant uncertainty as to whether the Authority would continue as a going concern. Refer to Part 3 of this report for details.

**5.56** The audit also noted that key reconciliations between the general ledger and subsidiary records had not been performed on a timely and regular basis. Such reconciliations are an important control procedure to ensure information posted from various sources to the general ledger, which forms the basis for the production of the financial statements, is valid, accurate and complete. The NCA has taken remedial action in relation to this matter.

# Communications, Information Technology and the Arts Portfolio

| Reporting Entity as at 30 June 2002                               | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of Communications, Information Technology and the Arts | Yes             | ✓            | 18-Sep-02      | ◆            |
| Australian Business Arts Foundation Ltd                           | No              | ✓            | 02-Oct-02      |              |
| Australia Council   | No              | ✓            | 13-Sep-02      |              |
| Australian Broadcasting Authority                                 | Yes             | ✓            | 27-Aug-02      |              |
| Australian Broadcasting Corporation                               | Yes             | ✓            | 14-Aug-02      |              |
| —Adelaide Symphony Orchestra Pty Ltd<br>☞ (31 December 2001)      | No              | ✓            | 17-Apr-02      |              |
| —Melbourne Symphony Orchestra Pty Ltd<br>☞ (31 December 2001)     | No              | ✓            | 22-Apr-02      |              |
| —Queensland Orchestras Pty Ltd<br>☞ (31 December 2001)            | No              | E            | 26-Apr-02      | ◆            |
| —Sydney Symphony Orchestra Holdings Pty Ltd ☞ (31 December 2001)  | No              | ✓            | 16-Apr-02      |              |
| —Symphony Australia Holdings Pty Ltd<br>☞ (31 December 2001)      | No              | E            | 03-Jun-02      | ◆            |
| —Tasmanian Symphony Orchestra Pty Ltd ☞ (31 December 2001)        | No              | ✓            | 04-Apr-02      |              |
| —West Australian Symphony Orchestra Pty Ltd ☞ (31 December 2001)  | No              | ✓            | 05-Apr-02      |              |
| Australian Communications Authority                               | Yes             | ✓            | 22-Aug-02      |              |
| Australian Film Commission  | No              | ✓            | 05-Sep-02      |              |
| Australian Film, Television and Radio School                      | No              | ✓            | 13-Sep-02      |              |
| Australian National Maritime Museum                               | No              | ✓            | 06-Sep-02      |              |
| Australian Postal Corporation                                     | Yes             | ✓            | 22-Aug-02      |              |
| Australian Sports Commission                                      | Yes             | ✓            | 17-Sep-02      | ◆            |
| Australian Sports Drug Agency                                     | No              | ✓            | 24-Sep-02      |              |
| Australian Sports Foundation                                      | No              | ✓            | 17-Sep-02      |              |
| Bundanon Trust  | No              | ✓            | 20-Sep-02      | ◆            |
| Film Australia Limited  | No              | ✓            | 02-Oct-02      | ◆            |

|   |     |   |           |   |
|---|-----|---|-----------|---|
| Film Finance Corporation Australia Limited      | No  | ✓ | 16-Sep-02 |   |
| National Archives of Australia                  | Yes | ✓ | 26-Aug-02 |   |
| National Gallery of Australia                   | Yes | ✓ | 28-Aug-02 |   |
| —National Gallery of Australia Foundation       | No  | Q | 09-Sep-02 | ◆ |
| National Library of Australia                   | Yes | ✓ | 21-Aug-02 |   |
| National Museum of Australia                    | Yes | ✓ | 22-Aug-02 |   |
| National Office of the Information Economy      | No  | ✓ | 18-Sep-02 | ◆ |
| NetAlert Ltd                                    | No  | ✓ | 20-Sep-02 |   |
| Regional Telecommunications Infrastructure Fund | No  | ✓ | 18-Sep-02 |   |
| Special Broadcasting Service Corporation        | Yes | ✓ | 28-Aug-02 |   |
| —Multilingual Subscriber Television Limited     | No  | ✓ | 28-Aug-02 |   |
| Telstra Corporation Limited                     | Yes | ✓ | 28-Aug-02 |   |
| —Telstra Employee Ownership Plan Trust          | No  | ✓ | 26-Jul-02 |   |
| —Telstra Employee Ownership Plan Trust II       | No  | ✓ | 26-Jul-02 |   |
| —Telstra Finance Limited                        | No  | ✓ | 26-Sep-02 |   |
| —Telstra Growthshare Trust                      | No  | ✓ | 26-Sep-02 |   |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time

Ⓜ financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.57 The Communications, Information Technology and the Arts portfolio covers many agencies with responsibility for supporting and implementing related government policies. These agencies play a vital role in assisting the development of communications, the arts and sport in Australia, ranging from operating national cultural institutions, delivering grants and other support, ensuring an integrated approach to delivery of online policy, to overseeing regulations and developing industry codes of practice, as well as advising government.

5.58 The following comments relate only to material entities in the portfolio.

## Department of Communications, Information Technology, and the Arts (DCITA)

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 1.12        | 718.19      |
| Capital use charge and dividend paid to government | 24.35       | 24.59       |
| Commonwealth's equity investment                   | 314.25      | 257.37      |
| Ratio of current assets to current liabilities     | 2.17:1      | 1.60:1      |
| Ratio of total assets to total liabilities         | 12.64:1     | 9.11:1      |

**5.59** The reason for the significant reduction in the surplus, when compared to that in the previous year, related to the recognition of the heritage asset collection in 2000–2001, totalling \$700 million, which was subsequently transferred to the National Archives of Australia through equity.

**5.60** The low operating surplus relative to the capital use charge paid was the result of a write-down of infrastructure plant and equipment assets by \$37 million, mainly in ScreenSound Australia. Other issues of significance include:

- the transfer of the National Office of the Information Economy from DCITA to a prescribed agency. This reduced revenue and expenses by \$29 million;
- the transfer of Information Access to DCITA on 26 November 2001. This increased revenue by \$11 million; and
- an asset revaluation increment of \$67.8 million, mainly relating to revaluation adjustments made by the Department's operational groups Screensound Australia, Questacon and Artbank.

#### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 1,193.6     | 1,526.59    |
| Total expenses                      | 526.68      | 613.53      |
| Total assets                        | 7,080.35    | 6,870.79    |
| Total liabilities                   | 7.79        | 10.68       |

**5.61** Major revenue variations over the two years included:

- Telstra and Australia Post dividend revenue increased by a total of \$464 million due to increased dividends being paid to shareholders; and
- the Universal Service Obligation (USO) decreased by \$49.3 million. (The USO are legal requirements placed on universal service providers to ensure that standard telephone services and payphones are reasonably accessible to all people in Australia on an equitable basis whether they reside or carry on business.)

**5.62** Major expense variations included:

- a decrease in Federation Fund grants by \$27.6 million and Universal Service Obligation payments by \$49.3 million; and
- an increase in Building IT Strengths grants from \$6 million to \$64.6 million, and an increase in Untimed Local Calls payments from \$15 million to \$80 million.

**5.63** The higher level of total assets mainly reflected an increase in the holding of investments in portfolio agencies of \$134.9 million, special account investments for the Untimed Local Calls fund of \$56.1 million, and a revaluation totalling \$18 million, as well as additions, to the National Institute of Drama and Arts Building.

## **Audit results**

### *Summary of significant agency and administered audit findings*

**5.64** The Department consists of the divisions and organisational groups which include Qwestacon, ScreenSound Australia, Old Parliament House and Artbank. As part of the interim audit, the ANAO noted that the Core Department needed to strengthen internal controls relating to:

- payroll and bank reconciliations (Core Department and ScreenSound);
- management of special accounts (Core Department);
- asset management (ScreenSound and Qwestacon);
- accounting for employee entitlements (ScreenSound);
- security over payment processing (ScreenSound);
- IT business processes (Core Department and Qwestacon);
- IT security (Core Department); and
- business resumption planning (Core Department, ScreenSound and Qwestacon).

**5.65** The final phase of the financial statement audit confirmed that the Department has commenced addressing the issues raised.

**5.66** A number of additional audit issues were noted during the final audit relating to the need for the Department:

- to develop a formal policy on departmental wide capitalisation of exhibition costs to ensure compliance with accounting standards and uniformity in practice across the Department. This issue is being considered by internal audit;
- to identify an independent officer to review a number of key reconciliations that are undertaken each month to reduce the possibility of exposure to errors or fraud. This has subsequently been implemented;
- consider undertaking a formal risk assessment relating to any future foreign exchange transactions where the Department is carrying the foreign exchange risk. The Department has agreed to undertake this initiative;
- to modify end of month procedures to include regular reconciliation of various balance sheet and financial performance accounts to ensure the prompt identification and resolution of issues. This has subsequently been implemented; and
- to hold investments for the Un-timed Local Calls Special Account in the name of the 'Minister for Finance of the Commonwealth' as required by the delegation from the Minister for Finance and Administration. Action has been taken to correct this.

**5.67** The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| <b>Ratings</b> | <b>Opening position at March 2002</b> | <b>Issues resolved prior to August 2002</b> | <b>New issues to August 2002</b> | <b>Closing position at August 2002</b> |
|----------------|---------------------------------------|---|----------------------------------|--|
| <b>A</b>       | 0                                     | 0   | 0                                | 0                                      |
| <b>B</b>       | 8                                     | 0   | 5                                | 13                                     |
| <b>Total</b>   | <b>8</b>                              | <b>0</b>                                    | <b>5</b>                         | <b>13</b>                              |

# Australian Broadcasting Authority (ABA)

## Financial results

### Summary of agency results

| Key financial measures for the year              | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                         | 0.14        | 1.24        |
| Capital use charge / dividend paid to government | 0.02        | 0           |
| Commonwealth's equity investment                 | 1.05        | 0.93        |
| Ratio of current assets to current liabilities   | 0.91:1      | 1.87:1      |
| Ratio of total assets to total liabilities       | 1.23:1      | 1.28:1      |

5.68 At the end of the financial year, current liabilities exceeded current assets indicating a tight liquidity position. The tight liquidity position was caused by the following factors:

- an increase in lease liabilities used to finance the purchase of fixed assets;
- an increase in unearned revenue for the Black Spots programme; and
- a decrease in the cash balance because of increased cash outflows for employee expenses and purchases of fixed assets.

### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 336.13      | 445.45      |
| Total expenses                      | 0           | 0           |
| Total assets                        | 225.87      | 214.97      |
| Total liabilities                   | 0           | 6.70        |

5.69 Total administered revenue was down, compared to that of the prior year, due to the sale of commercial broadcasting licences through the auction program nearing completion.

## Audit results

### *Summary of significant agency and administered audit findings*

5.70 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.



## Australian Broadcasting Corporation (ABC)

### Audit results

#### *Summary of significant agency audit findings*

5.71 The financial statement audit of the Australian Broadcasting Corporation was completed with an unqualified audit opinion being issued and no significant issues arising from the audit.

## Australian Communications Authority (ACA)

### Financial results

#### *Summary of agency results*

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 2.43        | 11.55       |
| Capital use charge and dividend paid to government | 1.85        | 3.01        |
| Commonwealth's equity investment                   | 19.17       | 26.60       |
| Ratio of current assets to current liabilities     | 2.04:1      | 2.40:1      |
| Ratio of total assets to total liabilities         | 2.93:1      | 2.88:1      |

5.72 The reduced net surplus for 2002 is primarily attributable to a \$9.8 million decrease in interest revenue as a result of reduced amounts of operating cash at bank and deposits held for spectrum auctions.

5.73 The reduction in the level of the Commonwealth's investment was largely the result of an adjustment to the opening balance to reflect the Authority changing its accounting policy and accounting for its IT leases as finance leases in 2001–2002.

#### **Items administered on behalf of the Commonwealth**

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 210.28      | 1,566.13    |
| Total expenses                      | 0.61        | 1.68        |
| Total assets                        | 28.33       | 61.56       |
| Total liabilities                   | 1.52        | 1.06        |

5.74 Revenues administered on behalf of government decreased primarily due to the sale of Spectrum Access Rights totalling \$1,363.1 million which occurred in the previous year only. The decrease in expenses administered on behalf of government relates to the write-off of licence and numbering fees in 2000–2001.

5.75 Administered receivables decreased, primarily due to licence fees outstanding for 2000–2001 being paid in 2001–2002, offset by an increase in the provision for doubtful debts.

### *Changes in accounting policy*

5.76 The accounting policies used in the preparation of these financial statements were consistent with those used in 2000–2001, except in relation to the classification of IT outsourcing leases, which were previously recorded as operating leases and are now recorded as finance leases.

## **Audit results**

### *Summary of significant agency audit findings*

5.77 As part of the interim audit, the ANAO commented on the need for ACA to review and correct employee leave balances in its human resources management system, following the data transfer from the previous system. The final phase of the financial statement audit has confirmed that the Authority has satisfactorily rectified all outstanding issues from the interim phase of the audit.

5.78 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| <b>Ratings</b> | <b>Opening position at March 2002</b> | <b>Issues resolved prior to August 2002</b> | <b>New issues to August 2002</b> | <b>Closing position at August 2002</b> |
|----------------|---------------------------------------|---|----------------------------------|--|
| <b>A</b>       | 0                                     | 0   | 0                                | 0                                      |
| <b>B</b>       | 1                                     | 1   | 0                                | 0                                      |
| <b>Total</b>   | 1                                     | 1   | 0                                | 0                                      |

## **Australian Postal Corporation**

## **Audit results**

### *Summary of significant agency audit findings*

5.79 The financial statement audit of the Australian Postal Corporation was completed with an unqualified audit opinion being issued and no significant issues arising from the audit.

## Other matters

5.80 Pursuant to the *Australian Postal Corporation (Performance Standards) Regulations 1998*, the Corporation is required to meet a range of measures as part of its Community Service Obligations. In accordance with section 28D of the *Australian Postal Corporation Act 1989*, as amended, the Auditor-General is required to audit the Corporation's compliance with the performance standards.

5.81 The compliance audit has been completed, with an unqualified audit opinion issued on 22 August 2002. That report, as with the report on the financial statements, is published in the Corporation's Annual Report.

## Australian Sports Commission (ASC)

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 18.04       | 11.77       |
| Capital use charge and dividend paid to government | 12.34       | 12.74       |
| Commonwealth's equity investment                   | 130.58      | 107.50      |
| Ratio of current assets to current liabilities     | 1.74:1      | 1.28:1      |
| Ratio of total assets to total liabilities         | 7.87:1      | 7.84:1      |

5.82 The ASC budgeted for a surplus sufficient to meet its capital use charge of \$12.34 million. However, delays in the implementation of its Targeted Grants Program, and higher revenue from the sale of goods and services than budgeted, resulted in the surplus being \$5.7 million higher than anticipated. The increase in the Commonwealth's equity position was substantially the result of an asset revaluation increment of \$18 million.

### Audit results

#### *Summary of significant agency audit findings*

5.83 No issues were carried forward from the interim phase of the audit. The final audit phase noted that payroll controls should be strengthened by management review of salary reports, staff independent of the payroll process being responsible for the transfer of EFT salary information to the bank and the completion of a monthly reconciliation of the human resource information system to the financial management information system.

5.84 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 0                              | 0                                    | 1                         | 1                               |
| <b>Total</b> | <b>0</b>                       | <b>0</b>                             | <b>1</b>                  | <b>1</b>                        |

## National Archives of Australia (NAA)

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | 76.99       | (5.68)      |
| Capital use charge and dividend paid to government | 84.02       | 8.24        |
| Commonwealth's equity investment                   | 745.88      | 751.98      |
| Ratio of current assets to current liabilities     | 5.13:1      | 3.13:1      |
| Ratio of total assets to total liabilities         | 71.98:1     | 99.13:1     |

5.85 The NAA's revenues and operating expenses were consistent with those in the prior year, with the exception that additional funding was received from government to cover the capital use charge of \$84.02 million. As well, additional expenses of \$8.18 million were incurred on the write down of assets. The strong ratio of current assets to current liabilities is the result of depreciation funding being retained until asset replacement is necessary.

### Audit results

#### *Summary of significant agency audit findings*

5.86 As part of the interim audit, the ANAO noted that NAA needed to strengthen internal controls relating to:

- the approval of asset disposals;
- the timeliness of appropriation, salary, bank and asset reconciliations; and
- the management of overdue receivables.

5.87 The final phase of the financial statement audit confirmed that management has addressed the first issue and much of the second issue. The continuing matters relate to the management of overdue receivables and the timeliness of reconciliations. Work in these areas is progressing. These matters will be subject to a follow-up review as part of the 2002-2003 financial statement audit.

5.88 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 3                              | 1                                    | 0                         | 2                               |
| <b>Total</b> | <b>3</b>                       | <b>1</b>                             | <b>0</b>                  | <b>2</b>                        |

## National Gallery of Australia (NGA)

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 129.19      | 164.67      |
| Capital use charge and dividend paid to government | 127.83      | 139.05      |
| Commonwealth's equity investment                   | 1,709.21    | 1,702.60    |
| Ratio of current assets to current liabilities     | 1.68:1      | 2.40:1      |
| Ratio of total assets to total liabilities         | 84.19:1     | 87.15:1     |

5.89 The NGA's surplus for the year mainly represents funding received for the capital use charge. Its operating result was consistent with budget expectations.

## Audit results

### *Summary of significant agency audit findings*

5.90 As part of the interim audit ANAO commented on two internal control issues relating to:

- inadequate reconciliation process; and
- the management of employee information.

5.91 The final phase of the financial statement audit confirmed that the NGA has satisfactorily addressed the reconciliation process issue. The issue relating to the management of employee information has since been addressed and will be the subject of a follow-up review during the 2002-2003 financial statement audit.

5.92 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|---------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A       | 0                              | 0                                    | 0                         | 0                               |
| B       | 2                              | 1                                    | 0                         | 1                               |
| Total   | 2                              | 1                                    | 0                         | 1                               |

## National Library of Australia (NLA)

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 163.87      | 224.34      |
| Capital use charge and dividend paid to government | 162.57      | 177.33      |
| Commonwealth's equity investment                   | 1,669.72    | 1,665.30    |
| Ratio of current assets to current liabilities     | 2.42:1      | 1.96:1      |
| Ratio of total assets to total liabilities         | 141.75:1    | 133.18:1    |

5.93 The NLA's operating surplus decreased primarily due to:

- revenue of \$45.5 million relating to collection material being valued for the first time in 2000–2001;
- interest revenue declining by \$5 million as the draw down of appropriations for capital use charge were delayed in 2001–2002;

- an increase in depreciation expenses of \$3.26 million associated with the revaluation of the National Collection; and
- additional expenditure of \$1.85 million associated with the Treasures Exhibition.

## Audit results

### *Summary of significant agency audit findings*

5.94 There were no significant audit issues carried forward from the interim audit. As well, there were no significant issues arising from the final.

## National Museum of Australia (NMA)

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 25.59       | 140.22      |
| Capital use charge and dividend paid to government | 29.33       | 15.42       |
| Commonwealth's equity investment                   | 256.61      | 259.17      |
| Ratio of current assets to current liabilities     | 4.38:1      | 4.46:1      |
| Ratio of total assets to total liabilities         | 54.89:1     | 61.85:1     |

5.95 The NMA is in a sound financial position after its first full year of operation, although the surplus achieved for the year was below its capital use charge. Additional revenues were received from government to accommodate an increased capital use charge and a full year's depreciation and supplier expenses. The primary reason for the reduction in the operating surplus, compared to that of the previous year, was the initial recognition of land, buildings and fit out as revenue in that previous year.

## Audit results

### *Summary of significant agency audit findings*

5.96 As part of the final audit phase, the ANAO noted that the NMA has not yet developed a fraud control plan. The NMA has undertaken to address this as a priority.

5.97 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 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>                        |

## Special Broadcasting Service Corporation (SBS)

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 9.22        | 11.85       |
| Capital use charge and dividend paid to government | 9.95        | 9.37        |
| Commonwealth's equity investment                   | 92.42       | 85.15       |
| Ratio of current assets to current liabilities     | 1.39:1      | 1.04:1      |
| Ratio of total assets to total liabilities         | 1.96:1      | 1.81:1      |

5.98 The reduced operating result for 2002 reflects a reduction in analogue transmission revenues of \$16.2 million and a corresponding reduction in analogue transmission expenses of \$10.6 million.

5.99 The increase in the Commonwealth's equity investment was substantially the result of a capital injection of \$8 million.

#### *Changes in accounting policy*

5.100 The accounting policies used in the preparation of these financial statements were consistent with those used in 2000–2001, except in relation to a change in the method of estimating the amortisation of commissioned programs resulting in a reported variance of \$4.601 million. This change was required as a result of changes to the Finance Minister's Orders.

### Audit results

#### *Summary of significant agency audit findings*

5.101 There were no significant audit issues carried forward from the interim audit. As well, and there were no significant issues arising from the final audit.



## Telstra Corporation Limited (Telstra)

### Audit results

#### *Summary of significant audit issues*

5.102 The financial statement audit of Telstra Corporation was completed with an unqualified audit opinion being issued on 28 August 2002.

### Comments on non-material entities

5.103 The significant audit issues relating to non-material entities within this portfolio are provided below.

## Symphony Australia Holdings Pty Ltd

5.104 The unqualified audit report included an emphasis of matter due to the significant uncertainty surrounding the ability of Symphony Australia Holdings Pty Limited to continue as a going concern. Refer to Part 3 of this report for details.

## Queensland Orchestras Pty Ltd

5.105 The unqualified audit report included an emphasis of matter due to the significant uncertainty surrounding the ability of Queensland Orchestras Pty Limited to continue as a going concern. Refer to Part 3 of this report for details.

## Bundanon Trust

5.106 While the report is unmodified, the ANAO notes that the Trust has incurred an operating deficit for the second year. As well, the 2002-2003 draft budget foreshadows a further deficit unless additional revenue or cost reductions can be achieved. Although Ministerial approval has been obtained for further use of investment funds to cover operating deficits, the continued depletion of investment funds will only be a short term solution. The ANAO notes that the Board is seeking ways to turn around the operating deficit into an operating surplus.

## National Gallery of Australia Foundation

5.107 The audit report contained a qualification due to the Foundation's inability to insure the completeness of its donation revenue. Refer to Part 3 of this report for details.

## Film Australia Limited

**5.108** A number of ongoing issues were raised in relation to the integrity and completeness of the fixed asset register. Film Australia has advised that a new asset register will be implemented in the next financial year which should resolve those issues.

**5.109** Film Australia continue to include unclaimed monies and funds held in trust for Federal Government Departments in Prepaid Sales and other Advance Accounts. Film Australia have advised that they are undertaking appropriate action to obtain instructions from the relevant external parties to clear these accounts.

**5.110** There was an absence of direct accountability for Film Australia's bank reconciliation. The 30 June 2002 bank reconciliations contained inappropriate reconciling items, many relating to prior accounting periods.

## Defence Portfolio

| Reporting Entity as at 30 June 2002                        | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|--|-----------------|--------------|----------------|--------------|
| Department of Defence                                      | Yes             | Q            | 25-Oct-02      | ◆            |
| Department of Veteran's Affairs                            | Yes             | ✓            | 26-Aug-02      |              |
| Army and Air Force Canteen Service                         | No              | ✓            | 23-Sep-02      |              |
| Australian Military Forces Relief Trust Fund               | No              | ✓            | 10-Sep-02      |              |
| Australian Strategic Policy Institute Ltd.                 | No              | ✓            | 19-Sep-02      |              |
| Australian War Memorial                                    | Yes             | ✓            | 15-Aug-02      |              |
| Defence Housing Authority - DHA                            | Yes             | ✓            | 09-Sep-02      |              |
| DHA—Wattle Grove Development Joint Venture                 | No              | ✓            | 01-Oct-02      |              |
| Defence Services Home Insurance Scheme                     | No              | ✓            | 26-Aug-02      |              |
| Military Superannuation and Benefits Board of Trustees     | No              | ✓            | 18-Sep-02      |              |
| Royal Australian Air Force Veteran's Residences Trust Fund | No              | ✓            | 06-Sep-02      |              |
| Royal Australian Air Force Welfare Trust Fund No.3         | No              | ✓            | 21-Aug-02      |              |
| Royal Australian Navy Relief Trust Fund                    | No              | ✓            | 16-Sep-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

⇒ signed financial statements not presented for audit at this time

☞ financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

### Portfolio overview

5.111 The Department of Defence's main aim is the defence of Australia and its national interests. It has the following five strategic objectives:

- ensuring the defence of Australia;
- fostering stability, integrity and cohesion in our immediate neighbourhood;
- working with nations in Southeast Asia to maintain stability and cooperation;
- supporting strategic stability in the wider Asia Pacific Region; and
- supporting the efforts of the international community in upholding global security.

5.112 The portfolio has responsibility for developing, implementing and administering policies, programs and services designed to promote the achievements of these aims.

5.113 Also under the defence portfolio is the Department of Veterans' Affairs which delivers its responsibilities by making pension, allowances and other benefit payments to veterans and other entitled persons. That 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.

5.114 The following comments relate only to material entities in the portfolio.

## Department of Defence

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 4,410.02    | 6,398.62    |
| Capital use charge and dividend paid to government | 4,642.45    | 4,982.39    |
| Commonwealth's equity investment                   | 45,589.45   | 44,270.05   |
| Ratio of current assets to current liabilities     | 1.04:1      | 0.78:1      |
| Ratio of total assets to total liabilities         | 11.45:1     | 12.19:1     |

5.115 Defence recorded a smaller operating surplus in 2001–2002, compared to that of the prior year. Principal factors associated with the result are attributed to an increase in employee expenses and suppliers expenses of \$1,103.44 million. The fall in the capital usage charge was a result of a fall of one percentage point in the applicable rate. The increase in net assets (equity investment) of \$1,319.39 million reduced the impact of the fall.

5.116 All of the operating surplus was returned to the Government through a capital use charge of \$4,633.85 million.

5.117 In addition, \$986.85 million was added to the Statement of Financial Position mainly as a result of a revaluation process of Land and Building and Other Infrastructure, Plant and Equipment.

5.118 Payments for the purchase of Specialist Military Equipment of \$2,597.85 million were \$381.56 million less than the budget estimate as a result of delays in the approval of some projects.

**5.119** The Department is in a reasonable liquidity position with an improvement in the current assets position relative to current liabilities.

| <b>Defence Specific Measures</b>          | <b>2002<br/>\$m</b> | <b>2001<br/>\$m</b> |
|---|---------------------|---------------------|
| Land and Buildings                        | 8,725.10            | 8,163.86            |
| SME                                       | 30,656.89           | 30,995.17           |
| Employee provisions                       | 2,954.60            | 2,732.91            |
| Employee expenses                         | 5,744.93            | 5,386.87            |
| Employee numbers (average excl. reserves) | 67,751              | 66,647              |

**5.120** Defence controls \$49 953.12 million of assets comprising 74 per cent of the General Government sector non-financial assets. The main elements were Specialist Military Equipment of \$30 656.89 million and Land and Buildings of \$8725.10 million.

**5.121** The 2001–2002 financial year saw the continuation of a number of asset accounting issues that needed to be resolved. A significant substantiation exercise was undertaken which resulted in a number of asset-related adjustments, including \$1573.64 million of asset write downs and \$694.05 million of assets now recognised.

**5.122** The Department of Defence is the largest employer in the Commonwealth incurring employee expenses of \$5744.93 million in fiscal 2002. This was an increase of \$358.06 million over that in the prior period due to a 1.7 per cent increase in overall staff numbers and a 3.8 per cent increase in Defence Force salaries. Civilian employee numbers increased 3.2 per cent and military employee numbers by 1.1 per cent during the year.

**5.123** Expenditure on civilian employees continued to trend upwards compared with that of recent years, due to civilianisation of military positions in support functions as well as expanded intelligence, science and technology and project activities. The estimate for future military compensation payments also rose by \$146.40 million.

**5.124** In line with Government policy, Defence sought opportunities to involve public finance in the acquisition of Specialist Military Equipment and to enter into sale and leaseback arrangements for selected Land and Buildings. During fiscal 2002, Land and Buildings valued at more than \$90 million were sold and the use retained under operating lease arrangements. This meant that the associated assets moved off Defence and Commonwealth financial statements.

## Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 850.25      | 710.77      |
| Total expenses                      | 2,289.64    | 2,685.92    |
| Total assets                        | 1,520.24    | 1,727.05    |
| Total liabilities                   | 26,900.00   | 26,028.04   |

5.125 New public sector reporting requirements during the year mandated the reporting of administered items separately in the notes to the financial statements.

5.126 Administered revenues rose by \$140 million due mainly to an increased dividend from the Defence Housing Authority and increased military superannuation contributions.

5.127 Administered expense and liability movements primarily relate to movements in the actuarial assessments of the military superannuation fund.

### *Change in accounting policies*

5.128 Changes in the valuation policy of Specialist Military Equipment became effective in the reporting period of 2001–2002. This was the result of changes to the Finance Minister's Orders which required the Department to value these assets at 'deemed cost' rather than at their 'deprival value'. Under the changes, the Department no longer revalues its military assets.

5.129 In addition, changes were also made to the valuation methodology for inventory. In fiscal 2002, Defence moved from an average cost, replacement cost or at last purchase price approach to a weighted average cost methodology.

5.130 There were no other significant changes in accounting policies.

## **Audit results**

### *Summary of significant agency audit findings*

#### *Asset Movements*

5.131 Defence holds \$48,597.67 million of non-financial assets. A certain level of asset volatility would not be unexpected in an organisation holding this amount of assets. Notwithstanding the above, the on-going pattern of large asset adjustments processed each year by the Department continues to be a matter that needs to be addressed.

**5.132** For context within the financial statements, reference is made to the \$1,573.64 million of asset write-downs and \$694.05 million of assets now recognised in fiscal 2002. Of these amounts, more than \$482 million of the asset write-offs and \$243 million of the assets now recognised were described as being system generated by the Standard Defence Supply System (SDSS).

#### *Inventory Prices*

**5.133** The results of an ANAO statistical test of Explosive Ordnance prices on the COMSARM asset recording system indicated significant problems with the retention/availability of records needed to support the monetary balance, as well as business process deficiencies. Prices of Explosive Ordnance were changed at operational level without documenting and retaining the rationale. In addition, in cases where Explosive Ordnance was purchased under contract with escalation clauses, the system did not record the accurate Explosive Ordnance value.

**5.134** General inventory prices continued having shortcomings exacerbated by gaps in the execution of detective controls in fiscal 2002 designed to resolve the larger errors. The SDSS system did not have adequate protection over data quality.

#### *Position Holdings—Inventory and Repairable Items*

**5.135** The SDSS system records in the order of \$554 million of Repairable Items at 'positions' outside warehouses. The Departmental processes designed to give assurance over this component of Specialist Military Equipment were not robust, revealing significant shortcomings in relation to system controls. In essence, Defence and the ANAO were unable to gain sufficient confidence over the existence of all the assets recorded by SDSS in position holdings. Notwithstanding this result, all Group Heads with responsibility in this area signed off that the processes were robust. This is a matter that needs to be reviewed by the Department.

#### *Unrecorded Assets—Specialist Military Equipment*

**5.136** Defence's internal audit, the Management Audit Branch (MAB), reported that Defence could not be confident that more than 2,500 assets were recorded on the ROMAN general ledger. The Department advised that \$187 million had been assessed as having a 50 per cent chance of not being recorded and that the total unrecorded assets could be as high as \$255 million. Since these assets are managed on the SDSS, there is no apparent compromise of operational activity.

### *Cross Reference Register Accounts*

**5.137** The Cross Reference Register account structure is designed to ensure that repairable item balances are correct in the corporate system. As at 30 June 2002, the positive Cross Reference Register balances totalled \$110.15 million, while the negative balances totalled \$186.48 million. These accounts are an important balancing process to correctly align the logistic system with the general ledger.

**5.138** In response to audit commentary in fiscal 2001, the Department undertook a project to validate the 'corrupt' Cross Reference Register account balances. The MAB review of the Cross Reference Register accounts identified an ongoing issue with the accuracy of these accounts. The ANAO concurs with the conclusions reached by MAB.

### *Asset Purchase Accounts*

**5.139** Defence processes asset purchases through structured dedicated accounts. Balances, totalling more than \$100 million, in these asset purchase accounts at year-end were unable to be clearly distinguished between assets that need to be recorded and purchases that should be expensed.

**5.140** The asset purchase accounts and the Cross Reference Register accounts are crucial business support processes that need to work as designed. Both of these accounts are integral to the asset records of Defence and remain issues to be addressed.

### *Assets Under Construction Accounting*

**5.141** A large-scale review initiated by Defence of Assets Under Construction projects during the year resulted in more than \$900 million in write-offs. These write-offs occurred in areas of long held concern by Defence and the ANAO but at a scale unanticipated.

### *Accounts Receivable*

**5.142** Defence does not have in place adequate processes to manage effectively the collection of money owed to the Department. As at 30 June 2002, invoiced debt totalled \$85.16 million. Of this amount, 54 per cent was overdue including 21 per cent greater than three months overdue. The majority of this overdue debt relates to overseas debtors of \$34.07 million with a further \$4.07 million apparently overdue from Defence employees.

**5.143** In addition, a Defence internal audit review of the recovery of monies from foreign forces concluded that proper management and administrative procedures are not in place to support the recovery process with the result that Defence has been exposed to recurring losses in revenue over recent years.



### *Financial Statement Management*

**5.144** The production of reliable financial statements is fundamentally a by-product of reliable financial systems used for considered financial management of resources. In Defence, the completion of financial statements four months after year-end, amongst other things, indicates that the production of accurate Defence wide financial reports supported by robust evidentiary standards does not occur on a regular basis. Defence remains in an on-going cycle of finishing remediation processes to coincide with 30 June reporting requirements.

**5.145** Due to the scale of problems in Defence financial systems and processes, an inordinate amount of resources are applied to the assessment, correction and substantiation of financial data. The over-run, or non-completion, of these processes inevitably causes a delay in the financial statement completion. To the extent possible, Defence will need to bring forward remediation processes that support the completion of the financial statements to allow time for considered assessment before the Government reporting deadline.

**5.146** The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2002.

| <b>Ratings</b> | <b>Opening position at March 2002</b> | <b>Issues resolved prior to August 2002</b> | <b>New issues to August 2002</b> | <b>Closing position at August 2002</b> |
|----------------|---------------------------------------|---|----------------------------------|--|
| <b>A</b>       | 13                                    | 10  | 5                                | 8                                      |
| <b>B</b>       | 32                                    | 23  | 18                               | 27                                     |
| <b>Total</b>   | 45                                    | 33  | 23                               | 35                                     |

**5.147** The Department of Defence is making progress on resolving some of the outstanding audit findings. Until Defence IT systems and supporting business processes, especially in relation to the logistics systems, are substantially improved, the relatively large number of audit findings and the qualified audit opinion are likely to remain.

### *Summary of significant administered audit findings*

**5.148** There were no significant administered audit issues arising from the final audit phase.

## Department of Veterans' Affairs

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 21.24       | 65.48       |
| Capital use charge and dividend paid to government | 5.09        | N/A         |
| Commonwealth's equity investment                   | 84.67       | 57.16       |
| Ratio of current assets to current liabilities     | 1.74:1      | 1.44:1      |
| Ratio of total assets to total liabilities         | 1.99:1      | 1.63:1      |

5.149 The agency's financial result in 2001–2002 has decreased significantly from 2000–2001 due to the one-off effect of the amalgamation of Defence Service Homes Insurance Scheme (DSHIS) into DVA's statements last year. The recognition of DSHIS' net assets in DVA's 2000–2001 departmental accounts, resulted in a \$34 million increase in revenue. The Government's equity position improved in 2001–2002 mainly due to the capitalisation of internally developed software. A revised methodology for costing internally developed software was implemented in 2000–2001 in line with the Finance Minister's Orders. The agency's expenses increased in 2001–2002 to meet business requirements but the agency delivered an overall operating surplus of \$21.2 million.

#### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 2.26        | 2.35        |
| Total expenses                      | 8,674.11    | 8,271.12    |
| Total assets                        | 84.65       | 113.33      |
| Total liabilities                   | 352.71      | 287.16      |

5.150 The increase in administered expenses is consistent with the increase in the liabilities. Personal benefits expense increased due to increases in pension rates during the year and expansion of eligibility for health care to recipients. Other factors that contributed were budget measures including the restoration of the war widows pension to widows who lost the pension on remarriage and one off payments to payments to former Prisoners of War.

## Audit results

### *Summary of significant agency and administered audit findings*

5.151 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Australian War Memorial

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 64.79       | 35.58       |
| Capital use charge and dividend paid to government | 62.81       | 73.68       |
| Commonwealth's equity investment                   | 574.73      | 571.56      |
| Ratio of current assets to current liabilities     | 5.75:1      | 5.57:1      |
| Ratio of total assets to total liabilities         | 95.77:1     | 99.58:1     |

5.152 The War Memorial's cash position has strengthened by \$3.1 million in 2002 as a result of some depreciation funding and revenue from other sources being accumulated for future planned major exhibition and building redevelopment projects. The results of the War Memorial are also positively affected by its policy regarding capitalisation of costs directly attributable to preservation or conservation projects which directly enhance the value of the Collection.

## Audit results

### *Summary of significant agency audit findings*

5.153 There were no significant agency audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Defence Housing Authority (DHA)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$ m | 2001<br>\$ m |
|--|--------------|--------------|
| Net surplus for the year                           | 91.98        | 122.46       |
| Capital use charge and dividend paid to government | 232.53       | 88.64        |
| Commonwealth's equity investment                   | 1,566.26     | 1,682.84     |
| Ratio of current assets to current liabilities     | 2.6:1        | 1.8:1        |
| Ratio of total assets to total liabilities         | 7.1:1        | 11.4:1       |

5.154 The operating profit for the year is largely in accordance with budget although down on the prior year. While profits on the sale of non-current assets was higher than anticipated, this was offset by a decrease in demand for rental houses, reduced ownership in property as the Authority continues to sell property on leaseback arrangements to private investors, higher than planned operating expenses, and the costs associated with the take up of the relocation function.

5.155 Changes in the Authority's financial position and the Commonwealth's equity investment are mainly attributable to the strength of the property market, the payment of special dividends to Government, the return of property to the Department of Defence for transfer to the Sydney Harbour Federation Trust and new borrowings.

### Audit results

#### *Summary of significant agency audit findings*

5.156 There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit phase.

### Comments on non-material entities

5.157 There were no significant audit issues impacting on non-material entities.

# Education, Science and Training Portfolio

| Reporting Entity as at 30 June 2002                          | Material entity | Audit report | Opinion issued | Audit Issues |
|--|-----------------|--------------|----------------|--------------|
| Department of Education, Science and Training                | Yes             | ✓            | 19-Sep-02      | ◆            |
| Australian Institute of Marine Science                       | No              | ✓            | 13-Sep-02      |              |
| Australian National Training Authority                       | Yes             | ✓            | 21-Aug-02      |              |
| Australian Nuclear Science and Technology Organisation       | Yes             | ✓            | 26-Aug-02      | ◆            |
| Australian Research Council                                  | Yes             | ✓            | 12-Sep-02      |              |
| Commonwealth Scientific and Industrial Research Organisation | Yes             | ✓            | 23-Sep-02      |              |
| Australian National University<br>E (31-Dec-01)              | No              | ✓            | 08-Apr-02      |              |
| ANUTECH Pty Ltd E (31-Dec-01)                                | No              | ✓            | 28-Feb-02      |              |
| Anglo-Australian Telescope Board                             | No              | ✓            | 08-Nov-02      |              |
| Australian Marine Science and Technology                     | No              | ✓            | 01-Nov-02      |              |
| Enterprise and Career Education Foundation limited.          | No              | ✓            | 23-Sep-02      |              |
| National Aeronautical and Space Administration E (30-Sep-02) | No              | ✓            | 19-Dec-01      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

↔ signed financial statements not presented for audit at this time

E financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.158 The Commonwealth takes a national leadership role in education, science and training to ensure an integrated and balanced response to the educational and training needs of all Australians, particularly our Indigenous and young people. Through its Portfolio agencies, the Commonwealth works with various industries, State and Territory governments, other Commonwealth agencies and a range of contracted service providers to provide policy, advice and services for the benefit of Australia.

5.159 The Commonwealth works with the States and Territories through the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA), and the Australian National Training Authority's (ANTA) Ministerial Council and with education and training providers, industry and other agencies. The education and training sectors comprises:

- schools—including pre-schools, primary schools, secondary and senior secondary schools;
- vocational education and training which involves publicly owned TAFE institutions and other registered training organisations; and
- higher education, including research—public and private universities and other higher education institutions.

5.160 The following comments relate only to material entities in the portfolio.

## Department of Education, Science and Training

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 1.18        | 0.84        |
| Capital use charge and dividend paid to government | 3.55        | 4.94        |
| Commonwealth's equity investment                   | 32.39       | 41.02       |
| Ratio of current assets to current liabilities     | 2.00:1      | 2.59:1      |
| Ratio of total assets to total liabilities         | 1.72:1      | 2.03:1      |

5.161 Many of the Department's key financial measures for the current year have been impacted by the significant changes to the Department's operations. The Department's youth functions were transferred to the Family and Community Services portfolio and science functions were transferred in from the Department of Industry, Tourism and Resources. In addition, the Australian Research Council reported separately in 2002 as it became an independent agency on 1 July 2001. These changes have:

- resulted in a net reduction of \$6.3 million to Departmental assets, which contributed to the reduced capital use charge and a reduction in the Commonwealth's equity investment; and
- contributed to the increased surplus for the year which reflects the net impacts of the prior year changes to appropriations received and expenses incurred.

**5.162** Also contributing to the reduction in the Commonwealth's equity investment was the net effect of :

- the net surplus of \$1.2 million; and
- the payment of the capital use charge of \$3.6 million.

### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 303.43      | 370.13      |
| Total expenses                  | 12,474.34   | 11,732.33   |
| Total assets                    | 8,574.72    | 6,808.45    |
| Total liabilities               | 6,137.05    | 6,062.09    |

**5.163** Administered revenues are received from indexation applied to the Higher Education Contribution Scheme and the Student Financial Supplement Scheme. The indexation revenue is dependent upon the annual consumer price index rate applied to the schemes for the year. The decrease in revenue compared to last year's was due to a decrease in the consumer price index rate applied on the Higher Education Contribution Schemes receivable. The rate decreased from approximately 5.3 per cent from June 2001 to a rate approximately 3.6 per cent for June 2002.

**5.164** Administered expenditure increased from the prior year reflecting:

- the payment of additional monies to the States and Territories in grant funding, approximately \$491 million;
- the inclusion of Science Programs transferred to the Department under AAO arrangements worth \$111.7 million;
- the write back of personal benefits expenses of \$25.6 million previously expensed; and
- a write down of the Student Financial Supplement Scheme receivable of \$44.8 million.

**5.165** The value of administered assets increased due to the transfer of the following entities into the portfolio:

- the Australian Institute of Marine Science;
- the Australian Nuclear Science and Technology Organisation;
- the Australian Marine Science and Technology; and
- the Commonwealth Scientific and Industrial Research Organisation.

## Audit results

### *Summary of significant agency and administered audit findings*

5.166 As part of the final audit it was noted that monthly Cash and Appropriation Management Module (CAMP) reconciliations were not being undertaken on a timely basis. The Department has advised that it will undertake timely monthly CAMP reconciliations to prevent unexplained variances occurring in the future.

5.167 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 3                              | 2                                    | 1                         | 2                               |
| <b>Total</b> | <b>3</b>                       | <b>2</b>                             | <b>1</b>                  | <b>2</b>                        |

5.168 The unresolved issue, dating from March 2002, related to the deficiencies in the Department's reconciliation between one of its payment systems (IEPPS) and the general ledger. The ANAO is satisfied that reasonable progress is being made to resolve the two reconciliation issues.

## Australian National Training Authority (ANTA)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net deficit for the year                           | (3.48)      | (1.05)      |
| Capital use charge and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                   | 6.30        | 9.78        |
| Ratio of current assets to current liabilities     | 5.07:1      | 5.66:1      |
| Ratio of total assets to total liabilities         | 3.37:1      | 4.13:1      |

5.169 Both contract revenue and contract expenses were significantly reduced during the year as two significant contracts are nearing completion. However, ANTA is currently funding excess contract expenses relating to the provision of services for a number of Commonwealth Departments from its cash reserves, this has resulted in the deficit for the year and lower ratios.



## Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 1.07        | 0.99        |
| Total expenses                  | 1.08        | 0.98        |
| Total assets                    | 0.50        | 0.52        |
| Total liabilities               | 0.43        | 0.45        |

## Audit results

### *Summary of significant agency and administered audit findings*

5.170 There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Australian Nuclear Science and Technology Organisation (ANSTO)

## Financial results

### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 58.50       | 34.93       |
| Capital use charge and dividend paid to government | 57.66       | 39.20       |
| Commonwealth's equity investment                   | 489.24      | 424.36      |
| Ratio of current assets to current liabilities     | 2.06:1      | 2.35:1      |
| Ratio of total assets to total liabilities         | 12.73:1     | 13.49:1     |

5.171 ANSTO's net surplus increased as a result of appropriations from Government for capital use charge, relating to asset valuations in previous years. The Commonwealth's equity in ANSTO increased due to a \$64 million equity injection relating to the funding of capital works for the replacement research reactor.

## Audit results

### Summary of significant agency audit findings

5.172 As part of the final audit, the ANAO noted a number of IT audit findings within ANSTO. The main issues were:

- programmers were given write and update access to the production system;
- the absence of a formal Disaster Recovery Plan in place for the local area network; and
- the absence of a formal IT Security policy.

5.173 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 1                              | 0                                    | 3                         | 4                               |
| <b>Total</b> | <b>1</b>                       | <b>0</b>                             | <b>3</b>                  | <b>4</b>                        |

5.174 The unresolved issue as at August 2002 related to a 2001 audit finding that two contracts had not been formally signed.

## Australian Research Council (ARC)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 2.2         | -           |
| Capital use charge and dividend paid to government | 0.76        | -           |
| Commonwealth's equity investment                   | 6.17        | -           |
| Ratio of current assets to current liabilities     | 5.72:1      | -           |
| Ratio of total assets to total liabilities         | 4.34:1      | -           |

5.175 The ARC become a independent agency on 1 July 2001. The results for the financial year were consistent with budget expectations.

### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 0           | -           |
| Total expenses                  | 0.27        | -           |
| Total assets                    | 0.04        | -           |
| Total liabilities               | 0.12        | -           |

5.176 Administered expenses consists of a number of competitive funding schemes for research and training. These schemes constitute the Council's National Competitive Grants Programme.

### Audit results

#### *Summary of significant agency and administered audit findings*

5.177 There were no significant audit issues outstanding at the completion of the final audit.

## Commonwealth Scientific and Industrial Research Organisation (CSIRO)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 149.89      | 101.00      |
| Capital use charge and dividend paid to government | 100.78      | 104.94      |
| Commonwealth's equity investment                   | 972.28      | 935.46      |
| Ratio of current assets to current liabilities     | 1.40:1      | 1.64:1      |
| Ratio of total assets to total liabilities         | 3.35:1      | 3.80:1      |

5.178 The increase in surplus largely resulted from a one-off significant cost saving of \$30 million in the CSIRO's superannuation contribution costs to the Commonwealth Superannuation Schemes. This saving flowed through the accounts to increase the Commonwealth's equity investment.

## Audit results

### *Summary of significant agency audit findings*

5.179 As part of the interim audit, the ANAO noted a weakness relating to the accounting and recognition of Work in Progress /Deferred Revenue. CSIRO has since rectified this matter. No significant audit issues arose during the final audit phase.

5.180 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2002.

| Ratings | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|---------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A       | 0                              | 0                                    | 0                         | 0                               |
| B       | 1                              | 1                                    | 0                         | 0                               |
| Total   | 1                              | 1                                    | 0                         | 0                               |

### Comments on non-material entities

5.181 There were no significant audit issues impacting on non-material entities.

# Employment and Workplace Relations Portfolio

| Reporting Entity as at 30 June 2002                           | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of Employment and Workplace Relations              | Yes             | ✓            | 13-Aug-02      |              |
| Australian Industrial Registry                                | No              | ✓            | 20-Sep-02      |              |
| Coal Mining Industry (Long Service Leave Funding) Corporation | Yes             | ✓            | 02-Sept-02     |              |
| Comcare Australia   | Yes             | ✓            | 23-Aug-02      |              |
| Quality of Working Life Corporation                           | No              | ✓            | 23-Aug-02      |              |
| Equal Opportunity for Women in the Workplace                  | No              | ✓            | 17-Sept-02     |              |
| National Occupational Health and Safety Commission            | No              | ✓            | 15-Sept-02     |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

✦ signed financial statements not presented for audit at this time  
 financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.182 The Employment and Workplace Relations portfolio comprises the Department of Employment and Workplace Relations (DEWR) and the following statutory agencies and a public financial enterprise:

- Australian Industrial Relations Commission (AIRC) and the Australian Industrial Registry (AIR);
- Coal Mining Industry (Long Service Leave Funding) Corporation;
- Comcare and the Safety, Rehabilitation and Compensation Commission (SRCC);
- Equal Opportunity for Women in the Workplace Agency (EOWA); and
- National Occupational Health and Safety Commission (NOHSC).

5.183 The Office of the Employment Advocate (OEA), the Defence Force Remuneration Tribunal (DFRT) Secretariat and the Remuneration Tribunal (RT) Secretariat, although not statutory agencies, operate as separate entities within the Department.

5.184 The following comments relate only to material entities in the portfolio.

## Department of Employment and Workplace Relations

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 11.62       | 11.64       |
| Capital use charge and dividend paid to government | 3.97        | 9.27        |
| Commonwealth's equity investment                   | 51.05       | 41.02       |
| Ratio of current assets to current liabilities     | 1.52:1      | 2.01:1      |
| Ratio of total assets to total liabilities         | 1.53:1      | 1.48:1      |

5.185 The operating surplus is consistent with that of the prior year and slightly above budget, mainly as a result of applying sustained effort to budget management and some delays with the implementation of a number of IT initiatives. The \$5.3 million reduction in capital use charge (CUC) for 2001–2002 was due to the 2000–2001 CUC being based on a much higher forecast asset base, resulting in excess funding being repaid in 2000–2001. The increase in the Commonwealth's equity investment is mainly attributable to asset revaluations and the net surplus for the year.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 73.23       | 70.47       |
| Total expenses                  | 1,466.92    | 1,065.28    |
| Total assets                    | 37.76       | 41.97       |
| Total liabilities               | 372.80      | 71.22       |

5.186 The results for the year are consistent with those of the prior year with the exception that expenses and liabilities increased due to the Special Employee Entitlements Scheme for Ansett group employees (SEESA).

## Audit results

### *Summary of significant agency audit findings*

5.187 The final phase of the audit of the Department's financial statements was completed with satisfactory results. No significant weaknesses or issues were identified. All issues raised as part of the interim audit have now been cleared with the exception of:

- updating the IT business resumption plan to mirror the current environment following the relocation of an IT site and introduction of new systems; and
- upgrading IT security to activate audit trails on two servers and to introduce formal reviews of security logging and privileged account usage on two systems.

Work is progressing satisfactorily in these areas.

5.188 The following table provides a summary of the status of previously reported audit issues, as well as of any new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 8                              | 6                                    | 0                         | 2                               |
| <b>Total</b> | <b>8</b>                       | <b>6</b>                             | <b>0</b>                  | <b>2</b>                        |

## Comcare Australia

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 0.74        | 0.70        |
| Capital use charge and dividend paid to government | 0.69        | 0.63        |
| Commonwealth's equity investment                   | 5.12        | 5.03        |
| Ratio of current assets to current liabilities     | NA          | NA          |
| Ratio of total assets to total liabilities         | 1.0:1       | 1.0:1       |

5.189 The financial results for the year are in line with budgetary expectations and show consistency with prior years' performance. Highlights for the 2001–2002 year include an increase in premium rates, slightly higher administrative expenditure, an increased focus on information technology support, and workers compensation payments being slightly lower than forecast.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 97.58       | 97.60       |
| Total expenses                  | 1.33        | 2.23        |
| Total assets                    | 0           | 3.18        |
| Total liabilities               | 0           | 3.18        |

5.190 There were no significant variances between periods for key financial measures.

#### Audit results

##### *Summary of significant agency audit findings*

5.191 The audit of Comcare's financial statements was completed with satisfactory results. No significant weaknesses or issues were identified.

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

#### Financial results

##### Summary of agency results

| Key financial measures for year                        | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                     | (0.77)      | 24.82       |
| Capital use charge and dividend paid to government     | 0           | 0           |
| Commonwealth's equity investment/(accumulated deficit) | (115.14)    | (114.37)    |
| Ratio of current assets to current liabilities         | 0.8:1       | 0.5:1       |
| Ratio of total assets to total liabilities             | 0.7:1       | 0.7:1       |



5.192 The deficit in the current year is a result of the following:

- an increase in revenues from government of \$6.3 million;
- a decrease in investment income of \$12.8 million;
- an increase in the payment of long service leave entitlements of \$5 million; and
- an investment write off of \$14 million.

5.193 The accumulated deficit of \$115.14 million is expected to be progressively extinguished by the collection of levies from employers in the coal mining industry.

## **Audit results**

### *Summary of significant agency audit findings*

5.194 No significant weaknesses or issues were identified during the audit.

## **Comments on non-material entities**

5.195 There were no significant audit issues impacting on non-material entities.

# Environment and Heritage Portfolio

| Reporting entity as at 30 June 2002                         | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of the Environment and Heritage                  | Yes             | ✓            | 02-Sept-02     | ◆            |
| Natural Heritage Trust of Australia Reserve                 | No              | ✓            | 02-Sept-02     |              |
| Australian Greenhouse Office                                | Yes             | ✓            | 21-Aug-02      |              |
| Australian Heritage Commission                              | No              | ✓            | 27-Sept-02     |              |
| Director of National Parks                                  | No              | ✓            | 19-Sept-02     | ◆            |
| Great Barrier Reef Marine Park Authority                    | No              | ✓            | 19-Sept-02     |              |
| National Environment Protection Council Service Corporation | No              | ✓            | 19-Sept-02     |              |
| National Oceans Office                                      | No              | ✓            | 01-Oct-02      | ◆            |
| Sydney Harbour Federation Trust Fund                        | No              | ✓            | 26-Sept-02     |              |
| Office of the Renewable Energy Regulator                    | No              | ✓            | 16-Sept-02     | ◆            |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time  
 financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.196 The role of the Environment and Heritage Portfolio is to achieve three major outcomes for the Commonwealth Government. The outcomes are:

- the environment, especially those aspects that are matters of national environmental significance, is protected and conserved;
- Australia benefits from meteorological and related science and services; and
- Australia's interests in Antarctica are advanced.

5.197 The delivery of these outcomes is provided by:

- the Department of the Environment and Heritage (which includes Environment Australia (EA), the Australian Antarctic Division (AAD) and the Commonwealth Bureau of Meteorology (BoM));
- four statutory authorities, the Great Barrier Reef Marine Park Authority, the Director of National Parks, the Australian Heritage Commission and the Sydney Harbour Federation Trust; and
- the Australian Greenhouse Office and the National Oceans Office. In addition, the Office of the Renewable Energy Regulator commenced operations on 12 February 2001.

5.198 The following comments relate only to material entities in the portfolio.

## Department of the Environment and Heritage

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 45.75       | 32.13       |
| Capital use charge and dividend paid to government | 33.76       | 38.80       |
| Commonwealth's equity investment                   | 442.02      | 364.29      |
| Ratio of current assets to current liabilities     | 1.68:1      | 1.95:1      |
| Ratio of total assets to total liabilities         | 3.63:1      | 4.06:1      |

5.199 A number of significant items contributed to the current year's net surplus as detailed below:

- appropriation funding received for the capital use charge for AAD (\$18.16 million) and BoM (\$19.69 million);
- revenue of \$48.10 million resulting from the recognition of assets for the first time by the AAD; and
- increases in expenses including employee expenses across the board \$2.86 million, grants \$1.48 million, depreciation and write-down of assets charges \$9.26 million, primarily AAD and Antarctic Base restitution costs \$23.6 million.

5.200 The increase in the Commonwealth's equity investment is attributable to asset revaluation increments of \$78.82 million, the net surplus for the year of \$45.75 million, less the capital use charge of \$33.76 million, and restructuring transfers of \$13.08 million.

#### Item administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenue                   | 24.63       | 28.89       |
| Total expenses                  | 310.07      | 1,209.51    |
| Total assets                    | 121.08      | 111.38      |
| Total liabilities               | 1.94        | 6.82        |

5.201 Revenue decreased due to a reduction in other sources of non-taxation revenues. This reduction was due to the reclassification of grant and supplier liabilities to commitments in 2001 which did not reoccur in 2002. Additionally in 2001, the Department recognised Environmental Research contributions as administered revenue. These contributions are now recorded as departmental revenue. The significant decrease in administered expenditure is due to the write off of a special account appropriation receivable of \$827.71 million in 2001 to reflect the revised accounting treatment. The decrease in administered liabilities relates to a reduction in grant liabilities with the closure of the first phase of the Natural Heritage Trust.

## Audit results

### *Summary of significant agency audit findings*

5.202 During the final audit phase the following matters raised during the interim audit were reviewed to assess progress made in improving control arrangements:

- controls over the exercise of Ministerial delegations under section 45(1) of the *National Heritage Trust of Australia Act 1997* (EA);
- treatment for the recognition of unearned revenue (BoM);
- payments to employees including reconciliation of payroll data to the FMIS (EA), acquittal of overseas travel allowances, monitoring of changes to personal details in payroll system and capitalisation of salaries for project assets (BoM);
- payment of expenses including clearance of outstanding purchase orders, apportionment of prepaid expenses and GST reconciliations (BoM);
- asset management issues including reconciliation between the assets register and FMIS (EA), write-off of assets, take up of asset revaluations, regional office stocktakes and inventory management (BoM); and
- business resumption planning (EA).

5.203 The Department has resolved most of the abovementioned issues with the exception of regional office asset stocktakes, inventory stocktakes and obsolescence reviews and the reporting of prepayments (BoM). The ANAO is satisfied that BoM is making satisfactory progress in resolving the remaining issues.

5.204 Several new issues were noted during the final phase of the audit with two new significant audit issues referred to the Department for attention. These related to the AAD continuing to use a primarily cash based accounting system to produce annual financial statements and bank reconciliations being prepared annually.

5.205 Moderate risk audit issues were also noted relating to the need to:

- regularly reconcile payroll clearing accounts to the general ledger HR module (EA);
- improve controls over issue of manual cheques (AAD); and
- update AAD costing models to reflect current costs.

5.206 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 1                              | 1                                    | 2                         | 2                               |
| B            | 13                             | 11                                   | 3                         | 5                               |
| <b>Total</b> | <b>14</b>                      | <b>12</b>                            | <b>5</b>                  | <b>7</b>                        |

## Australian Greenhouse Office (AGO)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 2.96        | 12.21       |
| Capital use charge and dividend paid to government | 3.32        | 0           |
| Commonwealth's equity investment                   | 29.11       | 29.47       |
| Ratio of current assets to current liabilities     | 5.99:1      | 7.94:1      |
| Ratio of total assets to total liabilities         | 4.27:1      | 5.20:1      |

5.207 The 2001–2002 surplus was \$9 million lower than the prior year's surplus. This was the result of a reduction in revenues from government of \$18.8 million and interest income of \$2 million, partly offset by a reduction in expenses from ordinary activities of \$12.5 million.

## Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenue                   | 0           | 0           |
| Total expenses                  | 14.72       | 2.87        |
| Total assets                    | 0.01        | 0.09        |
| Total liabilities               | 0           | 0.08        |

5.208 Administered expenditure on grant programs increased significantly in 2001–2002 as programs matured and more recipients met the required criteria and milestones, as compared to 2000–2001, where grants programs were in a development stage.

## Audit results

### *Summary of significant agency and administered audit issues*

5.209 The final phase of the AGO's financial statement audit was completed with satisfactory results. No significant weaknesses or issues were identified.

## Comments on non-material entities

5.210 The significant audit issues relating to non-material entities within this portfolio are provided below.

## Director of National Parks

5.211 Several anomalies were noted with the calculation of part time staff long service leave (LSL) and eligible casual staff member's LSL entitlement balances, with the general ledger (SAP) HR module double counting affected employee balances.

## National Oceans Office (NOO)

5.212 Several issues were referred to NOO as a result of the financial statement audit including the need for regular bank reconciliations, adoption of accrual accounting systems and regular accrual reporting for management and the need to settle reimbursement of employee entitlements for employees on temporary transfer from other government departments.

## Office of the Renewable Energy Regulator (ORER)

**5.213** There is no clear prescriptive guidance on which agency should include ORER's financial operations in its financial statements. In 2000–2001, ORER reported as part of AGO's financial statements. In 2001–2002, it was separately disclosed in the DOEH annual report.

**5.214** Further legal advice has been sought by the Department in relation to the accounting and reporting arrangements for future years.

# Family and Community Services Portfolio

| Reporting Entity as at 30 June 2002         | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of Family and Community Services | Yes             | ✓            | 27-Aug-02      |              |
| —CRS Australia                              | No              | ✓            | 22-Aug-02      |              |
| Centrelink                                  | Yes             | ✓            | 08-Aug-02      |              |
| Australian Institute of Family Studies      | No              | ✓            | 27-Sep-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

✦ signed financial statements not presented for audit at this time  
 ✦ financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

**5.215** The Portfolio is responsible for a broad range of social policies affecting Australian society and the living standards of Australian families, communities and individuals. The Portfolio provides income support, housing assistance, disability services, child care services and family assistance, including family payments, child support and family relationship support services. With these policy tools, the Portfolio aims to achieve these three social policy outcomes:

- stronger families;
- stronger communities; and
- economic and social participation.



5.216 The following comments relate only to material entities in the portfolio.

## Department of Family and Community Services (FaCS)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 35.14       | 40.26       |
| Capital use charge and dividend paid to government | 0.26        | 0.65        |
| Commonwealth's equity investment                   | 58.71       | 30.68       |
| Ratio of current assets to current liabilities     | 1.64:1      | 1.26:1      |
| Ratio of total assets to total liabilities         | 1.41:1      | 1.20:1      |

5.217 The operating surplus for the year is substantially the result of under expenditure against activities which have been carried over to the 2002–2003 financial year. The increase in the Commonwealth's equity investment is mainly attributable to the net surplus for the year, less a competitive neutrality dividend and capital use charge paid during the year. The decrease in the capital use charge for the year, despite the increase in the net asset position, was mainly the result of an agreement reached with the Department of Finance and Administration that exempted payments for services made in advance to Centrelink from the calculation.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 1,038.24    | 943.70      |
| Total expenses                  | 56,408.69   | 54,940.25   |
| Total assets                    | 1,881.59    | 2,052.37    |
| Total liabilities               | 2,400.64    | 2,376.69    |

5.218 The overall results are consistent with those of the prior year and budget expectations. Administered expenses increased primarily in the areas of age pension, family tax benefit, disability support pension and parenting payment, offset by a decrease in the aged person savings bonus.

## Audit results

### *Summary of significant agency audit findings*

5.219 As part of the interim audit, the ANAO noted that the Department was still in the process of:

- implementing an overarching risk management framework;
- upgrading its IT security to prevent the possibility of unauthorised access to financial and confidential information; and
- improving financial management processes between Child Support Agency and the Australian Taxation Office.

5.220 The latter two audit issues have now been completed with work on the implementation of the overarching risk management framework still continuing.

5.221 An issue that still requires resolution is the transfer of the CRS Australia from the Department to the Department of Health and Ageing. Although both departments have indicated that this took place on 1 July 2002, formal arrangements are still to be finalised for this transfer to take effect.

### *Summary of significant administered audit findings*

5.222 As part of the interim audit, the ANAO noted that the Department was still in the process of developing, in conjunction with Centrelink, a debt provisioning policy for on-going application to customers who have an accumulated administered debt due to the Commonwealth. This has now been completed.

5.223 An on-going area of significance is the assessment of the effectiveness of the control framework that the Department and its key service provider, Centrelink, have in place to minimise the incidence of incorrect administered payments.

5.224 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 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>                        |

5.225 Reasonable progress has been made on resolving the remaining audit issue which the ANAO anticipates will be cleared over the coming year.

## Centrelink

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 6.96        | 26.01       |
| Capital use charge and dividend paid to government | N/A         | N/A         |
| Commonwealth's equity investment                   | 109.34      | 77.45       |
| Ratio of current assets to current liabilities     | 0.97:1      | 0.98:1      |
| Ratio of total assets to total liabilities         | 1.26:1      | 1.19:1      |

5.226 The decrease in the net surplus is primarily attributable to a decrease in interest revenue from term deposits and an increase in employee expenses due to a combination of increased staff numbers and an increase in salary rates. Although Centrelink has excess assets over liabilities, current liabilities slightly exceed current assets. As a result, Centrelink places a strong emphasis on ongoing cash, receivable and creditor management processes. The increase in the Commonwealth's equity investment is mainly attributable to an equity injection of \$24.25 million and the net surplus for the year of \$6.96 million.

### Audit results

#### *Summary of significant agency audit findings*

5.227 As part of the interim audit, the ANAO noted that Centrelink needed to:

- complete implementation of an overarching risk management framework;
- reconcile and review each month departmental balance sheet accounts; and
- reconcile on a monthly basis the national distribution accounts with analysis on completeness and on whether further efficiencies could be gained by reconciling some accounts on a daily basis.

5.228 The latter two audit issues have now been completed with work on the implementation of the overarching risk management framework still continuing.

5.229 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 3                              | 2                                    | 0                         | 1                               |
| <b>Total</b> | <b>3</b>                       | <b>2</b>                             | <b>0</b>                  | <b>1</b>                        |

5.230 Reasonable progress has been made on the remaining audit issue. The ANAO anticipates that this issue will be cleared over the coming year.

## Comments on non-material entities

5.231 There were no significant audit issues impacting on non-material entities.

## Finance and Administration Portfolio

| Reporting entity at 30 June 2002                      | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of Finance and Administration              | Yes             | ✓            | 15-Aug-02      |              |
| Commonwealth Grants Commission                        | No              | ✓            | 04-Sep-02      |              |
| Australian Electoral Commission                       | Yes             | ✓            | 06-Sep-02      |              |
| CFM Australian Equities Fund                          | No              | ✓            | 23-Aug-02      |              |
| Commonwealth Superannuation Administration (ComSuper) | No              | ✓            | 23-Sep-02      |              |
| Public Sector Superannuation Scheme (PSS)             | No              | ✓            | 10-Sep-02      |              |
| Commonwealth Superannuation Scheme (CSS)              | No              | ✓            | 10-Sep-02      |              |
| CSS/PSS Pty Ltd                                       | No              | ✓            | 23-Aug-02      |              |
| Comland Limited                                       | No              | ✓            | 30-Aug-02      |              |
| Employment National Limited                           | Yes             | ✓            | 17-Sep-02      |              |
| Employment National (Administration) Pty Ltd          | No              | ✓            | 17-Sep-02      |              |
| Australian River Co. Limited                          | No              | E            | 10-Apr-02      | ◆            |
| Australian Submarine Corporation Pty Ltd              | No              | ✓            | 24-Sep-02      |              |
| Bankstown Airport Limited                             | No              | ✓            | 19-Sep-02      |              |
| Camden Airport Limited                                | No              | ✓            | 19-Sep-02      |              |
| Hoxton Park Airport Limited                           | No              | ✓            | 19-Sep-02      |              |
| Australian Industry Development Corporation           | Yes             | ✓            | 16-Aug-02      |              |
| Telstra Instalment Receipts Trustee Limited           | No              | ✓            | 28-Aug-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

⇒ signed financial statements not presented for audit at this time  
financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

### Portfolio overview

5.232 The role of the Department of Finance and Administration (Finance) is to assist the Government to 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.

5.233 Other material agencies under the portfolio include:

- the Australian Electoral Commission, which is responsible for providing the Australian people with an independent electoral service capable of meeting their needs, while enhancing their understanding of and participation in the electoral process;
- the Australian Industry Development Corporation, whose management is in the process of winding down the residual and other obligations of the Corporation; and
- Employment National Limited which provides employment and recruitment services within a commercial environment.

5.234 The following comments relate only to material entities in the portfolio.

## Department of Finance and Administration

### Financial results

#### Summary of agency results

| Key financial measures for year                     | 2002<br>\$m | 2001<br>\$m |
|---|-------------|-------------|
| Net surplus for the year                            | 100.37      | 187.62      |
| Capital use charged and dividend paid to government | 203.61      | 143.61      |
| Commonwealth's equity investment                    | 995.06      | 2,509.03    |
| Ratio of current assets to current liabilities      | 2.7:1       | 1.8:1       |
| Ratio of total assets to total liabilities          | 4.3:1       | 8.2:1       |

5.235 The operating surplus for the year was mainly attributable to the performance of the Property Group under which the Department collects rental income on the property portfolio it manages on behalf of the Commonwealth. The reduction in the net surplus compared to the previous year was due to the impact of the Administrative Arrangements Order (AAO) of November 2001. The AAO resulted in the transfer of overseas property operations to the Department of Foreign Affairs and Trade as well as the transfer to other agencies of:

- information access function;
- Remuneration Tribunal;
- Natural Disaster Relief Arrangements;
- Service Charters; and
- the administration of Royal Commissions.

**5.236** The decrease in the Commonwealth's equity investment relates to the AAO that resulted in the Department relinquishing \$1.56 billion in net assets and an increased dividend payment back to the Official Public Account.

### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 4,384.60    | 1,157.66    |
| Total expenses                  | 5,252.42    | 4,784.41    |
| Total assets                    | (568.48)*   | 829.99      |
| Total liabilities               | 54,725.42   | 52,857.86   |

\*The negative balance is a result of the balance of cash at bank being reported net of surplus funds invested on behalf of the Minister for Finance by the Australian Office of Financial Management and agency bank balances swept to the Official Public Account on a daily basis under the devolved banking arrangements.

**5.237** Overall, results are consistent with the prior year and budget expectations, with the exception of the \$3.34 billion gain on the sale of Sydney Airport Corporation Limited (SACL), which resulted in a significant increase in revenue.

**5.238** Total assets decreased as a result of the sale of SACL and, to a lesser extent, the National Rail Corporation. The continuing winding down of the DASFLEET finance lease also impacted on assets and liabilities. However, the decreases in the DASFLEET finance leases liabilities were more than offset by an increase in the unfunded superannuation liability.

## Audit results

### *Summary of significant agency and administered audit findings*

**5.239** There were no significant departmental or administered audit issues carried forward from the interim audit phase. As well, there were no significant audit issues arising from the final audit phase.

# Australian Electoral Commission

## Financial results

### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | (12.37)     | 6.99        |
| Capital use charge and dividend paid to government | 0.96        | 5.03        |
| Commonwealth's equity investment                   | 22.59       | 35.97       |
| Ratio of current assets to current liabilities     | 2.1:1       | 2.4:1       |
| Ratio of total assets to total liabilities         | 1.7:1       | 2.3:1       |

5.240 The most significant financial impact during the year was associated with the November 2001 Federal election that resulted in an increase in appropriation revenue and employee and supplier expenses. While the Commission remains in a sound financial position, an operating loss of \$12.37 million was incurred during 2001–2002. The operating loss arose due to greater than anticipated increase in employee and supplier expenses, resulting from activities relating to the November 2001 Federal election.

### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 4.68        | 4.07        |
| Total expenses                  | 38.71       | 0.22        |
| Total assets                    | 0.96        | 0.78        |
| Total liabilities               | 0.21        | 0.47        |

5.241 The increase in expenses reflects the costs of conducting the November 2001 Federal election.

## Audit results

### *Summary of significant agency and administered audit findings*

5.242 There were no significant departmental or administered audit issues carried forward from the interim audit and there were no significant audit issues arising from the final audit.



## Australian Industry Development Corporation

### Financial results

#### Summary of agency results

| Key financial measures for year                     | 2002<br>\$m | 2001<br>\$m |
|---|-------------|-------------|
| Net surplus (deficit) for the year                  | 0.41        | (12.91)     |
| Capital use charged and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                    | 6.00        | 5.60        |
| Ratio of current assets to current liabilities      | 0.97:1      | 0.82:1      |
| Ratio of total assets to total liabilities          | 1.00:1      | 1.00:1      |

5.243 The Corporation has received a direction from the Minister that it should only do those things necessary to wind down the residual and other obligations of the Corporation. The return to a small profit in the current year follows the one-off loss associated with the vesting out of the Corporation's investment in the Australian Submarine Corporation in the prior year, to direct Commonwealth ownership. No amount was paid to the Corporation at the time of vesting out.

### Audit results

#### *Summary of significant agency audit findings*

5.244 The audit of the Corporation's financial statements was completed with satisfactory results. No significant weaknesses or issues were identified.

## Employment National Limited and its Controlled Entity

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | (13.62)     | 0.53        |
| Capital use charge and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                   | (46.25)     | (59.63)     |
| Ratio of current assets to current liabilities     | 0.21:1      | 0.19:1      |
| Ratio of total assets to total liabilities         | 0.22:1      | 0.15:1      |

5.245 The operating deficiency for the year is mainly attributable to losses flowing from an onerous contract that the company entered into some years ago. As a consequence of the Government decision to wind up the Company by 30 June 2003, the Company ceased to report as a going concern, giving rise to the need to recognise significant winding up provisions within this year's accounts. The Company operates with explicit Government support. During the year, the Government shareholder contributed equity of \$27 million as part of that support.

### *Change in accounting policy*

5.246 Apart from ceasing to prepare the financial statements on the assumption the Company is not a going concern, there were no other significant changes in the accounting policies covering the Company's financial statements. As a consequence of this change, significant costs that are expected to crystallise with the disposal of parts of the Company and subsequent winding up of the remainder have been recognised in the financial statements, with appropriate disclosure in the notes to the accounts.

## **Audit results**

### *Summary of significant agency audit findings*

5.247 The audit of the Company's financial statements was completed with satisfactory results with no significant weaknesses or issues being identified. However, considerable attention was given to the issues mentioned above.

## **Comments on non-material entities**

5.248 The significant audit issues relating to non-material entities within this portfolio are provided below.

### **Australian River Co. Limited**

5.249 The unqualified audit report included an emphasis of matter due to the significant uncertainty regarding the restructure of the Company and its current operations. Refer to Part 3 of this report for details.

## Foreign Affairs and Trade Portfolio

| Reporting Entity as at 30 June 2002                       | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of Foreign Affairs and Trade                   | Yes             | ✓            | 06-Sep-02      |              |
| Australian Agency for International Development           | Yes             | ✓            | 20-Aug-02      |              |
| Export Finance and Insurance Corporation                  | Yes             | ✓            | 09-Aug-02      |              |
| Australia-Japan Foundation                                | No              | ✓            | 16-Sep-02      |              |
| Australian Centre for International Agricultural Research | No              | ✓            | 13-Sep-02      |              |
| Australian Secret Intelligence Service                    | No              | ✓            | 19-Aug-02      |              |
| Australian Trade Commission                               | Yes             | ✓            | 23-Aug-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

⇒ signed financial statements not presented for audit at this time

☞ financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

### Portfolio overview

5.250 The Foreign Affairs and Trade portfolio agencies support Ministers in the conduct of Australia's foreign relations and trade policy, help Australians win export business and generate inward and outward investment, and provide assistance to developing countries to reduce poverty and achieve sustainable development. The portfolio provides consular and passport services to Australians, and aims to improve domestic and international public understanding of Australia's foreign, trade and aid policies.

5.251 The following comments relate only to material entities in the portfolio.

### Department of Foreign Affairs and Trade

#### Financial results

##### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 88.97       | 9.90        |
| Capital use charge and dividend paid to government | 92.27       | 12.00       |
| Commonwealth's equity investment                   | 1,604.63    | 101.85      |
| Ratio of current assets to current liabilities     | 1.33:1      | 1.38:1      |
| Ratio of total assets to total liabilities         | 10.83:1     | 1.67:1      |

5.252 The significant movements in the financial results were mainly due to the transfer of the overseas property portfolio to the Department from the Department of Finance and Administration.

### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 187.55      | 368.87      |
| Total expenses                      | 342.46      | 205.04      |
| Total assets                        | 1,184.91    | 1,289.77    |
| Total liabilities                   | 184.80      | 182.05      |

5.253 In 2000–2001, the effect of foreign exchange on amounts owed to the Commonwealth relating to export transactions on the National Interest Account resulted in a foreign exchange gain. In 2001–2002, movements in the Australian dollar caused a foreign exchange loss to be realised. This is the primary cause of the decrease in total revenues and the increase in expenses. In addition, total expenses increased due to enhanced contributions to the United Nations and other international organisations and non-profit organisations.

5.254 The assets and liabilities position remained consistent with the previous year.

## Audit results

### *Summary of significant agency and administered audit findings*

5.255 An issue raised during the interim audit phase relating to controls over the management of access profiles to the human resource management information system has been subsequently resolved. There were no significant audit issues arising from the final audit phase.

5.256 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 1                              | 1                                    | 0                         | 0                               |
| <b>Total</b> | <b>1</b>                       | <b>1</b>                             | <b>0</b>                  | <b>0</b>                        |

## Australian Agency for International Development (AusAID)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 0.11        | 0.15        |
| Capital use charge and dividend paid to government | N/A         | N/A         |
| Commonwealth's equity investment                   | (0.78)      | (0.89)      |
| Ratio of current assets to current liabilities     | 1.14:1      | 1.01:1      |
| Ratio of total assets to total liabilities         | 0.94:1      | 0.94:1      |

5.257 The decrease in the operating surplus for the year was mainly the result of an increase in expenses associated with a scoping study for the specification of three new IT systems.

#### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 3.79        | 3.98        |
| Total expenses                      | 1,202.91    | 1,475.93    |
| Total assets                        | 40.04       | 49.71       |
| Total liabilities                   | 969.48      | 1,218.34    |

5.258 The decrease in total expenses was mainly the result of a decline in grant expenses from the prior year, as no new multi-year grants were entered into during 2002. This also resulted in a reduction in liabilities.

## Audit results

### *Summary of significant agency and administered audit issues*

5.259 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Export Finance and Insurance Corporation (EFIC)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 38.30       | 48.00       |
| Capital use charge and dividend paid to government | 4.70        | 14.30       |
| Commonwealth's equity investment                   | 237.90      | 210.60      |
| Ratio of current assets to current liabilities     | N/A         | N/A         |
| Ratio of total assets to total liabilities         | 1.07:1      | 1.05:1      |

5.260 The reduction in the surplus from the previous year was mainly the result of increased provisioning for export finance and insurance. During the year, EFIC experienced a significant change with the reinsurance of the credit insurance business pending a potential sale of the business to the private sector.

## Audit results

### *Summary of significant agency audit findings*

5.261 There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Australian Trade Commission (Austrade)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 10.21       | 17.45       |
| Capital use charge and dividend paid to government | 9.30        | 13.28       |
| Commonwealth's equity investment                   | 84.24       | 84.57       |
| Ratio of current assets to current liabilities     | 2.65:1      | 2.75:1      |
| Ratio of total assets to total liabilities         | 3.29:1      | 3.39:1      |

5.262 Austrade in the current year managed their operations to near break even point (\$0.91 million) after payment of the capital use charge and dividends (2000–2001 surplus of \$4.17 million). Other results were consistent with those of the previous financial year.

#### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 0.67        | 1.98        |
| Total expenses                      | 151.58      | 145.40      |
| Total assets                        | 7.67        | 24.66       |
| Total liabilities                   | 1.71        | 1.81        |

5.263 The large reduction in total assets is mainly attributable to a drop in receivables as a result of repaid loans and write-offs of debtors under the Innovative Agricultural Marketing Program (IAMP) and International Trade Enhancement Scheme (ITES). A decrease in the corresponding cash carryover for these schemes also reduced total assets.

5.264 The decrease in total revenues was mainly the result of a decline in royalties and interest from the IAMP & ITES schemes.

## **Audit results**

### *Summary of significant agency and administered audit findings*

5.265 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit phase.

### **Comments on non-material entities**

5.266 There were no significant audit issues impacting on non-material entities.



## Health and Ageing Portfolio

| Reporting Entity as at 30 June 2002                          | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|--|-----------------|--------------|----------------|--------------|
| Department of Health and Ageing                              | Yes             | ✓            | 03-Sep-02      |              |
| - Therapeutic Goods Administration                           | No              | ✓            | 03-Sep-02      |              |
| Aged Care Standards and Accreditation Agency Ltd             | No              | ✓            | 19-Sep-02      |              |
| Alcohol Education and Rehabilitation Foundation Ltd          | No              | ✓            | 29-Aug-02      |              |
| Australia and New Zealand Food Authority                     | No              | ✓            | 25-Sep-02      |              |
| Australian Hearing Services                                  | No              | ✓            | 10-Sep-02      |              |
| Australian Institute of Health and Welfare                   | No              | ✓            | 27-Sep-02      |              |
| Australian Radiation Protection and Nuclear Safety Authority | No              | ✓            | 16-Sep-02      |              |
| General Practice Education and Training Ltd                  | No              | ✓            | 10-Oct-02      |              |
| Health Insurance Commission                                  | Yes             | ✓            | 19-Aug-02      | ◆            |
| Health Services Australia Ltd                                | No              | ✓            | 08-Oct-02      |              |
| Medibank Private Ltd   | Yes             | ✓            | 14-Aug-02      |              |
| National Institute of Clinical Studies Australia Ltd         | No              | ✓            | 13-Sep-02      |              |
| Private Health Insurance Administration Council              | No              | ✓            | 13-Sep-02      |              |
| Private Health Insurance Ombudsman                           | No              | ✓            | 05-Sep-02      |              |
| Professional Services Review                                 | No              | ✓            | 24-Sep-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time  
financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

### Portfolio overview

5.267 The Health and Ageing Portfolio's mission is to lead the development of Australia's health and ageing programs to achieve a world-class health and ageing system for all Australians. This is achieved by:

- providing policy advice, analysis and other services to the Government;
- consulting and collaborating with State and Territory governments, professional organisations, industry groups and consumers;
- promoting healthy living and communicating information about health and ageing services;

- managing the Commonwealth's health and ageing programs to ensure the provision of quality, cost effective care; and
- safeguarding health, safety and equity, in a way that imposes minimal regulatory burden.

5.268 The following comments relate only to material entities in the portfolio.

## Department of Health and Ageing

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | 2.98        | (17.54)     |
| Capital use charge and dividend paid to government | 0           | 2.67        |
| Commonwealth's equity investment                   | 6.95        | (3.31)      |
| Ratio of current assets to current liabilities     | 1.05:1      | 0.94:1      |
| Ratio of total assets to total liabilities         | 1.05:1      | 0.97:1      |

5.269 The Department's operating position and the Commonwealth's equity investment improved compared to that of the previous year due to:

- an increase in government funding and the collection of fees and recoveries; and
- an increase of \$7.2 million in the asset base of the Department following a revaluation of its infrastructure, plant and equipment, leasehold improvements, land and buildings.

5.270 The Department was not required to pay a capital use charge in 2001–2002.

#### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 28,531.75   | 26,849.19   |
| Total expenses                      | 28,008.44   | 26,283.30   |
| Total assets                        | 119.03      | 176.64      |
| Total liabilities                   | 1,467.69    | 1,892.15    |

5.271 The balances are largely consistent with those in the previous year and the increase in revenues reflects budget increases. The reduction in liabilities is due to a change in accounting policy relating to the recognition of grant liabilities. The increase in total expenses is consistent with the Department's budget expectations for benefit payments (including the Pharmaceutical Benefits Scheme, Private Health Insurance 30 per cent Rebate Scheme and Medicare), grants and subsidies expenditure.

### *Change in accounting policies*

5.272 The Department changed its accounting policy relating to all multi-year grants. A significant impact was recorded in respect of the National Health and Medical Research Council, which represented a major portion of the multi-year grants administered by the Department. The impact of this change in accounting policy was an increase of \$391.9 million in administered revenue, with a corresponding reduction in liabilities. Other than this change, there were no significant variations in accounting policies covering both departmental and administered financial statements, apart from those required by the FMOs which did not have a material financial impact.

## **Audit results**

### *Summary of significant agency and administered audit findings*

5.273 During the interim audit, the ANAO reported the following internal control issues:

- the disbursement of grant funds prior to the receipt of acquittal documentation;
- insufficient review of grant funds made to Multi Purpose Services;
- inadequate checking of the authenticity of delegates' signatures on subsidy claims paid to aged care facilities;
- inadequate review of newly created vendors or changes to existing vendors; and
- the need to update business resumption planning.

5.274 Overall, the ANAO considers that the Department has made reasonable progress in resolving these outstanding audit issues. It is anticipated that they will be cleared over the coming year. There were no new significant audit issues arising from the final audit phase.

5.275 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 5                              | 0                                    | 0                         | 5                               |
| <b>Total</b> | <b>5</b>                       | <b>0</b>                             | <b>0</b>                  | <b>5</b>                        |

## Health Insurance Commission

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 3.48        | 16.23       |
| Capital use charge and dividend paid to government | N/A         | N/A         |
| Commonwealth's equity investment                   | 44.16       | 34.38       |
| Ratio of current assets to current liabilities     | 0.68:1      | 0.83:1      |
| Ratio of total assets to total liabilities         | 1.44:1      | 1.33:1      |

5.276 HIC is in a stable but tight liquidity position following an increase in current liabilities relative to current assets during the year. An important financial impact was the capitalisation of expenditure on the Business Improvement Program aimed at improving the delivery of services to the Australian public through the use of e-commerce technologies. An equity injection of \$6.31 million was received to fund the Business Improvement Program. The prior year surplus was relatively high, due to changes in the way HIC accounted for outstanding claims.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 15,052.02   | 14,008.11   |
| Total expenses                  | 14,996.78   | 13,957.95   |
| Total assets                    | 1,257.05    | 1,256.37    |
| Total liabilities               | 1,237.23    | 1,239.76    |

5.277 Overall, the results are broadly consistent with those of the previous year. The increases in administered revenues and expenses relate to the Medicare benefits systems and the Pharmaceutical Benefits Scheme as more benefits were processed, and there was an increase in the average cost per benefit.

## **Audit results**

### *Summary of significant agency audit findings*

5.278 As part of the interim audit, the ANAO noted the need for HIC to:

- achieve greater utilisation of FINNET (the Commission's financial management information system);
- implement improved procedures for the Benefit Reconciliation, Update, Cheque and Enquiry system Reconciliations;
- adhere to asset management and recording procedures;
- address security access management and security incident detection within the IT control environment; and
- update its business resumption planning.

5.279 While the Commission's responses were generally positive, some issues remain outstanding. The ANAO will review progress in those areas as part of the 2002-2003 financial statement audit.

5.280 The final audit phase noted one new significant business risk audit issue. The issue was in relation to the methodology used by HIC to capitalise internally developed software. The methodology, as applied, does not comply with the requirements of the FMOs or HIC's policy on software capitalisation. The ANAO has recommended that, as part of the introduction of the general ledger (SAP) project management module, HIC ensure that only expense items relating to the development of the software project are captured and capitalised.

5.281 Additional moderate risk audit issues were also noted relating to the need to:

- further strengthen asset management year end processes;
- improve the operational and reporting framework relating to Health e-Signature Authority Pty Ltd (HeSA);
- implement an appropriate and accurate project costing system for tracking work undertaken on behalf of the Department of Health and Ageing;
- ensure HIC complies with the requirements of the Commonwealth Authorities and Company (Report of Operations) Orders 2002;

- update the models used for calculating the provision for outstanding claims to reflect changes in recent payment patterns; and
- improve the financial statement preparation processes.

5.282 Progress on these issues will also be examined as part of the 2002-2003 financial statement audit.

### *Summary of significant administered audit findings*

5.283 The significant risk audit issue noted as part of the interim audit relating to the administration of the 30 per cent Rebate Scheme was downgraded to a moderate risk audit issue at year-end following considerable work being undertaken by HIC to ensure the accuracy and validity of payments under the Scheme.

5.284 During the 2001–2002 financial year, improvements were made to the PBS system with the introduction of the mandatory requirement to present a Medicare card when claiming for a prescription. Results of post validation reviews of Medicare Benefits and PBS payments performed by the Program Review Division of HIC have provided additional assurance on the reasonableness of payments processed through these systems.

5.285 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 1                              | 1                                    | 1                         | 1                               |
| B            | 12                             | 2                                    | 5                         | 15                              |
| <b>Total</b> | <b>13</b>                      | <b>3</b>                             | <b>6</b>                  | <b>16</b>                       |

## Medibank Private Ltd

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | (175.47)    | 105.91      |
| Capital use charge and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                   | 382.39      | 557.87      |
| Ratio of current assets to current liabilities     | 1.58:1      | 1.93:1      |
| Ration of total assets to total liabilities        | 1.62:1      | 1.94:1      |

**5.286** Medibank Private’s annual report notes that the company had a difficult year in 2001–2002, evidenced by its financial result of a \$175 million deficit. The deficit was generated by a 20 per cent increase in benefit outlays, resulting in an underwriting loss of \$162 million and a loss of \$13 million on investment income.

## **Audit results**

### *Summary of significant agency audit findings*

**5.287** A detailed report on audit issues was submitted to the Audit Committee in April 2002, with a follow-up report submitted in August 2002. Audit issues have been cleared and the Company has agreed to implement remedial action.

## **Comments on non-material entities**

**5.288** There were no significant audit issues impacting on non-material entities.

# Immigration and Multicultural and Indigenous Affairs Portfolio

| Reporting Entities as at 30 June 2002  | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|--|-----------------|--------------|----------------|--------------|
| Department of Immigration and Multicultural and Indigenous Affairs               | Yes             | ✓            | 30-Aug-02      | ◆            |
| Migration Review Tribunal  | No              | ✓            | 05-Sep-02      |              |
| Refugee Review Tribunal  | No              | ✓            | 12-Sep-02      |              |
| The Aboriginal and Torres Strait Islander Commission                             | Yes             | ✓            | 06-Sep-02      |              |
| - Aboriginals Benefit Account  | No              | ✓            | 24-Sep-02      |              |
| - Aboriginal and Torres Strait Islander Education and Cultural Advancement Trust | No              | ✓            | 06-Sep-02      |              |
| - Aboriginal and Torres Strait Islander Land Fund Account                        | Yes             | ✓            | 06-Sep-02      |              |
| - Bilioara Pty Ltd   | No              | E            | 20-Nov-02      | ◆            |
| - Bilioara Unit Trust  | No              | E            | 20-Nov-02      | ◆            |
| - Morr Morr Pastoral Company Pty Ltd   | No              | E            | 03-Dec-02      | ◆            |
| - Yeperenye Pty Ltd  | No              | ✓            | 01-Oct -02     |              |
| Indigenous Business Australia  | No              | ✓            | 11-Oct-02      |              |
| - Bowen Basin Holdings Pty Ltd   | No              | ✓            | 11-Oct-02      |              |
| - Bowen Basin Investments Pty Ltd  | No              | ✓            | 11-Oct-02      |              |
| - Bowen Basin Holdings Trust   | No              | ✓            | 11-Oct-02      |              |
| - Bowen Basin Investment Trust   | No              | ✓            | 11-Oct-02      |              |
| Aboriginal Hostels Ltd   | No              | ✓            | 27-Sep-02      |              |
| Australian Institute of Aboriginal and Torres Strait Islander Studies            | No              | ✓            | 01-Oct-02      |              |
| Indigenous Land Corporation  | No              | ✓            | 13-Sep-02      |              |
| Torres Strait Regional Authority   | No              | ✓            | 09-Sep-02      |              |
| Anindilyakwa Land Council  | No              | ✓            | 11-Oct-02      |              |
| Central Land Council   | No              | ✓            | 02-Dec-02      |              |
| Northern Land Council  | No              | ✓            | 02-Oct-02      |              |
| Tiwi Land Council  | No              | ✓            | 28-Oct-02      |              |
| Wreck Bay Aboriginal Land Council  | No              | ✓            | 15-Nov-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

⇒ signed financial statements not presented for audit at this time  
financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted



## Portfolio overview

5.289 The Administrative Arrangements Order (AAO), announced by the Prime Minister on 26 November 2001, provided for the creation of a new portfolio covering immigration, multicultural affairs, indigenous affairs and reconciliation. This saw the amalgamation of the Immigration and Multicultural Affairs and Reconciliation portfolio and the Aboriginal and Torres Strait Islander Affairs portfolio.

5.290 The new portfolio is responsible for managing the permanent and temporary entry of people to 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. The Portfolio manages the following tasks:

- entry, stay and departure arrangements for non-citizens;
- border immigration control;
- arrangements for the settlement of migrants and humanitarian entrants, other than migrant child education;
- citizenship;
- ethnic affairs;
- multicultural affairs; and
- indigenous affairs and reconciliation.

5.291 The following comments relate only to material entities in the portfolio.

## Department of Immigration and Multicultural and Indigenous Affairs (DIMIA)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | (37.21)     | 30.23       |
| Capital use charge and dividend paid to government | 5.14        | 12.97       |
| Commonwealth's equity investment                   | 140.16      | 127.80      |
| Ratio of current assets to current liabilities     | 1.39:1      | 2.05:1      |
| Ratio of total assets to total liabilities         | 1.72:1      | 1.86:1      |

5.292 The decline in the ratio of current assets to current liabilities was associated with the upgrading and maintenance of the onshore detention centres during the year. The Department's operating deficit was mainly the result of:

- decreased funding under the Finance purchasing agreement because of the decline in the number of onshore detainees being housed in detention centres; and
- an increase in employee provisions of \$8 million to recognise annual leave superannuation on-costs and a higher long service leave accrual based on a revised actuarial assessment.

5.293 Expenditure totalling \$113 million was incurred on the set up and operation of offshore reception and processing centres. This was fully funded by appropriation revenue.

5.294 Despite the Department incurring an operating deficit, the Commonwealth's equity investment increased largely as a result of a capital injection of \$46 million for capital works.

#### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 313.44      | 292.28      |
| Total expenses                      | 203.99      | 170.54      |
| Total assets                        | 506.88      | 26.91       |
| Total liabilities                   | 36.72       | 17.32       |

5.295 The increase in total expenses is mainly a result of an increase in the write down of detainee debts due to the Commonwealth.

5.296 The significant increase in total assets is a result of recognising \$480.93 million of investments relating to the former Department of Reconciliation and Aboriginal and Torres Strait Islander Affairs which merged with the Department of Immigration and Multicultural Affairs following the Administrative Arrangements Order of 26 November 2001.

5.297 The increase in total administered liabilities is mainly attributable to the recognition of unearned revenue relating to application fees paid, where applications were not received prior to financial year end.

## Audit results

### *Summary of significant agency and administered audit findings*

5.298 During the interim audit phase the ANAO noted internal control issues relating to:

- the reconciliation of the human resource information system to the financial management information system;
- the reconciliation of bank accounts to the financial management information system;
- compliance by State Offices with all aspects of departmental procedural advices;
- compliance by a number of overseas posts with some aspects of required administrative procedures;
- segregation of duties between the review of payment files and access to initiate payment runs;
- regular reviews of user access to the financial information management system;
- review of current user profiles for the Integrated Client Service Environment;
- the level of security provided to overseas post IT equipment; and
- the need to update business resumption planning.

5.299 Overall, the ANAO considers that the Department has made reasonable progress in resolving these audit issues. It is anticipated that they will be cleared over the coming year. One additional control issue was identified during the final audit phase which related to the recording of unearned revenue. The ANAO will conduct a further review of these issues as part of our 2002-2003 financial statement audit to ensure that each issue has been satisfactorily addressed.

5.300 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 14                             | 5                                    | 1                         | 10                              |
| <b>Total</b> | <b>14</b>                      | <b>5</b>                             | <b>1</b>                  | <b>10</b>                       |

# Aboriginal and Torres Strait Islander Commission

## Financial results

### Summary of results

| Key financial measures for year (consolidated)     | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 60.86       | 50.09       |
| Capital use charge and dividend paid to government | 20.07       | 47.78       |
| Commonwealth's equity investment                   | 527.60      | 468.36      |
| Ratio of current assets to current liabilities     | 3.90:1      | 4.72:1      |
| Ratio of total assets to total liabilities         | 10.59:1     | 13.77:1     |

5.301 The Commission achieved a surplus substantially in excess of its Capital Use Charge, primarily due to the Commission being able to negotiate revised arrangements that excluded housing loans from the capital use charge calculation. This resulted in a reduction of \$27 million to the capital use charge. Additional operational activities were undertaken during the year resulting in an increase in supplier and grant expenses which was more than offset by an increase in revenues from government (\$1.039 billion to \$1.073 billion).

5.302 The increase in the Commonwealth's equity investment is mainly attributed to:

- a revaluation increment for property, plant and equipment of \$17.56 million;
- the payment of the capital use charge; and
- the net surplus for the year.

## Audit results

### *Summary of significant agency audit findings*

5.303 As part of the interim audit, the ANAO noted that the Commission needed to:

- recognise employee prepayments in its financial management information system (FMIS) to improve the accuracy of its monthly reporting system;
- improve FMIS system configuration to avoid the need for members of the FMIS support team to 'unblock' failed financial transactions; and
- implement a business resumption plan that encompasses the broader aspects of business continuity planning.

5.304 The first two audit issues have now been cleared, while work on the business continuity plan is continuing. No additional audit issues were noted as part of the final audit phase.

5.305 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 3                              | 2                                    | 0                         | 1                               |
| <b>Total</b> | <b>3</b>                       | <b>2</b>                             | <b>0</b>                  | <b>1</b>                        |

## Aboriginal and Torres Strait Islander Land Fund Account

### Financial results

#### Summary of results

| Key financial measures for year (consolidated)     | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 46.70       | 45.24       |
| Capital use charge and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                   | 1,095.20    | 940.70      |
| Ratio of current assets to current liabilities     | No liab     | No liab     |
| Ratio of total assets to total liabilities         | No liab     | No liab     |

5.306 The Land Fund received a special appropriation of \$88.8 million that is credited directly to the Fund and a further revenue appropriation of \$52.6 million that is distributed to the Indigenous Land Council. These appropriations will cease in 2004 as, in subsequent years, the capital base of the Fund will be sufficient for the annual earnings to replace the government's appropriations, making it a perpetual fund. The Fund earned \$46.69 million (2000–2001: \$45.23 million) in investment income and also gained an investment revaluation increment of \$18.96 million.

## **Audit results**

### *Summary of significant agency and administered audit findings*

5.307 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit phase.

## **Comments on non-material entities**

5.308 The significant audit issues relating to non-material entities within this portfolio are provided below.

### **Bilioara Pty Ltd and Bilioara Unit Trust**

5.309 The unqualified audit reports for Bilioara Pty Ltd and the Trust included an emphasis of matter due to the significant uncertainty surrounding the potential impact of two legal cases and their magnitude to materially affect the extent of the Trust assets available to settle Trust liabilities. Refer to Part 3 of this report for details.

### **Morr Morr Pastoral Company Pty Ltd**

5.310 The unqualified audit report included an emphasis of matter concerning the determination of the recoverable amount of company assets which will be the subject of divestment and an associated leaseback transaction. Refer to Part 3 of this report for details.

# Industry, Tourism and Resources Portfolio

| Reporting Entity as at 30 June 2002           | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of Industry, Tourism and Resources | Yes             | ✓            | 03-Sep-02      |              |
| Australian Government Analytical Laboratories | No              | ✓            | 03-Sep-02      |              |
| Australian Technology Group Limited           | No              | ✓            | 16-Sep-02      |              |
| Snowy Mountains Hydro-Electric Authority      | Yes             | ✓            | 06-Nov-02      |              |
| Australian Tourist Commission                 | Yes             | ✓            | 16-Aug-02      |              |
| CVC REEF Limited                              | No              | ✓            | 13-Nov-02      |              |
| IIF Bioventures Pty Limited                   | No              | ↔            |                |              |
| IIF Foundations Pty Limited                   | No              | ↔            |                |              |
| IIF Investments Pty Ltd                       | No              | ↔            |                |              |
| IIF Newport Pty Limited                       | No              | ↔            |                |              |
| IIF(CM) Investments Pty Ltd                   | No              | ↔            |                |              |
| National Standards Commission                 | No              | ✓            | 22-Aug-02      |              |
| Geoscience                                    | No              | ✓            | 20-Sep-02      |              |
| IP Australia                                  | No              | ✓            | 18-Sep-02      | ◆            |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

↔ signed financial statements not presented for audit at this time

≠ financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.311 The Industry, Tourism and Resources Portfolio's aim is to improve the well-being of Australians by:

- increasing the international competitiveness of Australian manufacturing, resources and services industries; and
- developing Australia's innovation and technology capabilities and infrastructure.

5.312 The portfolio has responsibility for developing, implementing and administering policies, programs and services designed to promote the achievements of these aims.

5.313 The following comments relate only to material entities in the portfolio.

## Department of Industry, Tourism and Resources (DITR)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | (8.60)      | 5.31        |
| Capital use charge and dividend paid to government | 2.40        | 4.38        |
| Commonwealth's equity investment                   | 29.18       | 38.32       |
| Ratio of current assets to current liabilities     | 1.31:1      | 1.36:1      |
| Ratio of total assets to total liabilities         | 1.51:1      | 1.67:1      |

5.314 The agency's financial result changed from surplus to deficit due to the transfer of Australian Surveying and Land Information Group (AUSLIG) from DITR to Geoscience Australia. This also contributed significantly to the decrease in the Commonwealth's equity interest.

#### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 1,349.73    | 980.28      |
| Total expenses                      | 4,040.99    | 1,291.10    |
| Total assets                        | 1,286.74    | 4,951.07    |
| Total liabilities                   | 262.34      | 227.71      |

5.315 The increase in total revenues is principally due to an increase in revenue from the Automotive Competitiveness and Investment Scheme (ACIS). ACIS commenced its function late last financial year resulting in part-year revenue of \$89 million, as opposed to \$602 million in the current full year of operations.

5.316 The reduction in total assets and the increase in total expenses are mainly attributable to the corporatisation of SMHEA, resulting in a \$2.3 billion write-down of administered investments.



## Audit results

### *Summary of significant agency and administered audit findings*

5.317 As part of the interim audit, the ANAO noted that the Department was still in the process of:

- developing a more broadly based business resumption plan, in addition to the existing disaster recovery plan covering their IT systems and processes; and
- addressing problems with the system of identifying and reporting of commitments.

These issues are still outstanding and require management action.

5.318 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 3                              | 1                                    | 0                         | 2                               |
| <b>Total</b> | <b>3</b>                       | <b>1</b>                             | <b>0</b>                  | <b>2</b>                        |

5.319 Overall, it is considered that the Department is making reasonable progress on resolving the two outstanding audit issues. The ANAO anticipates that these issues will be cleared over the coming year.

## Snowy Mountains Hydro-electric Authority

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net deficit for the year                           | (2,130.61)  | (76.82)     |
| Capital use charge and dividend paid to government | N/A         | N/A         |
| Commonwealth's equity investment                   | 0           | 2,130.56    |
| Ratio of current assets to current liabilities     | N/A         | 0.60:1      |
| Ratio of total assets to total liabilities         | N/A         | 3.19:1      |

**5.320** The Snowy Mountains Hydro-electric Authority was corporatised on 28 June 2002. The Authority's assets and liabilities, including commitments and contingencies, were transferred at no consideration to Snowy Hydro Limited. The transfer of these assets and liabilities resulted in a loss to the Authority of \$2.05 billion.

## **Audit results**

### *Summary of significant agency audit issues*

**5.321** There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Australian Tourist Commission

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 1.72        | 3.76        |
| Capital use charge and dividend paid to government | 0.59        | 0.50        |
| Commonwealth's equity investment                   | 5.65        | 4.26        |
| Ratio of current assets to current liabilities     | 1.06:1      | 1.05:1      |
| Ratio of total assets to total liabilities         | 1.32:1      | 1.23:1      |

5.322 The decrease in the current year surplus is mainly due to the slight downturn in tourism activities reflected by lower revenue. In addition, there was also a decline in interest income due to falling interest rates and lower cash holdings throughout the year.

### Audit results

#### *Summary of significant agency audit findings*

5.323 There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Comments on non-material entities

5.324 The significant audit issues relating to non-material entities within this portfolio are provided below.

### IP Australia

5.325 Assets under construction were not being depreciated from the time that they were put into use by IP Australia. The amount was immaterial.

# Parliamentary Departments

| Reporting Entity as at 30 June 2002             | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of the Senate                        | No              | ✓            | 05-Sep-02      |              |
| Department of the House of Representatives      | No              | ✓            | 30-Aug-02      |              |
| Department of the Parliamentary Library         | No              | ✓            | 31-Jul-02      |              |
| Department of the Parliamentary Reporting Staff | No              | ✓            | 13-Sep-02      |              |
| Joint House Department                          | <b>Yes</b>      | ✓            | 18-Sep-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

→ signed financial statements not presented for audit at this time  
financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Departmental overview

### Joint House Department

5.326 The Department is responsible for providing the Parliament and the users of the building with a range of services including:

- building design and construction;
- building modification and maintenance;
- art and craft; and
- commercial support services and facilities.

### Department of the Senate

5.327 The main function of the Department of Senate is the effective and efficient provision of services to support the Senate, its committees and senators. The Department also conducts education programs and prepares publications to promote an understanding of the Senate and of parliamentary processes.

### Department of the House of Representatives

5.328 The Department provides services to support the efficient conduct of the House of Representatives, its committees and certain joint committees, as well as a range of services for Members in Parliament House. The Department also undertakes activities to promote the work of the House in the community and is responsible for the conduct of the Parliament's international and regional relations.

## Department of the Parliamentary Library

5.329 The Department contributes to a more informed Parliament and, through it, to the Australian community. This is achieved by the provision of commissioned information services for Senators, Members, parliamentary committees and parliamentary departments. The Department serves the Australian community by making available publications, including general distribution papers, the Parliamentary Handbook, subject guides and e-briefs, on the Department's website.

## Department of the Parliamentary Reporting Staff

5.330 The Department provides a range of complex and integrated reporting, information technology, broadcasting and communications services to Senators, Members, Ministers, parliamentary committees, the Parliamentary Service and external users such as educational institutions, libraries, commercial and professional organisations and the media.

5.331 The following comments relate only to material departments.

## Joint House Department

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | (0.42)      | 0.58        |
| Capital use charge and dividend paid to government | 0.41        | 0.58        |
| Commonwealth's equity investment                   | 3.30        | 4.13        |
| Ratio of current assets to current liabilities     | 1.47:1      | 1.97:1      |
| Ratio of total assets to total liabilities         | 1.44:1      | 1.66:1      |

5.332 The deficit for the year was the result of increases in operating expenses including lease borrowing, legal and compensation costs.

## Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 40.00       | 0.04        |
| Total expenses                  | 27.99       | 27.73       |
| Total assets                    | 1,241.86    | 1,199.04    |
| Total liabilities               | 2.40        | 0.20        |

5.333 The large increase in revenues is due to artworks donated to the Parliament of Australia being recognised for the first time. Other results were consistent with those of the previous financial year.

## Audit results

### *Summary of significant agency and administered audit findings*

5.334 There were no significant departmental or administered audit issues carried forward from the interim audit phase. As well, there were no significant audit issues arising from the final audit phase.

## Comments on non-material entities

5.335 There were no significant audit issues impacting on non-material entities.

# Prime Minister and Cabinet Portfolio

| Reporting Entity as at 30 June 2002                           | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Australian National Audit Office                              | No              | ✓            | 12-Aug-02      |              |
| Australian Public Service Commission                          | No              | ✓            | 29-Aug-02      |              |
| Department of the Prime Minister and Cabinet                  | <b>Yes</b>      | ✓            | 13-Aug-02      |              |
| National Australia Day Council (company limited by guarantee) | No              | ✓            | 29-Aug-02      |              |
| Office of National Assessments                                | No              | ✓            | 12-Sep-02      |              |
| Office of the Commonwealth Ombudsman                          | No              | ✓            | 19-Sep-02      |              |
| Office of the Inspector General of Intelligence and Security  | No              | ✓            | 09-Oct-02      |              |
| Office of the Official Secretary to the Governor General      | No              | ✓            | 11-Sep-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

✦ signed financial statements not presented for audit at this time  
 ✦ financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.336 The Department and the seven agencies comprising the Prime Minister and Cabinet portfolio produce a range of outputs directed at achieving well coordinated, efficient and accountable public administration.

5.337 The following comments relate only to material entities in the portfolio.

## Department of the Prime Minister and Cabinet (PM&C)

### Financial results

#### Summary of agency results

| Key financial measures for the year                | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 5.16        | 3.60        |
| Capital use charge and dividend paid to government | 5.30        | 0.64        |
| Commonwealth's equity investment                   | 14.30       | 12.04       |
| Ratio of current assets to current liabilities     | 3.20:1      | 2.01:1      |
| Ratio of total assets to total liabilities         | 2.00:1      | 1.62:1      |

5.338 The surplus is the result of recoveries in relation to the central advertising system, interest revenue on investments, and some efficiencies in achieving a lower price of outputs.

5.339 The ratio of current assets to current liabilities has increased significantly from 30 June 2001 as one-off liabilities relating to expenses incurred for the Commonwealth Heads of Government Meeting have been paid.

### Items administered on behalf of the Commonwealth

| Key financial measures for the year | 2002<br>\$m | 2001<br>\$m |
|-------------------------------------|-------------|-------------|
| Total revenues                      | 5.89        | 7.41        |
| Total expenses                      | 30.11       | 32.19       |
| Total assets                        | 38.66       | 39.08       |
| Total liabilities                   | 8.96        | 7.42        |

5.340 The administered results for 2001–2002 are broadly consistent with the prior year results.

## Audit results

### *Summary of significant agency and administered audit findings*

5.341 As part of the interim audit, the ANAO noted that the Department needed to update its business resumption plan. Work on this plan is continuing. There were no significant departmental or administered audit issues arising from the final audit phase.

5.342 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 1                              | 0                                    | 0                         | 1                               |
| <b>Total</b> | <b>1</b>                       | <b>0</b>                             | <b>0</b>                  | <b>1</b>                        |

## Comments on non-material entities

5.343 There were no significant audit issues impacting on non-material entities.



# Transport and Regional Services Portfolio

| Reporting entity at 30 June 2002                            | Material Entity | Audit Report | Opinion Issued | Audit Issues |
|---|-----------------|--------------|----------------|--------------|
| Department of Transport and Regional Services               | Yes             | ✓            | 19-Aug-02      |              |
| Airservices Australia                                       | Yes             | ✓            | 26-Aug-02      |              |
| Albury-Wodonga Development Corporation                      | No              | ✓            | 24-Sep-02      |              |
| Australian Maritime College <sup>Ⓔ</sup> (31-Dec-01)        | No              | ✓            | 08-Apr-02      |              |
| Australian Maritime Search Limited <sup>Ⓔ</sup> (31-Dec-01) | No              | ✓            | 08-Apr-02      |              |
| Australian Maritime Safety Authority                        | No              | ✓            | 17-Sep-02      |              |
| Australian Rail Track Corporation                           | Yes             | ✓            | 17-Oct-02      |              |
| Australian Railway Infrastructure Foundation                | No              | ◆            |                |              |
| Civil Aviation Safety Authority                             | Yes             | ✓            | 10-Sep-02      |              |
| Maritime Industry Finance Company Ltd                       | No              | ✓            | 09-Sep-02      |              |
| Stevedoring Industry Finance Committee                      | No              | ✓            | 26-Sep-02      |              |
| National Capital Authority                                  | Yes             | ✓            | 31-July-02     |              |
| National Road Transport Commission                          | No              | ✓            | 04-Sep-02      |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time  
financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

**5.344** Transportation is an important element in Australia's economic prosperity and in ensuring all Australians have access to high standard of general services and facilities that are safer, more effective and efficient.

**5.345** The Government, working in partnership with regional communities, provides services specifically for communities in regional, rural and remote Australia to foster the social and economic capacity of regional Australia and ensure that regional people share in the benefits of Australia's economic success.

5.346 The Portfolio's responsibilities also recognise that local government, as well as other levels of government in Australia's states and territories, play an important role in supporting services, amenities and lifestyles of regional, rural and remote communities.

5.347 The following comments relate only to material entities in the portfolio.

## Department of Transport and Regional Services

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 34.71       | 14.68       |
| Capital use charge and dividend paid to government | 24.61       | 26.50       |
| Commonwealth's equity investment                   | 223.51      | 214.49      |
| Ratio of current assets to current liabilities     | 2.43:1      | 2.56:1      |
| Ratio of total assets to total liabilities         | 6.54:1      | 6.64:1      |

5.348 The Department achieved a net surplus for the year. The surplus after payment of the capital use charge was \$10.1 million and this was primarily due to carry over of funds for some new activities from 2001–2002 to 2002–2003. The operating result also reflected an increase in revenues from the government to fund new measures and the transfer of new functions to the Department. The increase in revenue was offset with increases in employee and supplier expenses, which were a result of changes in administrative arrangement orders and pay increases under a new certified agreement. The increase in the Commonwealth's equity investment was mainly attributable to the net surplus for the year.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 351.60      | 241.12      |
| Total expenses                  | 3,523.79    | 3,086.72    |
| Total assets                    | 935.81      | 1,481.90    |
| Total liabilities               | 140.40      | 157.02      |

5.349 Revenue has increased due to the introduction of the air passenger ticket levy introduced in the wake of the Ansett collapse. Expenses have increased as a result of a change in accounting treatment for grant programs as well as the introduction of new programs and increased funding for existing programs.

### *Change in accounting policy*

5.350 The Department changed its accounting policy for administered grants. These payments were previously recognised as an asset and expensed in accordance with predetermined milestones. Grant payments are now accounted for as an expense immediately upon disbursement as the milestones are typically measures of compliance with the terms of the grant, rather than indicators that a future economic benefit is to be realised.

## **Audit results**

### *Summary of significant agency audit findings*

5.351 During the interim audit, the ANAO noted that the Department's business continuity plan needed updating to take into account broader business resumption planning issues. The Department has commenced appropriate remedial action. There were no significant audit issues arising from the final audit phase.

5.352 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 1                              | 0                                    | 0                         | 1                               |
| <b>Total</b> | <b>1</b>                       | <b>0</b>                             | <b>0</b>                  | <b>1</b>                        |

## **Airservices Australia**

### **Financial results**

#### **Summary of results**

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 24.85       | 55.95       |
| Capital use charge and dividend paid to government | 14.90       | 11.40       |
| Commonwealth's equity investment                   | 258.58      | 245.13      |
| Ratio of current assets to current liabilities     | 1.94:1      | 0.77:1      |
| Ratio of total assets to total liabilities         | 1.79:1      | 1.71:1      |

5.353 Despite a \$70 million reduction in airways revenue and a \$15 million increase in bad debts due to the collapse of the Ansett group in September 2001 and the global slowdown in international aviation markets, Airservices Australia still managed to achieve a surplus for the year. This was in large part due to the significant action taken by management to reduce supplier and staff costs which fell by some \$36 million. As a result of these mitigations, the Board of Airservices Australia recommended a dividend of \$14.9 million for the year.

## Audit results

### *Summary of significant agency audit findings*

5.354 There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit phase.

## Australian Rail Track Corporation

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 17.18       | 20.20       |
| Capital use charge and dividend paid to government | 5.73        | 11.50       |
| Commonwealth's equity investment                   | 218.15      | 206.70      |
| Ratio of current assets to current liabilities     | 1.87:1      | 1.51:1      |
| Ratio of total assets to total liabilities         | 0.74:1      | 0.64:1      |

5.355 The Australian Rail Track Corporation is in a strong financial position, underpinned by the value of its non-financial assets, specifically Plant and Equipment and Infrastructure assets. ARTC has a strong cash generating ability through its commercial activities which continued to improve throughout 2002, showing a 5.5 per cent growth in the measure of gross tonne kilometres. This reflects the continuing market share dominance of rail over the east-west land transport corridor, averaging 78.9 per cent for 2002. Increased sales volumes were the main contributor to the strengthened cash position at year-end, which increased by \$6.8 million to \$37.96 million in 2002.

## Audit results

### *Summary of significant agency audit findings*

5.356 There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Civil Aviation Safety Authority

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus (deficit) for the year                 | (2.29)      | 4.96        |
| Capital use charge and dividend paid to government | 2.06        | 1.74        |
| Commonwealth's equity investment                   | 20.12       | 24.47       |
| Ratio of current assets to current liabilities     | 1.70:1      | 2.21:1      |
| Ratio of total assets to total liabilities         | 1.79:1      | 2.01:1      |

5.357 The Authority incurred a deficit during 2001–2002, resulting from a 2.7 million decrease in excise revenue forecasts as a result of the Ansett collapse. The net asset position also decreased as a consequence of the deficit and CUC dividend of \$2.06 million in 2001–2002.

## Audit results

### *Summary of significant agency audit findings*

5.358 There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

# National Capital Authority

## Financial results

### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 2.58        | 0.42        |
| Capital use charge and dividend paid to government | 0.91        | 0.76        |
| Commonwealth's equity investment                   | 2.50        | 2.00        |
| Ratio of current assets to current liabilities     | 1.80:1      | 1.21:1      |
| Ratio of total assets to total liabilities         | 2.85:1      | 2.37:1      |

5.359 The Authority incurred a significant increase in net surplus resulting from increases in interest, appropriation and sales revenue. In addition, sponsorships and donations totalling \$0.96 million also contributed to the increase in total revenue. The higher than expected revenues resulted in increased cash holdings. Non-current assets also increased as a result of the Authority receiving donated assets. The Authority is in a sound financial position. There was an increase in Commonwealth equity of \$500 000 resulting from a capital injection. This capital was utilised in the acquisition of assets.

## Audit results

### *Summary of significant agency audit findings*

5.360 There were no significant audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

## Comments on non-material entities

5.361 There were no significant audit issues impacting on non-material entities.

# Treasury Portfolio

| Reporting Entity as at 30 June 2002                     | Material Entity | Annual Report | Opinion Issued | Audit Issues |
|---|-----------------|---------------|----------------|--------------|
| Department of the Treasury                              | Yes             | E             | 17-Sept-02     | ◆            |
| Royal Australian Mint (commercial activity)             | No              | ✓             | 23-Aug-02      |              |
| Sydney 2000 Olympic Coin Program (commercial activity)  | No              | ✓             | 14-Aug-02      |              |
| Australian Office of Financial Management               | Yes             | ✓             | 23-Aug-02      | ◆            |
| Australian Bureau of Statistics                         | Yes             | ✓             | 09-Aug-02      |              |
| Australian Competition and Consumer Commission          | No              | ✓             | 28-Aug-02      |              |
| Australian Securities and Investments Commission        | Yes             | ✓             | 15-Aug-02      |              |
| Corporations Act Revenue (commercial activity)          | No              | ✓             | 15-Aug-02      |              |
| Australian Prudential Regulation Authority              | No              | ✓             | 16-Aug-02      | ◆            |
| Australian Accounting Standards Board                   | No              | ✓             | 05-Sept-02     |              |
| Australian Taxation Office                              | Yes             | Q             | 04-Oct-02      | ◆            |
| Australian Valuation Office (commercial activities)     | No              | ✓             | 26-Sept-02     |              |
| National Competition Council                            | No              | ✓             | 11-Sept-02     |              |
| Reserve Bank of Australia                               | Yes             | ✓             | 09-Aug-02      |              |
| —Note Printing Australia Pty Ltd                        | No              | ✓             | 24-Jul-02      |              |
| Reserve Bank of Australia Officers' Superannuation Fund | No              | ✓             | 10-Oct-02      |              |
| Corporations and Markets Advisory Committee             | No              | ✓             | 12-Sept-02     |              |
| Productivity Commission                                 | No              | ✓             | 16-Sept-02     |              |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

↔ signed financial statements not presented for audit at this time  
financial year end date other than 30 June 2002

◆ significant internal control issues noted (since Audit Report No.67 of 2001–2002) and/or other significant audit issues noted

## Portfolio overview

5.362 The Treasury portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth and the improved wellbeing of Australians. This entails the provision of policy advice to portfolio Ministers, which seeks to promote a sound macroeconomic environment; effective government spending and taxation arrangements; and well functioning markets. It also entails the effective implementation and administration of policies that fall within the portfolio Ministers' responsibilities.

5.363 The following comments relate only to material entities in the portfolio.

## The Department of the Treasury

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 10.87       | 5.56        |
| Capital use charge and dividend paid to government | 3.16        | 3.10        |
| Commonwealth's equity investment                   | 34.05       | 26.13       |
| Ratio of current assets to current liabilities     | 2.17:1      | 2.00:1      |
| Ratio of total assets to total liabilities         | 2.12:1      | 1.67:1      |

5.364 The increased operating surplus for the year is mainly attributable to an under-spend against budget on various programs and an increase in the profit generated by the Royal Australian Mint of \$1.27 million.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 3,608.44    | 1,657.69    |
| Total expenses                  | 32,518.89   | 28,517.19   |
| Total assets                    | 16,852.73   | 16,915.77   |
| Total liabilities               | 7,111.56    | 7,174.75    |

5.365 The significant increase in administered revenues is attributable to the increased Reserve Bank of Australia (RBA) dividend of \$2.83 billion.

5.366 The significant increase in administered expenses is mainly attributable to greater GST distributions and budget Balancing Assistance Payments to the States and Territories of \$4.16 billion. Other expenses decreased by \$165 million, noting the significant expense of \$640 million for the HIH Claims Liability in 2000–2001, which was been replaced by the expensing in 2001–2002 of \$500.8 million for the liabilities the Commonwealth assumed in relation to the Medical Defence Organisations (MDOs) commitments.



## Audit results

### *Summary of significant agency audit findings*

5.367 During the interim phase of the audit, the ANAO noted issues surrounding the following controls:

- the incorrect utilisation of a major general ledger account;
- employment and related costs reconciliations;
- the generation of payment files; and
- access profiles of the general ledger (SAP R/3).

5.368 The ANAO has been advised that all but minor issues within the employee reconciliations have been resolved prior to the year-end. The ANAO will review the measures taken to address the above issues in 2002–2003.

5.369 The only new issue at year-end was in regard to the limited use of quality assurance procedures by the Department. The ANAO has also been advised that this will be addressed in 2002–2003.

### *Summary of significant administered audit findings*

5.370 An unqualified audit report was issued including an emphasis of matter due to the inherent uncertainty regarding the liabilities for the HHH Claims Support Scheme and the Commonwealth's assistance package for the Medical Defence Organisations. Refer to Part 3 of this report for details.

5.371 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 0                              | 0                                    | 0                         | 0                               |
| B            | 4                              | 3                                    | 1                         | 2                               |
| <b>Total</b> | <b>4</b>                       | <b>3</b>                             | <b>1</b>                  | <b>2</b>                        |

# Australian Office of Financial Management (AOFM)

## Financial results

### Summary of financial position and performance

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 1.10        | 1.91        |
| Capital use charge and dividend paid to government | 1.38        | 0.40        |
| Commonwealth's equity investment                   | 3.14        | 2.96        |
| Ratio of current assets to current liabilities     | 3.97:1      | 5.46:1      |
| Ratio of total assets to total liabilities         | 3.47:1      | 3.26:1      |

5.372 The operating surplus reduced from that of the prior year by \$0.812 million. This is mainly attributable to an increase in employees as AOFM continues to increase staffing levels, in line with its corporate plan.

### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 4,276.16    | 3,137.50    |
| Total expenses                  | 7,165.01    | 10,562.79   |
| Total assets                    | 15,042.92   | 18,109.82   |
| Total liabilities               | 68,688.75   | 74,021.53   |

5.373 The increase in administered revenue of \$1.14 billion and the reduction in administered expenditure of \$3.4 billion are mainly due to the effects of exchange rate movements on the derivative portfolio. Administered expenses also decreased due to a reduction in interest expenditure on the swap and securities portfolios.

5.374 The decrease in administered assets is mainly attributable to a reduction in term deposits of \$3 billion.

5.375 Administered liabilities decreased primarily due to a reduction in the securities and outstanding swap principal.

## Audit results

### *Summary of significant agency audit findings*

5.376 During the interim phase of the audit, the ANAO noted an issue in relation to the controls surrounding the AOFM's contract management procedures. The ANAO has been advised that appropriate procedures will be in place by 31 December 2002.

### *Summary of significant administered audit findings*

5.377 An issue noted by the ANAO during the interim phase of the audit in relation to the process of drawing special account expenditure has been subsequently resolved. There were no new significant audit issues arising from the final audit phase.

5.378 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 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>                        |

## Australian Bureau of Statistics (ABS)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net surplus for the year                           | 10.58       | 7.44        |
| Capital use charge and dividend paid to government | 6.71        | 7.11        |
| Commonwealth's equity investment                   | 60.91       | 56.97       |
| Ratio of current assets to current liabilities     | 0.68:1      | 0.45:1      |
| Ratio of total assets to total liabilities         | 1.59:1      | 1.69:1      |

5.379 An operating surplus was budgeted for (after payment of the Capital Use Charge) to provide the cash necessary for the capital repayments on the loan taken out for fitout of a new Canberra building and to repay the capital portion of financing leases. The Bureau has, in future years, budgeted for surpluses and indicates it will continue to do so until the loans and leases are repaid.

### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | -           | 0.27        |
| Total expenses                  | -           | -           |
| Total assets                    | -           | -           |
| Total liabilities               | -           | -           |

5.380 The net surplus for subletting the Census Data Processing Building was returned to the Commonwealth as Administered Revenue. The sublease was terminated in preparation for the 2001 Census. Net revenue will not be collected in the future, under the subleasing arrangement, as the lease on the building will terminate in December 2002.

## Audit results

### *Summary of significant agency audit findings*

5.381 There were no significant audit issues identified during the interim phase of the audit.

5.382 During the final audit, one issue was noted in regard to a breach of delegations. The issue was brought to management's attention and was subsequently corrected. There were no other significant audit issues arising from the final audit phase.

### *Summary of significant administered audit findings*

5.383 There were no significant administered audit issues noted during 2001–2002.

## Australian Securities and Investments Commission (ASIC)

### Financial results

#### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net deficit for the year                           | (5.60)      | (0.87)      |
| Capital use charge and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                   | (0.92)      | 2.18        |
| Ratio of current assets to current liabilities     | 0.74:1      | 0.81:1      |
| Ratio of total assets to total liabilities         | 0.98:1      | 1.06:1      |

5.384 The increased deficit is mainly attributed to increased costs associated with a new finance lease entered into by ASIC during 2002.

5.385 The decrease in the Commonwealth's equity investment is mainly attributable to a \$5.6 million operating deficit, which was partly offset by an increment in asset revaluations of \$2.5 million.

#### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 426.07      | 410.3       |
| Total expenses                  | 25.06       | 20.49       |
| Total assets                    | 100.47      | 102.43      |
| Total liabilities               | 80.68       | 66.80       |

5.386 Total non taxation revenues and expenses increased in line with ASIC's operations for the period. Total administered appropriations decreased with a reduction in claims lodged by the public for unclaimed money.

### Audit results

#### *Summary of significant agency and administered audit findings*

5.387 There were no significant departmental or administered audit issues carried forward from the interim audit. As well, there were no significant audit issues arising from the final audit.

# Australian Taxation Office (ATO)

## Financial results

### Summary of agency results

| Key financial measures for year                    | 2002<br>\$m | 2001<br>\$m |
|--|-------------|-------------|
| Net deficit for the year                           | (42.06)     | (66.57)     |
| Capital use charge and dividend paid to government | 0           | 0           |
| Commonwealth's equity investment                   | (60.42)     | (63.69)     |
| Ratio of current assets to current liabilities     | 0.83:1      | 0.60:1      |
| Ratio of total assets to total liabilities         | 0.90:1      | 0.88:1      |

5.388 The operating deficit for the year was slightly less than the approved budget deficit of \$42.966 million at Additional Estimate time for 2001–2002. Significant items impacting on the deficit included the following:

- reduction in funding of \$57.9 million related to the removal of Goods and Services Tax (GST) implementation funding; and
- decrease in operating expenses of \$92.6 million, mainly attributed to diminishing costs associated with the implementation of the GST as the ATO moved from implementation phase to business as usual.

5.389 The increase in the Commonwealth's equity investment is mainly attributable to an equity injection of \$45.7 million offset by the net deficit for the year of \$42 million.

5.390 The ATO has not paid any capital use charge due to its negative net asset position.

### Items administered on behalf of the Commonwealth

| Key financial measures for year | 2002<br>\$m | 2001<br>\$m |
|---------------------------------|-------------|-------------|
| Total revenues                  | 173,543.94  | 164,144.10  |
| Total expenses                  | 4,689.79    | 4,555.42    |
| Total assets                    | 41,679.33   | 35,742.14   |
| Total liabilities               | 20,712.37   | 18,599.64   |

5.391 The increase in revenue is largely attributed to Income Tax revenue for companies (\$3.15 billion) and Gross PAYG (\$4.94 billion). Company revenue has increased due to general growth factors. Gross PAYG revenue has increased due to strong growth in employment and average weekly earnings.

**5.392** The increase in assets is related to accrued Income Tax revenue for companies and individuals. The increase in liabilities is related to provisions for refunds. The variations are due to continued growth in revenue and an improved understanding of the impact of Tax Reform on estimates, resulting in proportionally higher accrued revenue and provisions for refunds.

## **Audit results**

### *Summary of significant agency audit findings*

**5.393** As part of the interim audit, the ANAO raised issues with the ATO regarding its Disaster Recovery Plan. The recovery timeframe for the ATO's mainframe computer is 8–10 weeks with mainframe processing located at one site. Management has advised that a more detailed risk assessment has been performed and action is underway to establish a mirror mainframe site.

**5.394** The preparation and audit of the ATO's financial statements was protracted due to the problems with the quality of information and the agency not meeting all key deadlines for the delivery of auditable supporting schedules. The ATO is in the process of implementing strategies to ensure sufficient resources are allocated to improve the quality and timeliness of financial statements.

**5.395** During the final phase of the audit, the ANAO noted that the ATO's contract management, particularly the ability to accurately determine and manage liabilities, could be improved. The ANAO has recommended that the ATO review its contract management processes for recording and monitoring liabilities.

### *Summary of significant administered audit findings*

**5.396** In September 2001, the ANAO raised with the ATO serious concerns over the completion of key administered reconciliations. To address this issue, a project was implemented to perform the reconciliations, then redesign and streamline the reconciliation processes. The ANAO noted, during the interim audit, that the ATO had made reasonable progress to date in identifying the problems associated with the reconciliations.

**5.397** At year end, the ATO encountered difficulties completing the major reconciliations and has not finalised a number of minor reconciliations. The difficulties with the major reconciliations delayed the preparation of the ATO financial statements, which in turn resulted in the Department of Finance and Administration's 15 August 2002 clearance deadline being missed.

**5.398** The ANAO notes the ATO is committed to the finalisation of all reconciliations and the introduction of the new reconciliation processes.

5.399 The ANAO previously raised concerns over the Billpay reconciliations. Billpay is the mechanism via which taxpayers can pay their tax liabilities over the counter at Australian Post offices. The ATO has an improved understanding of the nature of differences noted in the associated reconciliation and is in the process of implementing changes that should address the issues previously raised by the ANAO.

5.400 The ANAO previously questioned why the ATO did not regularly review the doubtful debts and credit amendments provisions, noting that the level of guidance was insufficient to enable a reasonable and consistent estimation of provision accounts. The ATO was unable to provide an estimate of the provision until early September and significant adjustments were then required.

5.401 The ATO has undertaken to improve the process for identification and estimation of doubtful debt and credit amendment provisions.

5.402 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2002.

| Ratings      | Opening position at March 2002 | Issues resolved prior to August 2002 | New issues to August 2002 | Closing position at August 2002 |
|--------------|--------------------------------|--------------------------------------|---------------------------|---------------------------------|
| A            | 3                              | 2                                    | 1                         | 2                               |
| B            | 7                              | 0                                    | 3                         | 10                              |
| <b>Total</b> | <b>10</b>                      | <b>2</b>                             | <b>4</b>                  | <b>12</b>                       |

5.403 Reasonable progress has been made on resolving the remaining audit findings. The ANAO anticipates that the majority of issues will be cleared over the coming year.

## Reserve Bank of Australia

### Financial results

#### Summary of agency results

| Key financial measures for year                       | 2002<br>\$m | 2001<br>\$m |
|---|-------------|-------------|
| Net surplus for the year                              | 1,868.00    | 3,149.00    |
| Capital use charge and dividend payable to government | 1,889.00    | 2,834.00    |
| Commonwealth's equity investment                      | 9,510.00    | 9,431.00    |
| Ratio of current assets to current liabilities        | N/A         | N/A         |
| Ratio of total assets to total liabilities            | 1.19:1      | 1.19:1      |



5.404 The decrease of \$1,281 million in operating surplus is mainly attributable to a general decrease in interest rates and movements in the exchange rate.

## Audit results

### *Summary of significant agency audit findings*

5.405 There were no significant audit issues carried forward from the interim audit phase. As well, there were no significant audit issues arising from the final audit phase.

## Comments on non-material entities

5.406 The significant audit issues relating to non-material entities within this portfolio are provided below.

## Australian Prudential Regulation Authority

5.407 Overall, the results of the audit were satisfactory in relation to the accounting for the Authority's transactions and balances. However, as for 2000–2001, there was continued non-compliance with certain requirements of the *Financial Institutions Supervisory Levies Collection Act 1998*. This non-compliance extended up until 26 June 2002, when Royal Assent was given to amendments to the Act, changing the relevant requirements, so that the Authority should be able to comply with them in future years.

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Canberra ACT  
23 December 2002

P. J. Barrett  
Auditor-General



# Appendices



## Appendix 1

### Significant Issues by Major Entity

The following table sets out 'A' rated issues (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' issues | Explanatory Comment  |
|--|------------------|--|
| Department of Defence                      | 13               | Twelve of the Category A issues are carried forward from the previous year. The issues are 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 thirty 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 were noted relating to the completion and significant progress has been made to date of these critical reconciliations. The ATO 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. |

**Table of 'A' and 'B' ratings by entity at 30 April 2002**

| 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> |

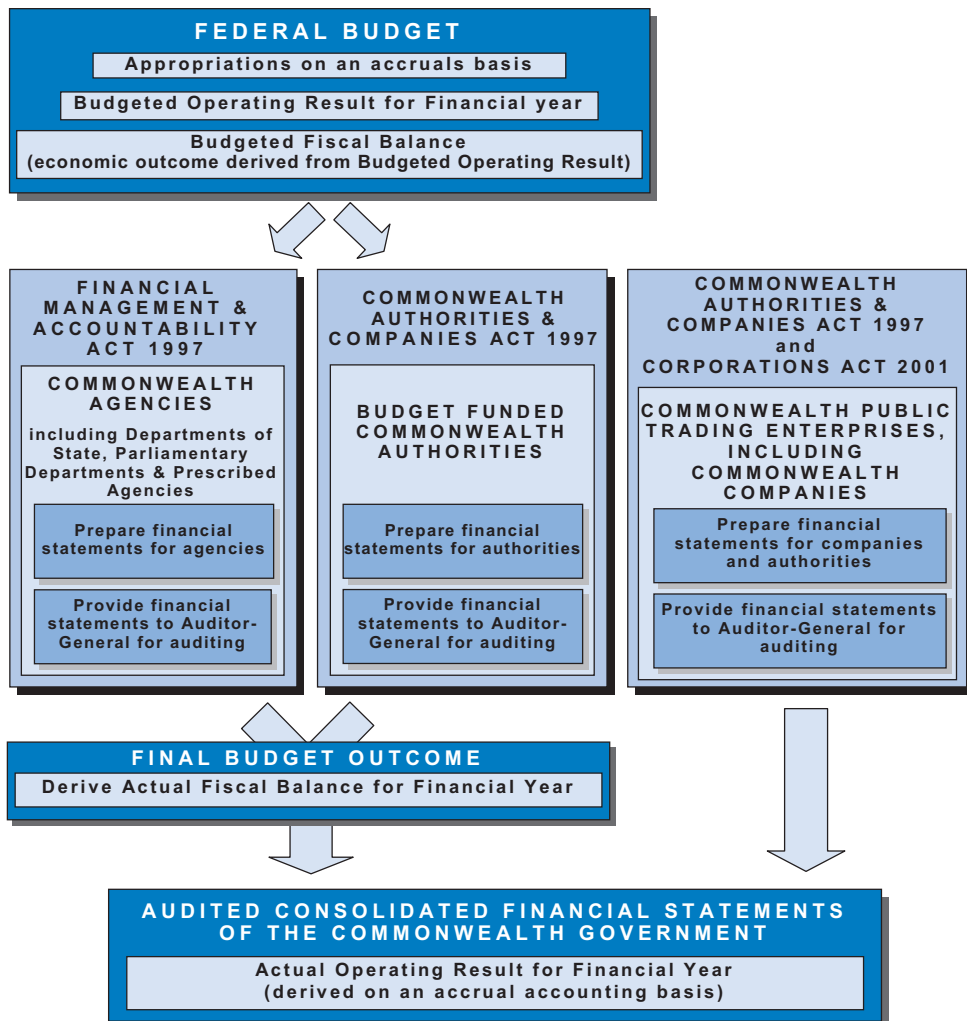
† These entities were not included in the report for the year ending 2001.

## 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.

### **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. 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.

## Glossary of Terms

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|         |  |
|---------|--|
| AAO     | Administrative Arrangements Order                                      |
| AAS     | Australian Accounting Standard   |
| ACA     | Assurance and Control Assessment Audit                                 |
| AFP     | Australian Federal Police  |
| ANAO    | Australian National Audit Office                                       |
| APS     | Australian Public Service  |
| AUS     | Australian Auditing Standard   |
| BPG     | Better Practice Guide  |
| CAC Act | <i>Commonwealth Authorities and Companies Act 1997</i>                 |
| CFS     | Commonwealth Government of Australia Consolidated Financial Statements |
| CEIs    | Chief Executive's Instructions   |
| CEO     | Chief Executive Officer  |
| CFO     | Chief Finance Officer  |
| CUC     | Capital Use Charge   |
| Finance | The Department of Finance and Administration                           |
| 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  |

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